REPUBLIC OF ALBANIA
BANK OF ALBANIA
SUPERVISORY COUNCIL

DECISION

No.69, dated 18.12.2014

ON
APPROVAL OF REGULATION
“ON THE BANK'S REGULATORY CAPITAL”

In accordance with Article 12 “a”, Article 43, “c” of the Law No. 8269, dated 23.12.1997 “On the Bank of Albania”, as amended, Articles 59 paragraph 2 and 8 of the Law No. 9662 dated 18.12.2006 “On Banks in the Republic of Albania”, as amended, having regard to the proposal form Supervision Department, the Bank of Albania's Supervisory Council,

DECIDED:

1. The approval of the Regulation “On the Bank's Regulatory Capital", as provided in the text attached to this Decision.

2. The Bank of Albania's Supervision Department Financial Stability and Statistics Department are responsible for the implementation of this Decision.

3. Banks, until the entry into force of this Decision, shall take the measures and establish the necessary conditions for the implementation of the Regulation requirements, and will report to the Bank of Albania on the progress of taking the measures, at the request of the Supervision Department.

4. The Decision No. 57, dated 05.05.1999, “Approval of the Guideline" "On Bank's Regulatory Capital", as amended and the Decision No. 51, dated 22.04.1999, “On the approval of Regulation “On the size and meeting of minimum paid-in capital for the allowed activities for banks and licensed branches of foreign banks" shall be repealed upon the entry into force of this Decision.

5. The Governor's Cabinet is responsible for the publication of this Regulation in Bank of Albania's Official Bulletin and in the Official Journal of the Republic of Albania.

This decision shall enter into force on 31 March 2015.

SECRETARY	**DEPUTY CHAIR**
Elvis Çibuku	**Elisabeta Gjoni**

REGULATION
"ON THE BANK'S REGULATORY CAPITAL"

(Adopted with decision No. 69, dated 18.12.2014 and amended by decision no.19, dated 04.03.2015, by decision no. 2, dated 9.1.2019 and by decision no.45, dated 2.11.2022 of the Supervisory Council of the Bank of Albania)

CHAPTER I
GENERAL PROVISIONS

Article 1
Purpose

This Regulation lays down the structure, components and method of calculating regulatory capital of the Bank and set forth its minimum level.

Article 2
Legal ground

This Regulation is issued pursuant to:

a) Article 12, letter "a", and Article 43 letter "c" of the Law No. 8269, dated 23.12.1997 "On the Bank of Albania", as amended;
b) Article 59, paragraph 2 and 8, of the Law No. 9662, dated 18.12.2006 "On Banks in the Republic of Albania", as amended, which herein shall be referred to as the "Law on Banks".

Article 3
Entities

This Regulation will apply on banks being granted the licence to conduct banking and financial activities in the Republic of Albania, in compliance with the licence granted by the Bank of Albania.

Article 4
Definitions

1. The terms used in this Regulation shall have the same meaning as those defined under Article 4 of the Law No. 9662, dated 18.12.2006 "On Banks in the Republic of Albania" and the Regulation "On capital adequacy ratio" (hereinafter, for simplicity, it will be called as capital adequacy regulation, and the International Accounting Standards as authorised by the Ministry of Finance.

2. In addition to paragraph 1 of this Article, for the purposes of this Regulation, the following terms shall apply:

a) “deferred tax assets that rely on future profitability” - means deferred tax assets the future value of which may be realised only in the event the institution generates taxable profit in the future;

b) “defined benefit pension fund assets” - means the assets of a defined pension fund or plan, as applicable, calculated after they have been reduced by the amount of obligations under the same fund or plan;

c) “reciprocal cross holding” - means a holding by a bank of the regulatory capital fund instruments or other capital instruments issued by financial sector entities where those entities also hold own funds instruments of the regulatory capital issued by the bank;

d) “synthetic holding” - means an investment by a bank in a financial instrument the value of which is directly linked to the value of the capital instruments issued by a financial sector entity

e) “significant investment of the bank in another bank or financial entity" - means any investment that arise where any of the following conditions is met:

   i) the bank owns more than 10% of the Common Equity Tier 1 instruments issued by the other bank or the entity,
   ii) the bank has close links with the other bank or financial entity and owns Common Equity Tier 1 instruments issued by that financial entity,
   iii) the bank owns Common Equity Tier 1 instruments issued by the other bank or financial entity and that is not included in consolidation perimeter pursuant to the applicable legal framework on consolidated supervision, but is included in the same accounting consolidation as the bank for the purposes of financial reporting under the applicable accounting framework.

3. Banks, whenever the “Methodology of financial reports' reporting and content” does not include the items of balance-sheet and financial statements in accordance with International Accounting Standards, will implement the requirements related to the items laid down in this Regulation at the entry into force of the international accounting standards and for the purposes of reporting at the Bank of Albania (in accordance with Unified Reporting System).

CHAPTER II
REGULATORY CAPITAL

Article 5
Structure

1. Regulatory capital is the bank's capital, calculated pursuant to the requirements of this Regulation, to cover credit risk, market risk and operational risk.

2. The Bank's regulatory capital, pursuant to its characteristics and conditions laid down in this Regulation, shall be divided into two categories:

    a) Tier 1 capital;
    b) Tier 2 capital.

3. Banks shall calculate their regulatory capital as the sum of Tier 1 capital and Tier 2 capital, considering the deductions pursuant to the requirements laid down in this Regulation and/or other regulatory acts.
4. [1]Banks shall include Tier 2 capital in their regulatory capital under the following limits and deadlines:

    a) up to 50% of Tier 1 capital (until 31.12.2016);
    b) up to 33.3% of Tier 1 capital (starting from 01.01.2017).

SUBCHAPTER I
TIER 1 CAPITAL

Article 6
Structure and compounding elements

1. Banks shall calculate Tier 1 Capital as the sum of Common Equity Tier 1 and additional Tier 1 capital, considering the deductions pursuant to the requirements laid down in this Regulation and/or other regulatory acts.

2. Common Equity Tier 1 capital consist of the following:

    a) paid up capital (common shares);
    b) share premium (common);
    c) retained earnings and losses for the current financial year;
    d) year-end profits;
    e) reporting period profit;
    f) reserves (excluding revaluation reserves);
    g) credit revaluation difference.

3. The level of Common Equity Tier 1 capital shall be, any time, higher than the level of the required minimum initial capital.

4. Paid-up capital consists of common shares, which have all the characteristics, pursuant to the stipulations laid down in the Law "On Entrepreneurs and Companies".

5. Reserves, except for revaluation reserves[2], are created from the allocation of bank's profit after the deduction of tax and prior of the allocation of dividends. Reserves are created upon

[1] Added upon the Supervisory Council decision no.19, dated 04.03.2015.

the decision of decision making bodies, pursuant to the internal regulatory acts of the bank, and of the applicable legal and regulatory framework.

6. Reserves laid down in paragraph 5 of this Article will consists in the following:

   a) legal reserves, established pursuant to the applicable regulatory and legal acts;
   b) statutory reserves, created in compliance with the provisions laid down in the bank's statute;
   c) other reserves, representing all other reserves created by the allocation of profit, except of "a" and "b" of this paragraph.

Other reserves encompass general reserves, which are created by the bank at the amount of 1.25% to 2% of total exposures and possible risk weighted exposures. These reserves are created by deducing 1/5 of the bank profit[3]. The bank uses freely these reserves with the purpose to cover the unidentified risks in its activity and do not reflect the reduction of a value of a certain asset. Banks, in any event, the created reserve fund fall below the required minimum level, shall meet this level within a two-year period.

7. Retained earnings, free of any future obligation, will be included in the Common Equity Tier 1 capital of the bank, only with the approval of the general assemble, concerning the part that is estimated to be part of it.

8. Banks shall include the reporting period profit as an element of Common Equity Tier 1, only if the following conditions are met:

   a) it is approved by the chartered auditor of the bank;

   b) any intermediate (partial) dividend paid during the year, taxes and other obligations on the profit have been deducted;

Banks shall submit at the Bank of Albania the respective documents, which evidence the meeting of the conditions as laid down above.

SUBCHAPTER II
PRUDENTIAL FILTERS

Article 7
Securitised assets

A bank shall exclude from its regulatory capital any increase in its shareholder capital that results from securitised assets, including the following:

   a) increase associated with future margin income that results in a gain on sale;

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[2] Revaluation reserves represent the counterpart of the tangible assets revaluation, in the framework of voluntary revaluations (or legally requested) performed by the bank, with the purpose to correct the bearing value of its assets for the purposes of inflation.
[3] After the tax deduction and dividends allocation.

b) net gain, where the bank is the originator of a securitisation, that arise from the capitalisation of future income from the securitised assets that provide credit enhancement to positions in the securitisation.

Article 8
Cash flow hedges and changes in the value of own liabilities

1. Banks shall not include the following items in any element of their regulatory capital:

    a) the fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value, including projected cash flows;
    b) gains or losses on liabilities of the bank that are valued at fair value that result from changes in the own credit rating of the bank.
    c) fair value gains and losses on derivative liabilities that result from changes in the own credit risk of the bank.
2. For the purposes of letter "c" of paragraph 1 in this Article, banks shall not offset the fair value gains and losses arising from the bank's own credit risk with those arising from the counterparty credit risk.
3. Without prejudice to letter "b" of paragraph 1 in this Article, banks may include the amount of gains and losses on their liabilities in their regulatory capital, where the changes in the value of the bank's assets and liabilities are due to the same changes in the bank's own credit rating.

Article 9
Additional value adjustments

Banks shall apply the stipulations of Article 142 “Requirements for the evaluation of trading book items” in the capital adequacy regulation, to all their assets measured at fair value when calculating the regulatory capital, and shall deduct from Common Equity Tier 1 capital the amount of any additional value adjustments necessary.

Article 10
Unrealised gains and losses measured at fair value

Banks, except in the case of the items referred to in Article 8 of this Regulation, shall not exclude from the regulatory capital the unrealised gains and losses on their assets or liabilities measured at fair value.

SUBCHAPTER III
DEDUCTION FROM COMMON EQUITY TIER 1 CAPITAL

Article 11
Deduction from Common Equity Tier 1 items

1. Banks shall deduct the following from Common Equity Tier 1 Capital items:

   a) losses for the reporting period;
   b) intangible assets;
   c) deferred tax assets that rely on future profitability;
   d) defined benefit pension fund assets on the balance sheet of the bank;
   e) direct, indirect and synthetic holdings by a bank of own Common Equity Tier 1 instruments, including own Common Equity Tier 1 instruments that a bank is under an actual or contingent obligation to purchase by virtue of an existing contractual relationship;
   f) direct, indirect and synthetic holdings of the Common Equity Tier 1 instruments of financial sector entities where those entities have a reciprocal cross holding with the bank, which the Bank of Albania considers to have been created to artificially increase the bank's regulatory capital.
   g) the applicable amount of direct, indirect and synthetic holdings of the bank in the Common Equity Tier 1 instruments where the bank does not have a significant investment in entities of the financial sector;
   h) the applicable amount of direct, indirect and synthetic holdings of the bank in the Common Equity Tier 1 instruments of financial sector entities where the bank has significant investments in those entities;
   i) the amount of items required to be deducted from Additional Tier 1 items pursuant to Article 26 of this Regulation that exceeds the Additional Tier 1 Capital of the bank;
   j) the exposure amount of the following items which qualify for a risk weight of 1 250 %, where the bank deducts that exposure amount from the amount of Common Equity Tier 1 Capital items as an alternative to applying a risk weight of 1250 %:

      i. qualifying holdings outside the financial sector,
      ii. [4]securitisation positions, in accordance with Article 99, paragraph 1, letter “b”, Article 100, paragraph 1, letter “b” and Article 108 of the capital adequacy regulation,
      iii. free deliveries exposures, in accordance with Article 164, paragraph 3 of capital adequacy regulation;

   k) any tax charge relating to Common Equity Tier 1 items foreseeable at the moment of its calculation, except where the bank suitably adjusts the amount of Common Equity Tier 1 items in so far as such tax charges reduce the amount up to which those items (of capital) may be used to cover risks or losses.

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[4] Amended upon the Supervisory Council decision no.45, dated 2.11.2022.

2 Banks shall implement the requirements laid down in Articles 12 to 20 on the deductions of items determined in paragraph 1 of this Article.

Article 12
Deduction of intangible assets

1. Banks shall deduct intangible assets from the Common Equity Tier 1 Capital.
2. Banks shall calculate the amount of intangible assets to be deducted in accordance with the following:
   a) the amount to be deducted shall be reduced by the amount of associated deferred tax liabilities that would be extinguished if the intangible assets became impaired or were written off balance-sheet;
   b) the amount to be deducted shall include goodwill included in the valuation of significant investments of the bank.

Article 13
Deduction of deferred tax assets that rely on future profitability

1. Banks shall deduct from Common Equity Tier 1 Capital the deferred tax assets that rely on future profitability of the bank.
2. The amount of deferred tax assets that rely on future profitability may be reduced by the amount of the associated deferred tax liabilities of the bank, provided the following conditions are met:
   a) the bank has a legally enforceable right under applicable national law to set off those current tax assets against current tax liabilities;
   b) the deferred tax assets and the deferred tax liabilities relate to taxes levied by the same tax authority and on the same taxable entity.
3. Banks, for the purposes of paragraph 2 of this Article may not include deferred tax liabilities that are used to reduce the value of intangible assets or defined benefit pension fund assets required to be deducted from Common Equity Tier 1 Capital.
4. The amount of associated deferred tax liabilities referred to in paragraph 3 of this Article shall be allocated between the following:
   a) deferred tax assets that rely on future profitability and arise from temporary differences that are not deducted in accordance with Article 20, paragraph 1 of this Regulation;
   b) all other deferred tax assets that rely on future profitability.
5. Banks shall allocate the associated deferred tax liabilities according to the proportion of deferred tax assets that rely on future profitability that the items referred to in letters "a" and "b", paragraph 4 of this Article.

Article 14
Tax overpayments, tax loss carry backs and deferred tax assets that do not rely on future profitability

1. The following items shall not be deducted from Common Equity Tier 1 Capital by banks and shall be subject to a risk weight in accordance with capital adequacy regulation:
   a) overpayments of tax for the current year;
   b) current year tax losses of the institution carried back to previous years that give rise to a claim on, or a receivable from, a central government, regional government or local tax authority.
2. Deferred tax assets that do not rely on future profitability shall be limited to deferred tax assets arising from temporary differences, where all the following conditions are met:

   a) they are automatically and mandatorily replaced without delay with a tax credit in the event that the bank reports a loss when the annual financial statements of the institution are formally approved, or in the event of liquidation or insolvency of the bank;
   b) a bank is able under the applicable fiscal law to offset the credit /tax income referred to in letter "a" of this paragraph against any tax liability of the bank or any other undertaking included in the same consolidation as the bank for tax purposes under that law or any other undertaking subject to the supervision on a consolidated basis;
   c) where the amount of credit/ tax income referred to in letter "b" of this paragraph exceeds its tax liabilities, any such excess is replaced without delay with a direct claim on the central government.

   Banks shall apply a risk weight of 100 % to deferred tax assets where the conditions laid down in letters "a" to "c" of this paragraph are met.

Article 15
Deduction of defined benefit pension fund assets

1. Banks shall deduct from Common Equity Tier 1 Capital the defined benefit pension fund assets in their balance sheet.
2. Banks shall reduce the amount of benefit pension fund assets defined in paragraph 1 by the following items:
   a) the amount of any associated deferred tax liability which would become impaired or derecognised in the balance;
   b) the amount of assets in the defined benefit pension fund which the bank has an unrestricted ability to use, provided that the institution has received the prior permission of the Bank of Albania. Those assets used to reduce the amount to be deducted shall receive a risk weight in accordance with stipulations laid down in capital adequacy regulation.

Article 16
Deduction of holdings of own Common Equity Tier 1 instruments

1. Banks shall deduct from the Common Equity Tier 1 Capital the direct, indirect and synthetic holdings of index securities in their own Common Equity Tier 1 instruments, including the instruments of this category that banks are obliged to purchase based on an existing or contingent obligation arising from an existing contract.
2. Banks shall determine the holdings of own Common Equity Tier 1 Capital instruments on the basis of gross long positions subject to the following exceptions:
   a) banks may calculate the amount of holdings of own Common Equity Tier 1 instruments on the basis of the net long position provided that both the following conditions are met:
      i. the long and short positions are in the same underlying exposure and the short positions involve no counterparty risk,
      ii. either both the long and the short positions are held in the trading book or both are held in the book of the bank;
   b) banks shall determine the amount to be deducted for direct, indirect and synthetic holdings of index securities by calculating the underlying exposure to own Common Equity Tier 1 instruments included in those indices;
   c) banks may net gross long positions in own Common Equity Tier 1 instruments resulting from holdings of index securities against short positions in own Common Equity Tier 1 instruments resulting from short positions in the underlying indices, including where those short positions involve counterparty risk, provided that both the following conditions are met:
      i. the long and short positions are in the same underlying indices;
      ii. either both the long and the short positions are held in the trading book or both are held in the non-trading book.

Article 17
Deduction of holdings of Common Equity Tier 1 instruments of financial sector entities and where a bank has a reciprocal cross holding designed artificially to inflate capital

1. Banks shall deduct from Common Equity Tier 1 Capital the direct, indirect and synthetic holdings of the Common Equity Tier 1 instruments of banks and other financial sector entities where those entities have a reciprocal cross holding with the bank, which the Bank of Albania considers to have been created to artificially increase the bank's capital.
2. Banks shall make the deductions referred to in paragraph 1 of this Article, in accordance with the following:
   a) holdings of Common Equity Tier 1 instruments and other instruments of banks and financial sector entities shall be calculated on the basis of the gross long positions;

b) Common Equity Tier 1 insurance items shall be treated as holdings of Common Equity Tier 1 instruments for the purposes of deduction.

Article 18

Deduction of holdings of Common Equity Tier 1 instruments where a bank does not have a significant investment in a financial sector entity

1. Banks shall deduct from Common Equity Tier 1 Capital the amount of direct, indirect and synthetic holdings of the Common Equity Tier 1 instruments of banks and of other financial sector entities where those entities have not significant investment, as laid down following in this Article.
2. Banks shall calculate direct, indirect and synthetic holdings of Common Equity Tier 1 Capital instruments of banks and financial sector entities on the basis of the net long position in the same underlying exposure provided that both the following conditions are met:
   a) the maturity of the short position matches the maturity of the long position or has a residual maturity of at least one year;
   b) either both the long position and the short position are held in the trading book or both are held in the non-trading book;
3. Banks shall determine the amount to be deducted for direct, indirect and synthetic holdings of index securities by calculating the underlying exposure to the capital instruments of banks and financial sector entities in those indices.
4. Banks shall deduct from Common Equity Tier 1 Capital the amount calculated by multiplying the amount referred to letter "a" by the factor referred to in letter "b" of this paragraph:
   a) the aggregate amount by which the direct, indirect and synthetic holdings by the bank of the Common Equity Tier 1 Capital, Additional Tier 1 and Tier 2 instruments of banks and other financial sector entities in which the bank does not have a significant investment exceeds 10 % of the amount of Common Equity Tier 1 Capital. For the purposes of this letter, as Common Equity Tier 1 Capital amount will be considered after applying the following:
      i. Articles 7 to 10 of this Regulation,
      ii. the deductions referred to in Article 11, paragraph 1, letters "a" to "f", letter "j", sub-points (ii) and (iii) , and letter "k", excluding the amount to be deducted for deferred tax assets that rely on future profitability and arise from temporary differences;
   b) the amount of direct, indirect and synthetic holdings by the bank of the Common Equity Tier 1 Capital instruments of those banks and financial sector entities in which the bank does not have a significant investment divided by the aggregate amount of

direct, indirect and synthetic holdings by the bank of the own capital instruments of those banks and financial sector entities.

5. Banks shall exclude underwriting positions held for five working days or fewer from the amount referred to in letter "a" of paragraph 4 of this Article and from the calculation of the factor referred to in letter "b" of the same paragraph. [5]
6. Banks shall apportion the amount to be deducted pursuant to paragraph 4 across all Common Equity Tier 1 instruments held. Banks shall determine the amount of each Common Equity Tier 1 instrument that is deducted pursuant to paragraph 4 by multiplying the amount specified in letter "a" of this paragraph by the proportion specified in letter "b" of this paragraph:
   a) the amount of holdings required to be deducted pursuant to paragraph 4 of this Article;
   b) the proportion of the aggregate amount of direct, indirect and synthetic holdings by the bank of the Common Equity Tier 1 instruments of banks and financial sector entities in which the bank does not have a significant investment represented by each Common Equity Tier 1 instrument held.
7. The amount of holdings referred to in paragraph 1 of this Article, that is equal to or less than 10 % of the Common Equity Tier 1 Capital items of the bank after applying the provisions laid down in sub-points "i" and "ii" of letter "a" of paragraph 4 of this Article shall not be deducted and shall be subject to the applicable risk weights in accordance with capital adequacy regulation.
8. Banks shall determine the amount of own Capital instruments that is risk weighted by multiplying the amount specified in letter "a" of this paragraph by the amount specified in letter "b" of this paragraph:
   a) the amount of holdings required to be risk weighted pursuant to paragraph 7 of this Article;
   b) amount defined in sub-point "i" in proportion to the amount defined in sub-point "ii":
      i. total amount of Common Equity Tier 1 instruments,
      ii. the applicable amount of direct, indirect and synthetic holdings of the bank in the Common Equity Tier 1 instruments of banks and financial sector entities where the bank does not have a significant investment.

Article 19
Deduction of holdings of Common Equity Tier 1 instruments where a bank has a significant investment in a financial sector entity

1. Banks shall deduct from Common Equity Tier 1 Capital the amount of direct, indirect and synthetic holdings of the Common Equity Tier 1 instruments of banks and of other financial sector entities where the bank has a significant investment.

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[5] "Underwriting positions" means the securities' underwriting positions.

2. Holdings of Common Equity Tier 1 instruments and other instruments of banks and financial sector entities shall be calculated on the basis of the gross long positions.
3. Banks, for the purposes of this deduction, shall consider the Common Equity Capital items of insurance companies as holdings in the Common Equity Tier 1 instruments.
4. Banks shall calculate direct, indirect and synthetic holdings of Common Equity Tier 1 instruments of banks and other financial sector entities on the basis of the net long position in the same underlying exposure provided that both the following conditions are met:
   a) the maturity of the short position matches the maturity of the long position or has a residual maturity of at least one year;
   b) either both the long position and the short position are held in the trading book or both are held in the non-trading book;
5. Banks shall determine the amount to be deducted for direct, indirect and synthetic holdings of index securities by calculating the underlying exposure to the capital instruments of banks and other financial sector entities in those indices:
   a) banks for the purposes of this deduction, may exclude from the calculation of the amount to be deduced, the underwriting positions held for five working days or fewer. The underwriting positions held for more than five business days shall be included in the calculation;
   b) banks may exclude some investments temporary, where these investments have taken place in the framework of resolving or supplying financial assistance to reorganise an institution in difficult situation.
6. Investments referred to in letter "b" of paragraph 5 of this Article that are as common equities shall be subject of the threshold treatment specified in Article 20 of this Regulation.

Article 20

Threshold exemptions from deduction from Common Equity Tier 1 items

1. In making the deductions required pursuant to letters "c" and (h) of Article 11, paragraph 1, banks are not required to deduct the amounts of the items listed in letters "a" and "b" of this paragraph which in aggregate are equal to or less than the threshold amount referred to in paragraph 2 of this Article:
   a) deferred tax assets that are dependent on future profitability and arise from temporary differences, and in aggregate are equal to or less than 10 % of the Common Equity Tier 1 items of the bank calculated after applying the following:

      i. implementation of article 7 to 10 of this Regulation,
      ii. the deductions referred to in Article 11, paragraph 1, letters "a" to "g", letter "j", sub-points (ii) and (iii) , and letter "k", excluding the amount to be deducted for deferred tax assets that rely on future profitability and arise from temporary differences;
   b) where a bank has a significant investment in a financial sector entity, the direct, indirect and synthetic holdings of that institution of the Common Equity Tier 1

instruments of those entities that in aggregate are equal to or less than 10 % of the Common Equity Tier 1 items of the bank calculated after applying the following:

i. implementation of article 7 to 10 of this Regulation,
ii. the deductions referred to in Article 11, paragraph 1, letters "a" to "g", letter "j", sub-points (ii) and (iii), and letter "k", excluding the amount to be deducted for deferred tax assets that rely on future profitability and arise from temporary differences;

2. For the purposes of paragraph 1, the threshold amount shall be equal to the amount referred to in letter "a" of this paragraph multiplied by the percentage referred to in letter "b" of this paragraph:
   a) the residual amount of Common Equity Tier 1 items after applying the adjustments and deductions in Articles 7 to 11 in full and without applying the threshold exemptions specified in this Article;
   b) 17.65%.

3. For the purposes of paragraph 1, a bank shall determine the portion of deferred tax assets in the total amount of items that is not required to be deducted by dividing the amount specified in letter "a" of this paragraph by the amount specified in letter "b" of this paragraph:
   a) the amount of deferred tax assets that are dependent on future profitability and arise from temporary differences, and in aggregate are equal to or less than 10 % of the Common Equity Tier 1 items of the bank;
   b) the sum of the following:
      i. the amount referred to in letter "a" of this paragraph,
      ii. the amount of direct, indirect and synthetic holdings by the bank of the own funds instruments of financial sector entities in which the bank has a significant investment, and in aggregate are equal to or less than 10 % of the Common Equity Tier 1 items of the bank.

4. The amounts of the items that are not deducted pursuant to paragraph 1 of this Article, shall be risk weighted at 250% by banks.

SUB CHAPTER IV
ADDITIONAL TIER 1 CAPITAL

Article 21
Additional Tier 1 Capital

1. Additional Tier 1 capital shall consist of the following:

   a) capital instruments, where the conditions laid down in Article 22 of this Regulation are met;

b) the share premium accounts related to the instruments referred to in letter "a" of this paragraph.

2. Instruments included under paragraph of this Article shall not qualify as Common Equity Tier 1 Capital and Tier 2 Capital.

3. Banks may include the instruments included under paragraph 1 of this Article, in the Additional Tier 1 Capital, upon the condition this banks have been granted the prior approval by the Bank of Albania.

4. Bank of Albania shall grant the prior approval for the inclusion of these instruments in the Additional Tier 1 capital, only if the conditions under Article 22 of this Regulation are met.

5. Banks, for the implementation of the conditions laid down in Article 22 of the Regulation, shall submit the following documentation as part of the application to get the prior approval:

   a) the base documentation (contract, prospect) related to the issue of these instruments;
   b) a schematic illustration to meet the features/conditions required for such instruments, laid down in Article 22 of this Regulation, by providing the respective references in the base documentation under letter "a" of this Article;
   c) a description of accounting treatments of these instruments, along with an opinion provided by an authorised auditor related to their acceptance;
   d) calculation of regulatory capital and capital requirements at the final day of the month, prior to the submission of the application to receive the prior approval;
   e) a calculation of regulatory capital and capital requirements for the three forthcoming years.

Article 22
Terms on the recognition of the Additional Tier 1 Capital

Bank shall include capital instruments in Additional Tier 1 instruments only if the following conditions are met:

a) the instruments are issued and paid up;
b) the instruments are not purchased by any of the following:

   i. the bank or its subsidiaries,
   ii. an undertaking in which the bank has a participation in the form of ownership, direct or by way of control, of 20 % or more of the voting rights or capital of that undertaking;

c) the purchase of the instruments is not funded directly or indirectly by the bank;
d) the instruments rank below Tier 2 instruments in the event of the insolvency and liquidation;
e) the instruments are neither secured nor subject to a guarantee that enhances the seniority of the claims by any of the following:

i. the bank or its subsidiaries;
ii. the parent undertaking of the institution or its subsidiaries,
iii. the parent financial holding company or its subsidiaries,
iv. the mixed activity holding company or its subsidiaries,
v. the mixed financial holding company or its subsidiaries,
vi. any undertaking that has close links with entities referred to in points (i) to (v);

f) the instruments are not subject to any arrangement, contractual or otherwise, that enhances the seniority of the claim under the instruments in insolvency or liquidation;
g) the instruments are perpetual and the provisions governing them include no incentive for the bank to redeem them;
h) where the provisions governing the instruments include one or more call options, the option to call may be exercised at the sole discretion of the issuer;
i) the instruments may be called, redeemed or repurchased only where the conditions laid down in Article 38 of this Regulation, are met, and not before five years after the date of issuance except where the conditions laid down in Article 39 (paragraph 3) of this Regulation are met;
j) the instruments do not indicate explicitly or implicitly that the instruments would or might be called, redeemed or repurchased and the institution does not otherwise provide such an indication, except in the following cases:

i. the liquidation of the bank,
ii. discretionary repurchases of the instruments or other discretionary means of reducing the amount of Additional Tier 1 capital, where the institution has received the prior permission of the Bank of Albania in accordance with Article 38;

k) the bank does not indicate explicitly or implicitly that the Bank of Albania would consent to a request to call, redeem or repurchase the instruments;
l) interest (dividend) payment as laid down in the contract of such instruments, meet the following conditions:

i. the level of interest (dividend) payment made on the instruments will not be amended on the basis of the credit standing of the institution or its parent undertaking,
ii. the provisions governing the instruments give the bank full discretion at all times to cancel the distributions on the instruments for an unlimited period and on a non-cumulative basis[6], and the bank may use such cancelled payments without restriction to meet its obligations as they fall due,
iii. cancellation of interest payments (dividend etc.) does not constitute an event of default of the bank,
iv. the cancellation of dividend payments imposes no restrictions on the bank, excluding the payment on common equities;

[6] Interest (dividend) payment by these instruments to be non-cumulative, meaning that in case of non-payment, the right to attain the payment is definitely lost.

m) the provisions governing the instruments require that, upon the occurrence of a trigger event, the principal amount of the instruments be written down on a permanent or temporary basis or the instruments be converted to Common Equity Tier 1 instruments;
n) the provisions governing the instruments include no feature that could hinder the recapitalisation of the bank;
o) where the instruments are not issued directly by a bank, both the following conditions shall be met:
    i. the instruments are issued through an entity within the consolidation supervision of the bank,
    ii. the proceeds are immediately available to the bank without limitation.

Article 23
Restrictions on the cancellation of interest payments and provisions that could hinder the recapitalisation of the bank

The provisions governing Additional Tier 1 instruments shall, in particular, not include the following:

a) a requirement for the payment of interests (dividends) to be made in the event of a distribution being made on an instrument issued by the bank that ranks to the same degree as, or more junior than, an Additional Tier 1 instrument (dividend pusher);
b) an obligation to the payment of interest or dividend by a payment in any other form. The institution shall not otherwise be subject to such an obligation. obligation on the stopping of interest payments for capital instruments included in the Common Equity Tier 1 or additional Tier 1 Capital and Tier 2 Capital, in case there are not made the interests (dividends) payments for these capital instruments included in the additional Tier 1 Capital (*dividend stopper);*
c) an obligation to substitute the payment of interest or dividend by a payment in any other form.

Article 24
Criteria on the approval of repayment/settlement or conversion of instruments included in the Additional Tier 1 capital

1. For the purposes of letter "m" of Article 22 of this Regulation, the following provisions on Additional Tier 1 capital shall apply:

    a) a trigger event occurs when the Common Equity Tier 1 capital ratio of the bank falls below either of the following:

        i. 5.125 %,
        ii. a level higher than 5,125 %, where determined by the bank and specified in the provisions governing the instrument;

b) institutions may specify in the provisions governing the instrument one or more trigger events in addition to that referred to in letter "a" of this Article;
c) where the provisions governing the instruments require them to be converted into Common Equity Tier 1 instruments upon the occurrence of a trigger event, those provisions shall specify the following the rate of such conversion and a limit on the permitted amount of conversion, or a range within which the instruments will convert into Common Equity Tier 1 instruments.
d) where the provisions governing the instruments require their principal amount to be written down upon the occurrence of a trigger event, the write down shall reduce all the following:

    i. the claim of the holder of the instrument in the insolvency or liquidation of the bank,
    ii. the amount required to be paid in the event of the call or redemption of the instrument,
    iii. the interest (dividend) payment made on the instrument.

2. Write down or conversion of an Additional Tier 1 instrument shall, under the applicable accounting framework, generate items that qualify as Common Equity Tier 1 instruments.
3. The amount of Additional Tier 1 instruments recognised in Additional Tier 1 items is limited to the minimum amount of Common Equity Tier 1 items that would be generated if the principal amount of the Additional Tier 1 instruments were fully written down or converted into Common Equity Tier 1 instruments.
4. The aggregate amount of Additional Tier 1 instruments that is required to be written down or converted upon the occurrence of a trigger event shall be no less than the lower of the following:

    a) the amount required to restore fully the Common Equity Tier 1 ratio of the institution to 5,125 %;
    b) the full principal amount of the instrument.

5. When a trigger event occurs banks shall do the following:

    a) immediately inform the Bank of Albania;
    b) inform the holders of the Additional Tier 1 instruments;
    c) write down the principal amount of the instruments, or convert the instruments into Common Equity Tier 1 instruments without delay, but no later than within one month from the event occurrence.

6. A bank issuing Additional Tier 1 instruments that convert to Common Equity Tier 1 on the occurrence of a trigger event shall ensure that its authorised share capital is at all times sufficient, for converting all such convertible Additional Tier 1 instruments into shares if a trigger event occurs.

7. Banks shall maintain at all times the necessary prior authorisation to issue the Common Equity Tier 1 instruments into which such Additional Tier 1 instruments would convert upon occurrence of a trigger event.

8. Banks issuing Additional Tier 1 instruments that convert to Common Equity Tier 1 Capital on the occurrence of a trigger event shall ensure that there are no procedural impediments to that conversion by virtue of their statute.

Article 25
Deduction from the Additional Tier 1 capital

Banks shall deduct the following items form the Additional Tier 1 capital:

a) direct, indirect and synthetic holdings by a bank of own Additional Tier 1 instruments, including own Additional Tier 1 instruments that a bank could be obliged to purchase as a result of existing contractual obligations
b) direct, indirect and synthetic holdings of the Additional Tier 1 instruments of financial sector entities with which the bank has reciprocal cross holdings that the Bank of Albania considers to have been designed to inflate artificially the regulatory capital of the bank;
c) the applicable amount determined in accordance with Article 29 of direct, indirect and synthetic holdings of the Additional Tier 1 instruments of financial sector entities, where the bank does not have a significant investment in those entities;
d) direct, indirect and synthetic holdings by the institution of the Additional Tier 1 instruments of financial sector entities where the bank has a significant investment in those entities, excluding underwriting positions held for five working days or fewer;
e) the amount of items required to be deducted from Tier 2 items pursuant to Article 33 that exceed the Tier 2 capital of the bank;
f) any tax charge relating to Additional Tier 1 items foreseeable at the moment of its calculation, except where bank suitably adjusts the amount of Additional Tier 1 items insofar as such tax charges reduce the amount up to which those items may be applied to cover risks or losses.

Article 26
Deductions of holdings of own Additional Tier 1 instruments

For the purposes of letter "a" of Article 25, banks shall calculate holdings of own Additional Tier 1 instruments on the basis of gross long positions subject to the following exceptions:

a) banks may calculate the amount of holdings of own Additional Tier 1 instruments on the basis of the net long position provided that both the following conditions are met:
    i. the long and short positions are in the same *underlying exposure* and the short positions involve no counterparty risk;
    ii. either both the long and the short positions are held in the trading book or both are held in the non-trading book of the bank;

b) banks shall determine the amount to be deducted for direct, indirect or synthetic holdings of index securities by calculating the underlying exposure to own Additional Tier 1 instruments in those indices;
c) banks may net gross long positions in own Additional Tier 1 instruments resulting from holdings of index securities against short positions in own Additional Tier 1 instruments resulting from short positions in the underlying indices, including where those short positions involve counterparty risk, provided that both the following conditions are met:

i. the long and short positions are in the same underlying indices;
ii. either both the long and the short positions are held in the trading book or both are held in the non-trading book.

Article 27
Deduction of holdings of Additional Tier 1 instruments of financial sector entities and where a bank has a reciprocal cross holding designed artificially to inflate own funds

1. Banks shall deduct from Additional Tier 1 Capital the direct, indirect and synthetic holdings of the Additional Tier 1 Capital instruments of banks and of other financial sector entities where those entities have a reciprocal cross holding with the bank, which the Bank of Albania considers to have been created to artificially increase the bank's capital.
2. Banks shall make the deductions referred to in paragraph 1 of this Article, in accordance with the following:

a) holdings of Additional Tier 1 instruments and other instruments of banks and other financial entities will be calculated on the basis of gross long positions;
b) The Common Equity insurance items shall be treated as holdings of Additional Tier 1 Capital instruments for the purposes of deduction.

Article 28
Deduction of holdings of Additional Tier 1Capital instruments of financial sector entities

Banks shall make the deductions required by letters "c" and "d" of Article 25 in accordance with the following:

a) they may calculate direct, indirect and synthetic holdings of Additional Tier 1 instruments of the financial sector entities on the basis of the net long position in the same underlying exposure provided that both the following conditions are met:

i. the maturity of the short position matches the maturity of the long position or has a residual maturity of at least one year;

ii. either both the short position and the long position are held in the trading book or both are held in the non-trading book of the bank.

Article 29
Deduction of holdings of Additional Tier 1 instruments where a bank does not have a significant investment in a financial sector entity

1. For the purposes of letter "c" of Article 25, banks shall calculate the applicable amount to be deducted by multiplying the amount referred to in letter "a" of this paragraph by the factor derived from the calculation referred to in letter "b" of this paragraph:

   a) the aggregate amount by which the direct, indirect and synthetic holdings by the bank of the Common Equity Tier 1 instruments, Additional Tier 1 and Tier 2 instruments of financial sector entities, which exceeds 10 % of the Common Equity Tier 1 Capital of the bank, after applying the following:

      i. Article 7 to 10,
      ii. the deductions referred to in Article 11, paragraph 1, letters "a" to "f", letter "j", sub-points (ii) and (iii) , and letter "k", excluding the amount to be deducted for deferred tax assets that rely on future profitability and arise from temporary differences;

   b) the amount of direct, indirect and synthetic holdings by the bank of the Additional Tier 1 instruments of those financial sector entities in which the bank does not have a significant investment divided by the aggregate amount of all direct, indirect and synthetic holdings by the bank of the Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments of those financial sector entities.

2. Banks shall exclude underwriting positions held for five working days or fewer from the amount referred to in letter "a" of paragraph 1 and from the calculation of the factor referred to in letter "b" of this Article.
3. The amount to be deducted pursuant to paragraph 1 shall be apportioned across all Additional Tier 1 instruments held. Banks shall determine the amount of each Additional Tier 1 instrument to be deducted pursuant to paragraph 1 by multiplying the amount specified in letter "a" of this paragraph by the proportion specified in letter "b" of this paragraph:

   a) the amount of holdings required to be deducted pursuant to paragraph 1;
   b) the amount specified in point " i", divided by the amount specified in point "i";

      i. total amount of Additional Tier 1 capital instruments,
      ii. the aggregate amount of direct, indirect and synthetic holdings of the bank in the Additional Tier 1 capital instruments of the bank in financial entities where the bank does not have a significant investment.

4. The amount of holdings referred to in letter "c" of Article 25 that is equal to or less than 10 % of the Common Equity Tier 1 capital, after applying the provisions laid down in letter (a) points (i) and (ii) of paragraph 1 of this Article shall not be deducted from the regulatory capital, but shall be subject to the applicable risk weights in accordance with capital adequacy regulation.
5. Banks shall determine the amount of holdings in capital instruments that are risk weighted by multiplying the amount specified in letter "a" by the amount specified in letter "b", as following:

   a) the amount of holdings required to be risk weighted pursuant to paragraph 4 of this Article;
   b) the proportion resulting from the calculation in letter "b" of paragraph 3.

CHAPTER III
TIER 2 CAPITAL

Article 30
Structure and compounding elements

1. Tier 2 capital shall consist of the following:

   a) capital instruments and subordinated loans that meet the conditions to be included in Tier 2 capital (and which are not included in the Tier 1 Capital);
   b) the share premium accounts related to the instruments referred to in letter "a" of this paragraph.

2. Items included under letter "a" of paragraph 1 of this Article shall not qualify as Common Equity Tier 1 Capital or Additional Tier 1 items.
3. Banks may include the items laid down in paragraph 1 of this Article in the Tier 2 capital only upon the prior approval by the Bank of Albania.
4. Bank of Albania shall grant the prior approval for the inclusion of these instruments in the Tier 2 capital, only if the conditions under Article 31 of this Regulation are met.
5. Banks, for the implementation of the conditions laid down in Article 31 of the Regulation, shall submit the following documentation as part of the application to get the prior approval:

   a) the base documentation (contract, prospect) related to the issue of these instruments;
   b) a schematic illustration to meet the features/conditions required for such instruments, laid down in Article 31 of this Regulation, by providing the respective references in the base documentation under letter "a" of this Article;
   c) a description of accounting treatments of these instruments, along with an opinion provided by an authorised auditor related to their acceptance;
   d) calculation of regulatory capital and capital requirements at the last day of the month, prior to the submission of the application to receive the prior approval;
   e) a calculation of regulatory capital and capital requirements for the three forthcoming years.

Article 31
Terms and conditions for the recognition of capital and subordinated loans instruments of Tier 2 capital

Banks shall qualify as Tier 2 capital instruments and the subordinated loans, notwithstanding their legal form or accounting treatment, only if the following conditions are met:

a) instruments or subordinated loans are issued by the bank and are fully paid-up;
b) instruments are not purchased or the subordinated loans are not granted by none of the following entities:

    i. the bank or its subsidiaries,
    ii. entities in which the bank has a participation in the form of ownership, direct or by way of control, of 20 % or more of the voting rights or capital;

c) the purchasing of instruments or their subordinated loans financing has not taken place directly or indirectly by the bank;
d) in accordance with the provisions of the instruments or subordinated loans contract, in any case, the claims of all other creditors have a settlement priority higher compared to the claim on the instruments principal, or subordinated loans claim;
e) instruments or subordinated loans are not guaranteed and are not subject to a guarantee that improves the claims priority from one of the following entities:

    i. the bank or its subsidiaries;
    ii. the parent undertaking of the institution or its subsidiaries,
    iii. the parent financial holding company or its subsidiaries,
    iv. the mixed activity holding company or its subsidiaries,
    v. the mixed financial holding company or its subsidiaries,
    vi. any undertaking that has close links with entities referred to in points (i) to (v);

f) instruments or the subordinated loans are not subject of any agreement that in the opposite case improves the independence for the instruments or subordinated loans, respectively;
g) instruments or the subordinated loans have an initial maturity of at least five years;
h) when the contract provisions on the instruments or subordinated loans do not include any incentive to settle or repurchase their principal amount by the bank, prior to the maturity term;
i) where the provisions governing the instruments include one or more call options, the option to call may be exercised at the sole discretion of the issuer (bank);
j) the instruments or subordinated loans may be called/paid only where the conditions laid down in Article 37 of this Regulation, are met, and not before five years after the date of issuance except where the conditions laid down in Article 39 (paragraph 3) of this Regulation are met;
k) provisions of the contract on instruments or subordinated loans do not specify either directly or indirectly that these instruments or the subordinated loans may be called/redeemed or repurchased by the bank only in case of insolvency or liquidation of the bank;

l) the provisions governing the instruments or subordinated loans contract, as applicable, do not give the holder the right to accelerate the future scheduled payment of interest or principal, other than in the insolvency or liquidation of the bank;
m) the level of interest or dividend payments, due on the instruments or subordinated loans, as applicable, will not be amended on the basis of the quality of the bank or its parent bank;
n) where the instruments or the subordinated loans are not issued directly by the bank, as applicable, both of the following conditions are met:

   i. the instruments are issued through an entity within the consolidation supervision of the bank,
   ii. the proceeds are immediately available to the bank without limitation.

Article 32
Criteria on the approval of repayment/settlement or conversion of instruments included in the Tier 2 capital

Banks shall calculate the amount to which Tier 2 Capital instruments are qualified/included as Tier 2 capital during the final five years of maturity of the instruments by multiplying the result derived from the calculation in letter "a" by the amount referred to in letter "b", as follows:

a) the nominal amount of the instruments or subordinated loans on the first day of the final five year period of their contractual maturity divided by the number of calendar days in that period;
b) the number of remaining calendar days of contractual maturity of the instruments or subordinated loans.

Article 33
Deduction from the Tier 2 capital

1. The following shall be deducted from Tier 2 capital:

a) direct, indirect and synthetic holdings by a bank of own Tier 2 instruments, including own Tier 2 instruments that a bank could be obliged to purchase as a result of existing contractual obligations;
b) direct, indirect and synthetic holdings of the Tier 2 instruments of financial sector entities with which the bank has reciprocal cross holdings that the Bank of Albania considers to have been designed to inflate artificially the regulatory capital of the bank;
c) the applicable amount determined in accordance with Article 37 of direct, indirect and synthetic holdings of the Tier 2 instruments of financial sector entities, where the bank does not have a significant investment in those entities;
d) direct, indirect and synthetic holdings by the institution of Tier 2 instruments of financial sector entities where the bank has a significant investment in those entities, excluding underwriting positions held for five working days or fewer.

2. Banks shall deduct from Tier 2 capital the amount of its own investments in buildings and other tangible fixed assets that exceed 25% of the regulatory capital.

Article 34
Deductions of holdings of own Tier 2 instruments

For the purposes of letter a", paragraph 1 of Article 33 of this Regulation, banks shall calculate holdings on the basis of the gross long positions subject to the following exceptions:

a) banks may calculate the amount of holdings on the basis of the net long position provided that both the following conditions are met:

   i. the long and short positions are in the same *underlying exposure* and the short positions involve no counterparty risk,
   ii. either both the long and the short positions are held in the trading book or both are held in the non-trading book of the bank;

b) banks shall determine the amount to be deducted for direct, indirect or synthetic holdings of index securities by calculating the underlying exposure to own Tier 2 instruments in those indices;
c) banks may net gross long positions in own Tier 2 instruments resulting from holdings of index securities against short positions in own Tier 2 instruments resulting from short positions in the underlying indices, including where those short positions involve counterparty risk, provided that both the following conditions are met:

   i. the long and short positions are in the same underlying indices;
   ii. either both the short position and the long position are held in the trading book or both are held in the non-trading book of the bank.

Article 35
Deduction of holdings of Tier 2 instruments of financial sector entities and where a bank has a reciprocal cross holding designed artificially to inflate own funds

1. Banks shall deduct from Additional Tier 2 Capital the direct, indirect and synthetic holdings of the Tier 2 instruments of banks and of other financial sector entities where those entities have a reciprocal cross holding with the bank, which the Bank of Albania considers to have been created to artificially increase the bank's capital.
2. Banks shall make the deductions referred to in paragraph 1 of this Article, in accordance with the following:
   a) holdings of Tier 2 instruments and other instruments of banks and financial sector entities shall be calculated on the basis of the gross long positions;

b) The Additional Capital insurance items shall be treated as holdings of Tier 2 instruments for the purposes of deduction.

Article 36
Deduction of holdings of Tier 2 instruments of financial sector entities

Banks shall make the deductions required by letters "c" and "d" of Article 33 in accordance with the following:

a) banks shall calculate direct, indirect and synthetic holdings of Tier 2 instruments of banks and other financial sector entities on the basis of the net long position in the same underlying exposure provided that both the following conditions are met:
   i. the maturity of the short position matches the maturity of the long position or has a residual maturity of at least one year;
   ii. both positions are held in the book of the bank or both are held in the trading book of the bank;

b) banks shall determine the amount to be deducted for direct, indirect or synthetic holdings of index securities by calculating the underlying exposure to financial entities' capital instruments in those indices;

Article 37
Deduction of holdings of Tier 2 instruments where a bank does not have a significant investment in a financial sector entity

1. For the purposes of letter "c" of Article 33, banks shall calculate the applicable amount to be deducted by multiplying the amount referred to in letter "a" of this paragraph by the factor derived from the calculation referred to in letter "b" of this paragraph:

   a) the aggregate amount by which the direct, indirect and synthetic holdings by the institution of the Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments of financial sector entities in which the bank does not have a significant investment exceeds 10 % of the Common Equity Tier 1 items of the bank, calculated after applying the following:

      i. Article 7 to 10,
      ii. the deductions referred to in Article 11, paragraph 1, letters "a" to "f", letter "j", sub-points (ii) and (iii) , and letter "k", excluding the amount to be deducted for deferred tax assets that rely on future profitability and arise from temporary differences;

   b) the amount of direct, indirect and synthetic holdings by the bank of the Tier 2 instruments of those financial sector entities in which the bank does not have a significant investment divided by the aggregate amount of all direct, indirect and synthetic holdings by the bank of the Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments of those financial sector entities.

2. Banks shall exclude underwriting positions held for five working days or fewer from the amount referred to in letter "a" of paragraph 1 and from the calculation of the factor referred to in letter "b" of paragraph 1.
3. The amount to be deducted pursuant to paragraph 1 shall be apportioned across all Tier 2 instruments held. Banks shall determine the amount to be deducted from each Tier 2 instrument by multiplying the amount specified in letter "a" of this paragraph by the proportion specified in letter "b" of this paragraph:

   a) the total amount of holdings required to be deducted pursuant to paragraph 1 of this Article;
   b) the proportion of the aggregate amount of direct, indirect and synthetic holdings by the institution of the Tier 2 instruments of financial sector entities in which the institution does not have a significant investment represented by each Tier 2 capital instrument held.

4. The amount of holdings referred to in letter "c" of Article 33 that is equal to or less than 10% of the Common Equity Tier 1 items of the bank after applying the provisions laid down in letters (a) points (i), (ii) and (iii) of paragraph 1 of this Article shall not be deducted from the regulatory capital, but shall be subject to the applicable risk weights in accordance with capital adequacy regulation.
5. Banks shall determine the amount of each Tier 2 capital instrument that is risk weighted pursuant to paragraph 4 by multiplying the amount specified in letter "a" of this paragraph by the amount specified in letter "b" of this paragraph:

   a) the amount of holdings required to be risk weighted pursuant to paragraph 4 of this Article;
   b) the proportion resulting from the calculation in letter "b" of paragraph 3.

CHAPTER IV
SUPERVISORY AND MONITORING REQUIREMENTS

Article 38
Terms and conditions for reducing the regulatory capital

Bank of Albania shall grant the prior approval to conduct either or both of the following:

a) reduce, redeem or repurchase Common Equity Tier 1 instruments issued by the bank in compliance with the internal regulatory acts of the bank, and the applicable legal and regulatory framework;
b) effect the call, redemption, repayment or repurchase of Additional Tier 1 instruments or Tier 2 instruments as applicable, prior to the date of their contractual maturity.

Article 39
Prior approval for reducing regulatory capital

1. The Bank of Albania shall grant permission for a bank to reduce, repurchase, call or redeem the Common Equity Tier 1 Capital, Additional Tier 1 or Tier 2 capital instruments where either of the following conditions is met:

   a) banks shall replace at the same time or earlier the instruments defined under Article 38, with the regulatory capital instruments of the same or higher quality, upon the condition these instruments are sustainable for the income capacity of the bank;
   b) banks shall certify that after the conduction of this operation, regulatory capital shall not reduce under the limits laid down in Article 42 of this Regulation.

2. When assessing the sustainability of the replacement instruments for the income capacity of the bank, bank of Albania shall consider the extent to which those replacement capital instruments would be more costly for the bank than those they would replace.
3. The Bank of Albania may permit banks to redeem Common Equity Tier 1 Capital and Tier 2 instruments before five years of the date of issue only where the conditions laid down in paragraph 1 and letter "a" or "b" of this paragraph are met.
   a) there is a change in the regulatory classification of those instruments that would be likely to result in their exclusion from regulatory capital or reclassification as a lower quality form of regulatory capital, and both the following conditions are met:

      i. the Bank of Albania considers such a change to be sufficiently certain,
      ii. banks demonstrate to the satisfaction of the competent authorities that the regulatory reclassification of those instruments was not reasonably foreseeable at the time of their issuance;

   b) there is a change in the applicable tax treatment of those instruments which the bank demonstrates that it is material and was not reasonably foreseeable at the time of their issuance.

Article 40
Temporary waiver of reduction of the regulatory capital

Where a bank holds capital instruments or has granted subordinated loans, as applicable, that qualify as Common Equity Tier 1, Additional Tier 1 or Tier 2 instruments in a financial sector entity temporarily and the Bank of Albania deems those holdings to be for the purposes of a financial assistance operation designed to reorganise and save that entity, the Bank of Albania may waive on a temporary basis the provisions on deduction that would otherwise apply to those instruments

Article 41
Continuing review of regulatory capital quality

Bank of Albania shall monitor on a continuing basis the issued instruments quality of the regulatory capital, and in any case, if identifying a quality fall of these instruments, may request to the bank the issue of new more qualified instruments.

Article 42
Limits on the regulatory capital indicators

Banks shall observe at any time the level of the following capital indicators:

a) 6.75%[7] of Common Equity Tier 1 capital against risk weighted exposures;
b) 9%[8] of Tier 1 capital against risk weighted exposures;
c) 12% of Regulatory Capital against risk weighted exposures.

Article 43
Reporting requirements

Banks shall submit at the Bank of Albania, Supervision Department, at the end of every month, the regulatory capital being calculated in accordance with the formulas laid down in Annex 1, attached and integral party of this Regulation.

Article 44
Supervisory measures

Bank of Albania, in case of failure to comply with the obligations laid down in this Regulation, shall implement the supervisory/punishing measures stipulated in the law on banks.

Article 45
Final Provisions

The attached annex 1 is an integral part of this Regulation.

Deputy Chair of the Supervisory Council

Elisabeta Gjoni

[7] Amended by the Supervisory Council of the Bank of Albania Decision No. 2, dated 9.1.2019.
[8] Amended by the Supervisory Council of the Bank of Albania Decision No. 2, dated 9.1.2019.

ANNEX 1

REGULATORY CAPITAL			
No.	**Item**	**Amount**	**Guideline**
1	**REGULATORY CAPITAL**	1.1 + 1.2	Article 5: Regulatory capital is the sum of Tier 1 with Tier 2 capital.
1.1	**TIER 1 CAPITAL**	1.1.1 + 1.1.2	Article 6: Tier 1 capital consists of the sum of the CET 1 capital and additional Tier 1 capital.
1.1.1	**COMMON EQUITY TIER 1 CAPITAL**	1.1.1.1 + 1.1.1.2 + 1.1.1.3 + 1.1.1.4 + 1.1.1.5 + 1.1.1.6 + 1.1.1.7 + 1.1.1.8 + 1.1.1.9 + 1.1.1.10 + 1.1.1.11 + 1.1.1.12 + 1.1.1.13 + 1.1.1.14 + 1.1.1.15 + 1.1.1.16 + 1.1.1.17 + 1.1.1.18	Article 6
1.1.1.1	**Capital instruments known as CET 1 Capital**	1.1.1.1.1 + 1.1.1.1.3 + 1.1.1.1.4 + 1.1.1.1.5	Article 6, Article 11 and Article 16.
1.1.1.1.1	Paid in capital		Article 6, paragraph 2, letter "a", Article 11. The amount that shall be reported shall not include issue premiums related to the instruments.
1.1.1.1.2	Memorandum Items: Capital instruments that are not known		
1.1.1.1.3	Share premiums		Article 6 The amount that shall be reported shall be related to the paid-in capital.
1.1.1.1.4	(-) Own CET 1 Capital instruments	1.1.1.1.4.1 + 1.1.1.1.4.2 + 1.1.1.1.4.3	Article 11, letter "e", Article 16. The amount that shall be reported shall include share premiums related to own shares.
1.1.1.1.4.1	(-) Direct holdings CET 1 Capital instruments		Article 11, letter "e", Article 16.
1.1.1.1.4.2	(-) Indirect holdings CET 1 Capital instruments		Article 11, letter "e", Article 16.
1.1.1.1.4.3	(-) Synthetic holdings CET 1 Capital instruments		Article 11, letter "e", Article 16.
1.1.1.1.5	(-) Actual or contingent obligations to purchase own CET 1 Capital instruments		Article 11, letter "e", Article 16.
1.1.1.2	**Retained earnings**	1.1.1.2.1 + 1.1.1.2.2 + 1.1.1.2.3	Article 6, paragraph 2, letter "c", Article 6 paragraph 8.
1.1.1.2.1	Retained earnings and loss carried forward from previous periods		Article 6 paragraph 2, letter "c".
1.1.1.2.2	End of year profit		Article 6 paragraph 2, letter "d".
1.1.1.2.3	Reporting period profit		Article 6, paragraph 2, letter "e", Article 11 paragraph 1, letter "a".
1.1.1.3	**Reserves (excluding revaluation reserves)**		Article 6 paragraph 2, letter "f".
1.1.1.4	**Credit revaluation difference**		Article 6 paragraph 2, letter "g".

1.1.1.5	**CCT1 adjustments related to prudential filters**	1.1.1.5.1 + 1.1.1.5.2 + 1.1.1.5.3 + 1.1.1.5.4 + 1.1.1.5.5	Articles 1-7
1.1.1.5.1	(-) Capital increase arising from securitised assets		Article 7: The amount that shall be reported is the increase in the capital value of the bank that results from securitized assets in accordance with accounting standards. For example, this item includes receivable income from the margin, which result from a sales profit for the bank, or for the originator net profits resulting from capitalisation of receivable income from securitised assets, which contribute to the improvement of the credit quality for positions in securitization.
1.1.1.5.2	Buffer reserves through cash flows.		Article 8 paragraph 1, letter "a". The amount that shall be reported may be positive or negative. It will be positive if buffers through cash flow result in loss (hence, reducing the capital) and vice versa. Thus the reported sign will be the opposite of the one used in accounting statements. The sum will be net from any foreseeable taxation at the moment of calculation.
1.1.1.5.3	Cumulative gains and losses due to changes in own credit risk on fair valued liabilities, as a result of changes to the bank's own credit risk.		Article 8 paragraph 1, letter "b". Fair value gains and losses of the bank, arising from the changes to the bank's own credit rating. The amount that shall be reported may be positive or negative. It will be positive in the event of loss, as a result of changes to the bank's own credit risk (hence reducing capital) and vice versa. Thus the reported sign will be the opposite of the one used in accounting statements. Unaudited earnings shall not be listed under this item.
1.1.1.5.4	Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities.		Article 8, paragraph 1, letter "c", and paragraph 2. c. Fair value gains or losses arising from the bank's own credit risk related to derivative liabilities. The amount that shall be reported may be positive or negative. It will be positive in the event of loss, as a result of changes to the bank's own credit risk and vice versa. Thus the reported sign will be the opposite of the one used in accounting statements. Unaudited earnings shall not be listed under this item.
1.1.1.5.5	(-) Value adjustments due to the requirements for prudent valuation		Article 9: In accordance with Article 142 "Requirements for the evaluation of trading book items" in the capital adequacy regulation, for all matured assets at fair value during the calculation of the regulatory capital, and deduct from CET 1 capital the sum of any adjustment of additional value as necessary.
1.1.1.6	**(-) Goodwill**	1.1.1.6.1 + 1.1.1.6.2 + 1.1.1.6.3	Article 11, paragraph 1, letter "b", and Article 12.
1.1.1.6.1	(-) Goodwill accounted for as intangible asset		Article 11 paragraph 1, letter "b". Goodwill here shall mean the same as in the definition in accounting standards. The amount that shall be reported shall be equal to the one presented in the balance sheet.
1.1.1.6.2	(-) Goodwill included in the valuation of significant investments		Article 12 paragraph 2, letter "b"
1.1.1.6.3	Deferred tax liabilities associated to goodwill		Article 12 paragraph 2, letter "a". The amount of deferred tax liabilities that would be written off, if the goodwill were devalued or written off according to accounting standards.
1.1.1.7	**(-) Other intangible assets**	1.1.1.7.1 + 1.1.1.7.2	Article 11, paragraph 1, letter "b", and Article 12 paragraph 2, letter "a". Other intangible assets shall be intangible assets according to accounting standards, excluding the goodwill, but according to the accounting standards.

1.1.1.7.1	(-) Gross other intangible assets		Article 11 paragraph 1, letter "b". Other intangible assets shall be intangible assets according to accounting standards, excluding the goodwill, but according to the accounting standards. The amount that shall be reported here shall correspond to the amount reported in the balance sheet of intangible assets, other than goodwill.
1.1.1.7.2	Deferred tax liabilities related to other intangible assets		Article 12 paragraph 2, letter "a". The amount of deferred tax liabilities that would be written off, if the intangible assets, other than the goodwill were devalued or written off according to accounting standards.
1.1.1.8	**(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities**		Article 11, paragraph 1, letter "c", and Article 13.
1.1.1.9	**(-)Defined benefit pension fund assets**	1.1.1.9.1 + 1.1.1.9.2 + 1.1.1.9.3	Article 11, paragraph 1, letter "d", and Article 15.
1.1.1.9.1	(-)Defined benefit pension fund assets gross amount		Article 11 paragraph 1, letter "d": Defined benefit pension fund assets means "assets of a defined benefit pension fund or plan, as applicable, calculated after deducting the amount of obligations under the same fund or plan". The amount that shall be reported here shall correspond to the amount reported in the balance sheet (if it is reported separately in the balance sheet).
1.1.1.9.2	Deferred tax liabilities associated to defined benefit pension fund assets		Article 15 paragraph 2, letter "a". The amount of deferred tax liabilities that would be written off, if the defined pension fund assets were devalued or written off according to accounting standards.
1.1.1.9.3	Defined benefit pension fund assets which the institution has an unrestricted ability to use		Article 15 paragraph 2, letter "b". This item shall be completed only upon prior approval by the Bank of Albania to reduce the amount of defined benefit pension fund assets. Assets included in this item shall be risk weighted, in accordance with the requirements of the capital adequacy regulation.
1.1.1.10	**(-) Reciprocal cross holdings in CET1 Capital**		Article 11, paragraph 1, letter "f", and Article 17. Holdings of CET1 capital of financial sector entities where there is a reciprocal cross holding which the Bank of Albania considers as created to increase artificially the bank's regulatory capital. The amount that shall be reported based on gross purchase positions and includes insurance core capital insurance items
1.1.1.11	**(-) Excess of deduction from Additional Tier 1 Capital items over CET 1 Capital**	(-1.1.2.6)	Article 11 paragraph 1, letter "i". The amount that shall be reported on this line shall be directly taken from line 610 "Excess of deduction from AT1 items over AT1 Capital" The amount shall be deducted from CET 1 Capital.
1.1.1.12	**(-) Qualifying holdings outside the financial sector which can (alternatively) be subject to a 1.???250% risk weight**		Article 11, paragraph 1, letter "j", subitem (i): In accordance with Article 11, paragraph 1, letter "j", the qualifying holdings may be deducted from CET 1 Capital (by reporting in this line) or weighted by 1250%.
1.1.1.13	**(-) Securitisation positions which can alternatively be subject to a 1.250% risk weight**		Article 11, paragraph 1, letter "j", subitem (ii): Securitisation positions that are subject to a 1250% risk weight, but may be alternately be deducted from CET 1 Capital. When deducted, they shall be reported in this line.

1.1.1.14	**(-) NonDVP (free delivery) transactions which can alternatively be subject to a 1250% risk weight**		Article 11, paragraph 1, letter "j", subitem (iii): Free delivery transactions are subject to a 1250% risk weight 5 days after the second contractual payment or delivery leg until the transaction is cancelled, according to requirements of the capital adequacy regulation on settlement risk. They may be alternatively deducted from the CET 1 Capital and reported in this line.
1.1.1.15	**(-) CT1 instruments of financial sector entities where the institution does not have a significant investment**		Article 11, paragraph 1, letter "g", and Article 18. The share of holdings of the bank in capital instruments of financial sector entities where the bank does not have significant investment, which should be deducted from the CET 1 Capital.
1.1.1.16	**(-) Deductible deferred tax assets that rely on future profitability and arise from temporary differences**		Article 11, paragraph 1, letter "c", and articles 13 and 20 paragraph 1, letter "a". The share of deferred tax assets that rely on future profitability and arise from temporary differences (net from the share of associated tax liablities allocated to deferred tax assets that arise from temporary differences, in accordance with Article 13, paragraph 4, letter "b") which should be deducted, applying the 10% threshold specified in Article 20, paragraph 1, letter "a".
1.1.1.17	**(-) CT1 instruments of financial sector entities where the institution has a significant investment**		Article 11, paragraph 1, letter "h", Article 19, Article 20, paragraph 1, letter "b", the share of bank holdings in CET 1 Capital of financial sector entities where the bank has a significant investment should be deducted, applying the 10% threshold specified in Article 20, paragraph 1, letter "b".
1.1.1.18	**(-) Amount exceeding the 17.65% threshold**		Article 20, paragraph 1: Share of deferred tax assets that rely on on future profitability and arise from temporary differences, and direct and indirect bank holdings in CET 1 Capital instruments of financial sector entities where the bank has a significant investment should be deducted, applying the 17.65% threshold specified in Article 20, paragraph 1, letter "b".
1.1.2	**ADDITIONAL TIER 1 CAPITAL**	1.1.2.1 + 1.1.2.2 + 1.1.2.3 + 1.1.2.4 + 1.1.2.5 + 1.1.2.6 + 1.1.2.7 + 1.1.2.8	Article 21
1.1.2.1	**Capital instruments known as Additional Tier 1 Capital**	1.1.2.1.1 + 1.1.2.1.3 + 1.1.2.1.4 + 1.1.2.1.5	Article 21, paragraph 1, letter "a"; Article 21, paragraph 2; articles 22-24; Article 25 letter "a" and Article 26
1.1.2.1.1	Paid up capital instruments		Article 21, paragraph 1, letter "a"; Article 21, paragraph 2; articles 22-24; Amount that shall be reported shall not include issue premiums related to instruments.
1.1.2.1.2	Memorandum item: Capital instruments not eligible		Article 22, paragraph 1, letters "c", "e" and "f". The requirements in these points reflect various capital situations, which are reversible, thus the amount reported here may be eligible in succeeding periods. The amount that shall be reported shall not include issue premiums related to the instruments.
1.1.2.1.3	Premiums of issues related to instruments		Article 21 paragraph 1, letter "b" Premiums of issues related to instruments shall mean the same as in accounting standards. The amount that shall be reported shall be related to the paid-in capital instruments.
1.1.2.1.4	(-) Own Additional Tier 1 Capital instruments	1.1.2.1.4.1 + 1.1.2.1.4.2 + 1.1.2.1.4.3	Article 22, paragraph 1, letter "b"; Article 25, letter "a" and Article 26. The amount that shall be reported shall include premiums of issue related to instruments related to own instruments.

1.1.2.1.4.1	(-) Direct holdings in Additional Tier 1 Capital instruments		Article 22, paragraph 1, letter "b"; Article 25, letter "a" and Article 26.
1.1.2.1.4.2	(-) Indirect holdings in Additional Tier 1 Capital instruments		Article 22, paragraph 1, letter "b" subitem "ii"; Article 25, letter "a" and Article 26.
1.1.2.1.4.3	(-) Synthetic holdings in Additional Tier 1 Capital instruments		Article 22, paragraph 1, letter "b"; Article 25, letter "a" and Article 26.
1.1.2.1.5	(-) Actual or contingent obligations to purchase own instruments of Additional Tier 1 Capital.		Article 25, letter "a" and Article 26. According to Article 25, letter "a", own instruments of Additional Tier 1 Capital, which the bank is obliged to purchase as a result of a contractual obligation" shall be deducted.
1.1.2.2	(-) Reciprocal cross holdings in Additional Tier 1 Capital (AT1)		Article 25, letter "b" and Article 27. Holdings in additional tier 1 capital of financial sector entities, when there is (cross) reciprocal holding with the bank, which the Bank of Albania considers that they have been created to artifically increase the bank's capital.
1.1.2.3	(-) AT1 instruments of financial sector entities where the institution does not have a significant investment		Article 25, letter "c"; Article 28; Article 29; Article 40. Holdings in instruments of financial sector entities where the institution does not have a significant investment, which should be deducted from the additional tier 1 capital (AT1).
1.1.2.4	(-) AT1 instruments of financial sector entities where the institution has a significant investment		Article 25, letter "d"; Article 28; Article 40. Holdings in additional tier 1 capital (AT1) instruments of financial sector entities where the institution has a significant investment shall be deducted completely.
1.1.2.5	(-) Excess of deduction from tier 2 (T2) capital items which exceed Tier 2 Capital	(-1.2.6)	Article 25, letter "e". The amount that shall be reported shall be taken directly from "Excess of deduction from T2 items that exceed T2 Capital" (deducted in AT1)
1.1.2.6	Excess of deduction from AT1 capital items over AT1 capital (deducted in the CET1)		Article 11, letter "i". Additional tier 1 capital (AT1) may not be negative, but deductions from AT1 may be larger than AT1 capital plus premiums of issue related to instruments related to them. When this happens, then AT1 shall equal zero, and the excess of deductions from AT1 should be deducted from CET1
1.1.2.7	(-) Additional deductions of AT1 Capital		This regulation does not prevent banks from keeping excess regulatory capital or apply stricter measures than envisaged in the regulation.
1.1.2.8	Elements of additional tier 1 capital (AT1) or other deductions		This line is put for ensuring flexibility and for reporting purposes. The line is filled in only in rare cases if elements of AT1 capital or deductions of elements of AT1 capital were not determined in lines from 1.1.2 (AT1) to 1.1.2.7 (additional deductions of AT1 capital)
1.2	**TIER 2 CAPITAL**	1.2.1 + 1.2.2 + 1.2.3 + 1.2.4 + 1.2.5 + 1.2.6 + 1.2.7 + 1.2.8	Article 30
1.2.1	Capital instruments and subordinated loans eligible as T2 Capital	1.2.1.1 + 1.2.1.3 + 1.2.1.4 + 1.2.1.5	Article 30, paragraph 1, letter "a"; Article 31, letter "a" and Article 34.
1.2.1.1	Paid up capital instruments and subordinated loans		Article 30, paragraph 1, letter "a", Article 31. The amount that shall be reported shall not include issue premiums related to the instruments.
1.2.1.2	Memorandum Items: Capital instruments and subordinated loans not eligible		Article 31, paragraph 1, letters "c", "e" and "f". The requirements in these points reflect various capital situations, which are reversible, thus the amount reported here may be eligible in succeeding periods. The amount that shall be reported shall not include issue premiums related to the instruments.

1.2.1.3	Premiums of issues related to instruments		Article 30 paragraph 1, letter "b" Premiums of issues related to instruments shall mean the same as in accounting standards. The amount that shall be reported shall be related to the paid-in capital instruments.
1.2.1.4	(-) Own Tier 2 (T2) capital instruments	1.2.1.4.1 + 1.2.1.4.2 + 1.2.1.4.3	Article 31, letter "b" subitem "i"; Article 33, letter "a" and Article 34. The amount that shall be reported in this line shall include premiums of issue related to instruments related to own instruments.
1.2.1.4.1	(-) Direct holdings of Tier 2 (T2) capital instruments		Article 31, letter "b"; Article 33, letter "a" and Article 34.
1.2.1.4.2	(-) Indirect holdings of Tier 2 (T2) capital instruments		Article 31, letter "b"; Article 33, letter "a" and Article 34.
1.2.1.4.3	(-) Synthetic holdings of Tier 2 (T2) capital instruments		Article 31, letter "b"; Article 33, letter "a" and Article 34.
1.2.1.5	(-) Actual or contingent obligation to purchase own Tier 2 (T2) Capital instruments		Article 33, letter "a" and Article 34.
1.2.2	**Standard Method (SA) main credit risk adjustments**		
1.2.3	(-) Cross (reciprocal) holdings in Tier 2 (T2) capital		Article 33, letter "b" and Article 35.
1.2.4	(-) Tier 2 (T2) capital instruments of financial sector entities where the bank does not have a significant investment		Article 33, letter "c"; Article 35; Article 36; Article 37 and Article 40.
1.2.5	(-) Tier 2 (T2) capital instruments of financial sector entities where the bank has a significant investment		Article 33, letter "d"; Article 35, Article 36 and Article 40.
1.2.6	Excess of deduction from Tier 2 (T2) capital items which exceed Tier 2 Capital		Article 25, letter "e". Additional Tier 2 (T2) capital may not be negative, but deductions from T2 may be larger than T2 capital plus premiums of issue related to instruments related to them. When this happens, then T2 shall equal zero, and the excess of deductions from T2 should be deducted from AT1
1.2.7	(-) Excess of deduction from Tier 2 (T2) capital		This regulation does not prevent banks from keeping excess regulatory capital or apply stricter measures than envisaged in the regulation.
1.2.8	Components of Tier 2 (T2) capital or other deductions		This line is put for ensuring flexibility and for reporting purposes. The line shall be completed only in rare cases, when there is no final decision on the reporting of specific items/deductions of capital. The line shall be completed only if components of Tier 2 (T2) capital components or deductions in Tier 2 (T2) capital are not allocated in lines from 1.2 (Tier 2 capital) to line 1.2.7 (Excess deductions to Tier 2 (T2) capital)

REPORTS AND CAPITAL RATIOS [9]

No.	Items	Value
1.	**Report: Common Equity Tier 1 Capital/Risk-weighted exposures**	≥6.75%
2.	**Report: Tier 1 Capital/Risk-weighted exposures**	≥ 9%
3.	**Capital Adequacy Ratio**	≥ 12%

[9] Amended by the Supervisory Council of the Bank of Albania Decision No. 2, dated 9.1.2019.

Memorandum Items

No.	Item	Amount	Guideline
	Deferred tax assets and liabilities		
1	**Total deferred tax assets**		The amount reported in this line shall equal the amount reported in the bank's accounting balance.
1.1	Deferred tax assets which do not rely on future profitability.		Article 14: Deferred tax assets which do not rely on future profitability and are subject to the application of a certain risk weight
1.2	Deferred tax assets that rely on future profitability and do not arise from temporary differences		Article 11, paragraph 1, letter "c", and Article 13: Deferred tax assets that rely on future profitability but do not arise from temporary differences, and are not subject to a threshold deduction (i.e. are deducted completely from CET 1 Capital)
1.3	Deferred tax assets that rely on future profitability and arise from temporary differences		Article 11, paragraph 1, letter "c", and articles 13 and 20 paragraph 1, letter "a": Deferred tax assets that rely on future profitability and arise from temporary differences, and as a result their deduction from CET 1 Capital shall be subject to 10% and 17.65% thresholds, set out in Article 20.
2	**Total deferred tax liabilities**	2.1+2.2	The amount reported in this line shall equal the amount reported in the bank's accounting balance.
2.1	Deferred tax liabilities, not deductible from deferred tax assets that rely on future profitability		Article 13, paragraphs 2 and 3: Deferred tax liabilities, for which requirements in Article 13, paragraphs 2 and 3 are not met. This line will reflect deferred tax liabilities that deduct the amount of goodwill, other intangible assets or defined benefit pension fund assets.
2.2	Deferred tax liabilities, deductible from tax assets that rely on future profitability		Article 13
2.2.1	Deductible deferred tax liabilities that are related to deferred tax assets that rely on future profitability and do not arise from temporary differences.		Article 13, paragraphs 2, 3 and 4: Deferred tax assets that may reduce the amount of deferred tax assets that rely on future profitability, in accordance with Article 13, paragraphs 2 and 3, and are not allocated under deferred tax assets that rely on future profitability and arise from temporary differences, in accordance with Article 13, paragraph 4.
2.2.2	Deductible deferred tax liabilities that are related to deferred tax assets that rely on future profitability and arise from temporary differences.		Deferred tax assets that may reduce the amount of deferred tax assets that rely on future profitability, in accordance with Article 13, paragraphs 2 and 3, and are allocated under deferred tax assets that rely on future profitability and arise from temporary differences, in accordance with Article 13, paragraph 4.
8	**Threshold non deductible of holdings in financial sector entities where an institution does not have a significant investment**		Article 18 paragraph 4, letter "a": In this line is reported the threshold up to which holdings in a financial sector entity where the bank does not have significant investments are not deducted. Hence, the amount will include items on the basis of the threshold multiplied by 10%.
9	**10% CET 1 Capital threshold**		Article 20, paragraph 1, letters "a" and "b": In this line is reported the 10% threshold for holdings in financial sector entities where the bank has significant investments, and for deferred tax assets that rely on future profitability and arise from temporary differences. The amount includes items on the basis of the threshold multiplied by 10%.
10	**17.65% CET 1 Capital threshold**		Article 20, paragraph 1: In this line is reported the 17.65% threshold for holdings in financial sector entities where the bank has significant investments, and for deferred tax assets that rely on future profitability and arise from temporary differences, which is applied after the 10% threshold. The threshold is calculated in such a way that the eligible sum of both items does not exceed 15% of the CET 1 Capital, calculated after deductions.
Investments in the capital of financial sector entities where the bank does not have a significant investment			
12	**Holdings of CET 1 Capital of financial sector entities where the bank does not have a significant investment, net of short positions**		Article 17 and Article 18

12,1	Direct holdings of CET 1 Capital of financial sector entities where the bank does not have a significant investment		Article 17 and Article 18
12.1.1	Direct holdings (GROSS) of CET 1 Capital of financial sector entities where the bank does not have a significant investment		Direct holdings of CET 1 Capital of financial sector entities where the bank does not have a significant investment, excluding: a) Subscription positions retained for 5 working days or less; b) Holdings that are treated as reciprocal cross holdings in accordance with Article 11, paragraph 1, letter "f".
12.1.2	(-) Permitted offsetting short positions in relation to the direct gross holdings included above		Article 18, paragraphs 2 and 3: Offsetting short positions is permitted when they are in the same fundamental exposure and maturity of short positions is in accordance with the maturity of long positions or the residual maturity is at least one year.
12,2	Indirect holdings of CET 1 Capital of financial sector entities where the bank does not have a significant investment		Article 17 and Article 18, paragraphs 2 and 3.
12.2.1	Indirect holdings (GROSS) of CET 1 Capital of financial sector entities where the bank does not have a significant investment		Article 17 and Article 18, paragraphs 2 and 3: The amount that shall be reported represents indirect holdings in the tradeble book of capital instruments of financial sector entities in the form of holdings in index securities. This amount is obtained by calculating the core exposure to capital instruments of financial sector entities in these indices. Holdings that are trated as reciprocal cross holdings in accordance with Article 11, paragraph 1, letter "f" shall not be included.
12.2.2	(-) Permitted offsetting short positions in relation to the indirect gross holdings included above		Article 18, paragraph 2: Article 18, paragraph 2 permits offsetting short positions in the same core exposure provided that the maturity of the short position matches the maturity of the long position or has a residual maturity less than a year.
12,3	Synthetic holdings of CET 1 Capital of financial sector entities where the bank does not have a significant investment		Article 17 and Article 18, paragraphs 2 and 3
12.3.1	Synthetic holdings (GROSS) of CET 1 Capital of financial sector entities where the bank does not have a significant investment		Article 17 and Article 18, paragraphs 2 and 3
12.3.2	(-) Permitted offsetting short positions in relation to the synthetic gross holdings included above		Article 18, paragraphs 2 and 3
13	**Holdings of Additional Tier 1 Capital of financial sector entities where the bank does not have a significant investment, net of short positions**	13.1+13.2+13.3	Article 27, Article 28 and Article 29.
13.1	Direct holdings of Additional Tier 1 Capital of financial sector entities where the bank does not have a significant investment	13.1.1+13.1.2	Article 27; Article 28 and Article 29, paragraph 2.
13.1.1	Direct holdings (GROSS) of Additional Tier 1 Capital of financial sector entities where the bank does not have a significant investment		Article 27 and Article 29, paragraph 2. Direct holdings of Additional Tier1 Capital of financial sector entities where the bank does not have a significant investment, excluding: a) Subscription positions retained for 5 working days or less; b) Holdings that are treated as reciprocal (cross) holdings in accordance with Article 25, letter "b".
13.1.2	(-) Permitted offsetting short positions in relation to the direct (gross) holdings included above		Article 28
13.2	Indirect holdings in Additional Tier 1 Capital of financial sector entities where the bank does not have a significant investment	13.2.1+13.2.2	Article 27 and Article 28.
13.2.1	Indirect holdings (GROSS) in Additional Tier 1 Capital of financial sector entities where the bank does not have a significant investment		Article 27 and Article 28. The amount that shall be reported represents indirect holdings in the tradable book of capital instruments of financial sector entities in the form of holdings in index securities. This amount is obtained by calculating the core exposure to capital instruments of financial sector entities in these indices. Holdings treated as reciprocal (cross) holdings according to Article 25, letter "b" shall not be included.

13.2.2	(-) Permitted offsetting short positions in relation to the indirect (gross) holdings included above		Article 28 Article 25, letter "a" permits offsetting short positions in the same core exposure provided that the maturity of the short position matches the maturity of the long position or has a residual maturity less than a year.
13.3	Synthetic holdings of Additional Tier 1 Capital of financial sector entities where the bank does not have a significant investment	13.3.1+13.3.2	Article 27 and Article 28.
13.3.1	Synthetic holdings (GROSS) of Additional Tier 1 Capital of financial sector entities where the bank does not have a significant investment		Article 27 and Article 28.
13.3.2	(-) Permitted offsetting in short positions in relation to the synthetic (gross) holdings included above		Article 28
14	**Holdings of Tier 2 Capital of financial sector entities where the bank does not have a significant investment, net of short positions**	14.1+14.2+14.3	Article 35, Article 36 and Article 37.
14.1	Direct holdings of Tier 2 Capital of financial sector entities where the bank does not have a significant investment	14.1.1+14.1.2	Article 35; Article 36 and Article 37, paragraph 2.
14.1.1	Direct holdings (Gross) of Tier 2 Capital of financial sector entities where the bank does not have a significant investment		Article 35 and Article 37, paragraph 2. Direct holdings of Tier 2 Capital of financial sector entities where the bank does not have a significant investment, excluding: a) Subscription positions retained for 5 working days or less; b) Holdings that are treated as reciprocal (cross) holdings in accordance with Article 33, letter "b".
14.1.2	(-) Permitted offsetting short positions in relation to the direct (gross) holdings included above		Article 36 Article 36, letter "a" permits offsetting short positions in the same core exposure provided that the maturity of the short position matches the maturity of the long position or has a residual maturity less than a year.
14.2	Indirect holdings in Tier 2 Capital of financial sector entities where the bank does not have a significant investment	14.2.1+14.2.2	Article 35 and Article 36.
14.2.1	Indirect holdings in (GROSS) Tier 2 Capital of financial sector entities where the bank does not have a significant investment		Article 35 and Article 36. The amount that shall be reported represents indirect holdings in the tradable book of capital instruments of financial sector entities in the form of holdings in index securities. This amount is obtained by calculating the core exposure to capital instruments of financial sector entities in these indices. Holdings treated as reciprocal (cross) holdings according to Article 33, letter "b" shall not be included.
14.2.2	(-) Permitted offsetting short positions in relation to the indirect gross holdings included above		Article 36 Article 36, letter "a" permits offsetting short positions in the same core exposure provided that the maturity of the short position matches the maturity of the long position or has a residual maturity less than a year
14.3	Synthetic holdings of Tier 2 Capital of financial sector entities where the bank does not have a significant investment	14.3.1+14.3.2	Article 35 and Article 36.
14.3.1	Synthetic holdings (GROSS) of Tier 2 Capital of financial sector entities where the bank does not have a significant investment		Article 35 and Article 36.
14.3.2	(-) Permitted offsetting in short positions in relation to the synthetic (gross) holdings included above		Article 36
Investments in the capital of financial sector entities where the bank does not have a significant investment			
15	**Holdings of CET 1 Capital of financial sector entities where the bank has a significant investment**	15.1+15.2+15.3	Article 17 and Article 19
15.1	Direct holdings of CET 1 Capital of financial sector entities where the bank has a significant investment	15.1.1+15.1.2	Article 17 and Article 19
15.1.1	Direct holdings (Gross) of CET 1 Capital of financial sector entities where the bank has a significant investment		Article 17 and Article 19: Direct holdings of CET 1 Capital of financial sector entities where the bank has a significant investment, excluding: a) Subscription positions retained for 5 working days or less; b) Holdings that are treated as reciprocal cross holdings.

15.1.2	(-) Permitted offsetting short positions in relation to the direct gross holdings included above		Article 19, paragraphs 4 and 5: Offseting short positions for the same core exposure may be done if the maturity of the short position matches the maturity of the long position or has a residual maturity of at least one year.
15.2	Indirect holdings of CET 1 Capital of financial sector entities where the bank has a significant investment	15.2.1+15.2.2	Article 17 and Article 19, paragraphs 4 and 5
15.2.1	Indirect holdings (GROSS) of CET 1 Capital of financial sector entities where the bank has a significant investment		Article 17 and Article 19, paragraphs 4 and 5 The amount that shall be reported will represent indirect holdings in the tradable book of capital instruments of financial sector entities in the form of holdings in index securities. This amount will be obtained by calculating the core exposure to capital instruments of financial sector entities in these indices. Holdings that are treated as reciprocal cross holdings in accordance with Article 11, paragraph 1, letter "f" shall not be included.
15.2.2	(-) Permitted offsetting short positions in relation to the indirect gross holdings included above		Article 19, paragraphs 4 and 5: Offseting short positions for the same core exposure may be done if the maturity of the short position matches the maturity of the long position or has a residual maturity of at least one year.
15.3	Synthetic holdings of CET 1 Capital of financial sector entities where the bank has a significant investment	15.3.1+15.3.2	Article 17 and Article 19, paragraphs 4 and 5
15.3.1	Synthetic holdings (GROSS) of CET 1 Capital of financial sector entities where the bank has a significant investment		Article 17 and Article 19, paragraphs 4 and 5
15.3.2	(-) Permitted offsetting short positions in relation to the synthetic gross holdings included above		Article 19, paragraphs 4 and 5
16	**Holdings of Additional Tier 1 Capital of financial sector entities where the bank has a significant investment, net of short positions**	16.1+16.2+16.3	Article 27 and Article 28.
16.1	Direct holdings of Additional Tier 1 Capital of financial sector entities where the bank has a significant investment	16.1.1+16.1.2	Article 27 and Article 28.
16.1.1	Direct holdings (Gross) of Additional Tier 1 Capital of financial sector entities where the bank has a significant investment		Article 27 Direct holdings of Additional Tier1 Capital (AT1) of financial sector entities where the bank has a significant investment, excluding: a) Subscription positions retained for 5 working days or less; b) Holdings that are treated as reciprocal cross holdings, in accordance with Article 25, letter "b"
16.1.2	(-) Permitted offsetting short positions in relation to the direct (gross) holdings included above		Article 28, letter "a" permits offsetting short positions in the same core exposure provided that the maturity of the short position matches the maturity of the long position or has a residual maturity of at least one year.
16.2	Indirect holdings in Additional Tier 1 Capital of financial sector entities where the bank has a significant investment	16.2.1+16.2.2	Article 27 and Article 28.
16.2.1	Indirect holdings (GROSS) in Additional Tier 1 Capital of financial sector entities where the bank has a significant investment		Article 27 and Article 28. The amount that shall be reported will represent indirect holdings in the tradable book of capital instruments of financial sector entities in the form of holdings in index securities. This amount will be obtained by calculating the core exposure to capital instruments of financial sector entities in these indices. Holdings treated as reciprocal (cross) holdings according to Article 25, letter "b" shall not be included.
16.2.2	(-) Permitted offsetting short positions in relation to the indirect (gross) holdings included above		Article 28, letter "a" permits offsetting short positions in the same core exposure provided that the maturity of the short position matches the maturity of the long position or has a residual maturity of at least one year.
16.3	Synthetic holdings of Additional Tier 1 Capital of financial sector entities where the bank has a significant investment	16.3.1+16.3.2	Article 27 and Article 28.
16.3.1	Synthetic holdings (GROSS) of Additional Tier 1 Capital of financial sector entities where the bank has a significant investment		Article 27 and Article 28.

16.3.2	(-) Permitted offsetting in short positions in relation to the synthetic (gross) holdings included above		Article 28
17	**Holdings of Tier 2 Capital of financial sector entities where the bank has a significant investment, net of short positions**	17.1+17.2+17.3	Article 35 and Article 36.
17.1	Direct holdings of Tier 2 Capital of financial sector entities where the bank has a significant investment	17.1.1+17.1.2	Article 35 and Article 36.
17.1.1	Direct holdings (Gross) of Tier 2 Capital of financial sector entities where the bank has a significant investment		Direct holdings of Tier 2 Capital (T2) of financial sector entities where the bank has a significant investment, excluding: a) Subscription positions retained for 5 working days or less (Article 33, letter "d"); b) Holdings that are treated as reciprocal cross holdings, in accordance with Article 33, letter "b"
17.1.2	(-) Permitted offsetting short positions in relation to the direct (gross) holdings included above		Article 36, letter "a" permits offsetting short positions in the same core exposure provided that the maturity of the short position matches the maturity of the long position or has a residual maturity of at least one year.
17.2	Indirect holdings in Tier 2 Capital of financial sector entities where the bank has a significant investment	17.2.1+17.2.2	Article 35 and Article 36.
17.2.1	Indirect holdings in (GROSS) Tier 2 Capital of financial sector entities where the bank has a significant investment		Article 35 and Article 36. The amount that shall be reported will represent indirect holdings in the tradable book of capital instruments of financial sector entities in the form of holdings in index securities. This amount will be obtained by calculating the core exposure to capital instruments of financial sector entities in these indices. Holdings treated as reciprocal (cross) holdings according to Article 33, letter "b" shall not be included.
17.2.2	(-) Permitted offsetting short positions in relation to the indirect gross holdings included above		Article 36, letter "a" permits offsetting short positions in the same core exposure provided that the maturity of the short position matches the maturity of the long position or has a residual maturity of at least one year.
17.3	Synthetic holdings of Tier 2 Capital of financial sector entities where the bank has a significant investment	17.3.1+17.3.2	Article 35 and Article 36.
17.3.1	Synthetic holdings (GROSS) of Tier 2 Capital of financial sector entities where the bank has a significant investment		Article 35 and Article 36.
17.3.2	(-) Permitted offsetting in short positions in relation to the synthetic (gross) holdings included above		Article 36
Total risk exposure amounts of holdings not deducted from the corresponding capital category:			
18	**Risk weighted exposures of CET 1 Capital holdings in financial sector entities which are not deducted from the bank's CET 1 Capital**		Article 18
19	**Risk weighted exposures of Additional Tier 1 Capital holdings in financial sector entities which are not deducted from the bank's Additional Tier 1 Capital**		Article 29
20	**Risk weighted exposures of Tier 2 Capital holdings in financial sector entities which are not deducted from the bank's Tier 2 Capital**		Article 37