REGULATION
"ON CAPITAL ADEQUACY RATIO"

(Approved under decision No.48, dated 31.7.2013 and amended by decision No. 43, dated 30.7.2014, decision No. 70, dated 18.12.2014, decision No. 49, dated 1.7.2015, decision No.91, dated 2.12.2015, decision No.49, dated 30.3.2016, decision No. 5, dated 1.2.2017 and by decision No. 34, dated 2.5.2018 of the Supervisory Council of the Bank of Albania).

CHAPTER I
GENERAL PROVISIONS

Article 1
Scope

1. The purpose of this Regulation is to set out:

   a) the criteria and rules for the calculation of capital adequacy ratio; and
   b) the minimum of capital adequacy ratio

Article 2
Legal grounds

1. This Regulation is issued pursuant to and in implementation of:

   a) Article 12, “a”, Article 43, “c” and Chapter V of the Law No. 8269, dated 23/12/1997 “On the Bank of Albania”, as amended;
   b) Article 58, “a”, “b”, “c” and “ç”, Article 59, paragraphs (2) and (3), and Article 60, paragraph (2), 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 subject to this Regulation

This Regulation shall apply to banks licensed to carry out the banking and financial activity in the Republic of Albania, in line with the licence granted by the Bank of Albania (for simplicity hereinafter referred as "banks”).

Article 4
Definitions

1. The terms used throughout in this Regulation shall have the same meanings with those set forth in the Law on Banks.
2. In addition to paragraph (1) of this Article, for the purposes of implementing this Regulation, the following terms shall have these meanings and shall be used respectively:

a) In Chapter III to calculate the attached definitions and integral part of capital requirement for credit risk according to the standard method:

1) **"External Credit Assessment Institutions"** (hereafter referred to as "ECAI" for simplicity in this Regulation) – means a legal person that conducts assessments and assign the credit quality to another institution/ entity;
2) **"Eligible External Credit Assessment Institution"** (hereafter in this Regulation referred to as "eligible ECAI" for simplicity) – means the External Credit Assessment Institution, recognized as such by the Bank of Albania. For the purposes of calculating the capital requirement, banks may use only the credit assessments of eligible ECAIs;
3) **"Nominated ECAI"** (hereafter in this regulation referred to as "nominated ECAI" for simplicity) - means the eligible ECAI, the credit assessments of which, bank has decided to use to assign risk weights;
4) **"Export Credit Agency"** (hereafter in this regulation referred to as "ECA" for simplicity) – means the agency that supports export activities of natural and legal persons, from the countries where ECA has its registered office. ECAs provide government – backed loans, guaranties and insurance covering both commercial and political risk of the borrowing country. Banks, in the calculation of capital requirements, may use credit assessments published by ECAs, if they meet the conditions laid down in this Regulation;
5) **"Supervised Institutions"** – means, banks, investment companies and financial institutions;
6) **"Investment companies"** (Brokerage companies) – means the companies as defined in Article 44, of the Law No. 9879, dated 21.02.2008, "On securities";
7) **"Financial institutions"**[1]–means financial intermediaries, subject to supervisory requirements equivalent to supervisory requirements for banks;
8) **"Competent Supervisory Authorities"** – means national authorities, domestic or international, which are empowered by law or regulation to supervise banks and/or other financial institutions;
9) **"Collective Investments Undertakings"** (hereafter in this regulation referred to as "CIUs" for simplicity) – means the undertakings as defined in Article 2, paragraph (1) of the Law No. 10198, dated 10.12.2009 "On collective investment undertakings";
10) **"Local and regional government authorities"** –means local and regional self-government units, as set forth by the competent authorities of each country;

[1] In cases of institutions supervised by the Bank of Albania, there shall be included non-bank financial institutions and savings& loans associations and their unions.

11) **“Public sector entities”** (hereafter in this regulation referred to as “PSE” for simplicity) – means administrative bodies responsible to the central government, regional governments or local authorities, or authorities that in the view of the competent authorities of each county exercise the same responsibilities as regional and local authorities, or non-commercial undertakings/ legal persons guaranteed by the government, or self-administered bodies governed by a special law and under public supervision (restriction of rights);

12) **“Small and Medium Sized Enterprises**” (hereafter in this regulation referred to as “SME” for simplicity) – means respectively the categories that meet the following levels of annual turnover:

The category	Annual turnover
Micro-enterprises	less than 10 million ALL
Small enterprises	10-15 million ALL
Medium enterprises	less than 250 million ALL

13) **“Non-performing (loans) exposures (past due items)**– means the exposures (loans) which, according to the requirements laid down in the Regulation "On credit risk management", are classified in one of the following categories: substandard, doubtful and loss loans;

14) **“Exposures belonging to high-risk categories”** – – means investments in venture capital firms and private equity investments that refer respectively to the following activities:

i. investments of banks in venture capital firms mostly imply investments in the initial capital of SMEs, and capital of 'recently established' undertakings that are not able to raise capital on the capital market;
ii. private equity investments of a bank refer to the development of new products and technologies, rapid growth, costs of mergers and acquisitions, strengthening the undertaking's balance sheet in which it is invested, etc.

15) **“Covered bonds”**– means the bonds whose issuance is regulated by special a law of the country where the issuer has its registered office and is to supervision by a competent authority and that simultaneously meet the following criteria:

i. the funds obtained from the sale of covered bonds must be invested in assets which provide sufficient coverage for obligations arising from collateralized bonds until their maturity; and
ii. covered bonds in the event of bankruptcy of the issuer, allow preferential treatment to the holder of collateralized bonds giving him priority in terms of principal and interest payments;

16) **“Cash items in the process of collection”**– means funds that are in the course of being transmitted between banks. These items include funds at transfer accounts, cheques and other forms of payment that have been sent for collection[2];

17) **“Minimum lease payments”**– means the payments and any bargain option that the lessee is or can be required to make over the lease term (i.e. option, the exercise of which is reasonably certain);

[2] For example, “pending accounts” as set out in the reporting methodology and financial report content.

18) **“Solicited rating/ assessment**– is an assessment by an eligible ECAI, on the request of a bank, upon the payment of a fee. The assessments produced in the absence of a request shall be considered as such, if the bank has previously received an assessment requested by the same ECAI.
19) **“Unsolicited rating/assessment”**– is an assessment produced without the request of the bank by an eligible ECAI and without the payment of a fee;

b) in the Chapter IV for the credit risk mitigation techniques:

20) **“Credit risk mitigation”** – means the technique applied by a bank, to reduce the credit risk related to an exposure, or its exposures;
21) **“Credit protection”** – means any contractual method pursuant to which the protection seller provides and the protection buyer receives protection for the purpose of mitigating credit risk;
22) **“Underlying asset”** – means the asset, registered in the balance sheet of the buyer for which credit protection is acquired;
23) **“Protection buyer”**– means the entity which buys protection from credit risk, (i.e. sells credit risk);
24) **“Protection provider”**– means the entity which sells protection from credit risk, (i.e. buys credit risk);
25) **“Funded credit protection”**– means the technique of credit risk mitigation, which gives to protection buyer the right, in the event of the default of the borrower, to refund the value of credit given through the assets or monetary values previously defined;
26) **“Unfunded credit protection ”** – means the techniques of credit risk mitigation based on the commitment of a third party to pay to bank a specific amount in the event of the default of the borrower or on the occurrence of other specified credit events;
27) **“Secured lending transaction”**– means any transaction giving rise to an exposure secured by collateral which does not include a provision conferring upon the bank the right to receive margin frequently from the debtor, pledge or other collateral provider;
28) **“Capital market-driven transaction”**– means any transaction giving rise to an exposure secured by collateral which includes a provision conferring upon the bank the right to receive margin frequently from the debtor, pledge or other collateral provider;
29) **“Credit event”** – means the event agreed by the parties (provider and protection buyer), that triggers the protection provider to pay to the protection buyer out the amount specified in the contract;
30) **“Master netting agreement”**– - means the agreements that allow the netting of exposures of the two involved parties, based on individual legal transactions. In case of termination of agreements, the master agreements provide the settlement of respective amounts related to all transactions. Master netting agreements lay down the terms and conditions of netting where the parties trade in different products regulated by individual agreements. In this context, a master netting agreement provides for the overall relationship of the parties in case of trading in different products by giving the non-defaulting party the right to terminate and close-out all transactions under the agreement upon the event of default on any of the transactions, even for a single transaction;

31) A **"credit derivative"** – means a contract where the protection provider undertakes to pay out to the protection buyer upon occurrence of a predetermined credit event. This obligation shall equal to one of the following:

   i. the decline in the value of the reference obligation with respect to the initial value (cash settlement variable),
   ii. the entire notional value of the reference obligation in exchange for physical delivery of the reference obligation or another equivalent financial instrument (deliverable obligation) specified in the contract, and
   iii. a specified fixed amount (binary payout);

32) **"Reference obligation"** – means the obligation used for the purposes of determining cash settlement value, or deliverable obligation in case of credit derivatives;
33) **"Credit Default Swap"** – means a type of credit derivative under which the credit protection buyer transfers the credit risk of the reference asset to the credit protection provider. The credit protection provider undertakes to compensate the credit protection buyer in the event of the occurrence of other specified credit events specified in the contract. For this service the protection buyer pays the protection seller a periodic premium.
34) **"Total Return Swap"** – means contracts under which the protection buyer agrees to transfer all the cash flows generated by the reference obligation to the protection provider. The protection provider, for his part, agrees to transfer the cash flows associated with changes in a reference rate to the protection buyer. On the payment dates (or the termination date of the contract), the protection buyer transfers to the provider the amount of the potential revaluation of reference obligation (i.e. a value equal to the positive difference between the market value and the initial value of the reference obligation). In the case of a decline in the value of the reference obligation, the protection provider transfers to the buyer the respective amount which compensate this decline;
35) **"Credit Linked Notes"** " (for simplicity in this regulation referred to as "CLN" hereafter)– means a derivative financial instrument with an Embedded Credit Default Swap, which enables the credit protection buyer to transfer the risk associated with the asset on which the CLN is based. The credit protection provider receives from the buyer an increased regular coupon rate and regular value of the asset at maturity unless a credit event occurs prior to maturity of the asset on which the CLN is based;
36) **"Basket mitigation techniques"**– means the techniques based on basket credit derivatives where the protection buyer transfers to the provider the credit risk of more than one exposure (many exposures). The usual forms of basket credit derivatives are first-to-default and nth-to-default;
37) **"First-to-default credit derivative"**–means a contract relating to a certain number (basket) of exposures under the terms of which the first default among the exposures shall trigger payment by protection provider;
38) **"Nth-to-default credit derivative"**–means a contract relating to a certain number (basket) of exposures under the terms of which the nth default among the exposures shall trigger payment by the protection provider;
39) **"Cash similar instrument"**– means a certificate of deposit or other similar instrument issued by the bank which include the obligation to be refunded for the nominal value;

40) **"Surrender value"**– means the money paid by an insurance company to a policyholder who is cancelling an annuity or cash-value life insurance policy. (i.e. the cash value which is accumulated when premiums and interest on any previous cash value exceed the cost of insurance);
41) **"Cross-Default"** – means a clause in a credit agreement or instrument, which brings the announcement of the failure of the borrower, in case the latter default to make any required payment (otherwise known as cross-acceleration);
42) **"Remargining" –** means to place more cash or securities with the counterparty following a margin call. In cases the market value of the pledged collateral fall, the collateral holder requires to counterparty to restore the margin to comply with the determined requirements;

c) In the Chapter V for the calculation of risk capital requirements in the positions created in the process of securitisation:

43) **"Securitisation"**– means a transaction or financial practice, whereby the credit risk of an exposure (asset or off- balance sheet items) or a pool of exposures (assets or off- balance sheet items) is tranched, having the following characteristics:

   i. the conducted payments are dependent upon the performance of the exposure or pool of exposures on which this transaction is based;
   ii. the risk transches have different priorities on the coverage of losses during the ongoing life of the exposure or the group of securitised exposures;

44) **"Traditional securisation"**– means a securitisation that realises the credit risk transfer to two or more tranches, through exposure transfers (assets and off-balance sheet items) securitised in a Special Purpose Vehicle, that due to these exposures, issue the asset-backed securities. The securities issued do not represent payment obligations of the originator bank. It is considered traditional securitisation, also, the credit risk transfer through the provision of funding originator from the sub-participation;
45) **"Synthetic securitisation"** – means a securitisation, where the tranching is achieved by the use of credit derivatives or guarantees, and assets or securitised assets portfolio are not subject to transfer. It is considered synthetic securitisation the transaction that in the frame of a portfolio consisted of one or many assets, enable the isolation of a rick component, which covered first loss of the portfolio, through the mitigation credit techniques (funded or unfunded);
46) **"Securitised exposures"**– means one or a pool of potential exposures of the bank, which are subject to securitisation. It includes credit, debt backed securities, asset-backed securities[3], commitment of funds etc;
47) **"Securitisation position"** – means exposure to a securitisation, such as securities issued by the Special Purpose Vehicle (SPV), liquidity facilities, dependent loans, interest rate derivative contract or currencies exchanged during a securitization;

[3] "Assets back securities" - Assets back securities" – means a financial instrument secured by a loan, lease or accounts receivable against one or more assets (excluding real estate and instruments secured by real estate).

48) **"Originator"**– means the entity which:

i. originates, directly or indirectly, the assets of on- or off- balance sheet which are subject of securitisation;
ii. securitises the assets purchased by a third party, recorded onto its balance sheet;

49) **"Promoter" -**means an entity other than an originator that establishes and manages an asset-backed commercial paper programme (ABCP) or other securitisation scheme that purchases exposures by third party entities;
50) "**Asset-Backed Commercial Paper"** – means a programme of securitisations, based on which the securities issued by a Special Purpose Vehicle (SPV), predominantly take the form of commercial paper[4] with an original maturity of one year or less;
51) **"Special Purpose Vehicle"** (in this Regulation referred to as "SPV" hereafter for simplicity) – means a corporation trust or other legal entity, other than a bank, created for carrying one or more securitisation and has the following characteristics:

i. activities of which are associated exclusively with the implementation of securitisation transactions;
ii. the structure of which is intended to isolate the obligations from those of the originator bank;
iii. the holders of the beneficial interests in which have the right to pledge or exchange those interests without restriction.

52) **"Credit enhancement** – means a contractual arrangement whereby the credit quality of a position in a securitisation is improved in relation to what it would have been if the enhancement had not been provided, including the enhancement provided by more junior tranches in the securitisation and other types of credit protection;
53) **"Tranche**– means credit risk positions (quotes) related to one or more exposures, determined in a contract, where each position (quote) relates to either high or low subordination) in covering losses, compared to another such position, by not considering the credit protection, secured by third party entities for the positions' holders in this tranche or other tranches. By the priority of losses covering, the securitisation positions are divided into: senior, mezzanine, and junior;
54) **"Excess spread"**– means the difference between income flows received in respect of the securitised exposures (assets and off-balance sheet items) and expenses related to securitisation
55) **"Investor"**– means the entity which holds risk positions against securitisation during a transaction of securitisation;
56) **"Clean-up call option"**– means a contractual option for the originator to repurchase or extinguish the securitisation positions before all of the underlying exposures have been repaid, when the amount of outstanding exposures falls below a specified level;
57) **"Liquidity facility"** – means the securitisation position arising from a contractual agreement to provide funding to ensure timeliness of cash flows on time to investors;
58) **"Unrated position"** – means a securitisation position which does not have an eligible credit assessment by an eligible ECAI accepted by the Bank of Albania;

[4] "Commercial Paper" – means a short term instrument unsecured of issued debt from a company to finance short debt liabilities.

59) **”Rated position”** – means a securitisation position which has an eligible credit assessment by an eligible ECAI accepted by the Bank of Albania;
60) **“First loss position”** – means a securitisation position which is last in the order of payment and is accordingly the first to bear the loss if the credit quality of the securitised exposures deteriorates. The first-loss position carries a higher risk and a higher yield.
61) **“Pro-rata”** – means the division of payments between the originating institution and investors of interest, principal, expenses, losses and recoveries (if applied), based on the relative share of the originating institution and the investor in the drawn balances of exposures which are at the base of the securitisation at the beginning of each month;
62) **“Revolving exposure”**– means an exposure whereby customers' accounts balances are permitted to fluctuate up to an approved limit;
63) **“Early amortisation clause”**– means a contractual clause in case of the occurrence of defined events, requires that investor’s positions to be settled before the original maturity of the security issued;

d) In the Chapter VI for the calculation of capital requirements for counterparty credit risk:

64) **“Counterparty Credit Risk”** “(in this Regulation referred to as “CCR” hereafter for simplicity)- means the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows;
65) **“Central counterparty”** – means any entity that legally interposes itself between counterparties to contracts traded within one or more financial markets, becoming the buyer to every seller and the seller to every buyer;
66) **“Long Settlement Transactions”** – mean transactions where a counterparty undertakes to deliver a security, a commodity, or a foreign exchange amount against cash, other financial instruments, or commodity, or vice versa, at a settlement or delivery date that is contractually specified as more than the lower of the market standard for this particular transaction and five business days after the date on which the bank enters into the transaction;
67) **“Margin Lending Transactions”**– mean transactions in which a bank extends credit in connection with the purchase, sale, carrying or trading of securities. Margin lending transactions do not include other loans that happen to be secured by securities collateral;
68) **“Repurchase agreement and reverse repurchase agreement”**– mean any agreement which meets the following criteria:

   i. under this agreement the bank or its counterparty transfers securities or commodities or guaranteed rights relating to the title of those securities and commodities (where that guarantee is issued by a recognized exchange which holds the rights to the securities or commodities); and
   ii. this agreement does not allow a bank to transfer or pledge (or exchange for securities or commodities of the same description) a particular security or commodity

iii. to more than one counterparty at one time, subject to a commitment to repurchase them, (or substituted securities or commodities of the same description) at a specified price on a future date specified, or to be specified, by the transferor.

For the banks, a repurchase agreement represents an agreement which meets the criteria in question and under which the bank sells securities or commodities. For the bank a reverse repurchase agreement represents an agreement which meets the criteria in question and under which the bank purchases securities or commodities;

69) **"Netting set"** – means a group of transactions with a single counterparty that are subject to bilateral netting and for which netting is recognised under the sub-charter II of Charter VI of this Regulation. Each transaction that is not subject to a legally enforceable bilateral netting arrangement under sub-charter II of Charter VI should be interpreted as its own netting set for the purpose of this Chapter;
70) **"Securities and commodities lending agreement and securities or commodities borrowing agreement**" – mean any agreement under which a bank or its counterparty transfers securities or commodities against appropriate collateral, subject to a commitment that the borrower will return equivalent securities or commodities at some future date or when requested to do so by the transferor. Equivalent securities are considered those of the same issuer, with the same interest rate and maturity, those that are denominated in the same currency and have the same legal standing in the event of bankruptcy;
71) **"Risk position"** – means a number that is assigned to a transaction under the Standardised Method set out in Chapter VI, following a predetermined algorithm
72) **"Hedging Set"** – means an agreement which aims the hedge of the groups of risk positions from the transactions within a single netting set for which only their balance is relevant for determining the exposure value under the Standardised Method set out in Chapter 5;
73) **"Current Market Value"** "(in this regulation referred to as "CMV" hereafter for simplicity) - means the net market value of the portfolio of transactions within the netting set with the counterparty. Both positive and negative market values are used in computing CMV as defined in the standard method of counterparty risk.
74) **"Perfectly matching contracts"**– are forward foreign exchange contracts or similar contracts in which a notional principal is equivalent to cash flows if the cash flows fall due on the same value date and fully or partly in the same currency;

e) In Chapter VII for the calculation of capital requirements for market risk:

75) **"Over-the-counter derivative instruments"** ((in this regulation referred to as "OTC" hereafter for simplicity in this Regulation) - means financial instruments referred to Annex IV of this Regulation which are not traded through the mediation of the central counterparty;
76) **"Convertible security'"**– means a security which, at the option of the holder, may be exchanged for another security;

77) **"Warrant"** – means a security which gives the holder the right to purchase an underlying asset at a stipulated price until or at the expiry date of the warrant and which may be settled by the delivery of the underlying asset itself[5] or by cash settlement;
78) **"Stock financing"**– means positions created upon the forward sale of commodities and the maintaining unchanged of the funding cost till the forward sale date;
79) **"Recognised Stock Exchanges "**– is the stock exchange which meets the following criteria:

   i. functions normally;
   ii. there are rules approved by the competent authorities of the country, which define its activity, the term to access the stock exchange and the conditions that contracts must fulfil, before traded in the stock exchange;
   iii. the stock exchange has a clearing mechanism, through which the listed contracts are subjects to a request for a daily margin, which according to the opinion of Bank of Albania provide the appropriate protection.

80) **"Delta coefficient"**– means the expected change in an option price caused by the change in the price of the instrument underlying the option;
81) **"Gamma coefficient"**–means the relative change in the delta coefficient caused by a small change in the price of the instrument underlying the option;
82) **"Vega coefficient"**– means the change in an option price caused by a small change in the volatility of the instrument underlying the option;

f) In the Chapter VIII for the calculation of capital requirements for operational risk:

83) **"Operational risk"**– means the risk of loss an entity undertakes as a result from inadequate or failed internal processes and systems, human errors, or external events. The operational risk includes legal risk but excludes the reputation and strategic risk;
84) **"Operational risk management system"** – means a set of rules, processes, procedures, structures and resources established by the bank to identify, monitor, control, prevent and mitigate exposures to operational risks. It also includes the operational risk measurement system;
85) **"Operational risk measurement system"**– means a set of rules, processes, procedures and controls for collecting, treating, elaborating and safekeeping data on operational risks and for determining the capital requirement for operational risk.

[5] "*Underlying asset*" – means a financial instrument (e.g. stocks, future contracts, *commodities*, currencies, indexes, etc) based on which derives a derivative price ("Derivative – means a financial instrument the price of which derives from a different asset).

CHAPTER II
CAPITAL ADEQUACY

Article 5
Capital adequacy ratio

1. Banks shall calculate the capital adequacy ratio between the amounts of regulatory capital to the amount of risk weighted exposures (assets), expressed in percentage, on individual and consolidated basis.
2. Banks shall ensure that the capital adequacy ratio, calculated according to paragraph (1) of this Article, shall not be less than 12%.

Article 6[6]
Risk Weighted Exposures

1. Banks shall calculate risk-weighted exposures, as the sum of the following elements:

   a) exposures and potential exposures items, credit and counterparty credit risk weighted, calculated by the Standard Method, as defined in Chapter III and Chapter VI, respectively, of this Regulation;
   b) capital requirement for market risk, as defined in Chapter VII of this Regulation, multiplied by 12.5;
   c) capital requirement for operational risk, calculated by the Simple Indicator Method or by the Standard Method, as defined in Chapter VIII of this Regulation, multiplied by 12.5.

2. [7] Repealed.
3. [8] Repealed.

Article 7
Regulatory capital

1. Banks shall calculate the regulatory capital according to the guideline issued by the Bank of Albania "On bank's regulatory capital".
2. Banks shall ensure that the regulatory capital shall be at any moment more than the sum of the following

   a) capital requirement for credit risk and credit counterparty risk, calculated as the total of risk weighted exposures (assets items on and off balance sheet), multiplied by 12%;
   b) capital requirement for market risk, calculated according to provisions specified in Chapter VII of this Regulation, multiplied by 1.5;
   c) capital requirement for operational risk, calculated according to the simple index method as per the provisions determined in Chapter VIII of this Regulation, multiplied by 1.5.

[6] Amended by the Decision No. 05, dated 01.02.2017 of the Supervisory Council of the Bank of Albania.
[7] Repealed by the Decision No. 34, dated 2.5.2018 of the Supervisory Council of the Bank of Albania.
[8] Repealed by the Decision No. 34, dated 2.5.2018 of the Supervisory Council of the Bank of Albania.

CHAPTER III
CREDIT RISK

SUBCHAPTER I
STANDARDISED APPROACH

Article 8
General provisions

1. Banks shall apply the Standardised Approach to calculate the capital requirement for credit risk and counterparty credit risk.
2. The capital requirements for credit risk and capital requirements for counterparty credit risk in accordance with the Standardised Approach shall be equal to 12% of the total of the risk-weighted exposures and contingent exposures in accordance with the provisions of this Chapter of the Regulation.

Article 9
Determining the exposure value

1. The exposure value of an asset item shall be its balance-sheet value and the exposure value of an off-balance sheet item listed in Annex II of this Regulation shall be a percentage of its value, according to the classification in the risk categories[9], as follows:

    a) 100% of its value if it is a full-risk item;
    b) 50% of its value if it is a medium-risk item;
    c) 20% of its value if it is a medium/low-risk item;
    d) 0% of its value if it is a low-risk item;

2. Banks shall calculate the respective exposure value, after subtracting the reserves to cover losses.
3. When the exposure is subject to funded credit protection, banks shall calculate the exposure value considering the credit risk mitigation techniques in accordance with Chapter IV of this Regulation.
4. In the case of banks using the Financial Collateral Comprehensive Method for risk mitigation, where an exposure takes the form of securities or commodities sold, posted or lent under a repurchase transaction or under a securities or commodities lending or borrowing transaction, and margin lending transactions the exposure value shall be adjusted with the increasing volatility effect, as laid down in Chapter IV of this Regulation.
5. Banks shall calculate the exposure value of a derivative instrument listed in Annex 4 of this Regulation in accordance with Chapter VI.
6. Banks shall calculate the exposure value of repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions either in accordance with Chapter VI or Chapter IV of this Regulation.

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[9] *Before risk weighting.*

7. Banks shall calculate the exposure value of credit risk to a central counterparty in accordance with Chapter VI of this Regulation, provided that the central counterparty's credit risk exposure with all participants in its arrangements is fully collateralized on a daily basis.

Article 10
Exposure classes

1. Banks shall assign each exposure item, on- and off-balance sheet, to one of the following exposure classes:

   a) exposures or contingent exposures on central governments or central banks;
   b) exposures or contingent exposures on regional governments or local authorities;
   c) exposures or contingent exposures on administrative bodies and non-governmental/non-profit organizations;
   d) exposures or contingent exposures on multilateral development banks;
   e) exposures or contingent exposures on international organizations;
   f) exposures or contingent exposures on supervised institutions;
   g) exposures or contingent exposures on corporates;
   h) exposures or contingent exposures on retail portfolios;
   i) exposures or contingent exposures secured on real estate;
   j) past due items;
   k) exposures on high-risk categories;
   l) exposures in the form of covered bonds;
   m) exposures on securitization positions;
   n) exposures in the form of collective investment undertakings ("CIU"); and/or
   o) other items.

2. Banks shall classify exposure/s in the retail exposure class referred to in point (h) of paragraph (1) of this Article, if it shall meet the following conditions:

   a) the exposure shall be either to an individual person or persons, or to a small or medium -sized enterprises;
   b) the exposure takes one of the forms of credit and revolving credit lines (for example., for credit cards, overdrafts, etc), consumer loans and personal financial leasing (for example credit upon instalments, credit and financial leasing for vehicles, education loans, etc), and credit lines and commitments for the small and medium-sized enterprises;
   c) the exposure is part of a sufficiently diversified portfolio in respect of the risk level;
   d) aggregate retail exposure to an individual or small and medium-sized enterprise and the related parties, which is calculated as the gross amount of all exposures (prior to the subtraction of reserve funds for covering losses and the mitigation techniques of credit risk) and potential exposures (considering their value as stipulated in Article 9 of this Regulation), does not exceed the amount of ALL 50 million[10].

[10] For the purposes of calculating the retail portfolio, banks shall exclude the exposures or potential exposures, ensured with collateral - residential real estate, which are weighted by 35%.

3. Banks shall not qualify/classify securities exposures in the retail exposure class.
4. Banks shall classify the present value of retail minimum lease payments[11], in the retail exposure class.

Article 11
General requirements for determining risk-weighted exposure amounts and determining risk weights according to exposure classes

1. For the purposes of calculating risk-weighted exposure amounts, banks shall apply risk weights to all exposures, unless deducted from own funds, in accordance with the provisions of this Subchapter.
2. Banks shall apply the risk weights based on the exposure class, within which this exposure is rated and on the credit quality.
3. The credit quality may be determined referring to the credit assessments of the ECAIs or credit assessments of ECA in accordance with Subchapter II of this Chapter.
4. For purposes of applying a risk weight, banks shall multiply the exposure value by the risk weight specified or determined in accordance with this Subchapter.
5. Where an exposure is subject to credit protection, Banks may modify the risk weight applicable to that exposure using credit risk mitigation techniques, in accordance with Chapter IV of this Regulation
6. Banks shall calculate the risk-weighted exposure amounts for securitised exposures in accordance with the requirements of Chapter V of this Regulation.
7. For exposures which are not specified under this Regulation, Banks shall calculate risk-weighted exposure amounts by assigning a risk-weight of 100%.

Article 12
Exposures to Central Governments or Central Banks

1. Without prejudice to paragraphs (2) to (7) of this Article, Banks shall assign to the exposures to central governments and central banks a 100% risk weight.
2. Based on the assessment determined by an ECAI, banks shall assign to the exposures to central governments and central banks a risk weight in accordance with Table 1.

Table 1

Credit quality step	1	2	3	4	5	6
Risk Weight	0%	20%	50%	100%	100%	150%

3. Banks shall assign a 0% risk weight to the exposures to the European Central Bank.
4. Banks shall assign a 0% risk weight to the exposures to the Albanian Government, issued and funded in the Albanian currency and[12] shall assign a 50% risk weight to the debt securities of Albanian Government in foreign currency.

[11] Outstanding balance.

[12] Amended by the Decision No. 49, dated 01.07.2015 of the Supervisory Council of the Bank of Albania. This amendment is valid for a period up to the date January 1, 2021.

5. Banks shall assign a 0% risk weight to the exposures to the Bank of Albania, issued and financed in Albanian currency and in foreign currency.
6. Banks shall assign 0% risk weight to the exposures to EU Member States' central governments and central banks denominated and funded in their domestic currency.
7. Banks, in cases the competent authorities of a third country (excluding EU Member States) apply supervisory and regulatory arrangements at least equivalent to those applied by Bank of Albania, shall assign a risk weight which is lower than those indicated in paragraphs (1) to (2) of this Article to exposures to their central government and central bank denominated and funded in the domestic currency, only upon the prior approval of the Bank of Albania.
8. When banks do not use assessments of an ECAI, or when an authorized ECAI has not made an assessment, they shall assign to the exposures to the central governments and central banks the risk weights according to Table 2, in accordance with the assessment made by ECA, recognized by the Bank of Albania, and related to which the bank intend to use.

Table 2

Minimum Export Insurance Premium (MEIP)	0	1	2	3	4	5	6	7
Risk Weight	0%	0%	20%	50%	100%	100%	100%	150%

Article 13
Exposures to Regional Governments or Local Authorities

1. Without prejudice to paragraphs (2) to (5) of this Article, Banks shall apply to the exposures to regional governments or local authorities the same risk-weight as to the exposures to supervised institutions. (The treatment for short-term exposures specified in this Subchapter shall not be applied).
2. Where there is no difference in risk between such exposures with those to central government because of the specific revenue-raising powers of the former, or the existence of specific institutional arrangements the effect of which is to reduce their risk of default up to the level of the risk of central government, Bank of Albania may allow banks to apply to exposures to regional governments and local authorities the same risk weight as to exposures to the central government in whose jurisdiction they are established.
3. The treatment laid down in paragraph (2) of this Article shall be implemented only for exposures to regional government and local authorities in Albania and European Union member states, set forth in the list prepared and published for this purpose by the competent authorities of each country.
4. Exposures to religious communities constituted in the form of a legal person under the Law “On merchants and companies”, and whose income are subject to taxation according to the Albanian legislation on this institutions, shall be treated as exposures to regional governments and local authorities, except for paragraph (2) of this Article which shall not apply in this case.

5. When competent authorities of a third country (excluding EU Member States) which apply supervisory and regulatory arrangements at least equivalent to those applied by the Bank of Albania, treat exposures to regional governments and local authorities as exposures to their central government, Banks may apply these risk weights only on prior approval by Bank of Albania.

Article 14
Exposures to administrative bodies and non-commercial undertakings (non-profit organizations)

1. Without prejudice to paragraphs (2) to (5) of this Article, Banks shall assign a 100 % risk weight to exposures to administrative bodies of the public sector or non-commercial (non-profit) undertakings.
2. Banks shall treat the exposure to public sector subjects as the exposures to supervised institutions. (The treatment of short-term exposure to institutions, as specified in this article, shall not be applied).
3. With prior approval by the Bank of Albania, Banks may treat exposures to public-sector entities as exposures to the central government in whose jurisdiction they are established /operating, where there is no difference in risk between such exposures because of the existence of an appropriate guarantee by the central government.
4. When competent authorities of an EU Member State treat exposures to public sector entities as exposures to institutions, or as exposure to central governments in whose jurisdiction they are established/operating, Banks may treat such entities in the same manner.
5. When competent authorities of a third country (excluding EU Member States) which apply supervisory and regulatory arrangements at least equivalent to those applied by the Bank of Albania, apply same risk weight to exposures to public sector entities as those applied to exposures to institutions, banks may apply those risk weights, only with the prior approval of the Bank of Albania.

Article 15
Exposures to multilateral development banks

1. Based on the assessment determined by an ECAI, banks shall apply to the exposures to multilateral development banks the risk weight according to Table 3. For the purposes of this Article, the Inter-American Investment Corporation, the Black Sea Trade and Development Bank and the Central American Bank for Economic Integration are considered to be multilateral development banks.

Table 3

Credit quality	1	2	3	4	5	6
Risk Weight	20%	50%	50%	100%	100%	150%

2. Banks shall assign a 50% risk weight to the exposures to unrated multilateral development banks.
3. Banks shall assign a 0% risk weight to the exposures to the following multilateral development banks.

    a) the International Bank for Reconstruction and Development ;
    b) International Finance Corporation;
    c) Inter-American Development Bank;
    d) Asian Development Bank;
    e) African Development Bank;
    f) Council of Europe Development Bank;
    g) Nordic Investment Bank;
    h) Caribbean Development Bank;
    i) European Bank for Reconstruction and Development;
    j) European Investment Bank;
    k) European Investment Fund;
    l) Multilateral Investment Guarantee Agency;
    m) International Finance Facility for Immunisation; and
    n) Islamic Development Bank.

4. Banks shall assign a risk weight of 20% to the part of the unpaid capital subscribed to the European Investment Fund.

Article 16
Exposures to international organisations

1. Banks shall assign a 0% risk weight to the exposures to the following international organisations:

    a) European Union;
    b) International Monetary Fund;
    c) Bank for International Settlements;
    d) European Financial Stability Facility;
    e) Any international financial institutions, established by two or more EU member states, for the purposes to finance and provide financing to its members, which are exposed or might be exposed to severe financial situations.

Article 17
Exposures to supervised institutions

1. Banks shall treat the exposure to supervised institutions, based on the level of the credit quality step determined for exposures to the central government of the jurisdiction in which the institution is established/operating, in accordance with Table 4.

Table 4

Credit quality to central government	1	2	3	4	5	6
Risk Weight	20%	50%	100%	100%	100%	150%

2. Banks shall assign a 100% risk weight to the exposures to supervised institutions incorporated in countries where the central government is unrated.
3. Banks shall assign a 20%risk weight to exposures to supervised institutions with an original effective maturity of three months or less.
4. For exposures to institutions with a residual maturity of more than three months denominated and funded in the national currency of the borrower, Banks shall assign a risk weight less favourable than the preferential risk weigh assigned to exposures to central government (in accordance with the paragraphs (5) and (6) of Article 12). This risk weight shall not be less than 20%.

Article 18
Investments in regulatory capital instruments

Banks shall assign to investments in equity or regulatory capital instruments issued by supervised institutions a 100% risk weight, unless deducted from the regulatory capital.

Article 19
Exposure to corporates

1. Banks, based on the credit assessment by a nominated ECAI, shall assign to the exposures to corporates the risk weights according to Table 5.

Table 5

Credit quality	1	2	3	4	5	6
Risk Weight	20%	50%	100%	100%	150%	150%

2. When the credit assessment by an ECAI is not used or is not available, Banks shall assign a 100% risk weight to the exposures to the corporates. This risk weighting shall not be lower (more favourable) than the risk weight assigned to exposures to the central government of the jurisdiction in which the company is established and operates.
3. Based on the short-term assessment/s of an ECAI, banks shall assign risk weights to the exposures to companies according to Table 6.

Table 6

Credit quality	1	2	3	4	5	6
Risk Weight	20%	50%	100%	150%	150%	150%

Article 20
Retail portfolio exposures

Banks shall assign a 75% risk weight to retail portfolio exposures.

Article 21
Exposures secured by real estate property

Without prejudice to stipulations in Articles 22 and 23 of this Chapter, Banks shall assign a 100% risk weight to the exposures fully secured by real estate property.

Article 22
Exposures secured by mortgages on residential property

1. Banks shall assign a risk weight of 35% to the exposures secured by mortgages on residential property, within the territory of the Republic of Albania or European Union, which shall meet at the same time the following characteristics:

    a) the subject of which is the purchasing of a residential real estate (house, apartment);
    b) the borrower is the purchaser of this residential real estate;
    c) they are secured by a mortgage on a residential real estate, which is on borrower's ownership and the latter uses it or has rented it;
    d) there are meet the requirements laid dawn in Annex 1 of this Regulation;
    e) the exposure value is less or equal to 75% of the residential real estate's value.

2. Banks shall assign a risk weight of 35% to exposures to a tenant under a property leasing transaction, concerning residential property under which the bank is the less or and the tenant has an option to purchase, provided that the exposure of the bank is fully and completely secured by its ownership of the property.

Article 23
Exposures secured by mortgages on commercial real estate

1. Banks shall assign a risk weight of 50% to the exposures or any part of an exposure fully secured by mortgages on commercial property within the territory of the Republic of Albania.
2. Banks shall assign a risk weight of 50% to exposures to a tenant under a property leasing transaction, within the territory of the Republic of Albania, exposures under which the bank is the lessor and the tenant has an option to purchase, provided that the exposure of the bank is fully and completely secured by its ownership of the property.
3. For the implementation of paragraphs (1) and (2) of this Article, Banks shall ensure that the following criteria have been met:

    a) the value of the property does not materially depend upon the borrower's financial performance (this requirement does not preclude situations where purely macro-economic factors affect both the value of the property and the performance of the borrower;
    b) the risk of the borrower does not materially depend upon the performance of the underlying property or project, but rather on the underlying capacity of the borrower to repay the debt from other sources (thus the repayment of the facility does not materially depend on any cash flow generated by the underlying property serving as collateral);

c) the minimum requirements set out in Annex 1 of this regulation are met;
d) the exposure value does not exceed 50% of the market value of commercial real estate.

4. The portion which exceeds the limit set out in paragraph (3) "d" of this Article shall be assigned a 100% risk weight.
5. When an EU Member State weights the exposures by commercial property, as set out in the above paragraphs of this article, Banks shall assign 50% risk weight to the exposures secured by commercial properties located in the territory of that country.

Article 24
Past Due Items

1. Without prejudice to the provisions contained in paragraphs (2) to (4) of this Article, Banks shall assign a risk weight to the unsecured part of any exposure secured by a collateral or guarantee, as follows:

   a) 150% if the provision funds created to cover losses are less than 20% of the unsecured part of the gross exposure value, and;
   b) 100%, if the provision funds created to cover losses are no less than 20% of the unsecured part of the gross exposure value.

2. For the purposes of defining the secured part of the past due items, eligible collateral and guarantees shall be those eligible for credit risk mitigation purposes.
3. After deducting the provisioning funds for covering the losses, banks shall assign a 100% risk weight to the exposures secured by a residential real estate as collateral, which are rated as past due items. If the provision funds created for these exposures are at least equal to 20% of the exposure value, to the residual part after deducting the provision funds shall be assigned a risk weight of with 50%.
4. After deducting the provisioning funds for covering the losses, banks shall assign a 100% risk weight to the exposures secured with commercial real estate as collateral, which are rated as past due items.

Article 25
Exposures to high-risk categories

1. Banks shall assign a 150% risk weight to the exposures belonging to high-risk categories as laid down in this Regulation, as well as the following categories:

   a) the value of the loan granted outside of the territory where the bank operates, through its subsidiaries, branches or agencies;
   b) [13]the value of immovable and movable properties against credit settlements; and
   c) other exposures, which are considered by Bank of Albania to belong to high-risk categories.

[13] Added by the Decision No. 49, dated 30.03.2016 of the Supervisory Council of the Bank of Albania.

2. Banks shall assign a 50% higher risk weight[14] to the loan amount, denominated or indexed in foreign currency, for the borrower, who meet simultaneously the conditions laid down in Article 4, paragraph (2) "c" of the Regulation "On credit risk management".

Article 26
Exposures in the form of covered bonds

1. Covered bonds, in accordance with the stipulation in Article 4 of this Regulation, shall be collateralised by any of the following eligible assets:

   a) exposures to or guaranteed by central governments, central banks, public sector entities, regional governments and local authorities in the European Union;
   b) exposures to or guaranteed by:

      i. non-EU central governments, non-EU central banks, multilateral development banks, international organisations that qualify for the credit quality step 1 as laid down in this Chapter; and
      ii. non-EU public sector entities, non-EU regional governments and local authorities that are risk weighted as exposures to institutions or central governments and central banks according to paragraphs (1) and (2) of Article 13 and paragraph (2) and (3) of Article 14 respectively and that qualify for the credit quality step 1 as set out in this Chapter; and
      iii. and exposures in the sense of this item shall qualify as a minimum for the credit quality step 2 as set out in this Chapter, provided that they do not exceed 20% of the nominal amount of outstanding covered bonds of issuing institutions;

   c) exposures to institutions that qualify for the credit quality step 1 as set out in this Chapter. The total exposure of this kind shall not exceed 15% of the nominal amount of outstanding covered bonds of the issuing bank. Exposures caused by transmission and management of payments of the obligors of, or liquidation proceeds in respect of, loans secured by real estate to the holders of covered bonds shall not be comprised by the 15% limit. Exposures to institutions in the EU with a maturity not exceeding 100 days shall not be comprised by the step 1 requirement but those institutions shall as a minimum be qualified for credit quality step 2.

[14] But in no case the total w eight, for relevant exposure, shall not exceed the weight 150%.

d) loans secured by residential real estate up to the lesser of the principal amount of the liens (combined with any prior mortgage) and 80% of the market value of the pledged properties or by senior[15] units issued by securitisation entities governed by the Albanian laws or laws of a EU Member State securitising residential real estate exposures provided that at least 90 %[16] of the assets underlying such units (securitisation) are secured by residential mortgages, combined with any prior liens, up to the lesser of the principal amounts due under the units, the principal amounts of the liens, and 80 % of the value of the pledged properties;

e) loans secured by commercial real estate up to the lesser of the principal amount of the liens that are combined with any prior liens and 60 % of the value of the pledged properties or by senior units issued by securitisation entities governed by the Albanian laws or laws of a Member State, securitising commercial real estate exposures, provided that at least 90 % of the underlying assets are composed of commercial mortgages that are combined with any prior liens up to the lesser of the principal amounts due under the units, the principal amounts of the liens, and 60 % of the value of the pledged properties, while the units qualify for the credit quality step 1 as set out in this Chapter and that such units do not exceed 20 % of the nominal amount of the outstanding issue.

   Bank of Albania may recognise loans secured by commercial real estate as eligible where the loan value exceeds 60 % of the property value up to a maximum level of 70 % if the value of the total assets pledged as collateral for the covered bonds exceed the nominal amount outstanding on the covered bond by at least 10 %, and the bondholders' claim meets the legal certainty requirements set out in Chapter IV of this Regulation. The bondholders' claim shall take priority over all other claims on the collateral. Exposures caused by transmission and management of payments of the obligors of, or liquidation proceeds in respect of, loans secured by pledged properties of the senior units or debt securities shall not be comprised in calculating the 90 % limit; or

f) for the purpose of the implementation of this paragraph "collateralised" includes situations where the assets as described in items (a) to (f) of this paragraph, are exclusively dedicated in law with the purposes the protection of the bond-holders against losses.

2. Banks shall, for real estate collateralising covered bonds, meet the minimum requirements set out in Chapter IV of this Regulation.
3. Banks shall assign to covered bonds, which do not meet the criteria set out in paragraph (1) of this Article, a risk weight on the basis of the credit risk assigned to exposures to the institution which issues them, according to Table 7 of this Chapter, as follows:

   a) if the exposure to the issuing bank is assigned a risk weight of 20 %, the covered bond exposure shall be assigned a risk weight of 10 %;
   b) if the exposure to the issuing bank is assigned a risk weight of 50 %, the covered bond exposure shall be assigned a risk weight of 20 %;

[15] Senior priority securities shall qualify for the step 1 of credit quality as set out in this Chapter, and shall not exceed 20% of the nominal (residual) issue value.

[16] Exposures caused by transmission and management of obligors' payments, or liquidation proceeds in respect of, loans secured by real estate to the holders of covered bonds shall not be comprised in calculating the 90% limit.

c) if the exposure to the issuing bank is assigned a risk weight of 100 %, the covered bond exposure shall be assigned a risk weight of 50 %; and
d) if the exposures to the issuing bank is assigned a risk weight of 150 %, the covered bond exposure shall be assigned a risk weight of 100 %.

Table 7

Weights for exposures to the issuing bank	20%	50%	100%	150%
Weights for the covered bond exposure	10%	20%	50%	100%

Article 27
Exposures to securitisation positions

Banks shall determine the risk-weighted exposure amounts for securitisation positions in accordance with the provisions set out in Chapter V of this Regulation.

Article 28
Exposures in the form of collective investment undertakings (CIUs)

1. Without prejudice to paragraphs (2) to (8) of this Article, Banks shall assign to the exposures in collective investment undertakings (CIUs) a risk weight of 100 %.
2. Based on the assessment of an ECAI, Banks shall assign to the exposures in the form of CIUs a risk weight according to Table 8.

Table 8

Credit quality step	1	2	3	4	5	6
Risk Weight	20%	50%	100%	100%	150%	150%

3. In cases the Bank of Albania considers that a position in a CIU is associated with particularly high risk, it may require that the position is assigned a risk weight of 150 %.
4. Banks may determine the risk weight for a CIU as set out in paragraphs (6) to (8) of this Article, if the following eligibility criteria are met:

a) the CIU is managed by a company which is subject to supervision in an EU Member State or, subject to approval of the Bank of Albania if the following criteria are met:

i. the CIU is managed by a company which is subject to supervision that is considered equivalent to that laid down in Albania; and
ii. cooperation between the competent authority in Albania and the supervisory authority of the CIU in the other country, is sufficiently ensured;

b) the CIU's prospectus or equivalent document include information on:

i. the categories of assets in which the CIU is authorised to invest; and

ii. if investment limits apply, the relative limits and the methodologies to calculate them;

c) the business of the CIU is reported on at least an annual basis to enable an assessment to be made of the assets and liabilities, income and operations over the reporting period.

5. Bank of Albania may approve a CIU, for the purposes to assign the risk weights by the bank, without conducting its own assessment, when a competent authority in a third country, that applies regulatory and supervisory criteria at least equal to those in Albania, assess/confirm that the conditions set out in paragraph (4) "a" have been met.
6. Where banks are aware of the assets of a CIU, they may calculate an average risk weight for the exposures to the CIU, considering the determined risk weights for the respective classes of the underlying assets (as set out in the articles on the exposure classes, above in this sub-chapter.)
7. Where banks are not aware of the assets of a CIU, they may calculate an average risk weight for the exposure to the CIU considering that the CIU first invests, to the maximum extent allowed under its mandate, in the exposure classes attracting the highest capital requirement, and then continues making investments in descending order until the maximum total investment limit is reached.
8. Banks, for the purposes of implementing the paragraphs (6) and (7) of this Article may rely on a third party specialised to calculate and report risk weights for the CIU provided that the correctness of the calculation and report shall be adequately ensured.

Article 29
Other exposures

1. Banks shall assign a 100 % risk weight to the following assets:

   a) fixed tangible assets;
   b) prepayments and accrued income for which it is unable to determine the counterparty;
   c) investments in stock, new capital instruments, hybrid equity instruments and other participations, except where deducted from regulatory capital;
   d) subordinated instruments, issued by other authorities, other than the supervised institutions.

2. Banks shall assign a 20 % risk weight to cash items in the process of collection.
3. Banks shall assign 0 % risk weight to cash in hand and equivalent cash assets.
4. Banks shall assign 0 % risk weight to gold bullion and silver held in own vaults or on an allocated basis to the extent backed by gold or silver liabilities.
5. In the case of repurchase agreements and outright forward purchases, the risk weight shall be that assigned to the assets in question and not to risk weight that accompanies the counterparty.

6. Where a bank provides credit protection for a number of exposures (exposure basket) under terms that the nth default among the exposures shall trigger payment and that this credit event shall terminate the contract, and where the product has an external credit assessment by an eligible ECAI, the risk weights prescribed in Chapter V of this Regulation, treating the credit risk related to securitization exposures, shall be assigned. If the product is not rated by an eligible ECAI, the risk weights of the exposures included in the basket will be aggregated, excluding n-1 exposures, up to a maximum of 1250 % and multiplied by the nominal amount of the protection provided by the credit derivative to obtain the risk weighted asset amount. The n-1 exposures to be excluded from the aggregation shall be determined on the basis that they shall include those exposures each of which produces a lower risk-weighted exposure amount than the risk-weighted exposure amount of any of the exposures included in the aggregation.
7. The exposure value for leases shall be the discounted minimum lease payments. Minimum lease payments are the payments over the lease term that the lessee is or can be required to make and any bargain option (i.e. option the exercise of which is reasonably certain). Any guaranteed residual value fulfilling the set of conditions in Subchapter III of Chapter IV regarding the eligibility of protection providers (articles 82,83) as well as the minimum requirements for recognising other types of guarantees provided in the same Chapter (Article 77) shall also be included the minimum lease payments: These exposures shall be assigned in the relevant exposure class in accordance with Article 10 of the Regulation. When the exposure is a residual value of leased properties, the risk weighted exposure amounts shall be calculated according to the following formula:

$$1/t * 100\% * \text{exposure value}$$

where: t is the maximum, 1 the number of years of the lease contract term, rounded to a whole number.

8. Bank of Albania may allow a risk weight of 10 % for exposures to institutions that are specialised in the inter-bank and public-debt markets in their home countries and subject to close supervision by the competent authorities where those asset items are fully and completely secured, upon the prior approval of the competent authorities of the home countries, for items assigned a 0 % or a 20 % risk weight and recognised by the latter as constituting adequate collateral.

SUBCHAPTER II
RECOGNITION OF ECAIS AND MAPPING OF THEIR CREDIT ASSESSMENTS

Article 30
Recognition of external credit rating

1. Banks shall use the external credit assessment of ECAIs to determine the risk weight of one or several exposures, only if the ECAI which provides it has been recognised as eligible for these purposes by the Bank of Albania.

2. The Bank of Albania shall recognise an ECAI as eligible for the purposes of meeting the requirements of this Regulation only if convinced its assessment methodology complies with the requirements of objectivity, independence, ongoing review, and that the resulting credit assessments meet the requirements of credibility and transparency, and the technical criteria set out in Article 31 of this Subchapter.
3. If an ECAI has been recognised as eligible by the competent authorities of a Member State of EU, the Bank of Albania may recognise that ECAI as eligible without carrying out their own evaluation process.
4. Bank of Albania shall make publicly available an explanation of the recognition process, and a list of eligible ECAIs.

Article 31
Technical criteria for recognition of ECAIs

1. To be recognised by Bank of Albania, ECAI shall meet the following criteria:

   a) Objectivity: The methodology employed by an ECAI for assigning credit assessments shall be rigorous, systematic, continuous, and subject to validation based on historical experience. To prove compliance with this requirement, Bank of Albania shall require the ECAI to meet the following conditions:

      i) the methodology used should take into consideration the factors which differentiate the specific features of different positions assessed according to this methodology (the recognition process does not aim at verifying the accuracy of the methodology, but the latter should be backed by statistical evidence of its usage in the past);
      ii) the explanatory ability of the methodology should be based upon available data on the default ratios, recorded for individual rating grades and ratings migration, amongst different rating grades;
      iii) the methodology should be applied consistently to all exposure of a given class and should make the appropriate differentiations between exposures of different classes;
      iv) the methodology should be validated within the ECAI based on historical experience; and
      v) the methodology should be adjusted based on the systematic mistakes coming up during the back-testing.

   b) Independence The methodology shall be free from external political influences or constraints, and from conflicts of interests and economic pressures that may influence the credit assessment. To prove compliance with this requirement, Bank of Albania shall require the ECAI to meet the following conditions:

      i. necessary measures have been taken to ensure the independence from ownership, and to prevent external political or economic influences or constraints that may jeopardize the objectivity of the credit assessment;

ii. the organisation structure ensures, from an operational, human resources, and possibly legal perspective, the separation of the credit assessment activity from other activities, such as consulting and marketing, which can influence the objectivity of the assessment;
iii. internal rules have been approved to prevent conflicts of interests related to persons involved in the ratings making;
iv. the assessment activity is profitable and the ECAI has adequate available financial resources;
v. the fee structure charged to assessed subjects and the compensation of persons responsible for the ratings making, is not affected by the rating results and vice versa;
vi. necessary measures have been taken to ensure the independence in the ratings from major customers that generate main part of income (more than 5% ;
vii. there is adequate staffing and proper level of expertise and professional experience in credit assessment ratings (for e.g. at least one of the persons involved in a rating decision shall have at least three years of experience). The staff members' number should be adequate for the business volume, taking into consideration also the necessary on-going contacts with the assessed subjects, where this is part of the methodology that has been used.
viii. internal government rules are clearly formalised;
ix. appropriate disclosure of any conflict of interest;
x. there exist an internal audit function (or other similar functions) independent from the persons involved in the ratings, and charged with the verification of the effective implementation of the independence criteria.

c) On-going review. ECAI's credit assessments are subject to on-going review and shall be responsive to changes in the financial conditions. To prove compliance with this requirement, Bank of Albania shall require the ECAI to meet the following conditions:

i. the ECAI has in place procedures to monitor every change in the assessed economical units that my trigger important assessment changes, and if necessary, to immediately change the assessment/assessments;
ii. the ECAI has in place an established back-testing procedure;
iii. the credit assessments shall be reviewed at least annually.

d) market credibility. ECAI's individual credit assessments are recognised in the market as credible and reliable by the users of such credit assessments. Bank of Albania shall assess the credibility criteria based on factors such as:

i. market share of the ECAI;
ii. revenues generated by the ECAI, and more in general financial resources of the ECAI;
iii. whether there is any pricing on the basis of the rating; and
iv. at least two banks use the ECAI's individual credit assessment for bond issuing and/or assessing credit risks.

e) Transparency of methodologies and assessments. Bank of Albania in the ECAIs recognition process shall require that:

i. the ECAI discloses the principles of the methodology and the assessment and every change in the methodology, so as they are understandable for the users of the credit assessment;
ii. the individual credit assessments are accessible at equivalent terms and to all banks having a legitimate interest in these individual credit assessments; and
iii. in particular, the individual credit assessments are accessible to the non-domestic banks on equivalent terms as to domestic banks having a legitimate interest in these credit assessments.

Article 32
Documentation requirement related to the recognition of ECAIs

Bank of Albania, upon submission by an ECAI of an application for recognition, shall recognize the ECAI based on the compliance with the criteria prescribed in Article 31.

1. The ECAI shall prepare an application for recognition in cooperation with the banks having an interest in its recognition. The application for recognition shall be accompanied by the documentation which shall evidence compliance with the criteria prescribed in Article 31 of this Subchapter.
2. In exclusion from what is determined in paragraph (3) of Article 30, an ECAI recognized by the competent authority of an EU Member State, shall enclose with the application the documentation which shall evidence that it has been recognized by that competent authority, and the documentation laid down in Annex 6 (General information and mapping of credit long and short term assessment).
3. When deciding on the application, the Bank of Albania may request additional documentation that it deems necessary.

Article 33
Mapping of external credit assessments (rating)

1. Bank of Albania, taking into account the technical criteria set out in this Subchapter on the recognition of ECAIs, shall determine the mapping process with which are to be associated the credit quality steps set out in Subchapter I of this Chapter and the relevant credit assessments of an eligible ECAI. Those mappings shall be objective and consistent.
2. When the competent authority of a Member State of EU have made a determination under paragraph (1) of this Article, the Bank of Albania may recognise that determination without carrying out its own process of determining the association between the credit quality and respective credit assessments.
3. Bank of Albania shall establish the mapping between credit assessments of an ECAI and the credit risk steps, considering the following factors:

a) quantitative factors, such as the long-term default rate related to all assets with the save credit risk assessment. For recently established ECAIs and those that have compiled only a short record of default data, Bank of Albania shall require an assessment of the long-term default rates associated with all items assigned with the same credit assessment;
b) qualitative factors such as the categories of pool of issuers assessed by the ECAI, the, range of credit assessments that the ECAI assigns, each credit assessment meaning and the ECAI's definition of default.

4. Bank of Albania shall compare default rates for each credit risk assessment carried out by an ECAI with a benchmark built on the basis of the experience with default rates by other ECAIs, for a category of issuers that present an equivalent level of credit risk.
5. When the Bank of Albania believes that the default rates for the credit assessment by a particular ECAI are materially and systematically higher than the benchmark, it shall assign a higher (less favourable) credit quality step to the ECAI credit assessment.
6. When the Bank of Albania has raised the risk weight in relation to the credit risk assessment of a particular ECAI, and the ECAI demonstrates that the default rates experienced for its credit assessment are no longer materially higher than the benchmark, Bank of Albania may and adopt a decision to restore the original credit quality step in the credit quality assessment scale to the ECAI credit assessment.

SUBCHAPTER III
USE OF ECAI CREDIT ASSESSMENTS FOR THE CALCULATION OF A RISK WEIGHTS

Article 34
Use of external credit ratings

1. The use of ECAI credit assessments for the calculation of a risk-weighted exposure amounts shall be consistent and in accordance with the provisions of this Chapter. Credit assessments shall not be used selectively.
2. Banks shall use only solicited rating. Unsolicited rating shall be used only for exposures or potential exposures to central governments or central banks.

Article 35
Use of credit assessments of an ECA

1. Bank of Albania shall recognise the assessments of an Export Credit Agency (ECA) if at least one of the following conditions is met:

a) the ECA uses one of the risk score forms recognised by all ECAs participating in the OECD "Arrangement on Guidelines for Officially Supported Export Credits"; or
b) the ECA publishes its credit assessments, and the credit assessment is associated with one of the eight minimum export insurance premiums (MEIP) according to the methodology established by the OECD and signed by the ECA.

Article 36
General requirements for the use of assessments

1. Banks may nominate one or more eligible ECAIs and/or ECAs, recognised by the Bank of Albania, whose credit assessments shall be used for the determination of risk weights for exposures or contingent exposures.
2. For the purposes of paragraph (1) of this Article, the use of ECAs' credit assessments shall be permitted only for exposures to central governments and central banks.
3. A bank which decides to use the credit assessments produced by an eligible ECAI and/or ECA for a certain class of assets must use those credit assessments consistently for all exposures belonging to that class.
4. A bank that decides to use credit assessments produced by a nominated ECAI and/or ECA, shall use them in a continuous and consistent way over time.
5. The bank may only use credit assessments by eligible ECAIs and/or ECAs that take into account all amounts both in principal and in interest.
6. If only one credit assessment is available from a nominated ECAI for a rated item, the bank shall use that credit assessment to determine the risk weight for that item.
7. If two credit assessments are available from an ECAI on a rated item and the two correspond to different risk weights, the bank shall use the higher (less favourable) risk weight for that item.
8. If more than two credit assessments are available from ECAIs for a rated item, the bank shall consider the two assessments generating the two lowest risk weights. If the two lowest risk weights are different, the bank shall use the higher risk weight, and if the two lowest risk weights are equal, the bank shall use that risk weight.

Article 37
Requirements for the use credit assessment for both the issuer and issue

1. Where a credit assessment is available for a specific issuing program or facility to which the item constituting the exposure belongs, the bank shall use this credit assessment to determine the risk weight to be assigned to that item.
2. Where no directly applicable credit assessment exists for a certain item, but a credit assessment exists for a specific issuing program or facility to which the item constituting the exposure does not belong or a general credit assessment exists for the issuer, the bank shall use that credit assessment if it produces:

   a) a higher risk weight; or
   b) a lower risk weight, but the exposure in question ranks at least at pari passu:

i) to the specific issuing program or facility; or
ii) to the senior unsecured exposures of that issuer.

3. Where the criteria set out in paragraph (2) of this Article are not met, the bank shall use a risk weight applied to unrated exposures for all other exposures on that issuer (obligor) for which there is no directly applicable rating.
4. The bank cannot use credit assessment/s for issuers within a group as credit assessment of another issuer within the same group.

Article 38
Requirements for the use of long-term and short-term credit assessments

1. Banks shall use short-term credit assessments only for short-term on- and off-balance sheet items constituting exposures to corporates.
2. Any short-term credit assessment shall only apply to the item the short-term credit assessment refers to, and it shall not be used to derive risk weights for any other item, except for the following cases:

a) if a short-term rated facility is assigned a 150% risk weight, the bank shall assign a 150% risk weight to all unrated unsecured exposures on that obligor whether short-term or long-term;
b) if a short-term rated facility is assigned a 50% risk-weight, the bank shall assign a risk weight not lower than 100 % to all unrated short-term exposures.

Article 39
Requirements for the use of the assessments for domestic and foreign currency items

1. A credit assessment that refers to an item denominated in the obligor's domestic currency cannot be used to derive a risk weight for another exposure on that same obligor that is denominated in a foreign currency.
2. By way of derogation from paragraph (1) of this Article, when an exposure arises through a credit institution's participation in a loan that has been extended by a multilateral development bank whose preferred creditor status is recognised in the market, Bank of Albania may allow banks to use for risk weighting purposes the credit assessment on the obligor's domestic currency item.

CHAPTER IV
CREDIT RISK MITIGATION TECHNIQUES

SUBCHAPTER I
GENERAL PROVISIONS

Article 40
General principles on the credit risk mitigation techniques

1. Banks shall use credit protection techniques that together with the actions and steps taken and procedures and policies implemented by them shall result in credit protection arrangements which are legally effective and enforceable in all relevant jurisdictions.
2. Banks shall take all appropriate steps to ensure the effectiveness of the credit protection arrangement and to address related risks.

Article 41
Method of applying credit risk mitigation techniques

1. Banks shall modify the calculation of risk weighted exposures amounts by applying the eligible forms of credit protection, only if all the requirements set out in this Chapter have been met.
2. The risk-weighted exposure amounts for credit risk modified by using credit risk mitigation techniques may not exceed the risk-weighted exposure amount of the exposure that would be calculated for the same exposure in the absence of credit risk mitigation.
3. Where credit protection has already been taken into account in the calculation of risk-weighted exposure amounts for credit risk under the Standardised Approach set out in Chapter III of this Regulation, banks shall not use again this technique to modify risk-weighted exposure amounts for credit risk in accordance with this Chapter.

Article 42
Application of credit risk mitigation techniques in case of different types of credit protection

1. For credit risk mitigation purposes, Banks may use more than one type of credit protection to cover a single exposure.
2. In the case referred to in paragraph (1) of this Article, to calculate risk-weighted exposure amounts for credit risk, Banks shall divide the exposure into parts each covered by one type of credit protection and shall calculate the risk-weighted exposure amount for each portion separately as set out in this Chapter.

Article 43
Types of credit protection

1. For credit risk mitigation purposes, Banks shall use the following types of credit protection:

   a) funded credit protection specified in Subchapter 2 of this Chapter;
   b) unfunded credit protection specified in Subchapter 3 of this Chapter.

Article 44
Maturity mismatch between the underlying exposure and credit protection

1. For the purposes of calculating risk-weighted exposure amounts for credit risk, Banks shall take account of maturity mismatches which occurs when the residual maturity of the credit protection is less than that of the protected exposure.
2. Banks may not use the credit protection in cases when the residual maturity (of the credit protection) is less than 3 (three) months and the exposures' residual maturity is larger than the residual maturity of the protection.
3. Banks may not use the credit protection in cases when its original maturity is less than one year, and the residual maturity of the credit is larger than the original maturity of the protection.
4. By way of derogation from paragraph (1) of this Article, when Banks use the Financial Collateral Simple Method to calculate risk-weighted exposure amounts specified in Articles 53 to 57, funded credit protection shall not be recognised as eligible if there is a maturity mismatch between the funded credit protection and the protected exposure.
5. Subject to a maximum of 5 years, the effective maturity of the underlying exposure shall be the longest possible remaining time before the obligor is scheduled to fulfil its obligations. The maturity of the credit protection shall be the time to the earliest date at which the protection may terminate or be terminated.
6. Where there is an option to terminate the protection which is at the discretion of the protection seller, Banks shall consider as the maturity of the protection to be the time to the earliest date at which that option (of termination) may be exercised. While, where there is an option to terminate the protection which is at the discretion of the protection buyer and the terms of the arrangement at origination of the protection contain a positive incentive for the Bank to call the transaction before contractual maturity, the maturity of the protection shall be taken to be the time to the earliest date at which that option may be exercised.
7. Where Banks use as a mitigation technique a credit derivative that is permitted to terminate prior to expiration of any grace period, when this expiration qualifies as a condition for the default of the underlying obligation due to the failure to pay, the maturity of the protection shall be reduced by the amount of the grace period.
8. In the case of unfunded credit protection, when credit protection provided by a single protection provider has differing maturities, Banks shall apply a similar approach to that described in paragraph (2) of Article 42.

Article 45
Requirements for internal processes and systems for managing risks associated with the implementation of credit risk mitigation techniques

1. Banks shall have in place and implement appropriate internal bylaws which shall prescribe credit risk mitigation techniques together with the procedures and actions taken to provide the credit protection.
2. Notwithstanding the presence of credit risk mitigation taken into account for the purposes of calculating risk-weighted exposure amounts and as relevant expected loss amounts, Banks shall continue to undertake full credit risk assessment of the underlying exposure. In the case of repurchase and reverse repurchase transactions and/or securities or commodities lending or borrowing transactions the underlying exposure shall, be deemed to be the net amount of the exposure.

SUBCHAPTER II
FUNDED CREDIT PROTECTION

Article 46
General principles on the recognition of the funded credit protection

1. Banks shall recognise as eligible funded credit protection only the assets that meet the criteria/conditions set out in this Subchapter.
2. In the case of funded credit protection, Banks shall ensure that the assets relied upon shall be sufficiently liquid and their value over time sufficiently stable to provide appropriate certainty as to the credit protection achieved having regard to the approach used to calculate risk-weighted exposure amounts and to the degree of recognition allowed.
3. In the case of funded credit protection, Banks shall ensure by a contract, the right to liquidate or retain, in a timely manner, the assets from which the protection derives in the event of the default, insolvency or bankruptcy of the obligor, or other credit event set out in the contract and, where applicable, of the custodian holding the collateral.
4. Banks shall ensure that the degree of correlation between the value of the assets relied upon for protection and the credit quality of the obligor shall not be undue (e.g. where the bank uses for protection stocks of a company operating in the same market segment with the obligor, thus whose performance is affected by the same specific factors that affect the performance of the obligor, than this protection shall not be considered eligible, due to the strong correlation between the protection value and obligor' s credit quality).

Article 47
Types of funded credit protection

1. Banks, for purposes of credit risk mitigation, shall use the following forms of funded credit protection:

   a) financial collateral;

b) on-balance sheet netting;
c) master netting agreement;
d) other funded credit protection:

   i. deposits with third party institution;
   ii. life insurance policies; and
   iii. instruments repurchased on request.

2. For purposes of calculating the effects of credit risk mitigation, banks shall consider as financial collateral according paragraph (1) "a" of this Article, cash, securities or commodities purchased, posted or borrowed under a repurchase transaction, reverse repurchase transaction or under a securities or commodities lending or borrowing transactions.

Article 48
Eligibility of financial collateral

1. Where the credit risk mitigation technique used relies on the funded credit protection, the bank shall determine the eligibility of the financial collateral depending upon the method used by it: the Financial Collateral Simple Method, or the Financial Collateral Comprehensive Method.
2. In addition to the requirements set out in paragraph (1) of this Article, in relation to repurchase transactions, reverse repurchase transactions and securities or commodities lending or borrowing transactions, Banks shall consider in the process of the eligibility of the credit risk mitigation technique whether the transaction is booked in the non-trading book or the trading book.

Article 49
Eligibility of financial collateral under all approaches

1. Banks shall recognise the following instruments as eligible financial collateral under all approaches for the recognition of credit risk mitigation;:

   a) cash on deposits or certificate of deposits or similar instruments, held at the lending bank;
   b) debt securities issued by central governments or central banks, which according to the provisions for the risk weighting of exposures to central banks and central governments set forth in Chapter III, have an external credit risk assessment that associate with credit quality step 4 or above;
   c) debt securities issued by institutions, which according to the provisions for the risk weighting of exposures to institutions in Chapter III, have an external credit risk assessment that corresponds with credit quality step 3 or above;
   d) debt securities issued by other entities, which according to the provisions for the risk weighting of exposures to companies in Chapter III, have an external credit risk assessment that corresponds with credit quality step 3 or above;

e) debt securities with a short-term credit risk assessment, which according to the provisions for the risk weighting of short term exposures in Chapter III, have an external credit risk assessment that corresponds with credit quality step 3 or above;
f) equities or convertible bonds that are included in a main index; and
g) gold.

2. In cases where a debt security listed in paragraph (1), "b" to "e" of this Article, has two credit assessments by eligible ECAIs, Banks shall apply the less favourable assessment. In cases when a debt security has more than two credit assessments by eligible ECAIs, Banks shall apply the two most favourable assessments; and if the two most favourable assessments are different, banks shall apply the less favourable of the two.
3. For the purposes of letter paragraph (1) "b" of this Article, "debt securities issued by central governments or central banks" shall include:

a) debt securities issued by regional governments or local authorities, exposures to which are treated as exposures to the central government in whose jurisdiction they are established in accordance with Chapter III of this Regulation as exposures to the central government in whose jurisdiction they are established;
b) debt securities issued by public sector entities which are treated as exposures to central governments in accordance with Article 14;
c) debt securities issued by multilateral development banks to which a 0 % risk weight is assigned under Chapter III of the Regulation; and
d) debt securities issued by international organisations which are assigned a 0 % risk weight under Chapter III of the Regulation.

4. For the purposes of item paragraph (1), item (c) of this Article, "debt securities issued by institutions" shall include:

a) debt securities issued by regional governments or local authorities other than the exposures to which are treated as exposures to the central government in whose jurisdiction they are established under Chapter III;
b) debt securities issued by public sector entities, exposures to which are treated as exposures to institutions under Chapter III; and
c) debt securities issued by multilateral development banks other than those to which a 0 % risk weight is assigned under Chapter III.

5. Debt securities issued by institutions which securities do not have an external credit assessment may be recognised as eligible financial collateral if they fulfil the following criteria:

a) they are listed on a recognised exchange;
b) they qualify as senior debt;
c) all other issues by the issuing institution of the same seniority, which under the rules for the risk weighting of exposures to institutions or short-term exposures under Chapter III of this Regulation have an external credit risk assessment which is associated with credit quality step 3 or above;
d) the lending bank has no information to suggest that the issue would justify a credit assessment below that indicated in item "c"; and

e) the bank can demonstrate to the Bank of Albania that the market liquidity of the instrument is sufficient for these purposes.

6. Banks shall recognise as eligible financial collateral, the units in collective investment undertakings (CIUs), if the following conditions are satisfied:

   a) they have a daily public price quote; and
   b) the collective investment undertaking is limited to investing in instruments that are eligible for recognition under this Article.

7. If the collective investment undertaking is not limited to investing in instruments that are eligible for recognition under this Article, Banks may recognise CIU units with the value of the eligible assets as collateral under the assumption that the CIU has invested to the maximum extent allowed under its mandate in non-eligible assets as credit risk mitigation technique.
8. In cases where non-eligible assets can have a negative value due to liabilities or contingent liabilities resulting from ownership, Banks shall calculate the total value of the non-eligible assets and shall reduce the value of the eligible assets by that of the non-eligible assets in case the latter is negative in total.
9. The use or potential use by a collective investment undertaking of derivative instruments to hedge permitted investments shall not prevent units in that undertaking from being eligible for credit risk mitigation.

Article 50
Other eligible instruments as collateral under the Financial Collateral Comprehensive Method

1. In addition to the financial collateral set out in Article 49, where Banks use the Financial Collateral Comprehensive Method under this Subchapter, the following financial items may be recognised as eligible financial collateral:

   a) equities or convertible bonds not included in a main index but traded on a recognised exchange; and
   b) units in collective investment undertakings if the following conditions are met:
      i. they have a daily public price quote; and
      ii. the collective investment undertaking is limited to investing in instruments that are eligible for recognition under paragraphs (1) to (5) of Article 49 and the items mentioned "a" of this paragraph.
      iii. The requirements in paragraphs (7) and (8) of Article 49 are met.

The use (or potential use) by a collective investment undertaking of derivative instruments to hedge permitted investments shall not prevent units in that undertaking from being eligible for credit risk mitigation.

2. For the purposes of calculating the capital requirement for counterparty risk in relation to repurchase transactions, reverse repurchase transactions and securities or commodities lending or borrowing transactions booked in the trading book, Banks may recognise as eligible collateral all financial instruments and commodities that are eligible to be included in the trading book.
3. For exposures due to OTC derivative instruments booked in the trading book, banks may recognise as eligible collateral the commodities that are eligible to be included in the trading book.

Article 51
Minimum requirements for the recognition of financial collateral under all approaches and methods

1. Banks shall recognize financial collateral and gold as eligible elements for the credit risk mitigation under both methods, only if the following conditions shall be met:

   a) there exists a low correlation, thus the credit quality of the obligor and the value of the financial collateral must not have a material positive correlation (i.e. securities issued by the obligor, or any related group entity, are not eligible credit risk mitigation). Exceptionally, obligor's own issues of covered bonds falling within the terms of paragraph (1) of Article 26 may be recognized as eligible when they are posted as collateral for repurchase transactions, reverse repurchase transactions and securities or commodities lending or borrowing transactions provided that there are met the requirements set out in item “a” of this article (Article 51);
   b) banks shall fulfil any contractual and statutory requirements in respect of, and take all steps necessary to ensure, the enforceability of the collateral arrangements under the law applicable to their interest in the collateral. Banks shall conduct sufficient legal review confirming the enforceability of the collateral arrangements in all relevant jurisdictions and shall reconsider such reviews as necessary to ensure continuing enforceability of these contracts;
   c) banks shall meet the following operational requirements:
      i. they draft and approve the appropriate procedures for the documenting of collateral arrangements with the purpose the timely liquidation of collateral;
      ii. they implement clear procedures and processes to control risks arising from the use of financial collateral – including risks of failed or reduced credit protection, valuation risks, risks associated with the termination of the credit protection, concentration risk arising from the use of financial collateral and the interaction with the bank's overall risk profile;
      iii. they draft and approve policies and have in place documented practices concerning the types and amounts of the financial collateral accepted as a mitigation technique;
      iv. they calculate the market value of the financial collateral, and revalue it accordingly, with a minimum frequency of once every six months and whenever the bank has reason to believe that there has occurred a significant decrease in its market value;

v. where the collateral is held by a third party, banks must take reasonable steps to ensure that the third party segregates the financial collateral from its own assets.

Article 52
Financial Collateral - Calculation of the fully adjusted exposure value

1. For the purposes of calculating the effects of financial collateral, Banks may use one of the following methods:

   a) the Financial Collateral Simple Method; or
   b) the Financial Collateral Comprehensive Method.

2. For the purposes of calculating the effects of credit risk mitigation, a bank may not simultaneously use both the Financial Collateral Simple Method and the Financial Collateral Comprehensive Method.

Article 53
Financial Collateral Simple Method – Collateral Valuation

Under this method, the financial collateral that is recognised as a mitigation technique is assigned a value equal to its market value as determined in accordance with Article 51, paragraph (1), "c".

Article 54
Financial Collateral Simple Method - Calculating risk-weighted exposure amounts for credit risk

1. The bank shall proportionally assign to those portions of claims collateralized by the market value of the recognized collateral, the risk weight that would be assigned under Chapter III of this Regulation if the lender had a direct exposure to the collateral instrument.
2. For this purpose, Banks shall consider the exposure value of an off-balance sheet item listed in Annex 2, 100% of its value, rather than its exposure value set out in Annex 2 (classification of off-balance sheet items).
3. The bank shall assign a minimum of 20% risk weight to the collateralized portion, except as specified in Articles 55, 56, 57. The remainder of the exposure shall receive the risk weight that would be assigned to an unsecured exposure under Chapter III of the Regulation.

Article 55
Financial Collateral Simple Method - Repurchase transactions and securities lending or borrowing transactions

A risk weight of 0% shall be assigned to the collateralised portion of the exposure arising from transactions which fulfil the criteria enumerated in Article 66. If the counterparty to the transaction is not an important participant in the market, Banks shall assign to the exposure a risk weight of 10%.

Article 56
Financial Collateral Simple Method - OTC derivative transactions subject to daily accounting under the mark-to-market method

1. Banks shall assign a risk weight of 0%, to the extent of the collateralisation, to the exposure values determined under Chapter VI of this Regulation for the derivative instruments listed in Annex 4 and subject to daily marking-to-market, collateralised by cash or cash assimilated instruments where there is no currency mismatch.
2. Banks shall assign a risk weight of 10%, to the extent of the collateralisation to the exposure values for debt securities issued by central governments or central banks, which under Chapter III of the Regulation have been assigned a 0 % risk weight.
3. For the purposes of paragraph (2) of this Article debt securities issued by central governments or central banks, shall include:

   a) debt securities issued by regional governments or local authorities, exposures to which, according to Chapter III of the Regulation are treated as exposures to the central government, in whose jurisdiction they have been established;
   b) debt securities issued by multilateral development banks to which a 0% risk weight is assigned under Chapter III of the Regulation; and
   c) debt securities issued by international organisations to which a 0% risk weight is assigned according to Chapter III of the Regulation.

Article 57
Financial Collateral Simple Method – Other transactions

1. Banks shall assign a 0% risk weight to collaterals in cases where the exposure and the collateral are denominated in the same currency, and the collateral is in the form of:

   a) cash on deposits or certificates of deposits or similar instruments with them, or
   b) debt securities issued by central governments or central banks eligible for a 0% risk weight under Chapter III of the Regulation, and its market value has been discounted by 20%. For the purposes of paragraph "debt securities issued by central governments or central banks" shall include those indicated under paragraph (3) of Article 56.

Article 58
Financial Collateral Comprehensive Method - Valuation of financial collateral

1. In valuing financial collateral for the purposes of the Financial Collateral Comprehensive Method, Banks shall apply volatility adjustments to the market value of financial collateral, as set out in Articles 60-66 below.
2. Banks, in compliance with the requirements of treating mismatches between currencies in the case of OTC derivatives transactions, as set out in paragraph (3) of this Article, where financial collateral is denominated in a currency that differs from the currency in which the underlying exposure is denominated, in addition to the volatility adjustment appropriate to the financial collateral shall apply an adjustment reflecting currency volatility as set out in Articles 60-66 below.
3. In the case of OTC derivatives transactions covered by netting agreements recognised by the Bank of Albania under Chapter VI, Banks shall apply a volatility adjustment reflecting currency volatility when there is a mismatch between the collateral currency and the settlement currency.
4. Even in the case where multiple currencies are involved in the transactions covered by the netting agreement, Banks shall apply only a single volatility adjustment (to the currencies basket, not to each individual currency).

Article 59
Financial Collateral Comprehensive Method – Calculation of adjusted values

1. Banks shall calculate the volatility-adjusted value of the collateral as follows in the case of all transactions except those transactions subject to recognised master netting agreements to which the provisions set out in Articles 74 - 76 are applied.

$$C_{VA} = C \times (1-H_C-H_{FX})$$

where:

C_{VA} - is the volatility-adjusted value of the collateral;

C – is the value of the collateral before applying volatility-adjustment;

H_C - is the volatility-adjustment for the collateral, calculated according to Articles 60 to 65;

H_{FX} - is the volatility-adjustment for the currencies mismatch, calculated according to Articles 60 to 65.

2. Banks shall calculate the volatility-adjusted value of the exposure with the following formula:

$$E_{VA} = E \times (1 + H_E), \text{ and, in the case of OTC derivative transactions, } E_{VA} = E.$$

where:

E_{VA} - is the volatility-adjusted value of the exposure;

E -is the exposure value determined under Chapter III of the Regulation, if the exposure were not collateralised.

For this purpose, the exposure value of off-balance sheet exposures listed in Article 2 of the Regulation shall be 100% of their value;

H_E - is the volatility adjustment appropriate to the exposure (E), as calculated under the provisions of Articles 60 to 65.

3. Banks shall reflect the maturity of the credit protection and the exposure's maturity in the adjusted value of collateral (thus shall reflect the mismatches of exposure's and collateral maturities), as set out in the formula below:

$$C_{VAM} = C_{VA} \times (t-t^*) / (T-t^*)$$

where:

C_{VAM} - is the CVA adjusted for the mismatch of maturities to be included in the formula for the calculation of the fully adjusted value of the exposure (E*);

C_{VA} - is the lesser between the volatility-adjusted value of the collateral as specified in this Article and the exposure amount;

t is the lesser between the number of residual years till the maturity date of the credit protection calculated according to Article 44, paragraphs (5) to (7) and T value;

T is the lesser between the number of residual years till the maturity date of the exposure calculated according to Article 44, paragraphs (5) to (7) and 5 years; and

t* is equal to 0.25

4. Banks shall calculate the fully adjusted value of the exposure, taking into account both volatility and the risk mitigating effects of collateral, as determined in the following formula:

$$E^* = \max \{0, [E_{VA} - C_{VAM}]\}$$

where:

E*- is the fully adjusted value of the exposure, taking into account both volatility and the risk mitigating effects of collateral;

E_{VA} - is the volatility-adjusted value of the exposure;

C_{VAM} - is CVA further adjusted for any maturity mismatch in accordance with the provisions of paragraph (3) of this Article.

Article 60
Financial Collateral Comprehensive Method - Calculation of volatility adjustments

1. Banks shall calculate volatility adjustments according to one of the following methods:

   a) the Supervisory Volatility Adjustments Approach; and
   b) the Own Estimates of Volatility Adjustments Approach (the 'Own Estimates' Approach)

2. Banks shall obtain the prior approval by the Bank of Albania to apply the 'Own Estimates' Approach without.
3. Banks, upon the prior approval granted by the Bank of Albania on the use of "Own Estimates" Approach, shall use this approach for the full range of instrument types.
4. By way of derogation from paragraph (3) of this Article, Banks may use the Supervisory Volatility Adjustments Approach for immaterial portfolios.

5. Where the collateral consists of a number of recognised items, Banks shall apply the volatility adjustment as set out in the following formula:

$$H = \sum_{i} {}_{i} H_i$$

where:
${}_i$ - is the proportion of an item to the collateral as a whole and;
H_i - is the volatility adjustment applicable to that item.

Article 61
Financial Collateral Comprehensive Method – Supervisory volatility adjustments

Banks shall apply the volatility adjustments under the Supervisory volatility adjustments approach (provide daily revaluation is carried out) as set out in the following Tables (9-12).

Table 9 Volatility adjustments for debt securities listed in Article 49, paragraph (1), "b", "c" and “d”

Credit quality step with which the credit assessment of the debt security is associated	Residual Maturity	Volatility adjustments for debt securities issued by entities described in Article 49, paragraph (1) “b”			Volatility adjustments for debt securities issued by entities described in Article 49, paragraph (1), “c” and “d”		
		20-day liquidation period (%)	10-day liquidation period (%)	5-day liquidation period (%)	20-day liquidation period (%)	10-day liquidation period (%)	5-day liquidation period (%)
1	≤ 1 year	0.707	0.5	0.354	1.414	1	0.707
	>1 ≤ 5 years	2.828	2	1.414	5.657	4	2.828
	> 5 years	5.657	4	2.828	11.314	8	5.657
2-3	≤ 1 year	1.414	1	0.707	2.828	2	1.414
	>1 ≤ 5 years	4.243	3	2.121	8.485	6	4.243
	> 5 years	8.485	6	4.243	16.971	12	8.485
4	≤ 1 year	21.213	15	10.607	N/A	N/A	N/A
	>1 ≤ 5 years	21.213	15	10.607	N/A	N/A	N/A
	> 5 years	21.213	15	10.607	N/A	N/A	N/A

Table 10 Volatility adjustments for debt securities listed in Article 49, paragraph (1), "b", "c" and "d", with short-term credit assessments

Credit quality step with which the credit assessment of the short-term debt security is associated	Volatility adjustments for debt securities issued by entities described in Article 49, paragraph (1), “b”, with short-term credit quality assessment			Volatility adjustments for debt securities issued by entities described in Article 49, paragraph (1), “c” and “d”, with short-term credit quality assessment		
	20-day liquidation period (%)	10-day liquidation period (%)	5-day liquidation period (%)	20-day liquidation period (%)	10-day liquidation period (%)	5-day liquidation period (%)
1	0.707	0.5	0.354	1.414	1	0.0707
2-3	1.414	1	0.707	2.828	2	1.414

Table 11 Volatility adjustments for other collateral or exposure types

Other collateral type s			
Other collateral types	20-day liquidation period (%)	10-day liquidation period (%)	5-day liquidation period (%)
Main index equities, main index convertible bonds	21.213	15	10.607
Other equities or convertible bonds listed on a recognised exchange	35.355	25	17.678
Cash deposits or other similar instruments	0	0	0
Gold	21.213	15	10.607

Table 12 Volatility adjustment for currency mismatch

Volatility adjustment for currency mismatch		
20-day liquidation period (%)	10-day liquidation period (%)	5-day liquidation period (%)
11.314	8	5.657

1. For the purposes of applying credit risk mitigation techniques, the liquidation period shall be as follows:

   a) 20 business days for secured lending transactions;
   b) 5 business days for repurchase transactions (except in so far as such transactions involve the transfer of commodities or guaranteed rights relating to title to commodities);
   c) 5 business days for securities lending or borrowing transactions; and;
   d) 10 business days for other capital market-driven transactions.

2. In tables 9 to 12 and paragraphs (4) to (6) of this Article the credit quality step with which a credit assessment of the debt security is associated is the credit quality step determined in Chapter III of the Regulation. For purposes of this paragraph, when debt securities mentioned above have more than one credit assessment, banks shall apply a credit assessment consistent with Article 49, paragraph (2).
3. For securities that do not meet the requirements for applying credit risk mitigation techniques and for commodities lent or sold under repurchase transactions, or securities or commodities lending or borrowing transactions, Banks shall calculate the volatility adjustment same as for non-main index equities listed on a recognised exchange.
4. For units in collective investment undertakings that are recognised as eligible for purposes of mitigation techniques, Banks shall calculate the volatility adjustment as the weighted average volatility adjustment that would apply to the assets in which the CIU has invested, having regard to the liquidation period of the transaction as specified in paragraph (2) of this Article. If the assets in which the CIU has invested are not known to the bank, the volatility adjustment is the highest volatility adjustment that would apply to any of the assets in which the CIU has the right to invest.
5. For unrated debt securities issued by institutions and satisfying the eligibility criteria set out in Article 49, paragraph (5), Banks shall calculate the volatility adjustments same as for securities issued by institutions or corporates with an external credit assessment, associated with credit quality steps 2 or 3.

Article 62
Own estimates approach for the volatility adjustments

1. Bank of Albania shall permit banks complying with the requirements set out in Articles 63 and 64 to use their own volatility estimates for calculating the volatility adjustments to be applied to collateral and exposures.

2. When debt securities have a credit assessment by an eligible ECAI equivalent to investment grade or better (at least BBB- or credit quality step 3), Banks may calculate a volatility estimate for each category of securities.
3. In determining relevant categories referred to in paragraph (2) of this Article, banks shall take into account the type of issuer of the security, the assessment of securities by an eligible ECAI, their residual maturity, and their modified duration.
4. Volatility estimates must be representative of the securities included in each of the categories indicated in paragraph (3) of this Article.
5. For debt securities having a credit assessment by an eligible ECAI equivalent to below investment grade (BB+ or credit quality step 4 at most), and for other eligible collateral, Banks shall calculate the volatility adjustments for each individual item.
6. Banks using the Own Estimates Approach shall estimate volatility of the collateral or foreign exchange mismatch without taking into account any correlations between the unsecured exposure, collateral and/or exchange rates.
7. Banks using the Own Estimates Approach for the calculation of the capital requirement for counterparty risk shall calculate the volatility adjustments for each individual item with regard to the financial instruments and commodities referred to in Article 50, paragraph (2).

Article 63
Quantitative criteria - Own estimates approach for volatility adjustments

1. In calculating the volatility adjustments according to the Own Estimates Approach, Banks shall use a 99% one-tailed confidence interval.
2. Banks shall use the liquidation periods as stipulated in paragraph (2) of Article 61.
3. Banks may use volatility adjustment numbers calculated according to shorter or longer relevant liquidation periods (TM), scaled up or down to the liquidation period (TN) set out in Article 61 for the type of transaction in question.
4. To adjust the relevant liquidation period (TM) to the liquidation period (TN), banks shall use the following formula:

$$H_M=H_N\sqrt{T_M}\sqrt{T_N}$$

where:

H_M - is the volatility adjustment under the relevant liquidation period T_M;
H_N -is the volatility adjustment based on the liquidation period TN;
T_M - is the relevant liquidation period;
T_N - is the liquidation period referred to in Article 61.

5. Banks shall take into account the low liquidity level (illiquidity) of lower-quality assets and appropriately adjust the liquidation period.
6. Banks shall identify where historical data may understate potential volatility, and deal with such cases by means of a stress scenario.
7. The historical observation period for calculating volatility adjustments shall be a minimum length of one year.
8. Banks that use a weighting scheme or other methods for the historical observation period, shall assure that the effective observation period shall be at least one year.

9. Bank of Albania may also require a bank to calculate its volatility adjustments using a shorter observation period if this is justified by a significant upsurge in prices or price volatility.
10. Banks shall update their data sets at least once every three months and shall also reassess them whenever market prices are subject to material changes (implying that the volatility adjustments shall be computed at least every three months).

Article 64
Qualitative criteria - Own estimates approach for volatility adjustments

1. The volatility estimates shall be used in the day-to-day risk management process of the bank including in relation to its internal exposure limits.
2. If the liquidation period used by the bank is longer than that set out in Article 61 for the type of transaction in question, the bank shall scale up the volatility adjustments in accordance with the formula set out in Article 63, paragraph (4).
3. Banks shall establish and implement procedures for monitoring and ensuring compliance with the internal bylaws and controls for the operation of their systems for the estimation of volatility adjustments and for the integration of such estimations into their the risk management process.
4. Banks during their internal auditing processes shall carry out, at least once a year, independent reviews of the system for the estimation of volatility adjustments.
5. In the reviews referred to in paragraph (4) of this Article, Banks shall specifically consider:

   a) the integration of estimated volatility adjustments into daily risk management;
   b) validation of any significant change in the process for the estimation of volatility adjustments;
   c) the verification of the consistency, timeliness and reliability of data sources used to run the system for the estimation of volatility adjustments, including the independence of such data sources; and
   d) the accuracy and appropriateness of the volatility assumptions.

Article 65
Scaling up of volatility adjustments

1. Banks shall apply the supervisory volatility adjustments set out in Article 61 where there is a daily revaluation of the exposure and the recognised collateral. Where banks use their own estimates of the volatility adjustments, these must be calculated in the first instance on the basis of daily revaluation.
2. Where the frequency of revaluation is less than daily, Banks shall apply larger volatility adjustments, which are calculated by scaling up the daily revaluation volatility adjustments, using the following formula:

$$H = H_M \sqrt{\frac{N_R + (T_M - 1)}{T_M}}$$

where:

H - is the volatility adjustment to be applied;
H_M - is the volatility adjustment where there is daily revaluation;
N_R - is the actual number of business days between revaluations;
T_M - is the relevant liquidation period for the type of transaction in question.

Article 66
Conditions for applying a 0% volatility adjustment

1. In relation to repurchase transactions, and securities or commodities lending or borrowing transactions, where also the conditions set out in "a" to "h" of this paragraph are met, Banks may apply a 0% volatility adjustment:

   a) both the exposure and the collateral are cash or debt securities issued by central governments or central banks as specified in Article 49, paragraph (1) "b" and eligible for a 0% risk weight under Chapter III of the Regulation;
   b) both the exposure and the collateral are denominated in the same currency;
   c) the maturity of the transaction is no more than one day or both the exposure and the collateral are subject to daily marking-to-market or daily remargining;
   d) the time between the last marking-to-market, before a failure to remargin by the counterparty and the liquidation of the collateral shall be no more than four business days;
   e) the transaction is settled across a settlement system proven/tested for that type of transaction;
   f) the documentation covering the agreement is standard market documentation for repurchase transactions, reverse repurchase transactions or securities or commodities lending or borrowing transactions in the securities or commodities concerned;
   g) the transaction is governed by documentation specifying that if the counterparty fails to satisfy an obligation to deliver cash or securities or to deliver margin or otherwise defaults, then the transaction is immediately terminable, and
   h) the counterparty is considered a "core market participant".

Core market participants shall include the following entities:

   i. entities mentioned in Article 49, paragraph (1), "b", exposures to which in accordance with Chapter II of the Regulation, are assigned a 0% risk weight;
   ii. supervised institutions
   iii. other financial companies (including insurance companies), exposures to which are assigned a 20% risk weight under Chapter III of the Regulation
   iv. adjusted and licensed collective investment undertakings that are subject to capital or financial leverage requirements;
   v. adjusted pension funds; and
   vi. recognised clearing houses.

2. Where a competent authority of an EU Member State allow the treatment in accordance with paragraph (1) of this Article on the repurchase transactions, or securities or commodities lending or borrowing transactions for securities issued by its government, Bank of Albania may permit the banks to apply the same approach to the same transactions.

Article 67
Calculating risk-weighted exposure amounts

1. Banks shall consider as the exposure value for the purposes of calculating risk-weighted exposure amounts under Chapter III of the Regulation, the E* indicator as calculated under Article 59.
2. In the case of off-balance sheet items listed in Article 2 of this Regulation, Banks shall consider E* as the value at which shall be applied the percentages indicated in Article 9 and the risk weights indicated in Chapter III of the Regulation, to arrive at the exposure value.

Article 68
On-balance sheet netting – Eligibility

1. Banks shall use/recognize as a mitigation technique the netting of reciprocal claims between the bank and its counterparty.
2. By way of derogation from Article 72, Banks shall use/recognize on-balance sheet netting only for reciprocal cash balances between the bank and its counterparty. Banks shall qualify as reciprocal cash balances only loans and deposits of the bank for the modification of risk weighted exposure values, in the case of on-balance sheet netting agreement.

Article 69
On-balance sheet netting – Minimal requirements

1. Banks shall recognize as an eligible credit risk mitigation technique the on-balance sheet netting agreement (except from the master netting agreement covering the repurchase transactions, or securities or commodities lending or borrowing transactions and/or other capital market transactions) only if the following conditions shall be satisfied:

   a) They must be legally effective and enforceable in all relevant jurisdictions, including the event of the insolvency, winding-up or bankruptcy of a counterparty;
   b) Banks shall be able to determine at any time those assets and liabilities that are subject to the on-balance sheet netting agreement;
   c) Banks shall monitor and control the relevant risk related to the termination of the credit protection; and
   d) Banks shall monitor and control relevant exposures on a net basis.

Article 70
On-balance sheet netting - Calculation of the fully-adjusted exposure value

1. For the purposes of calculating the fully adjusted exposure value, Banks shall treat the loans and deposits with the lending bank, which are subject to on-balance sheet netting as cash collateral.
2. Where there is a maturity mismatch between the loans and deposits referred to in Article 68, paragraph (2), Banks shall use the Financial Collateral Comprehensive Method under Articles 58 to 67, to calculate the fully adjusted exposure value.
3. Banks that shall use the Financial Collateral Simple Method to calculate the fully adjusted exposure value for all other financial collateral, where there is no maturity mismatch between the loans and deposits referred to in Article 68, paragraph (2), may use this method in accordance with Articles 53 to 57, with the purpose to calculate the fully adjusted exposure value of loans and deposits which are subject to on-balance sheet netting.

Article 71
On-balance sheet netting - Calculating risk-weighted exposure amounts

Depending on the method used to calculate risk-weighted exposure amounts, Banks shall calculate the fully adjusted exposure value by applying appropriate risk weights set out in Chapter III of this Regulation.

Article 72
Master netting agreements covering repurchase transactions, and/or securities or (commodities lending or borrowing transactions and/or capital market-driven transactions - Eligibility

1. For credit risk mitigation purposes, Banks may use master netting agreements covering repurchase transactions, and/or securities or commodities lending or borrowing transactions and/or other capital market-driven transactions, only if they apply the Financial Collateral Comprehensive Method.
2. Banks shall recognise the effects of master netting agreements covering repurchase transactions, and/or securities or commodities lending or borrowing transactions, and/or other capital market-driven transactions, only if the collateral taken and securities or commodities borrowed within such agreements comply with the requirements set out in Articles 49 and 50.
3. The requirements stipulated in paragraph (2) of this Article shall not oppose the banks' obligation to implement the requirements laid down in Chapter IV.

Article 73
Master netting agreements – Minimum requirements

1. Banks shall recognize as eligible credit risk mitigation techniques the master netting agreements covering repurchase transactions, securities or commodities lending or borrowing transactions and/or other capital market-driven transactions, only if the following criteria are met:

a) they must be legally effective and enforceable in all relevant jurisdictions, including the event of the insolvency, winding-up or bankruptcy of a counterparty;
b) give the non-defaulting (solvent) party the right to terminate and close-out in a timely manner all transactions under the agreement upon the event of default, including in the event of the insolvency, winding-up or bankruptcy of the counterparty; and;
c) provide for the netting of gains and losses on transactions closed out under a master agreement so that a single net amount is owed by one party to the other; and
d) In addition to the requirements set out in “a” to “c” of this Article, must fulfil also the minimum requirements for the recognition of financial collateral according to Financial Collateral Comprehensive Method set out in Article 49.

2. Master netting agreements covering repurchase transactions, and/or securities or commodities lending or borrowing transactions and/or capital market-driven transactions which provide for the netting of non-trading and trading book positions may be recognised for the purpose of calculating the capital requirement for counterparty risk if the netted transactions meet the following requirements:

a) all transactions are subject to daily marking-to-market method;
b) all instruments borrowed, purchased or received under the transactions covered by the master netting agreement are recognised as eligible financial collateral under the provisions of this Chapter, without applying the provisions of Article 50, paragraphs (2) and (3), and Article 62 paragraph (7).

Article 74
Master netting agreements - Supervisory volatility adjustments / Own estimates volatility adjustments

1. In calculating the "fully adjusted exposure value" (E*) for the exposures subject to an eligible master netting agreement covering repurchase transactions and/or securities or commodities lending or borrowing transactions and/or other capital market-driven transactions, Banks shall apply the volatility adjustments either using the Supervisory Volatility Adjustments Approach or the Own Estimates Volatility Adjustments Approach, as set out in Articles 61 to 66.
2. Banks that use the Own Estimates Volatility Adjustments Approach shall apply the same conditions and requirements as those applied under the Financial Collateral Comprehensive Method.

Article 75
Master netting agreements - Calculation of the fully-adjusted exposure value

1. Banks shall calculate the net position in each type of security or commodity by subtracting from the total value of the securities or commodities of that type lent, sold or provided under the master netting agreement, the total value of securities or commodities of that type borrowed, purchased or received under the agreement.

2. For the purposes of paragraph (1) of this Article, "type of security" means securities which are issued by the same entity, have the same issue date, the same maturity and are subject to the same terms and conditions and to the same liquidation periods as indicated in Articles 61 to 66.
3. Banks shall calculate the net position in each currency, other than the settlement currency of the master netting agreement, by subtracting from the total value of securities denominated in that currency lent, sold or provided under the master netting agreement added to the amount of cash in that currency lent or transferred under the agreement, the total value of securities denominated in that currency borrowed, purchased or received under the agreement added to the amount of cash in that currency borrowed or received under the agreement.
4. Banks shall apply the volatility adjustment appropriate to a given type of security or cash position to the absolute value of the positive or negative net position in the securities of that type.
5. Banks shall apply the foreign exchange risk (fx) volatility adjustment to the net positive or negative position in each currency other than the settlement currency of the master netting agreement.
6. Banks shall calculate the fully-adjusted exposure value (E*) according to the following formula:

$$E^* = \max \{0, [(\sum(E) - \sum(C)) + \sum(|\text{net position in each type of security}| \times H_{sec}) + (\sum|E_{fx}| \times H_{fx})]\}$$

where:

E* - is the fully adjusted exposure value;
E - is the exposure value for each separate exposure under the agreement that would apply in the absence of the credit protection;
C - is the value of the securities or commodities borrowed, purchased or received or the cash borrowed or received in respect of each such exposure;
∑(E) - is the sum of all Es under the agreement;
∑(E) - is the sum of all Cs under the agreement;
H_{sec} - is the volatility adjustment appropriate to a particular type of security;
E_{fx} - is the net position (positive or negative) in a given currency other than the settlement currency of the agreement as calculated under paragraph (3) of this Article;
H_{fx} - is the foreign exchange volatility adjustment.

Article 76
Master netting agreements – Calculation of risk weighted exposures amounts

Banks shall consider as of risk weighted exposures amounts to counterparties arising from the transactions subject to master netting agreements, the fully adjusted exposure value (E*) calculated according to Article 75.

Article 77
Other funded credit protection – Eligibility

1. Banks shall recognise as eligible credit risk mitigation collateral the cash on deposit/s or deposits certificate or cash similar instruments held by a third party institution in a non-custodial arrangement and pledged to the lending credit institution.
2. Banks shall recognise as eligible credit risk mitigation collateral the life insurance policies pledged to banks.
3. Banks shall recognise as eligible credit risk mitigation collateral the instruments issued by other/third party institutions, which will be repurchased by that institution on request.

Article 78
Other funded credit protection – Minimum requirements

1. Banks shall recognise as eligible credit risk mitigation collateral (according to the provisions in Article 77, paragraph (1) the cash on deposit/s or deposits certificate or cash similar instruments held by another / third party institution, only if the following conditions are met:

   a) the borrower's right/claim against the other institution/third party is openly pledged or transferred to the lending bank and such pledge or transfer is legally effective and enforceable in all relevant jurisdictions;
   b) the other institution/ third party is notified of the pledge or the transfer;
   c) as a result of the notification, the other / third party institution is able to make payments solely to the lending bank or to other parties with the lending bank's consent; and
   d) the pledge or transfer is unconditional and irrevocable.

2. Banks shall recognise as eligible credit risk mitigation collateral the life insurance policies pledged to them (the lending banks) only if the following conditions are met:

   a) the life insurance policy is pledged or transferred to the lending bank;
   b) the company providing the life insurance is notified of the pledge or transfer and as a result may not pay amounts payable under the contract without the consent of the lending bank;
   c) the lending bank has the right to cancel the policy and receive the surrender value in the event of the borrower's default ;
   d) the lending bank is informed of any non-payments under the insurance policy by the insurance policy-holder;
   e) the credit protection is provided for the maturity of the loan. Where this is not possible because the insurance relationship ends before the loan relationship expires, the Bank must ensure that the amount deriving from the insurance contract serves the bank as security until the end of the duration of the credit agreement.
   f) the pledge or transfer is legally effective and enforceable in all jurisdictions which are relevant at the time of the conclusion of the credit agreement;
   g) the surrender value is declared by the company providing the life insurance and is non-reducible;
   h) the surrender value is to be paid in a timely manner upon request;

i) the surrender value cannot be requested without the consent of the bank; and;
j) the company providing the life insurance is subject to the Law No. 9267, dated 29.07.2004 "On the activity of insurance, reinsurance and intermediation in insurance and reinsurance", as amended, or is subject to supervision by a competent authority of a third country which applies regulatory and supervisory standards at least equivalent to those applied in Albania.

3. Banks, for purposes of credit risk mitigation, shall use instruments repurchased on demand, only if the following conditions are met

a) the issuing institution has an ECAI credit assessment which has been determined by Bank of Albania to be associated with credit quality step 1, under the requirements for the risk weighting of exposures to institutions under Chapter III of the Regulation;
b) the issuing institution should demonstrate that the instruments are sufficiently liquid.

Article 79
Calculating risk-weighted exposure amounts - Cash on deposits or deposits certificate or cash similar instruments held by another / third party institution

Banks shall treat as a guarantee by another /third party institution the cases of credit protection falling within the terms set out in Chapter III (Unfunded Credit Protection).

Article 80
Calculating risk-weighted exposure amounts - Life insurance policies pledged to the lending bank

1. Banks shall assign risk weights as set out in paragraph (2) of this Article, to the exposure value collateralised by the current surrender value of life insurance policies pledged to the lending bank, if the conditions set out in Article 78, paragraph (2) are met.
2. For the purposes of paragraph (1) of this Article, Banks, on the basis of the risk weights assigned to a senior unsecured exposure to the company providing the life insurance, shall assign the following risk weights:

a) a risk weight of 20%, where the senior unsecured exposure to the company providing the life insurance is assigned a risk weight of 20%;
b) a risk weight of 35%, where the senior unsecured exposure to the company providing the life insurance is assigned a risk weight of 50%;
c) a risk weight of 70%, where the senior unsecured exposure to the company providing the life insurance is assigned a risk weight of 100%;
d) a risk weight of 150%, where the senior unsecured exposure to the company providing the life insurance is assigned a risk weight of 150%.

3. For the purposes of paragraph (2) of this Article, where there is any currency mismatch between the exposure and the recognised credit protection, Banks shall reduce the current surrender value as specified in Article 91.

Article 81
Calculating risk-weighted exposure amounts - Instruments repurchased on demand

1. Banks shall treat as a guarantee by the issuing institutions, under the provisions set out in Subchapter III (Unfunded Credit Protection), the eligible instruments falling under the conditions set out in Article 78, paragraph (3).
2. Banks shall determine the value of the recognised credit protection as follows:

   a) where the instrument will be repurchased at its nominal value, the value of the protection shall be equivalent to that amount (nominal value;
   b) where the instrument will be repurchased at market price, the value of the protection shall be the value of the instrument valued in the same way as the debt securities specified in Article 49, paragraph (5).

SUBCHAPTER III
UNFUNDED CREDIT PROTECTION

Article 82
General provisions

1. Banks shall recognise as eligible unfunded credit protection only the protection providers and types of protection agreements set out in this Subchapter.
2. In the case of unfunded credit protection, for the credit protection provider to be eligible for recognition, Banks shall ensure that the protection provider is sufficiently reliable, and the protection agreement legally effective and enforceable in the relevant jurisdictions, to provide appropriate certainty as to the credit protection.
3. Banks shall use the following forms as unfunded credit protection:

   a) guarantees;
   b) counter-guarantees or other legal arrangements having the same legal effects as counter-guarantees (hereinafter: counter-guarantees), and;
   c) credit derivatives.

Article 83
Eligibility of protection providers under all approaches

1. Banks shall recognise the following entities as eligible providers of unfunded credit protection:

   a) central governments and central banks;
   b) regional governments or local authorities;
   c) multilateral development banks;
   d) international organisations exposures to which are assigned a 0 % risk weight as laid down in Chapter III of this Regulation;

e) public sector entities, exposures / claims on which are treated by the Bank of Albania as exposures / claims on institutions or central governments under Chapter III of the Regulation;
f) supervised institutions; and
g) other corporate entities, including parent, subsidiary and affiliate entities of the bank, which under the provisions in Chapter III of the regulation on the risk weighting of exposures to corporates, have a credit assessment by an eligible ECAI which is associated with credit quality step 2 or above.

2. By way of derogation from paragraph (1) of this Article, Bank of Albania may also recognise as eligible providers of unfunded credit protection, other financial institutions licensed and supervised by the competent authorities responsible for the licensing and supervision of banks and subject to prudential requirements equivalent to those applied to banks and investment companies.

Article 84
Eligibility of credit derivatives

1. For purposes of credit risk mitigation, banks shall recognise the following types of credit derivatives and instruments that may be composed of such credit derivatives or that are economically effectively similar to:

   a) credit default swaps (CDS);
   b) total return swaps (TRS); and
   c) credit linked notes (CLN) to the extent of their cash funding.

2. Where Banks buy credit protection through a TRS and record the net payments received on the swaps net income, but do not record offsetting deterioration in the value of the asset that is protected (either through reductions in fair value or by an addition to reserves), the credit protection shall not be recognised as eligible.

Article 85
Internal hedges

1. When banks conduct an internal hedge using a credit derivative (i.e. hedges the credit risk of an exposure in the non-trading book with a credit derivative booked in the trading book) in order for the protection to be recognised as eligible for the purposes of this Chapter, the credit risk transferred to the trading book shall be transferred out to a third party or parties.
2. With reference to paragraph (1) of this Article, subject to the compliance of such transfer with the requirements for the recognition of credit risk mitigation set out in this Chapter, Banks shall apply the rules for the calculation of risk weighted exposure amounts that are applied for the unfunded credit protection.

Article 86
Minimum requirements common to guarantees and credit derivatives

1. Banks shall recognise as credit risk mitigation techniques, a guarantee or credit derivative only if the following conditions shall be met:

   a) the credit protection shall be direct;
   b) the extent of the credit protection shall be clearly defined and non-controvertible;
   c) the credit protection contract shall not contain any clause, the fulfilment of which is outside the direct control of the lender, that:

      i. would allow the protection provider to unilaterally cancel the protection;
      ii. would increase the effective cost of protection as a result of deteriorating credit quality of the protected exposure;
      iii. could prevent the protection provider from being obliged to pay out in a timely manner in the event that the original obligor fails to make any payments due;
      iv. could allow the maturity of the credit protection to be reduced by the protection provider;

   d) the contract must be legally effective and enforceable in all jurisdictions which are relevant at the time of its signature.

2. Banks shall develop systems to manage potential concentration of risk arising from the bank's use of guarantees and credit derivatives, as credit risk mitigation techniques.
3. Banks shall ensure that their strategies in respect of the use of credit derivatives and guarantees are effectively related or interact with the management of their overall risk profile.

Article 87
Minimum requirements for central governments and central banks other public sector counter-guarantees

1. Where an exposure is protected by a guarantee which is counter-guaranteed by a central government or central bank, a regional government or local authority, a public sector entity, claims on which are treated as claims on the central government in whose jurisdiction they are established under a multi-lateral development bank or an international organisation, to which a 0 % risk weight is assigned under Chapter III of the Regulation, or a public sector entity, exposures to which are treated as exposures to banks under Chapter III of the Regulation, Banks shall treat the exposure as protected by a guarantee provided by the entity in question, provided the following conditions are met:

   a) the counter-guarantee covers all credit risk elements of the exposure;
   b) both the original guarantee and the counter-guarantee meet the requirements for guarantees set out in Articles 86 and 88, with exception from the paragraph (1), item “a” to Article 86 to Article86 (i.e. the counter-guarantee need not be direct); and

c) the cover is robust and that nothing in the historical evidence suggests that the coverage of the counter-guarantee is at least equivalent to that of a direct guarantee by the entity in question.

2. Banks shall apply the treatment set out in paragraph (1) of this Article also to an exposure which is not counter-guaranteed by an entity listed in paragraph (1), if that exposure's counter-guarantee is in turn directly guaranteed by one of the listed entities and the conditions listed in that point are satisfied.

Article 88
Additional requirements for guarantees

1. In addition to the requirements set out in Article 86, Banks shall recognise guarantees as eligible credit risk mitigation techniques, only if the following conditions shall be met:

   a) on the qualifying default of and/or non-payment by the counterparty, the lending bank shall have the right to pursue, in a timely manner, the guarantor for any money amount due under the claim in respect of which the protection is provided (payment by the guarantor shall not be subject to the lending bank first having to pursue the obligor);
   b) in the case of unfunded credit protection covering residential mortgage loans, the requirements in Article 86, paragraph (1) “c”, sub-item “iii”, and “a” of paragraph (1) of this Article, have to be satisfied within 24 months (i.e. on the qualifying default of and/or non-payment by the counterparty, the lending bank shall have the right to execute the collateral and, in case the execution fails, it shall trigger payment under the guarantee and pursue the guarantor for any monies due under the claim within 24 months);
   c) the guarantee shall explicitly document obligation assumed by the guarantor; and
   d) the guarantee shall cover all types of payments the obligor is expected to make in respect of the claim. Where certain types of payment are excluded from the guarantee, the recognised value of the guarantee shall be adjusted to reflect the limited coverage.

2. In the case of guarantees provided in the context of mutual guarantee schemes recognised for these purposes by the Bank of Albania or provided by or counter-guaranteed by entities referred to in paragraph (1) of Article 85, Bank of Albania shall considered the requirements in paragraph (1) of this Article (88) “a” and “b” to be satisfied, where either of the following conditions are met:

   a) the lending bank, proportional to the coverage of the guarantee, has the right to obtain in a timely manner a provisional payment by the guarantor calculated to represent a robust estimate of the amount of the economic loss, including losses resulting from the non-payment of interest and other types of payment which the borrower is obliged to make.
   b) the lending bank can demonstrate that the loss-protecting effects of the guarantee, including losses resulting from the non-payment of interest and other types of payments which the borrower is obliged to make, justify such treatment.

Article 89
Other requirements for credit derivatives

1. Banks shall recognise credit derivatives as credit risk mitigation techniques only if, in addition to the requirements set out in Article 86, the following conditions shall be met:

   a) the credit events specified under the credit derivative shall at a minimum include:

      i. the failure to pay the amounts due under the terms of the underlying obligation that are in effect at the time of such failure (with a grace period that is closely in line with or shorter than the grace period in the underlying obligation);
      ii. the bankruptcy, insolvency or inability of the obligor to pay its debts, or its failure or admission in writing of its inability generally to pay its debts as they become due, and analogous events; and
      iii. the restructuring of the underlying obligation involving forgiveness or postponement of principal, interest or fees that results in a credit loss event (i.e. establishing reserve funds to cover for losses, etc.).

   b) Where the credit events specified under the credit derivatives in "a" of paragraph (1) of this Article, do not include restructuring of the underlying obligation as described in point "iii", the credit protection may be recognised subject to a reduction in the recognised value as specified in paragraph (3) of Article 90.
   c) In the case of credit derivatives allowing for cash settlement, Banks shall have in place a careful process in order to estimate loss reliably, and to clearly specify the period for obtaining post-credit-event valuations of the underlying obligation.
   d) If the protection purchaser's right and ability to transfer the underlying obligation to the protection provider is required for settlement, the terms of the underlying obligation shall provide that any required consent to such transfer may not be unreasonably withheld; and;
   e) The identity of the parties responsible for determining whether a credit event has occurred shall be clearly defined. This determination (whether a credit event has occurred) shall not be the sole responsibility of the protection provider. The protection buyer shall have the right/ability to inform the protection provider of the occurrence of a credit event.

2. A mismatch between the underlying asset and the reference obligation under the credit derivative (i.e. the obligation used for the purposes of determining cash settlement value or the deliverable obligation) or between the underlying asset and the obligation used for purposes of determining whether a credit event has occurred is permissible only if the following conditions are met:

   a) the reference obligation or the obligation used for purposes of determining whether a credit event has occurred, as the case may be, ranks pari passu with or is junior to the underlying obligation; and
   b) the underlying asset and the reference obligation or the obligation used for purposes of determining whether a credit event has occurred, as the case may be, share the same obligor (i.e., the same legal entity) and there are in place legally enforceable cross-default or cross-acceleration clauses.

Article 90
Valuation of unfunded credit protection

1. Banks shall determine the value of unfunded credit protection (G) as the amount that the protection provider has undertaken to pay in the event of the default or non-payment of the borrower or on the occurrence of other credit events specified in the contract.
2. Banks shall treat credit linked notes issued by them and received subsequently as credit protection, as cash collateral and their valuation and calculation of their effects shall be carried out pursuant to the provisions of Article 52.
3. Where the credit events specified under the credit derivative do not include the restructuring of the underlying asset involving forgiveness or postponement of principal, interest or fees that results in a credit loss event (i.e. value adjustment, establishment of reserve funds to cover losses from credit risk, or other similar debit to the profit and loss account), Banks shall adjust the credit derivatives amounts as follows:

   a) if the amount that the protection provider has undertaken to pay is not higher than the exposure value, the value of the credit protection (G) shall be reduced by 40%; or
   b) if the amount that the protection provider has undertaken to pay is higher than the exposure value, the value of the credit protection (G) shall be no higher than 60% of the exposure value.

Article 91
Currency mismatch

1. Where unfunded credit protection is denominated in a currency different from that in which the exposure is denominated (there exist a currency mismatch), Banks shall reduce the credit protection value, applying a volatility adjustment HFX, as determined in the following formula:

$$G^* = G \times (1 - H_{FX})$$

where:
G is the nominal amount of the credit protection;
G* is G adjusted for any foreign exchange risk; and
H_{FX} - is the volatility adjustment for any currency mismatch between the credit protection and the underlying asset.

Where there is no currency mismatch, G* = G.

2. Banks shall calculate the volatility adjustments for any currency mismatch based on the Supervisory Volatility Adjustments Approach or the Own Estimates Approach as set out in Articles 60 to 66.

Article 92
Maturity mismatch

1. Banks shall reflect the maturity of the credit protection and the maturity of the exposure in the adjusted value of the credit protection as specified in the following formula:

$$G_A = G^* \times (t-t^*) / (T-t^*)$$

where:

G^* - is the amount of the protection adjusted for any currency mismatch;

G_A - is G^* adjusted for any maturity mismatch;

t is the lowest between the number of years remaining to the maturity date of the credit protection calculated in accordance with Article 44, paragraphs (5) to (7), and the value of T;

T is the lowest between the number of years remaining to the maturity date of the exposure calculated in accordance with Article 44, paragraphs 5 – 7, and 5 years; and

t^* is equal to 0.25;

G_A- is then taken as the value of the protection for the purposes of Articles 94 and 95.

Article 93
Calculating risk-weighted exposure amounts -
Partial protection (tranching)

1. Where Banks transfer a part of the risk of an exposure in one or more tranches, they shall apply the provisions of Chapter V.
2. Materiality thresholds on payments below which no payment shall be made in the event of loss are considered to be equivalent to retained first loss positions and to give rise to a tranched transfer of risk.

Article 94
Calculating risk-weighted exposure amounts - Full protection

1. For the purposes of implementing Article 11, Banks shall consider g the risk weight to be assigned to an exposure, the exposure value (E) of which is fully protected by unfunded protection (GA), where:

   E - is the exposure value according to Article 9 (for this purpose, the exposure value of an off-balance sheet item listed in Annex 2, shall be 100% of its value instead of the exposure value determined in paragraph (1) of Article 9);

   g - is the risk weight of exposures to the protection provider as specified under Chapter III of the Regulation; and

   G_A - is the value of G^* as calculated under Article 91, further adjusted for any maturity mismatch as laid down in Article 92.

Article 95
Calculating risk-weighted exposure amounts -
Partial protection (equal seniority)

1. Where the protected amount is less than the exposure value and the protected and unprotected parts are of equal seniority, i.e. the bank and the protection provider share losses on a pro-rata basis, Banks may apply a proportional regulatory capital relief.
2. For the purposes of implementing Article 11, Banks shall calculate the risk-weighted exposure amounts in accordance with the following formula

$$(E-G_A) \times r + G_A \times g$$

where:

E - is the exposure value according to Article 9 (for this purpose, the exposure value of an off-balance sheet item listed in Annex 2, shall be 100% of its value instead of the exposure value determined in paragraph 1 of Article 9);

G_A - is the value of G* as calculated under Article 9 further adjusted for any maturity mismatch as laid down in Article 92.

r - is the risk weight of exposures to the obligor as specified under the provisions of Chapter III of the Regulation; and

g - is the risk weight of exposures to the protection provider as specified under Chapter III of the Regulation.

Article 96
Calculating risk-weighted exposure amounts – Guarantees of central governments or central banks

For the purposes of the calculations referred to in Articles 94 and 95, for exposures or parts of exposures guaranteed by the central government or central bank, where the guarantee is denominated in the domestic currency of the borrower and the exposure is funded in that currency, Banks shall consider g=0%.

Article 97
First-to-default credit derivatives

Where Banks obtain credit protection for a number of exposures under terms that the first default among the exposures shall trigger payment and that this credit event shall terminate the contract, they may modify the calculation of the risk-weighted exposure amount, which would, in the absence of the credit protection, according to Chapter III of the Regulation, produce the lowest risk-weighted exposure amount under the provisions of this Chapter, only if the exposure value is less than or equal to the value of the credit protection.

Article 98
Nth-to-default credit derivatives

Where the nth default among the exposures triggers payment under the credit protection, Banks shall recognise the protection for the calculation of risk-weighted exposure amounts only if protection has also been obtained for defaults 1 to n-1 or when n-1 defaults have already occurred. In such cases, the methodology shall follow that set out in Article 97 for first-to-default derivatives appropriately modified for nth-to-default credit derivatives..

CHAPTER V

SECURISATION

SUBCHAPTER I

Article 99
General provisions

Banks shall calculate risk-weighted exposure amounts in respect of exposures securitised in a traditional and synthetic securitisation or similar structures containing the features of both types of securitisation, in accordance with the requirements laid down in this Chapter.

Article 100
Treatment of securitised exposures

1. Where originator Banks have transferred significant credit risk associated with securitised exposures, in accordance with Subchapter II of this Chapter, they may:

   a) in the case of a traditional securitisation, exclude securitised exposures from its calculation of risk-weighted exposure amounts: and
   b) in the case of a synthetic securitisation, calculate risk-weighted exposure amounts in respect of the securitised exposures in accordance with Subchapter II of this Chapter.

2. Where paragraph (1) applies, the originator Banks shall calculate the risk-weighted exposure amounts as prescribed in this Chapter, for the positions that they may hold in the securitisation.
3. Where the originator Banks fail to transfer significant credit risk in accordance with paragraph (1) of this Article, they shall not calculate risk-weighted exposure amounts for any positions in securitisation according to this Chapter, but shall treat these positions as if they were not securitised, applying the provision of Chapter III of this Regulation.

Article 101
Calculation of the exposure value of securitised positions

1. To calculate the risk-weighted exposure amount of a securitisation position, Banks shall assign risk weights to the exposure value of the position in accordance with the credit quality of the position, which shall be determined by reference to an eligible ECAI credit assessment or otherwise, as set out in this Chapter.
2. Banks shall consider:
   a) an on-balance sheet securitisation position - its balance sheet value;

b) an off-balance sheet securitisation position - its nominal value multiplied by a conversion figure. (This conversion figure shall be 100% unless otherwise specified in this Chapter.)

3. In addition to the stipulation in paragraph (2) of this Article, the exposure value of a securitisation position arising from a credit derivative instrument listed in Annex 4, shall be determined in accordance with the provisions of Chapter VI of this Regulation.
4. Where Banks have two or more overlapping positions in a securitisation to the extent that they overlap, they shall include in its calculation of risk-weighted exposure amounts only the position or portion of a position producing the higher risk-weighted exposure amounts. For purposes of this paragraph 'Overlapping' means that the positions, wholly or partially, represent an exposure to the same risk such that to the extent of the overlap there is a single exposure
5. Where there is an exposure to different tranches in a securitisation, Banks shall consider the exposure to each tranche as a separate securitisation position. Securitisation positions shall include the providers of credit protection to[17], and exposures to a securitisation arising from interest rate or currency derivative contracts.
6. Where a securitisation position is subject to credit protection, Banks shall modify the risk weight to be applied to that position in accordance with the provisions of Chapter IV and this Chapter.
7. Where a securitisation position is subject to funded credit protection, Banks shall modify the exposure value of that position in accordance with the provisions of Chapter IV and this Chapter.

Article 102
Special prudential treatments

1. Sponsor or originator banks which, in respect of a securitisation, have made use of Article 100 in the calculation of risk-weighted exposure amounts shall not, with a view to reducing potential or actual losses to investors, provide support to the securitisation beyond its contractual obligations (non-contractual support).
2. Sponsor or originator Banks which fail to comply with paragraph (1) of this Article in respect of a securitisation, it shall be required:

   a) to hold capital against all of the securitised exposures as if they had not been securitised;
   b) to disclose publicly that they have provided non-contractual support and the impact of having done so on the own capital.

3. Bank of Albania shall impose prudential supervisory measures on an originator or a sponsor bank which repeatedly provides non-contractual support.

[17] Banks that provide through credit mitigation techniques protection against credit risk for securities position are considered as they themselves hold directly positions in this securisation.

SUBCHAPTER II

MINIMUM REQUIREMENTS FOR RECOGNITION OF SIGNIFICANT CREDIT RISK TRANSFER AND CALCULATION OF RISK-WEIGHTED EXPOSURE AMOUNTS

Article 103
Minimum requirements for recognition of significant credit risk transfer in a traditional securitisation

1. The originator Bank of a traditional securitization may exclude securitised exposures from the calculation of risk weighted exposure amounts if either of the following conditions is fulfilled:

   a) significant credit risk associated with the securitized exposures is considered to have been transferred to third parties;
   b) the originator Bank applies a 1250 % risk weight to all securitisation positions it holds in this securitisation or deducts these securitisation positions from the regulatory capital.

2. Unless the Bank of Albania decides in a specific instance that the possible reduction in risk-weighted exposure amounts which the originator Bank would achieve by this securitisation is not justified by a commensurate transfer of credit risk to third parties, Banks shall consider that significant credit risk have been transferred to third parties, if one of the following conditions is met:

   a) the risk-weighted exposure amounts of the mezzanine securitization positions held by the originator Bank in this securitisation do not exceed 50 % of the risk weighted exposure amounts of all mezzanine securitisation positions existing in this securitisation;
   b) where there are no mezzanine positions and the originator bank can demonstrate that the exposure value of the securitisation positions that would be subject to deduction from own funds or a 1250 % risk weight exceeds a reasoned estimate of the expected loss on the securitised exposures by a substantial margin, the originator Bank does not hold more than 20 % of the exposure values of the securitisation positions that would be subject to deduction from own funds or a 1250 % risk weight.

3. Without prejudice to paragraphs (1) and (2) of this Article, Bank of Albania may recognise/accept that a significant credit risk have been transferred to third parties, only if it is convinced on the quality of the bank's policies and methodologies that ensure that the possible reduction of capital requirements which the originator achieves by the securitisation is justified by a commensurate and significant transfer of credit risk to third parties. Bank of Albania shall create such conviction only if the originator bank shall demonstrate that such transfer of credit risk to third parties is also recognised for purposes of the bank's internal risk management and its internal capital allocation
4. In addition to paragraphs (1) to (4) of this Article, for the significant credit risk to be considered as transferred to third parties, all the following conditions shall be met:

a) the securitisation documentation reflects the economic purpose of the transaction;

b) the originator Bank and its creditors do not have any rights on the securitised exposures, including in bankruptcy and receivership (the originator shall demonstrate this by means of the opinion of qualified legal counsel;
c) the securities issued do not represent payment obligations of the originator Bank;
d) the transferee is a securitisation special-purpose entity (SSPE)
e) the originator Bank does not maintain effective or indirect control over the transferred exposures. The originator Bank shall be considered to have maintained effective control over the transferred exposures if it has the right to repurchase from the transferee the previously transferred exposures in order to realise their benefits or if it is obligated to re-assume transferred risk (the originator Bank's retention of servicing rights or obligations in respect of the exposures shall not of itself constitute indirect control of the exposures);
f) where there is a clean-up call option, the following shall be met:

   i. the option is exercisable at the discretion of the originator Bank;
   ii. the option may only be exercised when 10 % or less of the original value of the exposures securitised remains unamortised; and
   iii. the option is not structured to avoid allocating losses to credit enhancement positions or other positions held by investors, and is not otherwise structured to provide credit enhancement; and

g) the securitisation documentation does not contain clauses that:

   i. other than in the case of early amortisation provisions, require positions in the securitisation to be improved by the originator Bank including but not limited to altering the underlying credit exposures or increasing the yield payable to investors in response to a deterioration in the credit quality of the securitized exposures; or
   ii. increase the yield payable to holders of positions in the securitisation in response to a deterioration in the credit quality of the underlying pool.

Article 104
Minimum requirements for recognition of significant credit risk transfer in a synthetic securitisation

1. The originator Bank of a synthetic securitisation may calculate risk-weighted exposure amounts for the securitised exposures in accordance with Article 124 of this Regulation, only if either of the following is met:

   a) significant credit risk is considered to have been transferred to third parties through credit protection;
   b) the originator Bank applies a 1250 % risk weight to all securitisation positions it holds in this securitisation or deducts these securitisation positions from regulatory capital.

2. Unless in cases where Bank of Albania decides that the possible reduction in risk weighted exposure amounts which the originator Bank would achieve by this securitisation is not justified by a commensurate transfer of credit risk to third parties, Banks shall consider significant credit risk to have been transferred in the following cases:

   a) the risk-weighted exposure amounts of the mezzanine securitization positions, which are held by the originator Bank in this securitisation do not exceed 50 % of the risk weighted exposure amounts of all mezzanine securitization positions existing in this securitisation;
   b) the originator Bank can demonstrate that the exposure value of the securitisation positions (where there are no mezzanine securitisation positions in a given securitisation), that would be subject to deduction from own funds or a 1250 % risk weight, exceeds a reasoned estimate of the expected loss on the securitised exposures by a substantial margin, and the originator Bank does not hold more than 20 % of the exposure values of the securitisation positions that would be subject to deduction from own funds or a 1250 % risk weight .

3. For the purposes of paragraph (2) of this Article, mezzanine securitisation positions means securitisation positions to which a risk weight lower than 1250 % applies and that are more junior than the most senior position in this securitisation and more junior than any securitization positions in this securitization to which is assigned a credit quality step 1.
4. Without prejudice to paragraphs (1) and (2) of this Article, Bank of Albania may recognise that a significant credit risk have been transferred to third parties, only if it is convinced on the quality of the bank's policies and methodologies which ensure that a possible reduction of capital requirements that the originator achieves by the securitization is justified by a commensurate transfer of credit risk to third parties. Bank of Albania shall only be satisfied if the originator Bank can demonstrate that such transfer of credit risk to third parties is also recognised for purposes of the bank's internal risk management and its internal capital allocation.
5. In addition to these requirements, banks shall ensure that the transfer shall comply with the following conditions:

   a) the securitisation documentation reflects the economic substance of the transaction;
   b) the credit protection by which the credit risk is transferred complies with the eligibility and other requirements for the recognition of credit protection according to Chapter IV of this Regulation. For the purposes of this point, special purpose entities (SPE) shall not be recognised as eligible unfunded protection providers;
   c) the credit protection instruments used to transfer credit risk do not contain terms or conditions that:

      i. impose materiality thresholds below which credit protection is deemed not to be triggered if a credit event occurs;
      ii. allow for the termination of the protection due to deterioration of the credit quality of the underlying exposures;
      iii. other than in the case of early amortisation provisions, require positions in the securitisation to be improved by the originator bank;

iv. increase the cost of credit protection or the yield payable to holders of positions in the securitization in response to a deterioration in the credit quality of the underlying pool; and

d) an opinion is obtained from qualified independent legal counsel confirming the enforceability of the credit protection in all relevant jurisdictions.

SUBCHAPTER III
EXTERNAL CREDIT ASSESSMENTS

Article 105
Requirements to be met by the credit assessments by external credit assessment institutions (ECAIs)

1. For the purposes of calculating risk-weighted exposure amounts under Subchapter IV, Banks shall use the credit assessment of an eligible ECAI, only if it shall comply with the following conditions:

   a) there shall be no mismatch between the types of payments reflected in the credit assessment and the types of payment to which the bank is entitled under the contract giving rise to the securitisation position in question;
   b) the credit assessments shall be available publicly to the market. (Credit assessments are considered to be publicly available only if they have been published in a publicly accessible forum and they are included in the ECAI's transition matrix. Credit assessments that are made available only to a limited number of entities shall not be considered to be publicly available).

Article 106
Use of credit assessments

1. Banks may nominate one or more eligible ECAIs the credit assessments of which shall be used in the calculation of its risk-weighted exposure amounts under this Chapter.
2. Banks shall use credit assessments from nominated ECAIs consistently in respect of its securitisation positions.
3. Banks shall not use not use an ECAI's credit assessments for their positions in some tranches and another ECAI's credit assessments for their positions in other tranches within the same structure that may or may not be rated by the first ECAI.
4. Where a position has two credit assessments by nominated ECAIs, Banks shall use the less favourable credit assessment.
5. Where a position has more than two credit assessments by nominated ECAIs, Banks shall use the two most favourable credit assessments, and if the two most favourable assessments are different, the less favourable of the two shall be used.
6. Without prejudice to paragraph 2 of this Article, where the credit protection eligible under Chapter IV of this Regulation, is provided directly to the SSPE, and that protection is reflected in the credit assessment of a position by a nominated ECAI, Banks shall use the risk weight associated with that credit assessment.

7. Where the credit protection is not eligible as mitigation technique under Chapter IV of this Regulation, Banks shall not the recognise the credit assessment, and where the credit protection is not provided to the SSPE but rather directly to a securitisation position, Banks shall not recognise the credit assessment.
8. Bank of Albania shall take the necessary measures to ensure that, with regard to credit assessments relating to structured finance instruments, the ECAI is committed to make available publicly the explanation how the performance of pool assets affects its credit assessments.

Article 107
Mapping of ECAIs assessment

1. Bank of Albania shall determine with which credit quality step set out in Subchapter 4 of this Chapter, each credit assessment of an eligible ECAI shall be associated.
2. Bank of Albania, in determining the relation as specified in paragraph 1 of this Article, shall differentiate between the relative degrees of risk expressed by each assessment.
3. Bank of Albania shall consider in this process quantitative factors, such as default and/or loss rates, and qualitative factors such as the range of transactions assessed by the ECAI and the meaning of the credit assessment.
4. The securitization positions to which the same risk weight is applied on the basis of the credit assessments of eligible ECAIs are subject to equivalent degrees of credit risk. This shall include modifying the credit quality step with which a credit assessment shall be associated, as appropriate.

SUBCHAPTER IV
CALCULATION

Article 108
Calculation of risk-weighted exposure amounts

1. Banks shall calculate the risk-weighted exposure amount of a securitisation position, assessed by an eligible ECAI, by applying to the exposure value of the position the relevant risk weight according to the credit quality step set out in Tables 13 and 14:

Table 13 Securitisation positions without short-term credit assessments

Credit quality step	1	2	3	4	5 and
Risk weight	20%	50%	100%	350%	1250%

Table 14 Securitisation positions with short-term credit assessments

Credit quality step	1	2	3	All other credit
Risk weight	20%	50%	100%	1250

2. Banks shall apply a risk weight of 1250% to an unrated securitisation position. Exceptionally for these positions, Banks may apply the risk weights referred to in Articles 110-113 of this Regulation, provided that the conditions specified therein are met.

Article 109
Determining the CAP value

1. The risk weighted exposure amounts, calculated for the securitisations positions, for the originator or sponsor banks, are limited to the summing level of the risk weighted exposures amounts that would have been calculated if the exposures had not been securitised (cap), assuming the application of a 150 % risk weight for all the due exposures, and exposures falling in the "high risk categories" amongst the securitised exposures.
2. The capital requirement against the total of positions in a securitisation shall be at a maximum of 12% of the cap amount.

Article 110
Treatment of unrated positions (Look-through Method)

1. Banks having unrated securitisation positions may apply the treatment prescribed in paragraph 2 of this Article for the calculation of the risk weighted amount of the exposures for those position, provided that the composition of the pool of exposures securitised is known.
2. Where the composition of the pool of exposures securitised is known, Banks shall apply the weighted-average risk weight that would be applied to the securitised exposures under Chapter III of this regulation, [18], multiplied by a concentration ratio.
3. Banks shall calculate the concentration ratio referred to in paragraph 2 of this Article, as the sum of the nominal amounts of all the tranches divided by the sum of the nominal amounts of the junior tranches to or *pari passu* with the tranche in which the position is held including that tranche itself.
4. The risk weight referred to in paragraph 2 of this Article shall not be higher than 1250% or lower than any risk weight applicable to a tranche rated more senior.
5. Where Banks are unable to determine the risk weights that would be applied to the securitised exposures under Chapter III of this Regulation, they shall apply a risk weight of 1250% to the position.

[18] Implementing the formula: (E1*P1+E2*P2+...+En*Pn) /(E1+E2+...+En) , where E represents the exposure value, P is the respective risk weight for each exposure; n is the number of exposures in a securitisation:

Article 111

Treatment of securitisation positions in a second loss tranche or better in an ABCP programme (look through method for ABCP transactions)

1. Banks, for the securitisation positions meeting the conditions set out in paragraph 2 of this Article, shall apply a risk weight that is the greatest of 100% and the highest of the risk weights that would be applied to any of the securitised exposures.
2. The securitisation position, for the treatment set out in paragraph 1 of this Article, must meet the following conditions:

   a) is in a tranche, which is economically in a second loss position or a tranche better in the securitisation and the first loss tranche must provide meaningful credit enhancement to the second loss tranche;
   b) is of a quality equivalent of investment grade or better; and
   c) is held by a bank, which does not hold a position in the first loss tranche.

3. In addition to the above, where securitisation positions in a second loss tranche or better in an ABCP programme are in the form of a liquidity facility, Banks may apply the treatment set out in Articles 112 and 113, if such treatment is more favourable for them (banks).

Article 112

Treatment of unrated liquidity facilities eligible for securitisation transactions without a rating from an eligible ECAI

1. Banks may calculate the exposure value of a liquidity facility by applying a conversion figure of 50% to its nominal amount, when the following conditions are met.

   a) the liquidity facility agreement shall clearly identify and limit the circumstances under which the facility may be drawn;
   b) it shall not be possible for the facility to be drawn so as to provide credit support by covering losses already incurred at the time of draw (for example, by providing liquidity in respect of exposures in (default) at the time of draw or by acquiring assets at more than their fair value);
   c) the facility shall be used solely for covering for temporary differences between cash inflows and outflows and shall not be used to provide permanent or regular funding for the securitisation;
   d) repayment of draws on the facility shall not be subordinated to the claims of investors other than to claims arising in respect of interest rate or currency derivative contracts, fees or other such payments, nor be subject to waiver or deferral;
   e) it shall not be possible for the facility to be drawn after that all the applicable credit enhancements from which the liquidity facility would benefit are exhausted;

f) the facility must include a provision that results in an automatic reduction in the amount that can be drawn by the amount of default exposures, or where the pool of securitised exposures consists of rated instruments, that terminates the facility if the average quality of the pool falls below the investment grade of the nominated ECAI equivalent ("default exposures" shall be considered the exposures due for more than 90 days).

2. Banks shall apply to the liquidity facilities the highest risk weight that would be applied to any of the securitised exposures under Chapter III of the Regulation, by the bank holding the exposures.

Article 113
Liquidity facilities in the form of cash advances

To determine the exposure value of a liquidity facility that is unconditionally cancellable, Banks shall apply a conversion figure of 0% to the nominal amount of the facility, provided that the conditions set out in Article 112 are satisfied and that repayment of draws on the facility are senior to any other claims on the cash flows arising from the securitised exposures.

Article 114
Additional capital requirements for securitisations of revolving exposures with early amortisation provisions

1. In addition to the risk-weighted exposure amounts calculated in respect of its securitisation positions, originator Banks shall calculate a risk-weighted exposure amount according to the method set out in this Article, paragraphs 2 and 3, up to Article 121, when they sell revolving exposures into a securitisation that contains an early amortisation provision (the condition of early amortisation represents a contractual provision that requires the termination of an investor's position before the original maturity for the issued securitisation in case the predetermined event occurs).
2. Banks shall calculate the risk-weighted exposure/s amount/s in respect of the originator's interest and the investors' interest.
3. For securitisation structures where the securitised exposures comprise revolving and non-revolving exposures, the originator Banks shall apply the treatment set out in Articles 115 -121 to that portion of the underlying pool containing revolving exposures.

Article 115
Originator's interest and the investors' interest

1. Banks shall consider as "Originator's interest" the exposure value of that notional part of a pool of drawn amounts sold into a securitisation, the proportion of which in relation to the amount of the total pool sold into the structure determines the proportion of the cash flows generated by principal and interest collections and other associated amounts which are not available to make payments to those having the securitisation positions (the originator's interest may not be subordinate to the investors' interest).
2. Banks shall consider as "Investors' interest" the exposure value of the remaining notional part of the (pool of drawn amounts).

3. The exposure of the originator bank, associated with its rights in respect of the originator's interest, shall not be considered a securitisation position, but *pro rata* exposure to the securitised exposures as if they had not been securitised.

Article 116
Exemptions from early amortisation treatment

1. Originator Banks shall be exempt from the capital requirement in paragraph 1 of Article 114 for the following types of securitisation:

   a) securitisations of revolving exposures whereby investors remain fully exposed to all future draws by borrowers so that the risk of exposure on the underlying facilities does not return to the originator bank even after an early amortisation event has occurred; and
   b) securitisations where any early amortisation provision is solely triggered by events not related to the performance of the securitised assets or the originator bank, such as material changes in tax laws or other regulations.

Article 117
Maximum capital requirement

1. For the originator Bank, subject to the capital requirement in Article 114, the total of the risk-weighted exposure amounts in respect of its positions in the investors' interest and the risk-weighted exposure amounts calculated under Article 114 shall be no greater than the greatest of:

   a) the risk-weighted exposure amounts calculated in respect of its positions in the investors' interest; and
   b) the risk-weighted exposure amounts that would be calculated in respect of the securitised exposures by a bank holding the exposures as if they had not been securitised, in an amount equal to the investors' interest.

2. Deduction of net gains, if any, arising from the capitalisation of future income required under the regulation “On Regulatory Capital”, shall not be included in the maximum amount indicated in paragraph 1 of this Article.

Article 118
Calculation of risk-weighted exposure amounts for securitisations of revolving exposures with early amortisation provisions

Banks shall calculate the risk-weighted exposure amount, in accordance with paragraph 1 of Article 114, by multiplying the sum of the amounts of the investors' interests by the product of the appropriate conversion figure as indicated in Article 121 and the weighted average risk weight that would apply to the securitised exposures if they had not been securitised.

Article 119
Types of early amortisation provisions

1. Banks shall consider early amortisation provisions, respectively:
   a) "controlled" where the following conditions are met:

      i. the originator bank has an appropriate capital/liquidity plan in place to ensure that it has sufficient capital and liquidity available in the event of an early amortisation;
      ii. throughout the duration of the transaction there is pro-rata sharing between the originator's interest and the investors' interest of payments and principal, expenses, losses and recoveries based on the balance of receivables outstanding at one or more reference points during each month;
      iii. the amortisation period is considered sufficient for 90% of the total debt (originator's and investors' interest) outstanding at the beginning of the early amortisation period to have been repaid or recognised as in default at the end of the period; and
      iv. the speed of repayment of the obligation's amounts to the investor from the originator bank is no more rapid than would be achieved by straight-line amortisation over the period set out in paragraph (iii) above.

   b) "not controlled" if the conditions in "a" are not met.

Article 120
Excess spread

1. 1. In the case of securitisations subject to an early amortisation provision of retail exposures which are uncommitted and unconditionally cancellable without prior notice, where the early amortisation is triggered by the excess spread level falling to a specified level, Banks shall compare the three-month average excess spread level with the level trapped for the excess spread in the given securitisation.
2. Where the securitisation does not determine a trapping point for the excess spread, the trapping point is deemed to be 4.5 percentage points greater than the excess spread level at which an early amortisation is triggered.

Article 121
Conversion figures in securitisations of revolving exposures with early amortisation provisions

1. The conversion figure to be applied shall be determined by the level of the actual three-month average excess spread in accordance with Table 15.

Table 15 Conversion Figures

	Securitisations subject to a controlled early amortisation	Securitisations subject to a non-controlled early amortisation
Three-month average excess	Conversion figure	Conversion figure
Above level A	0%	0%
Level A	1%	5%
Level B	2%	15%
Level C	10%	50%
Level D	20%	100%
Level E	40%	100%

2. In table 15:

- "Level A" means levels of excess spread less than 133.33% of the trapping level of excess spread but not less than 100% of that trapping level;
- "Level B" means levels of excess spread less than 100% of the trapping level of excess spread but not less than 75% of that trapping level;
- "Level C" means levels of excess spread less than 75% of the trapping level of excess spread but not less than 50% of that trapping level
- "Level D" means levels of excess spread less than 50% of the trapping level of excess spread but not less than 25% of that trapping level;
- "Level E" means levels of excess spread less than 25% of the trapping level of excess spread

3. All other securitisations, subject to a controlled early amortisation provision of revolving exposures shall be subject to a conversion figure of 90%.
4. All other securitisations, subject to a non-controlled early amortisation provision of revolving exposures, shall be subject to a conversion figure of 100%.

Article 122
Recognition of credit risk mitigation on securitisation positions

For the calculation of risk-weighted exposure amounts where credit protection is obtained on a securitisation position, Banks shall modify the exposure amounts in accordance with Chapter IV of this Regulation.

Article 123
Reduction in risk-weighted exposure amounts

1. Banks have the possibility, that in securitisation positions, to which a 1250% risk weight is assigned, as an alternative to including the position in their calculation of risk-weighted exposure amounts, to deduct them from the regulatory capital. For these purposes, the calculation of the exposure value may reflect eligible funded credit protection in a manner consistent with Article 122.
2. In the case referred to in paragraph 1 of this Article, Banks shall deduct from the maximum risk-weighted exposure amount (cap), determined according to Article 109 of this regulation, an amount 12.5 times larger than the amount deducted from the regulatory capital.

Article 124
Originator bank's calculation of risk-weighted exposure amounts for exposures securitised in a synthetic securitisation

For the calculation of risk-weighted exposure amounts for the securitised exposures, where the conditions in Article 104 are met, the originator banks of a synthetic securitisation shall apply the relevant calculation methodologies and requirements set out in Articles 108-123 of this Regulation.

Article 125
Treatment of maturity mismatches in synthetic securitizations

1. For the purposes of calculating risk-weighted exposure amounts in respect to synthetic securitizations, Banks shall take into consideration any maturity mismatch between the credit protection by which the tranching is achieved and the securitised exposures.
2. Banks shall consider as maturity of the securitised exposures the longest maturity of any of those individual exposures (subject to a maximum of five years). The maturity of the credit protection shall be determined in accordance with Chapter IV of this Regulation.
3. The originator Banks shall ignore any maturity mismatch in calculating risk-weighted exposure amounts for tranches, which pursuant to this Subchapter shall be assigned a risk weighting of 1250 %. For all the other tranches the treatment of discordances in maturity set out in Chapter IV, shall take place in compliance with the following formula:

$$RWW^* = [RW(SP) \times (t-t^*)/(T-t^*)] + [RW(Ass) \times (T-t)/(T-t^*)]$$

Where:
RWW* are the risk-weighted exposure amounts;
RW(SP) are the risk-weighted exposure amounts if there was no maturity mismatch;
RW(Ass) are the risk-weighted exposure amounts for exposures if they had not been securitised, calculated on a pro-rata basis;
T is the maturity of the underlying exposures expressed in years;
t is maturity of credit protection expressed in years; and
t* is 0,25.

CHAPTER VI
COUNTERPARTY CREDIT RISK

SUBCHAPTER I
CALCULATION METHODS OF THE EXPOSURES AMOUNT

Article 126
General requirements for the choice of the method

1. Banks shall calculate the capital requirement for the counterparty credit risk for all of their exposures, in the non-trading and trading books.
2. The capital requirement for counterparty credit risk shall be 12% of the total risk-weighted exposure amounts, calculated according to paragraph 7 of Article 127.
3. For the purposes of calculating the capital requirement for counterparty credit risk, banks shall calculate exposures due to the following trading and non-trading book items.

   a) OTC derivative instruments set out in Annex 4 of this Regulation;
   b) credit derivatives (included only in the trading book;
   c) repurchase agreements, reverse repurchase agreements, securities or, commodities, lending or borrowing transactions(commodities);
   d) securities margin lending transactions;
   e) long settlement transactions.

4. Banks shall use one of the following methods to calculate the exposure value for the derivative instruments listed in Annex 4 of this regulation:

   a) the Original Exposure Method;
   b) the Mark-to-Market Method;
   c) the Standardised Method.

5. Banks that do not meet the criteria specified in paragraph 1 of Article 144 of this Regulation, cannot use the original exposure method for the calculation of the exposure amount of derivative instruments.
6. Banks cannot use the original exposure method to determine the exposure value for the contracts listed in paragraph 3 of Annex 4 of this Regulation.
7. The combined use of the methods set out in paragraph 4 of this article for the calculation of the exposure value of the derivative contracts shall be permitted on a permanent basis only within a banking group, but not within a single bank. The combined use of these methods is only permitted within one bank only in the cases set out in paragraph 2 of Article 133 of this Chapter.
8. Banks shall calculate exposures due to the items referred to in “b” of paragraph 3 of this Article using the Mark-to-Market Method, or the Standardised Method.
9. Banks shall calculate exposures due to the items referred to in “c” and “d” of paragraph 3 of this Article, using one of the methods specified in Chapter IV of this Regulation:

a) Standardised Method;
b) The comprehensive method with volatility adjustments set out by the Bank of Albania;
c) The comprehensive method with internal volatility adjustment.

10. Banks shall calculate exposures due to long settlement transactions using one of the methods set out in paragraph 4 of this Article, independently of the method chosen to treat OTC derivatives, repurchase agreements, reverse repurchase agreements, securities or commodities lending or borrowing transactions; or securities margin lending transactions.
11. Banks which shall calculate exposures using the Mark-to-Market Method and Standardised Method are not allowed to use the original exposure method in the following reporting period.
12. Notwithstanding the method chosen, Banks shall calculate the exposure to a given counterparty, as the sum of all the exposure values, calculated for every netting set with that counterparty.
13. Repurchase and Reverse Repurchase agreements with the Bank of Albania shall not be subject of the provisions of this Chapter.

Article 127
Special requirements for determining the exposure value

1. When banks purchase credit derivative instruments for protection on a non-trading book exposure, or for an exposure to a counterparty credit risk, they may compute the capital requirement for the hedged asset in accordance with Chapter IV of this Regulation, Articles 90, 93, 94, 95 and 96.

   In these cases, the exposure value for the counterparty's credit risk for the credit derivatives is set equal to zero.

2. The exposure value to a counterparty risk from short credit default swap, that are included in the banking book, is zero, in cases these contracts are treated as hedge to credit, supplied by the bank and are subject of the capital requirement for credit risk, for issued guaranties.
3. Banks shall not calculate exposure value for the credit risk of a central counterparty, due to the derivative instruments, repurchase agreements, reverse repurchase agreements, securities or commodities, lending or borrowing transactions, long settlement transactions, or securities margin lending transactions, if they have been accepted by the central counterparty.
4. Banks shall not calculate exposure value for the credit risk of a central counterparty, arising from the financial instruments given as collateral to a central counterparty, for the transactions set out in paragraph 3.
5. For the purposes of applying the exemptions set out in paragraphs 3 and 4 of this Article, banks shall ensure that the exposures to the central counterparty, including all participants in their agreements, must be fully collateralised on a daily basis.
6. For the Mark-to-Market Method and original exposure, the Bank of Albania shall ensure that the nominal amount to be taken into account is an appropriate benchmark for the risk inherent in the contract. Where, the contract provides for a multiplication of cash flows, the nominal amount must be adjusted in order to take into account the effects of the multiplication on the risk structure of that contract.

7. For the purposes of calculating risk weighted exposures, Banks shall treat exposures calculated in accordance with the original exposure method, Mark-to-Market Method and Standardised Method, in accordance with the risk weights set out in Chapter III of this Regulation.

Article 128
Original Exposure method

1. Banks shall calculate the exposure value of an individual contract according to this method, multiplying the nominal value of the contract by the percentages set out in Table 16:

Table 16

Original maturity	Interest-rate contracts	Contracts concerning foreign exchange
One year or less (≤ 1 year)	0.5%	2%
Over one year, not exceeding two years	1%	5%
Additional allowance for each additional year	1%	3%

2. In the case of contract concerning interest rates, Banks may use the residual or the original maturity, only upon the prior approval by the Bank of Albania.

Article 129
Mark-to-Market Method

1. In accordance with the Mark-to-Market Method, Banks shall calculate the exposure of an individual contract as the sum of:

   a) the current replacement cost of the contract, which represents its positive current market value; and
   b) the potential future credit exposure (except in the case of single currency floating/floating interest rate swaps, for which only the current replacement cost shall be calculated), which is calculated as the notional amount of an individual contract multiplied by the appropriate percentage, as provided in the following table:

Table 17

Residual maturity	Interest-rate contracts	Contracts concerning foreign exchange rates and gold	Contracts concerning equities	Contracts concerning precious metals except gold	Contracts concerning commodities, other than precious metals
≤ 1 year	0%	1%	6%	7%	10%
1 year < Residual maturity ≤ 5	1.5 %	5%	8%	7%	12 %
>5 years	1.5 %	7.5 %	10%	8 %	15 %

2. For contracts which do not fall within one of the five categories indicated in Table 17, Banks shall use percentages from the category of contracts concerning commodities, other than precious metals in accordance with their residual maturity.
3. For contracts with multiple exchanges of principal, Banks shall multiply the percentages set out in Table 17 above by the number of remaining payments still to be made according to the contract.
4. For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, Banks shall calculate the residual maturity equal to the time until the next reset date.

In the case of interest-rate contracts that meet these criteria and have a residual maturity longer than one year, the percentage shall be no lower than 0,5 per cent.

5. For collateralized OTC derivatives contracts, for the recognition of the collateral as per the Mark-to-Market Method, Banks shall use the "Comprehensive Method of Financial Collateral" according to Chapter IV of this Regulation, taking into consideration the netting agreement when necessary.

Article 130
Standardised Method

1. Banks shall use the Standardised Method (SM) only to calculate the exposure value for OTC derivatives and long settlement transactions.

2. Banks shall calculate the exposure value for the instruments and transactions determined in paragraph 1 of this Article, separately for each netting set, and on net basis taking into consideration the deduction of collateral as set out in the following formula:

exposure value $=ß*\max(CMV-CMC; \sum_j|\sum_i RPT_{ij}-\sum_l RPC_{lj}|*CCRM_j)$

where:

CMV = the current market value of the portfolio of transactions within the netting set with a counterparty,

that is, where

$$CMV= \sum_i CMV_i$$

CMVi = the current market value of transaction i;
CMC = the current market value of the collateral assigned to the netting set;

that is, where

$$CMC= \sum_l CMC_l$$

CMC_l =the current market value of collateral l;
i = index designating transaction;
l = index designating collateral;
j= index designating hedging set category. These hedging sets correspond to risk factors for which risk positions of opposite sign can be offset to yield a net risk position on which the exposure measure is then based;
RPTij = risk position from transaction i with respect to hedging set j;
RPClj = risk position from collateral with respect to hedging set j;
CCRMj = Multiplier of counterparty's credit risk set out in Table 19 with respect to hedging set j;
ß= 1.4

3. For purposes of calculating the exposure value, Banks shall assign to the collateral received from counterparty a positive sign, whereas collateral posted to counterparty a negative sign to.
4. For purposes of recognizing the collateral according to this method, Banks ensure that the collateral shall meet at least the criteria for recognition of collateral according to Article 50 in Chapter IV of this Regulation and according to paragraphs 5 to 8 of Article 137 of this Chapter.

Article 131
Treatment of the financial instruments in accordance with the Standardised Method

1. When an OTC derivative transaction with a linear risk profile stipulates the exchange of a financial instrument for a payment, Banks shall consider the payment part as the payment leg.

2. Transactions that stipulate the exchange of payment against payment consist of two payment legs. Payment legs consist in gross payments agreed on agreements, including the notional value of the transaction.
3. Banks may disregard the interest rate risk from payment legs payment legs with a remaining maturity of less than one year for the purposes of applying the Standardised Method.
4. Banks may treat transactions that consist of two payment legs that are denominated in the same currency, such as interest rate swaps, as a single aggregate transaction. The treatment for the payment leg applies to the aggregate transaction.
5. Banks shall assign to transactions with a linear risk profile with equities (including equity indices), gold, other precious metals or other commodity as the underlying financial instruments, a risk position in the respective equity (or equity index) or commodity (including gold and other precious metals) and an interest rate position for the payment leg. If the payment leg is denominated in foreign currency, it is additionally mapped to a risk position in the receptive currency.
6. Transactions of OTC derivatives with a linear risk profile with a debt instrument as the underlying instrument are mapped to an interest rate risk position for the debt instrument and another interest rate risk position for the payment leg.
7. Transactions of OTC derivatives with a linear risk profile that stipulate the exchange of payment against payment, including foreign exchange forwards, are mapped to an interest rate risk position for each of the payment legs. If the underlying debt instrument is denominated in a foreign currency, the debt instrument is mapped to a risk position in this currency. If the payment leg is denominated in foreign currency, the payment leg is again mapped to a risk position in this currency.

   The exposure value assigned to a foreign exchange basis swap transaction is zero.

8. Banks shall determine the size of a risk position from a transaction of OTC derivatives with linear risk profile as the effective nominal value (market price multiplied by quantity) of the underlying financial instruments, (including commodities), converted to the bank's domestic currency, except for debt instruments.
9. For debt instruments and for payment legs, banks shall determine the size of the risk position as the effective notional value of the outstanding gross payments (including the notional value) converted to Albanian lek, multiplied by the modified duration of the debt instrument, or payment leg, respectively.
10. Banks shall determine the size of a risk position from a credit default swap (CDS), as the nominal value of the reference debt instrument, multiplied by the remaining maturity of the credit default swap.
11. Banks shall determine the size of a risk position from an OTC derivative with a non-linear risk profile, swap (and options), is equal to the delta equivalent effective notional value of the financial instrument that underlies the transaction, except in the case of an underlying debt instrument.
12. Banks shall determine the size of a risk position from an OTC derivative with a non-linear risk profile, including swaps (and options), of which the underlying is a debt instrument or a payment leg), is equal to the delta, equivalent effective notional value of the financial instrument or payment leg), multiplied by the modified duration of the debt instrument, or payment leg, respectively.
13. For the determination of risk positions, Banks shall consider the collateral received from counterparty as a claim on the counterparty under a derivative contract (long position) that is due today, while collateral posted is to be treated like an obligation to the counterparty (short position) that is due today.

Article 132
Determining risk positions according to the standardised method

1. Banks shall group risk positions into appropriate hedging sets categories and calculate the net risk positions for each hedging set. The net risk position represents the absolute value amount of the individual risk positions (arising from the transactions) and collateral in a netting set (compensation) included within it.

   The net risk position, in the formulas presented in paragraph 2, Article 130, shall be calculated as follows:

$$\left|\sum_{i} RPT_{ij} - \sum_{l} RPC_{lj}\right|$$

2. To calculate the net risk position, banks shall refer to the following categories of hedging sets:

a) risk positions sensitive to “interest rate” risk factor: qualified issuer “qualified issuer” shall be every issuer for which a capital requirement is applied, for the specific risk of the tradable portfolio, equal or lower than 1.6%, as set out in Table 21, Chapter VII of this Regulation.

   i. Banks shall include the risk positions of qualified issuers related to money deposits received from the counterparty as collateral, from payment legs and from underlying debt instruments, in one of the six hedging sets for each currency as shown in Table 18. Hedging sets are defined by a combination of the criteria "maturity" and "referenced interest rate".
   ii. For interest rate risk positions from underlying debt instruments or payment legs, for which the interest rate is linked to a reference interest rate that represents a general market interest level (e.g. Libor, Euribor, etc.), Banks shall consider remaining maturity as the length of the time interval up to the next readjustment of the interest rate. In all other cases, remaining maturity shall be the remaining life of the underlying debt instrument or in the case of a payment leg, the remaining life of the transaction.

Table 18

Interest rate remaining maturity / time interval up to the next	Government referenced interest rates	Non – government referenced interest rates
Maturity	Up to 1 year	Up to 5 years
Maturity	1 year to 5 years	1 year to 5 years
Maturity	Over 5 years	Over 5 years

b) Risk positions sensitive to “interest rate” risk factor: qualified issuer credit default swap, qualified issuer.

Banks shall establish separate hedging sets for each qualified issuer of a reference debt instrument that underlies a credit default swap.

“Nth to default” basket of a credit default swap shall be treated as follows:

i. Banks shall determine the size of a risk position in a reference debt instrument in a basket underlying a nth-to-default” credit default swap, which is equal to the effective notional value of the reference debt instrument, multiplied by the modified duration of the nth-to-default, with respect to a change in the credit spread of the reference debt instrument;
ii. Banks shall lay down a hedging set for each reference nth-to-default credit default swap. Risk positions from different nth-to-default credit default swaps shall not be included in the same hedging set.

c) Banks shall consider as unqualified issuers any issuer to which is assigned a capital requirement for the specific risk of the tradable portfolio of more than 1.6% according to Table 21 of Chapter VII of this Regulation.

i. For interest rate risk position related to debt instruments referred to unqualified issuers, for payment legs related to such issuers as well as for risk positions from money deposits that are placed as collateral with the counterparty, Banks shall set out a separate hedging set for each issuer.
ii. Banks can include in the same hedging set risk positions that arise from debt instruments of an unqualified, payment legs related to these issuers, or from reference debt instruments of the same issuer that underlie credit default swap.

d) Risk positions sensitive to other risk factors

Banks shall assign the same hedging set financial instruments, other than debt instruments, only if they are identical or similar instruments. In all other cases they shall be assigned to separate hedging sets.
The similarity of instruments is established as follows:

i. for equities, similar instruments are those of the same issuer. An equity index is considered to be issued by a separate issuer;
ii. for precious metals, similar instruments are those of the same metal. A precious metal index is treated as a separate precious metal;
iii. for electric power, similar instruments are those delivery rights and obligations, that refer to the same peak or off-peak load time interval within any 24-hour interval; and
iv. for commodities, similar instruments are those of the same commodity. A commodity index is treated as a separate commodity.

Article 133
Counterparty credit risk multipliers according to the standardized approach

1. Banks shall apply the counterparty credit risk multipliers (CCRM) for the different risk positions referred to each hedging set category as set out in Table 19.

Table 19

	Hedging set categories	CCRM
1	Interest rates, for risk positions related to debt instruments of qualified issuers	0.2%
2	Interest rates, for risk positions related to a reference debt instrument that underlies credit default swap	0.3%
3	Interest rates, for risk positions related to debt instrument, or reference debt instrument of unqualified issuers.	0.6%
4	Exchange rate	2.5 %
5	Electricity	4 %
6	Gold	5 %
7	Equity	7 %
8	Precious metals (except gold)	8.5%
9	Other commodities (except precious metals and electricity)	10%
10	Basic instrument of OTC derivative financial instruments, which are not included in any of the above categories	10%

2. For transactions with a non-linear risk profile or for payment legs and transactions with debt instruments as underlying for which the bank cannot determine the delta or the modified duration, Banks shall use the Mark-to-Market method, set out in Article 129 of this Chapter.
3. Banks shall not recognise the transaction netting set out in paragraph 2 of this Article, which means that the exposure value should be determined on the assumption that netting set comprises just the individual transaction (thus each transaction shall be considered as a separate netting set).
4. Banks shall draft and approve internal procedures to verify that, prior to including a transaction in a hedging set; the transaction is covered by a legally enforceable netting contract that meets the requirements set out in Subchapter II of this Chapter.

SUBCHAPTER II

CONTRACTUAL NETTING

Article 134
Netting types recognised by the Bank of Albania

1. For purposes of this Subchapter, by "counterparty" Banks shall understand every natural and legal person that has the power to conclude a contractual netting agreement, which shall mean a written bilateral agreement that creates a single legal obligation covering all bilateral agreements.
2. For purposes of the mitigation / reducing of the counterparty credit risk, Banks can use as mitigation technique the following netting types:
   a) bilateral contracts for novation between a bank and its counterparty under which mutual claims and obligations are automatically amalgamated in such a way that this novation fixes one single net amount each time novation applies and thus creates a legally binding, single new contract extinguishing former contracts;
   b) other bilateral agreements between a bank and its counterparty.

Article 135
Requirements for recognition of contractual netting as a counterparty credit risk reducing

1. Bank of Albania shall recognise contractual netting as a counterparty credit risk reducing technique only under the following conditions:

   a) Banks shall have a contractual netting agreement with their counterparty, which incorporates the close-out, where respective legal obligations shall be assessed by Mark-to-Market value of the included individual transactions;
   b) Banks must make available to the Bank of Albania written and reasoned legal opinions to the effect that, in the event of a legal challenge, the relevant courts and administrative authorities would, in the cases described under paragraph (a) of this Article, find that the bank's claims and obligations would be limited to the net sum, as described in this paragraph, under:

      i. the law of the jurisdiction in which the counterparty is incorporated and, if a foreign branch of an undertaking is involved, also under the law of the jurisdiction in which the branch is located;
      ii. the law that governs the individual transactions included; and
      iii. the law that governs any contract or agreement necessary to effect the contractual netting;

   c) Banks must have procedures in place to ensure that the legal validity of its contractual netting is kept under review in the light of possible changes in the relevant laws;
   d) Banks maintains all required documentation in their files;
   e) Banks shall factorise the effects of netting into the measurement of each counterparty's aggregate credit risk exposure and manage their counterparty credit risk on such a basis, and

f) Banks shall aggregate credit risk to each counterparty to arrive at a single legal exposure across transactions. This aggregation shall be factored into credit limit purposes and internal capital purposes.

2. Bank of Albania shall provide, if necessary after consulting the other competent authorities concerned, that the contractual netting is legally valid under the law of each of the relevant jurisdictions. If Bank of Albania is not satisfied in that respect, the contractual netting agreement will not be recognized as risk-reducing for either of the counterparties.

Article 136
Effects of recognition of contractual netting

1. For purposes of applying the Standardized Method, banks shall recognise the contractual netting as set out in Articles 130 – 132 of this Regulation.
2. For purposes of applying the Mark-to-Market method and the original exposure method banks, shall recognise the contractual netting as set below:

a) for replacement contract

i. Mark-to-Market Method: Banks shall calculate the current replacement cost, and the notional value taking account of the net value of the contracts for replacement;
ii. original exposure method: Banks shall calculate the notional value taking into consideration the net value of the contract for replacement and applying the percentages of Table 16 of this Chapter.

b) for the other netting agreements:

i. Mark-to-Market Method: Banks shall calculate the current replacement cost for the contracts included in a netting agreement by taking account of the actual hypothetical net replacement cost which results from the agreement (in the case where netting leads to a net obligation for the bank calculating the net replacement cost, the current replacement cost is calculated as 'zero'), and shall reduce the figure for potential future credit exposure for all contracts included in a netting agreement may be reduced according to the following formula:

$$PCEred = 0,4 * PCEgross + 0,6 * NGR * PCEgross$$

where:

PCEred = the reduced figure for potential future credit exposure for all contracts with a given counterparty included in a legally valid bilateral netting agreement;

PCEgross = the sum of the figures for potential future credit exposure for all contracts with a given counterparty, which are included in a legally valid bilateral netting agreement, and are calculated by multiplying their notional principal amounts by the percentages set out in Table 17 of this Chapter.

NGR = ‘net-to-gross ratio’: the quotient of the net replacement cost for all contracts included in a legally valid bilateral netting agreement with a given counterparty (numerator), and the gross replacement cost for all contracts included in a legally valid bilateral netting agreement with that counterparty (denominator).

For the calculation of the potential future credit exposure according to the above formula, the perfectly matching contracts included in the netting agreement, may be taken into account as a single contract with a notional principal equivalent to the net receipt.

ii. Original exposure method: For purposes of applying this method, Banks shall take into account perfectly matching contracts involved in the netting agreement as a single contract with notional value equal to net receipt, where the notional values are applied by the percentages given in Table 17, and shall apply for all other contracts included in a netting contract, the percentages set out in Table 20.

Table 20

Original maturity*	Interest-rate contracts	Exchange-rate contracts
Less than one year	0.35 %	1.50%
More than a year but not more than two years	0.75 %	3.75 %
Additional Payment for each additional year	0.75 %	2.25 %

*In the case of the interest rates contracts, Banks, upon the prior approval of the Bank of Albania, may choose between the original maturity and the residual maturity.

SUBCHAPTER III

SPECIAL TREATMENTS OF THE COUNTERPARTY'S RISK

Article 137
Special rules for trading book exposures

1. For purposes of applying the Mark-to-Market, Banks shall calculate the potential future credit exposure of total return swaps and credit default swaps, in the trading book by multiplying the nominal amount of the instrument by the following percentages:

   a) 5%, if the reference claim is such that it would be considered the position of a qualified issuer according to article 132 of this Regulation, if it constituted a direct exposure;
   b) 10%, if the reference claim is such that it would not be considered the position of a qualified issuer according to Article 132, if it constituted a direct exposure.

2. For credit default swaps that give rise to a long position in the underlying, (protection provider), to calculate potential future exposure of credit (for the purpose of mark-to-market method), banks shall use a figure of 0% for the potential future credit exposure, unless the credit derivative contract contains a clause providing for close out in the event of the insolvency of the entity, the exposure of which arising from the swap represents a short position in the underlying, even though the underlying has not default.
3. Banks shall determine the percentage for the calculation of the potential future exposure for the credit derivative "nth to default", as below:

   a) ranking the underlying obligations, on a descending scale of the credit quality, starting from those not qualified according to the specific position risk as per Chapter VII of this Regulation;
   b) taking into consideration the underlying obligation on the n-position and the weighting factor related to it (e.g. in the case of a first-to-default contract, the weighting factor is determined by referring to the obligation with the lower quality in the basket).

4. In calculating risk-weighted exposure amounts, for trading book exposures, Banks cannot use the Simple Method, set out in Articles 52 to 58 of Chapter IV of this Regulation, for the recognition of the effects of financial collateral.
5. In the case of repurchase transactions and securities or commodities lending or borrowing transactions, booked in the trading book, Banks may recognise as eligible collateral all financial instruments and commodities that are eligible to be included in the trading book.
6. For exposures due to OTC derivative instruments booked in the trading book, Banks may recognise as eligible collateral also the commodities that are eligible to be included in the trading book.
7. For the purposes of calculating volatility adjustments where such financial instruments or commodities which are not eligible under Chapter IV are lent, sold or provided, or borrowed, purchased or received by way of collateral or otherwise under such a transaction, and Banks are using the supervisory volatility adjustments approach under Chapter IV, Banks shall treat such instruments and commodities in the same way as non-main index equities listed on a recognised exchange.
8. Where Banks are using their own estimates of volatility adjustments approach under Chapter IV of this regulation, in respect of financial instruments or commodities which are not eligible under the requirements of this Chapter (Chapter IV), volatility adjustments must be calculated for each individual item.
9. For the calculation of the exposures, in relation to the recognition of master netting agreements covering repurchase transactions and/or securities or commodities lending or borrowing transactions and/or other capital market-driven transactions, banks shall recognise netting across positions in the trading book and the non-trading book only when the netted transactions fulfil the following conditions:

   a) all transactions are assessed daily upon Marked-to-Market; and;
   b) any instrument or commodity borrowed, purchased or received under the transactions may be recognised as eligible financial collateral.

10. Where a credit derivative included in the trading book forms part of an internal hedge and the credit protection is recognised under Chapter IV of this Regulation, Banks shall deem that no counterparty risk arises from the position in the credit derivative.
11. Alternatively, Banks may consistently include for the purposes of calculating capital requirements for counterparty credit risk all credit derivatives included in the trading book forming part of internal hedges or purchased as protection against a counterparty credit risk exposure where the credit protection is recognised under the requirements of Chapter IV.

CHAPTER VII

MARKET RISK

SUBCHAPTER I

TRADING BOOK

Article 138
General characteristics of trading book

1. For purposes of calculating capital requirement for market risk, Banks shall include in "the trading book" all positions in financial instruments and commodities, held with trading intent or in order to hedge other elements of the trading book. These instruments must be free of any restrictive clauses on their tradability or able to be hedged completely.
2. Banks shall consider "Positions held with trading intent", those held intentionally for short-term resale and/or positions with the intention of benefiting from actual or expected short-term price differences between buying and selling prices, or from other price or interest rate variations. The term "positions" shall mean proprietary positions and positions arising from client servicing and market maker.
3. Banks shall consider as "Positions held in order to hedge other elements in the trading book", those positions that have been taken in order to offset, in whole or in part, the risk factors associated with those elements.

Article 139
Policies and internal procedures for the management of the trading positions and trading book

1. Banks shall draft and approve policies and procedures to manage their positions or trading portfolios, which determine the intent to trade, and include at least:

   a) a clearly documented trading policy approved by the Steering Council of the bank for the position, instrument or portfolios, which shall include the expected holding horizon;
   b) clearly defined policies and procedures for the active management of the position, taken on a trading desk, which shall include the following:

i. the setting and monitoring of position limits' appropriateness;
ii. dealers' autonomy to enter into and manage the position within agreed limits and in accordance with to the approved strategy;
iii. the system of reporting to senior management as an integral part of the institution's risk management process;
iv. actively monitor positions with reference to market information sources;
v. assessment of the marketability or hedge-ability of the position or its component risks, including the assessment of the quality and availability of market inputs to the valuation process, level of market turnover, sizes of positions traded in the market.

2. Banks, in compliance with their trading policy, shall draft clearly defined internal policy and procedures to monitor the turn over and static positions in the trading book.
3. Banks shall have in place clear procedures for determining positions to be included in the trading book for purposes of calculating the capital requirement. These procedures shall be part of the risk management systems of the banks. Compliance with these procedures shall be subject of monitoring of the internal auditor.
4. Banks shall draft and approve clear procedures for the overall management of the trading book, which shall determine at least:

a) activities that the bank shall consider as trading and which are included in the trading book for purposes of calculating the capital requirement;
b) the level at which a position may be revaluated on a daily basis, referring to an active and liquid market as in purchasing and selling; and
c) for the exposures assessed through specific methods (mark-to-model), the extent to which the bank is able to:

i. identify all material exposure risks;
ii. hedge all material exposure risks with instruments, for which there exist an active and liquid market, both for selling and buying;
iii. provide reliable assessments on the main assumptions and parameters used in the model;

d) The extent to which the bank can provide positive estimations that can be externally evaluated on on-going basis;
e) The extent to which, legal or other operational requirements hinder the ability of the bank to liquidate or hedge a position in the short term;
f) The extent to which the banks can actively manage the position risk in the framework of its trading activity;
g) The extent to which the bank may transfer the risk or the position between the tradable and non-tradable book and the criteria for such transfers.

Article 140
Specific requirements of the Bank of Albania

1. The Bank of Albania may request the exclusion from the trading book of those items, whose tradability, currently or for a long time, is not evident (e.g. lack of liquidity and tradability), especially if the holding period of such instruments is longer than that qualifying for the short term trade purpose.

2. The Bank of Albania may suspend the inclusion in the trading book of those items on which banks do not have the necessary resources and experience to actively manage them, and where appropriate control if systems are missing.

Article 141
Internal hedging

1. Banks shall define "internal hedging" as the position that completely or at major part, offsets the risk of a position or set of positions in the banking books.
2. Banks shall include in the positions arising from internal hedges the eligible for trading book capital treatment, provided that they are held with trading intent and that they meet the general criteria in accordance with paragraph 1 and 2 of Article 139, and the prudent valuation specified in Article 142. Banks, in particular:

a) ensure that hedges shall not be primarily intended to avoid or reduce capital requirements and these hedges shall be properly documented and subject to particular internal approval and audit procedures;
b) treat the internal transactions according to the market conditions and dynamically manage, within the authorized limits for market risk, arising from the internal hedging in the trading portfolio;
c) monitor internal transactions by carefully using the adequate procedures.

3. The treatment referred to in paragraph 2 of this Article applies without prejudice to the capital requirements applicable to the banking book leg of the internal hedge.
4. When Banks use a credit derivative booked in the trading book to hedge a banking book exposure, which is created through internal hedging, the banking book exposure may be deemed to be hedged for the purposes of calculating the capital requirements provided that the bank purchases from third-party a credit derivative meeting the requirements laid down in Chapter IV of this Regulation, to hedge the banking book exposure.
5. In the cases set out in paragraph 4 of this Article, for purposes of calculating the capital requirement, Banks shall not include in the trading book the internal or the external derivative.

Article 142
Requirements for the evaluation of trading book items

1. Banks shall ensure that the value applied to each of its trading book positions correctly reflects its market value. This valuation shall appropriately reflect the dynamic nature of the trading book positions and the demands of prudential soundness inherent in the trading book.
2. Banks shall re-value the trading book positions daily. When a market price is not available, or when for certain convertible products, the market price does not reflect the intrinsic value of the position, Banks shall use an alternative method of valuation,, Mark-to- Model, after having informed in advance the Bank of Albania, provided that the method is sufficiently prudent.
3. Banks shall book the positions from the trading date of the transactions.
4. Banks shall establish systems and implement sufficient control to provide prudent and reliable estimates of the risk in the trading book, which should include at least the following elements:

a) documented procedures for the process of valuation. This shall clearly define:

   i. responsibilities of different organisational units involved in the valuation process;
   ii. the sources of market information and review of their appropriateness;
   iii. the frequency of independent valuation;
   iv. the timing of closing prices
   v. the procedures for adjusting valuations, the month-end and ad-hoc verification procedures;

b) reporting lines for the unit in charge of the valuation process that are clear and independent of operating unit (front-office).
   The reporting lines shall ultimately be to the Steering Council of the bank.

5. Banks shall use Mark-to-Market valuation of positions in the trading book, which means at least daily valuation of the positions on close out prices that are sourced independently. (Examples include exchange prices, screen prices, or quotes from several independent reputable broker).
6. When Mark-to-Market, Banks use the more prudent side of bid/ask unless the cases when banks is a significant market maker in the particular type of financial instrument or commodity in question and it can close out at mid-market.
7. Where Mark-to-Model is not possible, Banks must mark to model their positions/portfolios before applying trading book capital treatment. Marking to model is defined as any valuation which has to be benchmark, extrapolated or otherwise calculated from a market input.
8. When marking to model, Banks must comply with the following requirements:

   a) senior management shall be aware of the elements of the trading book which are subject to mark to model and shall understand the materiality of the uncertainty this creates in the reporting of the risk/performance of the bank;
   b) market input shall be, where possible, in line with market prices;
   c) the appropriateness of the market inputs of the particular position and the parameters of the model shall be assessed on a frequent basis;
   d) where available, for particular financial instruments or commodities, shall be used valuation methodologies which are accepted in the market practice;
   e) where the model is developed by the bank itself, it shall be based on appropriate assumptions, which have been assessed and challenged by suitably qualified parties independent of the development process; the model shall be developed or approved independently of the front-office;
   f) models shall be independently tested, including validation of the mathematics, assumptions and software implementation;
   g) there shall be formal change control procedures in place and a secure copy of the model shall be held and periodically used to check valuations;
   h) risk management structures shall be aware of the weaknesses of the models used and reflect those in the valuation output; and
   i) the model shall be subject to periodic review to determine the accuracy of its performance (e.g. assessing the continued appropriateness of assumptions, analysis of profit and loss versus risk factors, comparison of actual close out values to model outputs).

9. In addition to daily marking to market or marking to model, Banks shall perform independent price verification through which to regularly verify market prices or model inputs
10. Banks shall ensure that the verification of market prices and model inputs shall be performed by a unit independent of the dealing room, at least monthly, or, depending on the nature of the market/trading activity, more frequently.
11. Where independent pricing sources and market sources are not available, Banks shall consider the valuation adjustments or creating valuation reserves.

Article 143
Valuation adjustments of positions in the trading book

1. Banks shall draft and approve internal procedures related to the valuation adjustments or the creation of valuation reserves.
2. Banks assess the possibility of carrying out valuation adjustment or creation of reserves as a result of the following factors:

   a) unearned credit spreads;
   b) position close-out costs;
   c) operational risks;
   d) position early termination;
   e) investing and funding costs;
   f) future administrative costs; and
   g) model risk (where relevant).

3. Banks shall establish valuation reserves for less liquid positions, which could arise from both market events and institution related situations (e.g. concentrated positions and/or static positions.
4. Banks shall decide on establishing reserves, as set out in paragraph 3 of this Article, based on the following factors:

   a) the amount of time it would take to hedge out the position or risks within the position;
   b) the volatility and average of bid/offer spreads;
   c) the availability of market quotes (number and identity of market maker;
   d) the volatility and average of trading volumes;
   e) market concentrations;
   f) the ageing of position;
   g) the extent to which valuations rely on marking to model;
   h) the impact of other model risks.

5. When using third party valuations or marking to model, Banks shall consider whether to apply a valuation adjustment or to establish reserves for less liquid positions and on an ongoing basis review their continued suitability.
6. Banks shall deduct the valuation reserves from the regulatory capital as set out in the regulation “On the Regulatory Capital”.

SUBCHAPTER II
CAPITAL REQUIREMENT FOR MARKET RISK

Article 144
Calculating the capital requirement for market risk

1. Banks shall calculate the capital requirement for market risk as set out in Chapter III of this Regulation, if the following conditions are met:

   a) during the last two six-months periods, the ratio of the average book value of the trading portfolio to the total assets and off balance assets, is not higher than 5%. This ratio should not exceed 6% at any time.
   b) During the last two six-months periods the average book value of the trading portfolio is not higher than Euro 15 million. This value should not exceed Euro 20 million at any time.

2. Banks, with the purpose the calculation of the activity at the trading book, shall evaluate the debt securities at their market value or nominal value, capital equities at their market value and derivatives, accordingly to nominal or market value of their basic instruments. . Short positions shall be added to long positions, notwithstanding their sign.
3. Banks shall be subject of the requirements of this Chapter if any of the limits set out in paragraph 1 of this Article has been exceeded.
4. Banks shall calculate the capital requirement for market risks as the sum of:

   a) capital requirements for trading book positions, which include:

      i. capital requirement for position risks;
      ii. capital requirement for concentration risk.

   b) capital requirements for all of credit institution's positions (non-trading book positions and trading book positions), which include:

      i. capital requirement for foreign exchange risk;
      ii. capital requirement for commodities position risk;
      iii. capital requirement for settlement risk.

5. The regulatory treatment of options is set out in Articles 175-181 of this Subchapter.

Article 145
Position risk

1. “Position risk” describes the risk in respect of fluctuations in the prices of securities owing to factors related to market developments and the situation of the individual issuer.
2. Position risk, calculated for the bank’s trading book, consists of two separate components:

a) a general risk, which refers to the risk of losses caused by adverse movements in the prices of financial instruments in general (for example, for debt securities this risk is associated with an adverse change in the level of interest rates; for equity securities it is associated with an adverse general movement in the market); and
b) a specific risk, which refers to the risk of losses caused by adverse movements in the price of financial instruments due to factors related to the individual issuer's situation.

3. The position risk and the related capital requirements shall be calculated separately for:

a) debt securities and other financial instruments whose values depend on interest rates and issuer's creditworthiness, including credit derivatives;
b) equity securities and other financial instruments whose values depend on the developments in the equity market;
c) units / quotas in collective investment undertaking and other financial instruments whose values depend on the value of the collective investment undertakings (CIUs).

Article 146
Netting

1. The excess of long positions over short positions in the same equity, debt and convertible issues and identical financial futures, options, warrants and covered warrants shall be its net position in each of those financial instruments.
2. For the purposes of calculating the capital requirement for specific risk, banks are allowed the netting between debt instrument positions arising from derivative instruments against the offsetting position in these debt instruments.
3. Banks shall convert on a daily basis all the net positions, irrespective of their signs, into the bank's reporting currency at the prevailing spot exchange rate before their aggregation.

Article 147
Treatment of derivative and other instruments for the calculation of position risk

1. When calculating the capital requirement for position risks, Banks shall treat derivative financial instruments (excluding options) as combinations of hypothetical positions as follows:

a) Long interest-rate futures shall be treated as a combination of a short position in a risk-free debt security without a coupon and maturity date equal to that of the futures contract and a long hypothetical position in a risk-free debt instrument without a coupon with a maturity date equal to that of the interest rate futures contract plus the contract period. Short interest rate futures will be treated the same way, but by exchanging long and short positions. (For the purpose of calculating specific risk both positions will be assigned in the first row of the Table 21);

b) forward-rate agreements (FRAs) in selling shall be treated as a combination of a long position in a risk-free debt security without a coupon with a maturity date equal to that of the forward rate agreement plus the contract period, and a short position in a risk-free debt instrument without a coupon with a maturity date equal to that of the forward-rate agreement. Long forward-rate agreements will be treated the same way but with exchanging long and short positions. (For the purpose of calculating specific risk both positions with be assigned in the first row of the Table 21.)

c) Forward contracts to buy a debt instruments shall be treated as a combination of a short position in a risk-free debt instrument without a coupon, with a maturity date equal to that of a forward contract and a long position in a debt security in question. Forward contracts to sell a debt instrument will be treated the same way, but with exchanging long and short positions. (For the purpose of calculating specific risk the position in risk free debt instrument will be assigned in the first row of Table 21 while the debt security in the column that corresponds to its features.

d) Currency forward and future contracts shall be treated as hypothetical long/short positions in risk-free debt security without a coupon in purchased/sold currency with maturity equal to that of the contract.

e) Interest-rate and currency swaps shall be treated as two hypothetical positions in risk-free debt securities with equivalent maturities.

   i. interest-rate and currency swaps shall be treated as a combination of a long and a short hypothetical position in risk-free debt instruments with fixed-rate or floating-rate interest and equivalent maturities;

   ii. currency interest rate swaps shall be treated as a combination of a long and a short hypothetical positions in risk-free debt security in a particular currency with fixed-rate or floating-rate interest (depending which relates to that currency) and equivalent maturities.

2. Banks shall treat options in accordance with Articles 175 – 181175-181.
3. Banks shall treat equity derivatives in accordance with Article 160.
4. Banks shall treat warrants related to debt instruments and equities, in the same manner as the instruments set out in paragraph 3 of this article.
5. For purposes of calculating the capital requirement for market risk, Banks may include in the trading book the positions arising from repurchase agreements, reverse repurchase agreements, and securities and commodities lending or borrowing transactions, provided that these transactions meet the criteria to be included in the trading book, and their inclusion shall be done on consistent basis. Notwithstanding where these transactions are booked, they are subject to the capital requirements for the counterparty credit risk.

   Banks shall treat:

   a) repurchase agreements and lending agreements as a combination of a long position in the underlying security with the equivalent maturity and a short position in a risk-free debt instrument with a maturity date and interest rate equal to the repurchase rate;

   b) repurchase agreements and lending agreements as a combination of a short position in the underlying security with the equivalent maturity and an assumed long position in a risk-free debt instrument with a maturity date and interest rate equal to the repurchase rate.

6. For the treatment of convertible bonds, Banks may choose between 2 different methodologies, respectively:

   a) first, Banks shall include convertible bonds in debt securities; and
   b) second, Banks shall include such bonds in debt securities or equity, based upon the probability of conversion through delta equivalent value.

If they choose to use the second methodology, Banks shall apply it to the entire convertible bonds portfolio.

7. Banks may not make netting between the convertible security and the opposite sign position on its underlying instrument.
8. Banks, that do not use sensibility models set up in Article 150 may treat as fully offsetting any positions in interest-rate derivatives (forward rate agreements, interest-rate swaps, swap options) that meet at least the following conditions:

   a) the positions are offset up to the same notional amount and are denominated in the same currency and relate to the same underlying instrument;
   b) the reference rates for floating rate positions are identical and the differential between coupons for fixed-rate positions not more than 20 basis points;
   c) the next interest-rate fixing date or, in the case of fixed-coupon positions, the residual maturity meets the following conditions:

      i. less than one month: same day
      ii. between one month and one year: within 30 days

Article 148
The treatment of the protection seller

1. Banks, when calculating the capital requirement for market risks, unless otherwise provided for in this Subchapter, in the case of the protection seller, shall treat the positions arising from credit derivatives as debt instruments in their notional amount.

   For the purposes of calculating capital requirements for specific risk, other than for total return swaps, Banks shall determine the maturity of positions pursuant to the maturity of the credit derivative contract, instead of the maturity of the reference obligation. Accordingly:

   a) A total return swap shall be treated:

      i. for the general risk, as a combination of a long position in the reference obligation with a maturity equivalent to that of the total return swap and a short position in a risk-free debt instrument with maturity equivalent to the period until the next interest rate fixing;
      ii. for the specific risk, as a long position in the reference obligation.

   b) A credit default swap shall be treated:

i. for the general risk, no position is created;
ii. for the specific risk, as a combination of a long synthetic position in the reference obligation.

Exceptionally, where a credit default swap has been rated externally and meets the conditions for a qualifying debt item set out in paragraph 7 of Article 153, it shall be treated as a long position in the given derivative instrument.

If premium or interest payments are due under the credit derivative contract, for the purposes of calculating capital requirement, Banks shall treat these cash flows as positions in a risk-free debt instruments, with interest rate and a maturity date equal to that of the contract.

c) A single name credit linked note shall be treated:

i. for the general risk, as a long position in the underlying debt instrument (note), treated as an interest rate product;
ii. for the specific risk, as a synthetic long position in the reference obligation and as a long position against the issuer of the note.

For the purposes of calculating capital requirement for position risk, in cases when a single name credit linked note has an external rating and meets the conditions for a qualifying debt item referred to paragraph 7 of Article 153, Banks shall treat them as a single long position in the debt instrument (note).

d) multiple name credit linked note shall be treated:

i. for general risk, as a long position in the underlying debt instrument (note);
ii. for specific risk, this instrument, providing proportional hedging, creates several long positions in each reference obligation in the amount equivalent to the proportion of the individual reference obligation in the total notional amount of the multiple name credit linked note.

For the purposes of calculating capital requirement for specific risk, where more than one reference obligation exist, Banks shall treat the relevant risk weighting equal to the highest risk weighting assigned to the obligations in question.

For the purposes of calculating capital requirement for specific risk, in cases when a single name credit linked note has an external rating and meets the conditions for a qualifying debt item referred to paragraph 7 of Article 153, Banks shall treat them as a single long position in the debt instrument (note).

e) first-asset-to-default derivative shall be treated:
i. for the specific risk, as a long position in each reference obligation of the credit derivative contract.

If the size of the maximum payment in a credit event is lower than the capital requirement for the exposures created as above, the maximum payment amount may be taken as the capital requirement for the specific risk.

ii. for the general risk, if according to the contract of the given instrument a premium and interests are due, these cash flows shall be treated as notional position in a risk-free debt instrument with interest rate and maturity equal to that of the contract.

For the purposes of calculating capital requirement for specific risk, where a first-asset-to-default derivative contract has an external rating and meets the conditions for a qualifying debt item referred to paragraph 7 of Article 153, Banks shall treat them as a single long position in the debt instrument (note);

f) n-th asset-to-default derivative shall be treated:

i. for the specific position risk, a long position in each reference obligation of the credit derivative contract minus nth- 1 positions (the lowest initial capital requirement for specific position risk).

If the size of the maximum payment in a credit event is lower than the capital requirement for the exposures created as above, the maximum payment amount may be taken as the capital requirement for the specific risk;

ii. for general risk, if according to the contract of the given instrument a premium and interests are due, the cash flows shall be treated as free risk debt instrument position, with interest rate and maturity equal to those in the contract.

For purposes of calculating capital requirement for specific risk, where nth-asset-to-default derivative contract has an external rating and meets the conditions for a qualifying debt item referred to paragraph 7 Article 153, Banks shall treat them as a position in the debt instrument that reflect derivative rating.

Article 149
Treatment of the protection buyer

1. For the purposes of calculating capital requirements for position risks, in the case of the protection buyer, Banks shall treat positions arising from the credit derivative contract the same way as the protection seller, but with the opposite sign, with the exception of credit linked notes, which entail no short position in the debt instrument itself.
2. If at a given moment there is a call option in combination with a step-up, Banks shall consider such moment as the maturity of the protection.
3. first-to-default and nth-to-default derivative, banks shall make the following treatments:

a) first-to-default credit derivatives: when a bank obtains credit protection for a number of exposures under terms that the first default among the exposures shall trigger payment and that this credit event shall terminate the contract, it may offset the specific risk for the reference unit, to which is applied the lowest capital requirement amongst the other reference units, according to Table 21 of this Chapter;

b) nth-to-default credit derivatives: where the nth default among the exposures triggers payment, the credit protection buyer may offset the specific risk, if protection has also been obtained for defaults 1 to n-1 or when n-1 defaults have already occurred. In such cases, the methodology set out for first to default credit derivative shall be applied also to n-th to default products.

Article 150
Sensitivity models

1. Banks, which evaluate and manage interest rate risk arising from derivative financial instruments on a discounted-cash-flow basis, may use Sensitivity Models to calculate positions in those instruments.
2. Banks may use such models also for the calculation of positions in bonds but only for those bonds which generate cash flows over their residual life. Positions calculated in this manner shall be included in the calculation of capital requirements for general interest rate risk in accordance with Articles 155 and 156.
3. Banks may use Sensitivity Models, referred to above, subject to the prior permission of the Bank of Albania, provided that the following conditions are met:

   a) positions obtained under the model shall have the same sensitivity to interest-rate changes as the underlying instruments; and
   b) the sensitivity of positions to interest-rate changes shall be assessed with reference to independent movements in sample rates across the yield curve, with at least one sensitivity point in each of the maturity bands set out in the maturity based approach (Table 22).

4. The bank shall comply with the conditions referred to in paragraph 3 of this article on an ongoing basis, starting from the day it obtained the permission from the Bank of Albania.
5. Banks shall apply for permission to use the sensitivity model and submit the following documentation:

   a) types of financial instruments to which the sensitivity model is to be applied;
   b) basic assumptions of the Sensitivity Model;
   c) compliance with the conditions set out in paragraph 3 of this Article.

6. If the bank ceases to comply with the conditions based on which the Bank of Albania has provided its approval, it shall either present a plan for a timely return to compliance or demonstrate that the effect of non-compliance is immaterial to the use of the model
7. Bank of Albania may revoke the permission approved to use Sensitivity Model, in cases when:

   a) the bank fails to comply with the supervisory measures of the Bank of Albania aiming to eliminate irregularities, and
   b) the non-compliance of the bank with the conditions referred to in this Chapter is important to the use of the model.

Article 151
Specific risk of trading book positions hedged by credit derivatives

1. Banks may mitigate specific risk of trading book positions hedged by credit derivatives, in accordance with the requirements of this Article.
2. Where the value of a long/short trading book position and a short/long position arising from a credit derivative always move in the opposite direction and broadly to the same extent, Banks shall exclude both positions from the calculation of the initial capital requirement for specific risk.
3. Banks shall apply such exclusion (as set out in paragraph 2 of this Article) in the following situations:

   a) the positions refer to completely identical instruments; or
   b) a long cash position is hedged by a total rate of return swap and there is an exact match between the reference obligation and the exposure arising from the trading book (cash position). The exact match shall not refer to the maturity of the total return swap itself which may be different from that of the exposure arising from the trading book position.

4. Where the value of a long/short trading book position and a short/long position arising from a credit derivative always move in the opposite direction, but not to the same extent, Banks shall reduce the initial capital requirement for specific risk, if the following conditions are met:

   a) there is an exact match in terms of the reference obligation, the maturity of both the reference obligation and the credit derivative and the currency of the exposure in the trading book; and
   b) the key features of the credit derivative contract (definition of a credit event, the settlement system) do not cause the market value of derivatives to materially deviate from the market value of the trading book position.

5. Where a transaction that meets the conditions set out in paragraph 4 of this Article transfers risk, Banks shall offset by 80% the capital requirement for specific risk, to the leg of the transaction with the higher risk weighting (for the specific risk), while the capital requirement for specific risk of the other leg shall be zero.
6. Where the values of long/short trading book positions and short/long positions arising from a credit derivative usually move in the opposite direction, Banks may apply partial reductions of the initial capital requirement for specific risk, in the cases when:

   a) positions arising from the credit protection meet the conditions referred to in letter "b" of paragraph 4 of this Article, but there is a mismatch between the reference obligation and the exposure arising from the trading book position. However, the positions must meet the following requirements:

      i. the reference obligation ranks *pari passu* with or is junior to the exposure arising from the trading book (the hedged exposure/obligation); and
      ii. the reference obligation and the exposure arising from the trading book position share the same reference (obligor) entity and have cross-default and cross-acceleration default clauses;

b) positions arising meet the conditions referred in paragraph 3, letter “a” or paragraph 4 of this Article, but there is a currency or maturity mismatch between the credit protection and the trading book position;
c) positions arising meet the conditions referred to paragraph 4 of this article, but there is a mismatch in the type of instrument between the trading book position (cash position) and the credit derivative (the exposure in the credit derivative documentation shall be defined as one of the possible deliverable obligations).

7. Banks, in the situations falling under paragraph 6 of this article, shall calculate the capital requirement for specific risk only for the side of the transaction (credit derivative or hedged position) to which the higher capital requirement for specific risk applies.
8. In all situations not falling under the above paragraphs of this Article, Banks shall calculate the capital requirement for specific risk for the credit derivative and the hedged position.

Article 152
Position risk of debt securities

1. Banks shall classify the net positions in debt instruments according to the currency of denomination.
2. Banks shall calculate the capital requirement for the specific and general risk, for each currency separately.

Article 153
Specific risk for debt securities

1. Banks shall include net positions in debt instruments, calculated as provided in Article 146, to the appropriate categories in Table 21, on the basis of their issuer, external or internal credit assessment and residual maturity, and then multiply them by the prescribed weightings in the same table.
2. For the purposes of calculating the initial capital requirement for specific risk, Banks shall sum up the absolute amounts of the weighted positions, as shown in paragraph 1 of this Article.

Table 21

Categories	Capital requirement
a) Debt securities issued or guaranteed by central governments, issued by central banks, international organisations, multilateral development banks or Member States' local or regional government units which would qualify for credit quality step 1 or which would receive a 0% risk weight under Chapter III of this Regulation.	0%
b) Debt securities issued or guaranteed by central governments, issued by central banks, international organisations, multilateral development banks or Member States' regional government or local authorities, which would qualify for credit quality step 2 or 3 under Chapter III of this regulation. - Debt securities issued or guaranteed by the bank which would qualify for credit quality step 1 or 2 under Chapter III of this Regulation. - Debt securities issued or guaranteed by corporate which would qualify for credit quality step 1, 2 or 3 under Chapter III of this Regulation.	0.25% (residual term to final maturity 6 months or less) 1.00% (residual term to final maturity greater than 6 and up to and including 24 months)
c) - Debt securities issued or guaranteed by central governments, issued by central banks, international organisations, multilateral development banks or Member States' regional government or local authorities which would qualify for credit quality step 4 or 5 under Chapter III of this Regulation. - Debt securities issued or guaranteed by corporate which would qualify for credit quality step 3 under Chapter III of this Regulation. - Debt securities issued or guaranteed by corporate which would qualify for credit quality step 4 under Chapter III of this Regulation.	8%
d) - Debt securities issued or guaranteed by central governments, issued by central banks, international organisations, multilateral development banks or Member States' regional government or local authorities which would qualify for credit quality step 6 under Chapter III of this Regulation. - Debt securities issued or guaranteed by corporate which would qualify for credit quality step 5 or 6 under Chapter III of this Regulation.	12%

3. Banks shall not calculate specific risk for own debt instruments, included in the trading book.
4. Banks shall assign the maximum charge as per Table 21 (12%) to debt instruments on which the risk is growing as a result of the inability of the issuer to pay, or the falling liquidity of the instrument.
5. Banks shall assign 8 % or 12 % risk to the debt instruments issued by a non-qualifying issuer according to Table 21. Bank of Albania may require banks to apply a higher specific risk charge to such instruments for the purposes of calculating capital requirement for specific risk to such instruments, and/or to disallow the offsetting possibility, for the purposes of defining the extent of general market risk between such instruments and any other debt instruments, for the purposes of calculating capital requirement for general risk.
6. For securitisation exposures that would be subject to deducting elements in the calculating the regulatory capital, or risk-weighted at 1,250 % as set out in Chapter V of this Regulation, shall be subject to a capital charge that is no less than that set out under those treatments. For liquidity facilities that are not subject to rating, Banks shall assign a capital charge that is not less than that set out in Subchapter IV of Chapter III of this Regulation.
7. For the purposes of using Table 21, Banks shall include in qualifying items the following positions:

   a) long and short positions in debt instruments qualifying for a credit quality step corresponding at least to investment grade as per the standardised method of credit risk;
   b) long and short positions in debt instruments for which a credit assessment by a nominated ECAI is not available and which meet the following conditions:

      i. they are considered by the bank to be sufficiently liquid;
      ii. according to the bank's own discretion their investment quality is at least equivalent to that of the position referred to under letter "a" of this paragraph; and
      iii. they are listed on at least one regulated market in a Member State, in the Republic of Albania or on a stock exchange in a third country provided that the exchange is recognised by the competent authorities of the relevant Member State and of the Republic of Albania.

   c) long and short positions in debt instruments issued by other banks (institutions), which on bank's own discretion are considered to be sufficiently liquid and their credit quality is at least equivalent to that of the debt securities under paragraph "a" of this paragraph;
   d) positions in securities issued by other banks (institutions) that are deemed to have an equivalent, or higher, credit quality than those associated with credit quality step 2 under Chapter III of this Regulation, for exposures to institutions, and that are subject to supervisory and regulatory regime comparable to the regime that applies to banks.

Article 154
Methods for the calculation of general risk of debt instrument

1. For the purposes of calculating the general risk of debt instruments, Banks may use two alternative methods:

   a) securities Maturity-based approach;
   b) financial Duration-based approach.

2. Banks, which for the purposes of calculating the general risk, use the Duration-based approach, may not discontinue its use, except for special cases.

Article 155
Maturity based approach

1. Banks that use the Maturity-based Approach shall follow three steps laid down in “a”, “b”, and “c” below:

   a) they shall weight the previously determined net positions (instrument by instrument and by residual maturity):

      i. assign the net positions to the appropriate maturity bands in Table 22, on the basis of the residual maturity in the case of fixed-rate securities and of the period remaining until the next interest rate fixing in the case of other instruments, making a distinction between securities with a coupon of less than 3% and those with a coupon of more than 3%;
      ii. multiply each net position by the risk weight shown in column 4 of Table 22 (the weighting is designed to reflect their sensitivity to general interest-rate movements);
      iii. calculate the sum of all weighted long and short positions, by setting out the weighted short and long position for each maturity band;

Table 22

Zone	Maturity band		Weighting	Assumed change in interest rates (%).
	Coupon of 3% or more	Coupon of less than 3%		
Zone 1	0 ≤ 1 month > 1 ≤ 3 months > 3 ≤ 6 months > 6 ≤ 12 months	> 1 ≤ 2 years > 2 ≤ 3 years > 3 ≤ 4 years > 6 ≤ 12 months	0% 0.2% 0.4% 0.7%	- 1% 1% 1%

Zone 2	> 1 ≤ 2 years	> 1.0 ≤ 1.9 years	1.25%	0.9%
	> 2 ≤ 3 years	> 1.9 ≤ 2.8 years	1.75%	0.8%
	> 3 ≤ 4 years	> 2.8 ≤ 3.6 years	2.25%	0.75%
Zone 3	> 4 ≤ 5 years	> 3.6 ≤ 4.3 years	2.75%	0.75%
	> 5 ≤ 7 years	> 4.3 ≤ 5.7 years	3.25%	0.7%
	> 7 ≤ 10 years	> 5.7 ≤ 7.3 years	3.75%	0.65%
	> 10 ≤ 15 years	> 7.3 ≤ 9.3 years	4.5%	0.6%
	> 15 ≤ 20 years	> 9.3 ≤ 10.6 years	5.25%	0.6%

b) offsetting the net weighted positions as follows:

i. referring to each maturity band concerned: match the long weighted position with the short weighted position for each maturity band (the weighted long or short position with the smaller value shall be the matched weighted position in that maturity band, while the difference between the long and short positions shall be the unmatched weighted long/short position for the same band);
ii. referring to each zone: compute the unmatched weighted long and short positions for each zone, as the sum of all unmatched weighted short and long positions for all the maturity bands within each zone, and match the weighted long positions by the weighted short positions for each zone (the position with the smaller value shall be the matched weighted position in that zone, while the difference between two positions shall be the unmatched weighted position for that zone);
iii. between zones: compute the amount of the unmatched weighted long (short) position in zone one which is matched by the unmatched weighted short (long) position in zone two, that shall be referred as the matched weighted position between zones 1 and 2 (the unmatched weighted position in zone two which is left over, matched by the unmatched weighted position in zone three, shall be the matched weighted position between zones 1 and 3).

Banks may reverse the order of the above calculations. Thus, they may start calculating the matched weighted position between zones two and three and then that position between zones one and two.

The remainder of the unmatched weighted position in zone one shall then be matched with what remains of that for zone three after the latter's matching with zone two in order to derive the matched weighted position between zones one and three. The sum of all the unmatched weighted positions shall be the total weighted unmatched position;

c) calculate the capital requirement for the general risk of debt securities as the sum of the following items:

i. 10% of the matched weighted positions in all maturity bands;
ii. 40% of the matched weighted position in zone one;

iii. 30% of the matched weighted position in zone two;
iv. 30% of the matched weighted position in zone three;
v. 40% of the matched weighted position between zones one and two and between zones two and three;
vi. 150% of the matched weighted position between zones one and three;
vii. 100% of the total unmatched weighted position.

Article 156
Duration-based Approach

1. Banks that use the Duration-based Approach shall follow the steps set out in “a”, “b”, “c” and “d” as follows:

a) Calculate the modified duration of each debt security.

Banks shall calculate first for the fixed-rate debt instruments, their yield to maturity (the discount rate for that instrument) based on their market value, and for floating-rate instruments, their yield (on the assumption that the principal is due when the interest rate can next be changed) based on their market value.

The methods of calculating yield to maturity shall apply on a consistent basis to all trading book positions for which it calculates general risk for debt securities.

The modified duration of each debt instrument shall be calculated on the basis of the following formula:

Dmod= D/1+r

Where:

Dmod = modified duration;
D = duration:

$$D = \frac{\sum_{t=1}^{m} \frac{tC_t}{(1+r)^t}}{\sum_{t=1}^{m} \frac{C_t}{(1+r)^t}}$$

r = yield to maturity;
Ct = cash payment in time t;
m = maturity;
t = time;

b) Allocate positions to the duration zones.

Banks shall allocate each debt instrument to the appropriate zone specified in Table 23, on the basis of the modified duration of each instrument. Banks shall calculate the duration-weighted position for each instrument by multiplying its market price by its modified duration and by the assumed interest-rate change

Table 23

Zone	Modified duration	Assumed change in interest rates (in %)
1	> 0.0 ≤ 1.0	1.00
2	> 1.0 ≤ 3.6	0.85
3	> 3,6	0.70

c) Match positions within and between zones.

With the purpose to calculate matched positions, Banks shall apply the procedures laid down for matched and unmatched weighted positions described in maturity method;

d) Calculate the capital requirement for general risk as the sum of:

i. 2 % of the matched duration-weighted position for each zone;
ii. 40 % of the matched duration-weighted positions between zones one and two;
iii. 40 % of the matched duration-weighted positions between zones two and three;
iv. 150 % of the matched duration-weighted position between zones one and three; and
v. 100 % of the residual unmatched duration-weighted positions.

Article 157
General provisions for positions in equity securities

1. The bank shall calculate its net long or short position in each equity in accordance with Article 146.
2. The sum of the two figures, as per the paragraph 1 of this article, shall be the bank's overall gross position.
3. The difference between the two figures, as per the paragraph 1 of this Article, shall be the bank's overall net position.

Article 158
Specific risk of equity securities

1. Banks shall multiply the overall gross position, as defined in paragraph 2 of Article 157, by 4 %, to calculate the capital requirement for specific risk.

2. Notwithstanding paragraph 1 of this Article, banks may calculate the capital requirement against specific risk by multiplying the overall gross position by 2 % for those portfolios of equities which meet the following conditions:

   a) the equities shall not be those of issuers which have issued only traded debt instruments that currently attract an 8 % or 12 % requirement as in Table 21 or that attract a lower requirement only because they are guaranteed or secured;
   b) the equities must be adjudged highly liquid by the Bank of Albania in accordance with the objective criteria; and
   c) no individual position shall comprise more than 5% of the value of the institution's whole equity portfolio. Notwithstanding the above, an individual position can comprise up to 10 % of the value of equity portfolio, provided that the total of such position does not exceed 50% of the total value of equity portfolio.

Article 159
General risk of equity securities

Banks shall calculate the capital requirement for general risk by multiplying the overall net position, as defined in paragraph 3 of Article 157, by 8 %.

Article 160
Treatment of equity derivative instruments

1. Banks shall treat equity futures and forward relating to individual equity instruments, equity portfolios or stock indices, as a combination of a long or a short position in the underlying equity instrument and a short or a long position in the risk-free debt security without a coupon and maturity date equal to that of the contract.
2. Banks shall treat equity swaps as a combination of a long position in an equity instrument or in an equity or a stock index portfolio under which banks receive an amount based on the change in price of that equity instrument or an equity or a stock index portfolio and a short position in an equity instrument or a stock index portfolio, under which banks pay an amount based on the change in value of that equity instrument or an equity or stock index portfolio.
3. Banks shall treat stock-index futures, the delta-weighted of options in share indices and share index, collectively referred to hereafter as stock-index futures, as a combination of a short/long position on each underlying stock and a long/short position in a risk-free debt instrument, without a coupon, and maturity date equal to that of the contract.
   Subject to the approval of the Bank of Albania, banks may net off positions in constituent equity instruments of the given stock index against positions in the same equity instruments.
4. Where banks netted off their positions in equity instruments arising from equity derivatives according to paragraph 3 of this Article, against positions in the same equity instruments, they shall ensure to have adequate capital to cover the risk of loss caused by the mismatch in the movement of market values of equity derivatives and market values of equities. If Banks hold opposite positions in stock-index derivative instruments, they shall ensure additional capital to cover the risk of loss caused by the mismatch in the maturity and/or composition of the respective stock indices, or both factors simultaneously.

5. Banks shall treat stock-index futures which are exchange traded and represent broadly diversified indices, with a capital requirement against general risk of 8 %, but no capital requirement against specific risk.
   Such stock-index futures shall be included in the calculation of the overall net position in according to paragraph 3 of Article 157, but shall be disregarded in the calculation of the overall gross position according to paragraph 2 of Article 157.
6. In the case a stock-index future contract is not broken down into its underlying positions, Banks shall treat it as if it were an individual equity. The specific risk on this individual equity can be ignored if the stock-index future in question is exchange traded and represents a broadly diversified index.

Article 161
Position risk for investment units in collective investment undertakings (CIU)

1. For investment units in the collective investment undertakings (CIUs) qualified to be included in the trading book, Banks shall calculate the capital requirement for the general and specific position risk of 32% (Residual Method).
2. For the investment units in the collective investment undertakings (CIUs), Banks shall calculate capital requirement for position risk (specific and general) and foreign-exchange risk of no higher than 40%.
3. Unless otherwise noted in this Regulation, Banks are not permitted to netting between the underlying investments of a collective investment undertakings (CIUs) where they hold units, and other similar positions held by the bank.
4. Without prejudice to the above, Banks may use the methods set out in paragraph 6 of this article for the calculation of the capital requirement for the positions in collective investment undertakings (CIU) supervised or incorporated in EU Member State or in the Republic of Albania, if they meet the following criteria:

   a) the prospectus or equivalent document of the collective investment undertakings shall determine:

      i. the categories of assets in which the collective investment undertakings are authorised to invest;
      ii. if investment limits apply, the relative limits and the methodologies to calculate them;
      iii. if leverage is allowed, the maximum level of leverage;
      iv. if investment in OTC financial derivatives or repo-style transactions are allowed, a policy to limit counterparty risk arising from these transactions;

   b) the performance of the collective investment undertakings shall be reported in half-yearly and annual reports to enable an assessment to be made of the assets and liabilities, income and operations over the reporting period;
   c) the units/shares of the collective investment undertakings are redeemable in cash, on a daily basis at the request of the unit holder;
   d) investments in the collective investment undertakings shall be segregated from the assets of the relevant CIU's manager; and
   e) the investing Banks shall undertake adequate risk assessment of the collective investment undertakings.

5. Upon the approval by the Bank of Albania, banks may recognise as eligible for the specific treatment set out in paragraph 6 of this Article, the units in collective investment undertakings (CIUs) in third countries, if the conditions set in from “a” to “e” of paragraph 4 of this Article are met.
6. Banks may choose between 3 specific methods, based on the nature of tradable units in collective investment undertakings (CIU) and the available information, regarding the investments done by the collective investment undertakings (CIUs) in accordance with its mandate, as laid down below.

   a) Method 1. Banks which are aware of the underlying investment structure of the collective investment undertaking on a daily basis, may, for the purposes of calculating the initial capital requirement for position risks (specific and general), shall treat units in collective investment undertakings as positions in underlying investments of the collective investment undertaking and include them in the calculation of the capital requirement for position risks (specific and general), according to the type of instrument (debt or equity securities).

      For the purposes of calculating the capital requirement for position risk (specific and general), netting is permitted between positions in the underlying investments of the collective investment undertaking and the same trading book positions held by the bank, as long as the bank holds a sufficient quantity of units to allow for redemption/creation in exchange for the underlying investments.

   b) Method 2. For the purposes of calculating the initial capital requirement for position risk (specific and general), Banks may treat units in collective investment undertakings (CIUs) as positions in a particular stock index or basket of equities or debt securities and include them in the calculation of the capital requirement for position risks (specific and general) according to the type of instrument (debt or equity securities), only if the following conditions are met:

      i. the purpose of the collective investment undertaking's mandate is to replicate the composition and performance of a particular stock index or fixed basket of equities or debt securities;
      ii. the correlation between the daily price movements of the units in collective investment undertakings and the stock index or fixed basket of equities or debt securities shall be at least 0.9 over a minimum period of six months (for the purposes of this item, “correlation” means the correlation coefficient between daily returns on the unit in the collective investment undertaking and the stock index or fixed basket of equities or debt securities it tracks).

   c) Method 3. Where Banks are not aware of the above underlying investments on a daily basis, they may calculate the capital requirement for position risk (general and specific) according to the type of instrument (debt or equity securities), subject to the following conditions:

i. it will be assumed that the collective investment undertakings (CIU) first invests to the maximum extent allowed under its mandate in the asset classes attracting the highest capital requirement for position risk (general and specific), and then continues making investments in descending order until the maximum total investment limit is reached. The position in the units of the collective investment undertakings (CIUs) will be treated as a direct holding in the assumed position;
ii. Banks shall take account of the maximum indirect exposure that they could achieve by taking leveraged positions in the collective investment undertakings (CIUs) when calculating their capital requirement for position risk, by proportionally increasing the position in the collective investment undertakings (CIUs) up to the maximum exposure to the underlying investment items resulting from its mandate; and

Should the capital requirement for position risk (general and specific) exceed the limit laid down paragraph 1 and/or 2 of this Article, Banks shall limit/reduce the capital requirement to that level.

7. Banks may rely on a third party to calculate and report capital requirements for position risk (general and specific) for positions in collective investment undertakings (CIUs) in accordance with the methods set out in paragraph 6 of this Article, provided that the correctness of the calculation and the report is adequately ensured.

Article 162
Settlement risk

1. Banks which perform transactions in debt securities, equity securities, derivatives, currencies and commodities, may expose to the risk of a loss arising from failure to settle at maturity date.
2. Banks shall classify the losses from failure of settlement as losses related to respectively

a) in case of transactions settled on a delivery vs. payment, the loss is the difference between the agreed settlement price and the fair value of the financial instruments, the currencies or commodities to be received (delivered);
b) in case of transactions not settled on a DVP basis, where cash is paid before the underlying is delivered, or the underlying is delivered before cash is paid ("non-DVP" or "free delivery" transactions), the loss is the fair value of the financial instruments, currencies or commodities transferred to the counterparty for which payment is not received, or the cash paid without delivery of the underlying.

3. Banks shall calculate capital requirements as set out in Articles 163 and 164, for risks in relation to all unsettled transactions in financial instruments (including derivatives), currencies and commodities.
4. Banks shall not calculate capital requirements for repurchase and reverse-repurchase agreements, and securities or commodities, lending or borrowing transactions, and derivative contracts not involving the exchange of capital.

5. In the event of system-wide failure of a settlement or clearing system, the Bank of Albania may temporarily wave, in part or in full, the application of capital requirements to unsettled transactions until the situation is rectified. In such circumstances, the failure of counterparty to settle a trade shall not be deemed a default, for the purposes of credit risk.

Article 163
Settlement risk for DVP transactions

Banks shall calculate capital requirement by applying weighting factors, in different time bands, as set out in the Table on difference, where it is positive (entails a loss for the bank), between the agreed settlement price and the fair value of the financial instruments, currencies or commodities to be received or delivered.

Table 24

Number of working days after settlement date	Weighting factors
From day 5 - 15	8
From day 16 - 30	50
From day 31 - 45	75
From day 46 on	100

Article 164
Settlement risk for non DVP transactions

1. Banks that have paid cash for or deliver financial instruments, currencies or commodities and have not receive the corresponding deliverable or payment due in the course of the same day or, for cross-border transactions, by the next working day, shall recognize the transferred asset as a receivable from the counterparty and apply the same calculation method for the capital requirement used for exposures not included in the trading portfolio.
2. Regardless of the methodology used, where the exposure amounts in respect of unsettled DVP transactions are not material, Banks may apply a 100% risk weight.
3. Banks that have made payment or delivery and have not received the deliverable or payment from the counterparty by the fourth business day after the agreed delivery date[19] must deduct from the regulatory capital the larger between the amount transferred and the fair value of the underlying receivable instrument, or between the cash receivable and the fair value of the transferred deliverable, as set out in the Regulation on Regulatory Capital.

[19] The "second date"in a non-DVP transactions.

Article 165
Concentration risk in trading portfolio

1. Banks that, as a result of the risk positions in their trading books, have exceeded the maximum allowed limit, set out in the Regulation on the Management of Large Exposure of banks, are obliged to comply with a specific capital requirement. In this case, Banks shall calculate capital requirement with reference to the risk positions in the trading book that cause the bank to exceed the limit.
2. Banks may exceed the individual exposure limit provided that they meet the following conditions:
   i. exposures in the banking book to borrowers or groups of connected borrowers do not exceed the limits laid down in the above mentioned Regulation on Large Exposure of banks, and that the amount in excess of the limit originates entirely in the trading book;
   ii. banks comply with a further capital requirement for exceeding the limits on large exposures;
   iii. where no more than 10 days have passed since the limit was exceeded, the exposure to the borrowers or groups of connected borrowers in the trading book is not more than five times the regulatory capital of the bank
   iv. where more than 10 days have passed since the limit was exceeded, the total excess exposure is no more than six times the regulatory capital of the bank.

3. With respect to the trading book, Banks shall calculate the exposure to an individual borrower or group of connected borrowers as the sum of the net long position calculated for each financial instrument issued by the borrower or group of connected borrowers and the exposure to settlement risk and counterparty risk in respect of the same borrower as determined in this Chapter. The risk positions in respect of the trading book shall be measured by weighting the exposure in compliance with the regulation on the management of large exposure of banks.

Article 166
Capital requirement for concentration risk

1. Banks shall calculate the capital requirement for concentration risk as follows:

   a) calculate the total risk position as the sum of the risk position for each borrower, in respect of the trading book and all other risk positions
   b) calculate the excess over the individual exposure limit for each borrower as the difference between the total risk position in respect of a borrower and the individual exposure limit;
   c) classify the risk positions in the trading book for borrowers for which an excess to the maximal allowed limit is found as per letter “b” of this paragraph, in order to identify the riskiest, to which the excess exposure shall be attributed;
   Banks shall order the positions in the trading book starting with those subject to capital requirements for specific risk and subsequently including those subject to capital requirements for settlement and counterparty risk. In each risk profile, Banks shall allocate the capital requirements for the excess/es beginning with the component with the largest capital requirement;

d) sum the positions thus ordered until they reach the value of the amount in excess as determined under letter “b” of this paragraph;
e) where no more than 10 days have passed since the limit was exceeded, the additional capital requirement shall be equal to twice that required for specific risk, settlement risk and counterparty risk for the positions identified as in “d” of this paragraph;
f) where more than 10 days have passed since the limit was exceeded, the additional capital requirement shall be calculated by:

   i. summing the positions identified as in letter “d” of this paragraph in the intervals given in Table 25, column 2, beginning with the position with the smallest capital requirement, until the upper limit of each interval is reached;
   ii. multiplying the capital requirements for the positions thus classified by the corresponding percentages given in Table 25, column 3;
   iii. summing the result of the product of capital requirements and the related percentages.

Table 25

Risk Position (in % to the regulatory capital)	Amount in excess to the maximal allowed limit (in % to the regulatory capital)	Weighting
Column 1	Column 2	Column 3
From 20% - 40% From 40%-60% From 60%-80% From 80% to 100%	From 0% to 20% From 20% to 40% From 40% to 60% From 60% to 80%	200% 300% 400% 500%

Article 167
Treatment of position from securities underwriting

1. Banks shall include positions arising from underwriting of debt and equity securities in the calculation of capital requirements for position risks as set out in this Article.
2. Banks shall calculate the net position by deducting the amount of securities it became unconditionally committed to accept at an agreed price, by positions which are underwritten by third parties, on the basis of formal agreements.
3. Banks shall reduce the obtained net position as set out in paragraph 2 of this Article, by the reduction factors in Table below:

Table 26

Working day	Reduction factor (%)
Working day 0*:	100
Working day 1:	90

Working day 2 to 3	75
Working day 4:	50
Working day 5:	25
After working day 5	0%

*Working day zero' shall be the working day on which the bank becomes unconditionally committed to accepting a known quantity of securities at an agreed price.

4. Banks shall include the reduced net positions in the calculation of capital requirements in accordance with requirements set in the position risk for debt instruments and position risk for equities.
5. Banks shall ensure sufficient capital against the risk of loss which exists between the time of the initial commitment and "working day 1".

Article 168
Positions in commodities

1. Banks shall calculate capital requirements against risk of potential losses in commodities positions.
2. Banks for the purposes of calculating capital requirement for commodities positions, shall include all assets and liabilities in and off balance sheets in commodities, held for stock financing.
3. Banks shall state in terms of standard unit of measurement, every position in commodity, or derivatives on commodities. These positions shall be converted in reporting currency, using the spot price for every commodity.
4. If Banks have a short position in a commodity which falls due before the long position in the same commodity, they shall take into account the risk of a shortage of liquidity which may exist in some markets.
5. For the s of the simple methods, as set out in Article 171, Banks shall consider as “net position in each commodity”, the excess of their long (short) positions over its short (long) positions in the same commodity and identical commodity future in commodities, in options and commodities and warrants(commodities).
6. Banks shall consider as “positions in the same commodity” the following positions:

a) positions in different sub-categories of commodities in cases where the sub-categories are deliverable against each other; and
b) positions in similar commodities if they are close substitutes and if a minimum correlation of 0,9 between price movements can be clearly established over a minimum period of one year.

Article 169
Treatment of commodity derivatives and other instruments

1. Banks shall treat futures and forwards in commodities as a combination of a long/short position in the underlying commodity and a short/long position in a government bond without a coupon and shall be reported as notional amounts in terms of the standard unit of measurement and maturity equal to that of the contract.

2. Banks shall treat commodity swaps, as a combination of long positions in the commodity, on the basis of which the banks pay a fixed price and receive/benefit a floating price and short positions in the commodity, on the basis of which they receive a fixed price and pay a floating price.

If Banks use the Maturity Ladder Approach as set out in Article 172, they shall treat commodity swap as a series of positions equal to the notional amount of the contract, with each position corresponding with one payment on the swaps and slotted into the maturity ladder in Table 27.

In cases of commodity swaps where the sides of the transaction are in different commodities, Banks shall include them in the relevant maturity band pursuant to the underlying commodity in accordance with Table 27.

3. Banks shall treat positions arising from repurchase agreements, reverse repurchase agreements on commodities, and commodities lending or borrowing agreements as:

a) for repurchase agreements and commodity lending agreements, as a long position in the underlying commodity with the equivalent maturity and a short position in a risk-free debt instrument with a maturity date and interest rate equal to the repurchase rate;
b) for reverse repurchase agreements and securities borrowing agreements, as a long position in risk-free debt security with a maturity date and interest rate equal to the repurchase rate.

Article 170
Methods of calculating capital requirement for commodities risk

Banks may calculate the capital requirement respectively according to:

a) the Simplified Approach;
b) the Maturity Ladder-based Approach.

Article 171
Simplified Approach

1. For the purposes of calculating the initial capital requirement for commodities risk under this approach, Banks shall calculate for each commodity the sum of the following elements:

a) 15% of the net position, long or short, multiplied by the spot price for the commodity); and
b) 3 % of the gross position, long plus short, multiplied by the spot price for the commodity (sum of the absolute values).

2. Banks shall calculate the overall capital requirement for commodities risk as the sum of the capital requirement calculated for each commodity.

Article 172
The Maturity Ladder-based Approach

1. Banks that opt to use the Maturity Ladder-based Approach shall notify the Bank of Albania and in all cases, banks shall apply the method selected on an ongoing basis.
2. Banks shall use a separate maturity ladder for each commodity in accordance with Table 27 as follows:

Table 27

Maturity band	Spread rate (in %)
≤ 1 month	1.5 %
> 1 ≤ 3 months	1.5 %
> 3 ≤ 6 months	1.5 %
> 6 ≤ 12 months	1.5 %
> 1 ≤ 2 years	1.5 %
> 2 ≤ 3 years	1.5 %
> 3 years	1.5 %

3. Banks may offset between them the positions in the same commodity or those considered as such according to paragraph 6 of Article 168, and assign them to the appropriate maturity bands on a net basis, if one of the following conditions is met:

   a) contracts positions mature on the same date;
   b) contracts positions mature within 10 days of each other if the contracts from which they arise are traded on markets which have daily delivery dates.

4. Physical stocks shall be assigned to the first maturity band.
5. Banks shall calculate the sum of the long positions and the sum of the short positions in each maturity band. The sum of the long/short positions which are matched by the sum of short/long positions in a given maturity band shall be the matched positions in that band, while the residual long or short position shall be the unmatched position for the same band.
6. The amount of the unmatched long /short position for a given maturity band that is matched by the unmatched short /long position for a maturity band further out shall be the matched position between two maturity bands. The residual amount shall be the (long or short) unmatched between the two maturity bands.
7. Banks shall calculate the capital requirement for each commodity as the sum of the following:

   a) the sum of absolute amounts of the matched (long or short) positions within a maturity band multiplied by the spread rate specified in Table 27 and by the spot price for that commodity;
   b) the absolute amount of the unmatched position in one maturity band or between two maturity bands which is carried forward in the following maturity band, multiplied by 0.6 % carry rate, and the spot price for the commodity;

c) the residual unmatched position, multiplied by 15% (outright rate) and by the spot price for that commodity.

8. Banks shall calculate the initial capital requirement for the commodity risk, as the sum of the capital requirement for each commodity, calculated as set out in paragraph 7 of this Article.

Article 173
Capital requirement for foreign exchange risk

If the total net open position of the bank, defined according to regulation "On the management of open foreign exchange position" is higher than 2 % of the regulatory capital, the bank shall multiply by 8% the value of this position to calculate capital requirement for the foreign exchange risk.

Article 174
Positions in foreign currencies in collective investment undertakings, as part in the calculation of the bank's net overall foreign currency position

1. To calculate the net open foreign currency position according to regulation "On the management of open foreign exchange position", Banks shall take into account the current foreign currency positions in collective investment undertakings (CIUs) making a distinction between:

   a) positions in CIUs whose current underlying positions in foreign currencies are known to the bank;
   b) other CIUs positions.

2. For CIUs positions referred to in paragraph 1 "a" of this Article, Banks shall consider the book value of the foreign-currency assets that make up the CIU, in proportion to the relative weight of each asset in the total investments of the CIU. The resulting foreign currency positions shall be included in the calculation of the net foreign currency position for each currency.
3. For the positions referred to in paragraph 1 "b" of this Article, (banks are not aware of the CIUs foreign currency positions), Banks shall assume that it is invested up to the maximum extent allowed under the CIUs mandate in foreign exchange.

4. For CIUs positions allocated to the trading book and whose rules allow borrowing, Banks shall take account of the maximum indirect exposure that the CIU could achieve by taking leveraged positions. For this purpose, the book value of the CIU shall be proportionally increased up to the maximum exposure to the underlying investment items resulting from the investment mandate.
5. Where aware of the direction (sign) of the investment of the foreign currency positions, created as set out in paragraph 3, Banks shall treat the positions as other CIU positions – not separate currencies.
   In all other cases, banks shall treat the above mentioned positions as positions in separate currencies.
6. No netting between long and short positions in the same CIU or different CIUs shall be allowed.

7. As per the above, banks shall calculate the net open foreign currency position as the sum of:
   a) the greater of: i) the sum of net long positions plus positions in “other CIU positions – non-separate currencies” (if they are long positions); b) the sum of net short positions plus short positions in “other CIU positions – non-separate currencies” (if they are short positions);
   b) positions in “other CIU positions - separate currencies”.

Article 175
Capital requirement for options

1. Banks may use one of the following approaches to calculate the initial capital requirement for option portfolio:
   a) the Simplified Approach;
   b) the Delta Plus Approach.

Article 176
Simplified Approach

1. Banks that use a limited range of purchased options may adopt the Simplified Approach elaborated below, for special combinations.
2. For purchased call options or put options, Banks shall calculate the capital requirement as the lesser of:

   a) the market value of the underlying instrument multiplied by the sum of the specific and general risk weights; and
   b) the market value of the option (the book value for options on which no market value is available).

3. For long positions in the underlying instrument cash or forward associated with purchased put options, or short positions in the underlying instrument (cash or forward), associated with a purchased call option, Banks shall calculate the capital requirement equal to the market value of the underlying instrument multiplied by the sum of the specific and general risk, less any positive internal value of the option at a minimum 0.
4. Banks shall calculate the internal value of an option, respectively:

   a) for call option, as the difference between the market value of the underlying instrument and the strike price; and
   b) for put option, as the difference between strike price and the value of the underlying instrument.

5. In the cases set out in paragraph 4 of this Article for options positions, and where relevant, Banks shall not consider the associated positions in the underlying instrument from the capital requirement calculated for position risk, for foreign exchange risk and commodity risk.
6. The capital requirement for options calculated using this method shall be added to the capital requirement calculated for position risk, exchange rate risk and commodity risk.

Article 177
General provisions for the Delta Plus Approach

1. The Delta Plus Approach uses the sensitivity parameters associated with options.
2. Banks that use the Delta Plus Approach shall recognise options as positions equal to market value of the underlying instrument multiplied by the delta parameter (equivalent), to evaluate the position risk in the trading book, the foreign exchange risk and the commodities risk.
3. Banks, with the purpose to calculate total capital requirement, shall calculate the capital requirement for Gamma parameter (the rate of change of delta) and for vega coefficient (the sensitivity of the value of an option to a change in price volatility), since delta equivalent does not sufficiently cover the risks associated with options positions.
4. For exchange-traded options, Banks shall use the sensitivity coefficients, delta, gamma and vega, calculated by that exchange, while for over-the-counter options, banks shall calculate these coefficients by using the standard market models or their own internal model previously notifying the Bank of Albania.

Article 178
Specific risk by the Delta Plus Approach

Banks shall calculate the capital requirement for specific risk separately for each option by multiplying the delta equivalent value of each option by the risk weights for specific risk, set out in Article 153 for debt instrument, Article 158 for equity instruments and Article 161 for investment in CIU.

Article 179
General risk by the Delta Plus Approach

1. Banks shall incorporate the delta weighted position for each option with debt securities as the underlying, for the purposes of calculating the capital requirement in accordance with one of the procedures set out in Article 155 or 156.
2. Banks shall calculate the capital requirement for options on CIUs with respect to the equivalent delta value, in accordance with the calculation method applied on the basis of the provisions of Article 161.
3. Banks shall calculate the capital requirement for options with equities as the underlying on the basis of the delta-weighted positions in accordance with Article 159.
4. Banks shall incorporate the delta -weighted positions in respect to options on currencies in the calculation of the net open foreign currency position, and assign it capital requirement according to Article 173.
5. Banks shall calculate the capital requirement for options of commodities, on the basis of equivalent delta positions, in compliance with one of the methods set out in Articles 171 or 172.
6. For options in instruments not included above, Banks shall adopt a two-legged approach, with one entry at the time the underlying contract takes effect and another at the time the underlying contract matures.

7. For the purposes of calculating capital requirement for the position risk and commodities, banks shall offset delta equivalents against positions in identical underlying instruments or derivative financial instruments, whereby purchased call/written put options shall be treated as long positions, and written call/purchased put options as short positions.

Article 180
Gamma and vega risk

1. Banks shall calculate gamma and vega risk for each individual option and aggregated by the underlying instrument.
2. Banks shall consider the following as a single underlying instrument:

   - for equities and stock indices, each national market;
   - for interest-rate instruments, each maturity band as defined in Table 22;
   - for currencies and gold, each pair of currencies and gold;
   - for commodities, positions in a single product.

3. Banks shall calculate gamma risk as follows for each option:

Gamma risk= 1/2 gamma * N * (variation of underlying instrument)^2, where N is the number of the underlying instruments of the option.

4. Banks shall determine the variation of the underlying instrument in the same way as for calculating the general risk, as laid down following:

   a) for options on equities and stock indices, it shall be equal to 8% of the market value of the underlying instrument;
   b) for options on interest rates, if the underlying instrument is a debt security the market value of the underlying instrument shall be multiplied by the weighting factor specified in Table 21 or by the interest-rate change as defined in Table 22 (depending on the chosen method). In case the underlying instrument is the interest rate, the variation of the underlying instrument shall be the variation of interest rates as per Table 21;
   c) for foreign exchange options, it shall be equal to 8% of the exchange rate for the currency pair concerned;
   d) for commodities it shall be equal to 15% of the market value of the concerned commodity;
   e) for options on CIU positions, the market value of the underlying instrument shall be multiplied by 32%, where the residual method is used to calculate the capital requirement for position risk in CIUs.

5. Banks shall calculate the vega risk for each individual option as:

Vega risk = Vega * N * volatility of underlying instrument/4, where is the number of the underlying instruments.

6. Each option of the same underlying instrument may have a negative or positive effect on the gamma factor. Banks shall sum up these individual effects, which have a positive or negative net effect on the gamma of each underlying instrument. For the purposes of calculating the capital requirement, only the negative impact on gamma shall be taken into account.

Article 181
Capital requirement as per the Delta Plus Approach

1. Banks shall calculate the capital requirement for option risks as the sum of:

   a) capital requirement for specific risk (Article 178);
   b) capital requirement for general risk for delta risk (Article 179) adding up the sum of the absolute value of the vega risks and the sum of net negative gamma risks.

2. Banks that choose this method for the calculation of the capital requirement for options risk, shall add to the capital requirement for market risk calculated according to paragraph 3 of Article 144, the capital requirement calculated in accordance with paragraph 1 of this Article.

CHAPTER VIII

OPERATIONAL RISK

SUBCHAPTER I

BASIC INDICATOR APPROACH

Article 182
Capital requirement

Banks shall calculate the capital requirement for operational risk under the Basic Indicator Approach, which takes into account the net income from banking activities for the last three years of the bank's activity, and an α coefficient equal to 15%.

Article 183
The indicator of net income from banking activities

1. The indicator of net income from banking activities is the sum of net interest income and net non-interest income for the given fiscal year.
2. The indicator of net income from banking activities for each year is calculated based on the data for the 12 months of the fiscal year, and when audited figures are not available, bank's estimates may be used.
3. If for any given observation, the indicator of net income from banking activities is negative or equal to zero, this figure shall not be taken into account in the calculation of the three-year average.
4. Average net income indicator from, banking activity shall be calculated as the sum of positive values of net income indices from the banking activity, subdivided by the number of years, for which the indicator is positive.

Article 184
Qualifications

1. The indicator of net income from banking activities for each of the three years shall be calculated as the sum of net interest income and net non-interest income, reflecting the following items on the calculation:
   a) Net interest income;
   b) Net income from leasing operations and factoring;
   c) Net commission income;
   d) Net income from operations with securities and other financial operations;
   e) Net profit on foreign exchange operations;
   f) Other income

2. The indicator of net income shall be calculated before the deduction of any provisions and operating expenses (including commission/expenses carried out for services from third parties), and excluding in any case the following:
   a) Extraordinary income;
   b) Income from insurance;
   c) Income from participating interests in subsidiaries or other related parties;
   d) profits/losses from the sale of non-trading book items.

3. In case when full data are not available for the three years (in cases of banks with not more than one year of activity) banks shall use the data estimated in their business plans.

4. Banks shall use the following formula to calculate capital requirements for operational risk:

Capital requirement for operational risk = {(Net Income indicator of T-1) * (15%) + (Net Income indicator of T-2) * (15%) + (Net Income indicator of T-3) * (15%)} / 3

With the condition that:

- The Net Income indicator of year T -1 > 0; and
- The Net Income indicator of year T -2 > 0; and

- The Net Income indicator of year T -3 > 0; and

T is considered the reporting year.

SUBCHAPTER II

STANDARDISED APPROACH

Article 185
Capital requirement

1. Banks shall calculate the capital requirement for operational risk under the Standardised Approach, which takes into account the indicator of the net income from banking activity for the last three years according to business lines and the respective coefficient β, specified in Table 30. In each given year, a negative capital requirement in one business line, resulting from a negative relevant indicator may be imputed to the whole. However, where the aggregate capital charge across all business lines within a given year is negative, then the input to the average for that year shall be zero.

2. The indicator of net income from banking activity for each year is calculated on the basis of the data at the end of the fiscal year, and when audited figures are not available, bank's estimates may be used.

Table 30 Business Lines, Activities and respective coefficient ß

No	Business lines	Business list	Coefficient
1.	Corporate finance	• Underwriting of financial instruments and / or placing of financial instruments on an irrevocable commitment basis; • Services related to underwriting; • Advisory services in the field of investment; • Services for the assessment of trade associations; • Services for securitization operations for the third parties; • Advisory services on capital structure business strategy and related aspects, such as consulting services and services related to merger and acquisition of companies (enterprises); • Research and financial analyses and other general advisory forms, related to transactions with financial instruments.	18%

2.	Treasury operations	• Dealing on own account; • Mediation in interbanking markets; • Securitization on own account; • Receiving and transmission of orders in relation to one or more financial instruments; • Execution of orders on behalf of clients; • Placing of financial instruments without an irrevocable commitment basis; • Management of a (Multilateral Trading Facilities).	18%
3.	Retail brokerage	• Receiving and transmission of orders in relation to one or more financial instruments; • Execution of orders on behalf of clients; • Placing of financial instruments without a firm commitment basis.	12%
4.	Banking and financial activity	• Acceptance of deposits and other repayable funds; • lending; • Financial leasing and factoring; • Exports and trade funding. • offering guarantees and receiving commitments; • operations with foreign currencies.	15%
5.	Retail banking	• Acceptance of deposits and other repayable funds; • Lending; • Financial leasing and factoring; • Offering guarantees and receiving commitments.	12%
6.	Payments and settlements	• Services and the payment, transfer and clearing systems (SWIFT, AECH, MasterCard, Visa, Amex, e-banking, etc); • Issuing and administering means of payment.	18%
7.	Agency services	• Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management.	15%
8.	Asset management	• Portfolio management; • Managing of undertakings for collective investment in transferable securities (Managing of UCITS); • Other forms of asset management.	12%

3. Upon the authorisation granted by the Bank of Albania, a bank may calculate its capital requirement for operational risk using an alternative standardised approach, as set out in Subchapter III of this Chapter.

Article 186
Principles for Business Line Mapping

Banks must develop specific policies and criteria for mapping the relevant indicator for current business lines and activities into the standardised framework. The criteria must be reviewed and adjusted as appropriate for new or changing activities and risks undertaken by the bank[20].

SUBCHAPTER III

ALTERNATIVE INDICATORS FOR CERTAIN BUSINESS LINES

Article 187
Modalities

1. Bank of Albania may grant the prior approval to a bank, if it will require using an alternative indicator different from that of the net income from the banking activity, for the following business lines:

   a) retail banking activity; and
   b) banking and financing activity.

2. For these business lines, the bank may use the indicator of the three-year average of the total nominal amount of loans granted to customers, multiplied by a coefficient 0,035.
3. For the retail and/or banking and financing activities business lines, the loans granted to be used for the indicator shall consist of the total drawn amounts in the corresponding credit portfolios. For the banking and financing business line, securities held in the bank's book shall also be included.
4. Banks shall use the alternative indicators if they have concentrated their activities in retail and/or commercial banking activities, which shall account for at least 90 % of its income.
5. Banks shall use the standardised method at variable indicators to calculate the total capital requirement, equal to standardised method.
6. Bank of Albania shall grant its authorisation for the use of alternative indicators only if the bank proves that a significant proportion of its retail and/or commercial banking activities comprise loans associated with a high Probability of Default, and that the alternative standardised approach provides an improved basis for assessing the operational risk.

Article 188
Qualifying criteria

1. Banks shall meet the qualifying criteria listed in paragraph 2 of this Article, in addition to the general risk management standards set out in Annex 3 of this Regulation on the technical criteria concerning the organization and treatment of risks, and in the Regulation "On the management of operational risk ".
2. According to their nature, size, and complexity and profile of their activity, banks shall ensure:

[20] The principles for categorizing business lines are determined in Annex 5 of the Regulation No. 3 dated 19.01.2011 "On the Management of Operational Risk".

a) a well-documented assessment and management system/s for operational risk with clear responsibilities assigned. This system/s shall identify bank's exposures to operational risk and track relevant operational risk data, including material loss data. This system/s shall be subject to regular and independent review by the bank.
b) operational risk assessment system/s closely integrated into the risk management processes of the bank. The results provided by this system or these systems, shall be integral part of the monitoring and controlling process of the bank's operational risk profile;
c) Banks shall draft and approve procedures for taking appropriate action according to the information within the management reports. Banks shall draft and approve procedures to undertake the needed actions, based on the information provided in the directory's reports.

3. Banks, which use the standardised method should receive the prior approval by the Bank of Albania, with the purpose to shift to the simplified indicator method, and only if:

a) the bank provides that the use of simplified indicator method does not aim the reduction of the requirement for capital for the operational risk, but is necessary given the nature and complexity of its activity; and
b) this change shall not have a considerable negative effect, on the capital adequacy ratio or its capability to effectively manage the operational risk.

4. Banks using standardised method shall submit at the Bank of Albania the following documents:

a) structure that determines the duties and responsibilities assigned to the function for the management and control of the operational risk at the bank;
b) decisions of the Steering Council on the use of the standardised method;
c) a document that describe the assessment process of operational risk and the assessment conclusions;
d) a special report of the bank's internal audit; and
e) a report, on a yearly basis, by the management structures of the bank on the implementation of the regulatory requirements for the use of standardised method and a report by the internal audit on the quality of the management system for the operational risk at the bank.

CHAPTER IX

BANKS' ASSESSMENT PROCESS

Article 189
General requirements

1. Banks shall draft and approve sound, effective and complete strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of the risks to which they are or might be exposed.
2. The strategies and processes defined in paragraph 1 of this article shall be subject to regular internal review by the bank to ensure that they remain comprehensive and proportionate to the nature, scale and complexity of the activities of the bank.

SUBCHAPTER I

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)[21]

Article 190
General provisions

1. The bank shall establish an appropriate internal assessment process on capital adequacy, based on the strategies for risks management.
2. The internal assessment process on capital adequacy shall be considered appropriate for the bank if:

   a) it is based on the identification, measurement and assessment of the risks, in the overall risk assessment and the monitoring of main risks, to which the bank is exposed during its activity;
   b) ensures the necessary capital for covering the bank's risk profile; and
   c) this process is properly integrated in the management systems.

3. The bank, through a full internal assessment process on capital adequacy, shall ensure that the level of risk, to which the bank is exposed, is within its risk capacity.
4. The bank shall establish an internal assessment process on capital adequacy, as set out in paragraph 1 of this Article, proportionally with the nature, size and complexity of its activity.

[21] *Internal Capital Adequacy Assessment Process.*

Article 191
Identification, measurement and assessment of the risks, and the drafting of an overall risk assessment and their monitoring

1. Based on its risk profile, the bank shall determine the main risk categories to be considered in the internal assessment process on capital adequacy.
2. The banks shall argument and document its decisions related to whether it shall take into consideration the specific risks and assumptions used in the internal assessment process on capital adequacy.
3. The banks shall draft and implement appropriate methodologies for risk measurement or assessment, aiming at the designing of specific measures or risk assessments.
4. Methodologies for risk measurement or assessment shall be appropriate if they include:

    a) the using of methods for calculating capital requirements in accordance with the requirements of this Regulation;
    b) internal documented methodologies of the bank; and/or
    c) other methodologies, suitable for the risk measurement or assessment.

5. If the bank realizes that the measure or assessment of a specific risk mentioned in the paragraph 1 of this Article does not reflect the actual exposure of the bank to that risk, it may adjust the assessment with an upward or downward assessment.
6. The bank shall argument and document the use of individual methods used for the risk measurement or assessment, the unquantifiable risk assessments, and the adjustments to the risk assessments mentioned in paragraph 5 of this Article.
7. The bank shall determine the overall risk position, based on the measurement or assessment of individual risks.
8. The bank shall determine the appropriate internal methodology for determining the overall risk position/profile.
9. The internal methodology for determining the overall risk position/profile shall be considered appropriate if it may enable a set of comparable risk measures or assessments, and where possible, an adjustment of the overall risk profile.

Article 192
Ensuring adequate capital coverage of the risk profile

1. The bank shall determine the appropriate internal objectives to ensure adequate own funds.
2. Internal objectives shall be considered appropriate if they shall ensure the capital coverage of risk/s, at least:

    a) during the normal activity of the bank; and
    b) in extraordinary circumstances.

3. When setting the internal objectives, the bank, to ensure adequate capital coverage of risk, shall take into consideration its resources related to its capacity to provide/own capital.

Article 193
Types of internal capital

1. The bank shall determine the type of capital, with which it ensures adequate cover for the risk.
2. The bank shall ensure that the total capital to cover risk is in compliance with its capacity to undertake risks at any time. The total capital for risk coverage may differ from the total amount of capital determined in Article 7 of this Regulation.
3. In case when the total capital for risk coverage is lower than the total amount of capital determined in Article 7 of this Regulation, the bank shall inject capital (or submit to the Bank of Albania a capital raising plan), up to the amount calculating as per the requirements of this Regulation.
4. The bank ensures an internal assessment of the capital adequacy and its distribution at least once a year, and every important change of the exposure towards risks.

Article 194
Integration of the internal assessment process on capital adequacy in the risk/s management systems

The bank shall ensure the integration of the internal assessment process on capital adequacy in the risk/s management systems, based on the usage of the results of this process in the monitoring of the decisions on its activity, of the decisions related to risk/s management, and of the decisions related to the internal distribution of the internal capital, assessed as adequate to cover risk/s.

CHAPTER X
SUPERVISION AND DISCLOSURE BY BANKS

Article 195
Supervision

1. Bank of Albania, taking into account the technical criteria set out in Annex 3, shall review the strategies, processes and mechanisms implemented by banks to comply with the requirements of this Regulation and evaluate the risks to which the banks are or might be exposed.
2. On the basis of the review and evaluation referred to in paragraph 1 of this Article, the Bank of Albania shall determine whether the strategies, processes and mechanisms implemented by the banks and the own funds held by them, ensure a sound management and monitoring of their risks.
3. Bank of Albania, having regard to the nature, size, systemic importance and complexity of the activities of the banks, shall establish the frequency and intensity of the review and evaluation referred to in paragraph 1.

Article 196
Disclosure by banks

Banks, for the purposes of meeting the requirements of this Regulation, shall publicly disclose the information laid down in the Regulation "On minimum requirements of disclosing information by banks and foreign bank branches".

CHAPTER XI

FINAL PROVISIONS

Article 197
Reporting requirements

Banks shall report the data on Capital Adequacy Ratio to the Bank of Albania in accordance with the Unified Reporting System.

Article 198
Supervisory and corrective measures

The Bank of Albania, in case of non-compliance with the obligations laid down in this Regulation, shall implement the supervisory and/or penalising measures stipulated in the Law on Banks.

Article 199
Final provision

The attached annexes are an integral part of this Regulation.

CHAIRMAN OF THE SUPERVISORY COUNCIL

ARDIAN FULLANI

ANNEX 1

MINIMUM REQUIREMENTS FOR THE RECOGNITION AND VALUATION OF THE IMMOVABLE PROPERTY COLLATERAL

Part 1
Minimum requirements for the recognition of the immovable property collateral

1. Banks, for the recognition of real estate collateral, for the purposes of Chapter III of this Regulation, shall meet the following conditions.

   a) Legal certainty:

      i. The mortgage or charge shall be enforceable in all jurisdictions which are relevant at the time of the conclusion of its credit agreement, and the mortgage or charge shall be properly filed (registered on the Office for the Registration of Real Estate) and on a timely basis.
      ii. The collateral agreement shall reflect a mortgage/safe pledge (i.e. all legal requirements for establishing the pledge shall been fulfilled).
      iii. The collateral agreement and the legal process underpinning it shall enable banks to profit the value of the protection within a reasonable timeframe.

   b) Monitoring of immovable property values:

      i. Banks shall monitor the value of the immovable commercial properties on a frequent basis and at a minimum once every year and once every three years for residential immovable properties;
      ii. Banks, in cases where the market is subject to significant changes in conditions, shall perform/carry out the more frequent monitoring defined in point i) of this point;.
      iii. Banks may use the statistical methods in order to monitor the value of the immovable property and for its identification in those cases where (the immovable property) it needs a revaluation.
      iv. Banks shall evaluate the immovable property by an independent appraiser in those cases when the information on the immovable property value indicates that its value has sensitively declined in comparison to general market prices;
      v. For loans exceeding EUR 3 million or 5 % of the bank regulatory capital, banks shall evaluate the relevant loan by an independent appraiser, at least every three years.

   "Independent appraiser" shall mean a person who possesses the necessary qualifications, ability, experience and the licence to carry out the professions and who is independent from the credit decision process.

   c) Documentation:

      i. Banks shall document clearly the types of residential and commercial immovable properties accepted/acknowledged by them as well as their lending policies related to them.

d) Insurance:

i. Banks shall draft and approve procedures to properly monitor the insurance from damages of the immovable property taken as protection for the loan.

Part 2
Minimum requirements for the valuation of immovable properties

1. The property shall be valued by an independent appraiser at a value not higher than the market value. The latter shall be documented in a transparent and clear manner.
2. "Market value" means the estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion
3. The value of the collateral shall be the market value or mortgage lending value reduced as appropriate to reflect the results of the monitoring required under Part 1, of this annex and to take account any prior right on it (the immovable property).

ANNEX 2

CLASSIFICATION OF OFF-BALANCE SHEET ITEMS

Off -balance sheet items are classified as:

High risk items, which comprise:

- Credit substitutes (with bank funds) where are included letter of credit, approved guarantee with a credit line, etc.;
- Credit derivatives (Forwards or Options);
- Acceptances, which are elements of guarantee form, where the bank does not release funds, but guarantee a future payment or financing as defined in the respective agreement;
- Cheques, endorsements on bills not bearing the name of another bank;
- Transactions with recourse, which predict the right to ask the obligation repayment;
- Irrevocable standby letters of credit having the character of credit substitutes;
- Assets purchased under Forward contracts;
- Forward deposits, which represent the physical deposit of predicted funds on a define date in the future according to the respective contract/s;
- the unpaid portion of partly paid shares and securities;
- Asset sale and repurchase agreements as laid down in the law/regulation on REPO, and
- Other items also carrying full risk, as classified by the bank itself and evaluated by the Bank of Albania.

Medium risk items, which comprise:

- Documentary credits issued and confirmed;
- Warranties and indemnities (including tender, performance, customs and tax bonds) and guarantees not having the character of credit substitutes;
- Irrevocable standby letters of credit not having the character of credit substitutes;
- Undrawn credit facilities which represent loan agreements, purchases of securities, provide guarantees or acceptance facilities) with an original maturity of more than one year;
- Note issuance facilities/services (NIFs) which represent a syndicate among some banks that have agreed to purchase any short to medium-term notes that a borrower is unable to sell in the Euro zone market, as well as revolving underwriting facilities (RUFs), which represent a form of revolving credit in which a group of banks agrees to provide loans in the event that a borrower is unable to sell in the Euro zone market; and
- Other items also carrying medium risk and as classified by the bank itself and evaluated by Bank of Albania.

Low risk items, which comprise:

- Documentary credits in which the shipment or the commodity acts as collateral and other self-liquidating transactions;

- Undrawn credit facilities (agreements to lend, purchase securities, provide guarantees or acceptance facilities) with an original maturity of up to and including one year which may not be cancelled unconditionally at any time without notice or that do not effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness; and
- Other items also carrying medium/low risk and as classified by the bank itself and evaluated by Bank of Albania.

No risk items which comprise:

- Undrawn credit facilities which represent loan agreements, purchase securities, provide guarantees or acceptance facilities which may be cancelled unconditionally at any time without notice, or that do effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness. Retail credit lines may be considered as unconditionally cancellable, if the terms permit the bank to cancel them to the full extent allowable under consumer protection and related legislation; and
- Other items also carrying low risk and as classified by the bank itself and evaluated by Bank of Albania.

ANNEX 3

TECHNICAL CRITERIA CONCERNING THE ORGANISATION AND TREATMENT OF RISKS

RESPONSIBLE AND EFFECTIVE GOVERNANCE/MANAGEMENT OF THE BANK

1. The Steering Council of the bank in compliance with the applicable legal [22] and regulatory[23] framework on the effective and responsible internal governance, taking into account the size and complexity of the bank's activity, shall ensure the presence of internal control systems and especially the segregation of duties in preventing and monitoring conflicts of interest.

TREATMENT OF RISKS

1. The Steering Council of the bank shall approve and periodically review the strategies and policies for taking up, managing, monitoring and mitigating the risks the bank is or might be exposed to, including those posed by the macroeconomic environment in which it operates.

CREDIT AND COUNTERPARTY RISK

1. The banks shall base the credit-granting on sound and well-defined criteria, and shall clearly establish the process for approving, amending, renewing, and re-financing credits.
2. The bank shall ensure effective systems for the ongoing administration and monitoring of their various credit risk bearing portfolios and exposures, including for identifying and managing problem credits and for making adequate value adjustments and provisions.
3. The bank shall ensure the diversification of credit portfolios considering its long term crediting objectives as in its overall credit strategy and credit target markets.

RESIDUAL RISK

1. The banks shall draft and approve policies and procedures for the management and control of the residual risk that arises when the credit risk mitigation techniques used by the bank prove to be less effective than expected.

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[22] Law No. 9662, dated 18.12.2006 "On Banks in the Republic of Albania";

[23] Regulation No. 24, dated 26.03.2008 "On the internal control systems of banks and branches of foreign banks" and Regulation No. 63, dated 14. 11. 2012 "On basic management principles of banks and branches of foreign banks and criteria for the approval of their administrators".

CONCENTRATION RISK

1. The bank shall draft and approve policies and procedures for the management of the concentration risk arising from exposures to counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region or from the same activity or commodity, the application of credit risk mitigation techniques, and including in particular risks associated with large indirect credit exposures, for example, to a single collateral issuer.

SECURITISATION RISK

1. The bank shall ensure the evaluating and addressing, through appropriate policies and procedures, of the risks arising from securitisation transactions in relation to which the banks are investor, originator or sponsor, including reputational risks (such as arise in relation to complex structures or products), to ensure in particular that the economic substance of the transaction is fully reflected in the risk assessment and Steering Board's decisions.
2. Banks, which are originators of revolving securitisation transactions involving early amortisation provisions, shall have liquidity plans to address the implications of both scheduled and early (unscheduled) amortization.

MARKET RISK

1. Banks shall draft and approve appropriate policies and processes for the measurement and management of all material sources and effects of market risks.

INTEREST RATE RISK IN THE BANKING BOOKS

1. The bank shall provide systems to assess and manage the risk arising from potential changes in interest rates as they affect the banking books.

OPERATIONAL RISK

1. The bank shall draft and implement policies and processes for measuring and managing operational risk exposure, including serious events, and even those with low frequency.
2. The bank, as defined in the regulatory framework of the Bank of Albania for the management of operational risk[24], for the internal purposes of operational risk management, may specify more detailed definitions of this risk, provided that they contain a minimum elements defined in this Regulation.
3. The bank shall provide the emergency and business continuity plans so that the bank be able to continue operations and to limit losses in case of serious situations (disorders) related to its business.

LIQUIDITY RISK

1. The bank shall draft and implement sound strategies, policies, processes and systems for identifying, managing and monitoring liquidity risk, which include at least the elements specified in the regulatory framework of the Bank of Albania on the liquidity risk management[25].

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[24] Regulation No. 3 dated 19.01.2011" On the Operational Risk Management" and its annexes.
[25] Regulation No. 71, dated 14.10.2009" On the Operational Risk Management" and its annexes.

2. The Bank shall ensure that the system of liquidity risk management, quantitatively and qualitatively, is consistent with the bank's size, typology and level of exposure to liquidity risk.
3. The Bank shall develop methodologies for identifying, measuring, managing and monitoring of funding positions. These methodologies should include actual data and the expected cash flows arising from assets, liabilities, off-balance items (commitments), including available emergency funds (potential) and the possible impact of reputational risk.
4. The Bank shall distinguish between pledged assets (to be invested / allocated / etc.) and to which there is no legation, which are available at any time, especially during emergency situations. The Bank shall also consider the person to whom such assets belong, the country in which the asset is legally registered - in a register or account, whether they are acceptable or not as liquid assets and monitor them (the assets) in order to be able to mobilize them at any time.
5. The Bank shall consider the legal and regulatory restrictions in force and real opportunities to transfer liquidity and assets to which there is no contention between the banks / parties.
6. The Bank shall provide various techniques to mitigate liquidity risk, including a system of limits and liquidity needs coverage so that it (the bank) is able to withstand stress situations and an efficient and diversified funding structure in order to have access to funding sources, which are reviewed on a regular periodic basis.
7. The bank shall manage liquidity not only in normal terms /circumstances, but prepare for its administration also in emergency circumstances. In the latter function, the bank shall perform periodically stress tests, to identify and measure its exposure to liquidity risk, as in normal conditions / situations of daily activity, or in unusual situations.
8. The bank develops a contingency plan for liquidity risk management in extraordinary conditions, which is part of the risk management system and contains at least the elements defined in the regulatory framework of the Bank of Albania for liquidity risk management[26].

[26] Regulation No.71, dated 14.10.2009 “On liquidity risk management” and its annexes.

ANNEX 4

TYPES OF DERIVATIVES

1. Interest-rate contracts:

   a) single-currency interest rates swaps;

   b) basic swaps;

   c) forward rates agreements;

   d) interest-rate futures;

   e) interest-rate purchased options; and

   f) other contracts of similar nature.

2. Foreign-exchange contracts and contracts concerning gold:

   a) cross-currency interest-rate swaps;

   b) forward foreign-exchange contracts;

   c) currency futures;

   d) currency purchased options;

   e) other contracts of similar nature.

   f) contracts concerning gold of a nature similar to (a) to (e).

3. Contracts of a nature similar to those in paragraph 1, from (a) to (e) and paragraph 2, from (a) to (d), concerning other reference items or indices.

   This includes as a minimum all instruments specified below:

   a) options, futures, swaps, forward interest rate agreements, and any other derivative contracts relating to securities, interest rates or yields, or other derivative instruments, financial indices or financial measures which may be settled physically or in cash;
   b) options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities, that must be settled in cash, or may be settled in cash at the option of one party of the parties (otherwise than by reason of default or other termination event);
   c) options, futures, Swaps, and any other derivative contracts relating to commodities that may physically settled provided that they are traded on a regulated market and/or multilateral trading facility;

d) options, futures, Swaps, forwards and any other derivative contracts relating to commodities that can physically settled not otherwise mentioned in letter c of this paragraph, and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether they are cleared and settled through recognised clearing houses or are subjects to regular margin calls (carried out by brokers/dealers when the accounts fall below the limit of the marginal requirements);
e) financial contracts for differences;
f) options, futures, swaps, forwards and any other derivative contracts relating to climatic variables, interest rates for the transport of commodities, emission allowances, inflation rates or other economic statistics that must be settled in cash, or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Article, which have the characteristics of other derivative financial instruments, having regard to whether they are traded on a regulated market or a multilateral trading facility, are cleared and settled through recognized clearing houses or are subject to regular margin calls.

ANNEX 5

TECHNICAL CRITERIA ON REVIEW AND EVALUATION BY THE BANK OF ALBANIA

1. Bank of Albania, in its supervisory process, in addition to credit, market and operational risks, shall review and evaluate:

   a) the results of stress-tests carried out by the credit institutions applying an internal evaluation model;
   b) the exposure to and management of concentration risk by the banks, including their compliance with the requirements laid down in Regulation no. 31, dated 30.04.2008 "On risk arising from large exposures of banks" as amended;
   c) the robustness, suitability and manner of application of the policies and procedures implemented by banks for the management of the residual risk associated with the use of recognized credit risk mitigation techniques;
   d) the extent to which the own funds (regulatory capital) held by banks in respect of assets which it has securitised are adequate having regard to the economic substance of the transaction, including the degree of achieved risk transfer;
   e) the exposure to and management of liquidity risk by the bank
   f) the impact of diversification effects and how such effects are factored into the risk measurement system;
   g) the results of stress-tests carried out by banks, which use internal models to calculate market risk capital requirements.

2. Bank of Albania shall monitor whether a bank has provided implicit support to a securitisation. If a bank is found to have provided implicit support on more than one occasion, Bank of Albania shall take appropriate measures (for e.g. reviewing of the regulatory framework, supervisory methodology, etc.) reflective of the increased expectation that it will provide future support to its securitisation, thus failing to achieve a significant transfer of risk.
3. Bank of Albania shall consider whether the values adjustments and provisions taken for positions/portfolios in the trading book, enable the bank to sell or hedge out its positions within a short period without incurring material losses under normal market conditions

ANNEX 6

CRITERIA AND DOCUMNETATION FOR THE RECOGNITION OF ECAIs

A. General Information

1. Type of loan assessment: solicited and/or unsolicited, providing a short explanation on the implemented logic for the assessment policy;
2. Places where the ECAI carries out the activity;
3. A review of ECAI legal structure and the group to whom it belongs: ownership, main branches (subsidiaries), facilities or other supplied, etc. The information on ownership shall incorporate a list of shareholders that own more than for example 10% of ECAI's capital;
4. General number of employees;
5. General number and the percentage of income from main customers and/or consumers that share 5% or more of the total income;
6. Financial information that shows the financial soundness of ECAI; ECAI financial statements for the last three years and the forecasts for the three next years if available, or a supporting document submitted by the parent entity;
7. Information on the code of conduct, if this code is compliant with the accepted standards of the market or the international principles.

B. Information that evidences that there are met the recognition criteria as acceptable of ECAIs.

Objectivity of the methodology

1. A detailed description of the methodology and processes of credit assessment and how this methodology is determined, implemented and amended. This description should incorporate a description of on-site processes, to provide the implementation on ongoing basis of assessment methodologies, for all the assessments of credit, in particular the role of assessing commissions and the guidelines they observe, the level of data included by the assessing entities, access to confidential information, etc.;
2. A detailed description of quantitative data; key variables, data sources, the used quantitative assumptions and techniques, extension of data by the assessed entities, for every tranche within which it is applied, in particular, a genuine methodology (for example for the structured finances tranche, public finances or trading entities);
3. A detailed description of qualitative data: in particular the subject of qualitative judgement, as for example relating to the strategy, business plan of the classified entities, etc., for every tranche within which it is applied, in particular, a genuine methodology (for example for the structured finances tranche, public finances or trading entities);
4. A summary, by geographical zones, on the considerable changes in the used basic methodologies;
5. A description on the used methodology to verify the correctness, sustainability and the distinctive power of classifying systems, with details on the results and conclusions attained from such an analysis.

Independence of the methodology

1. A description of the procedures that aim to provide correct and objective assessments of credit: mechanisms to identify, prevent, manage and eliminate the current or potential conflicts of interest;
2. A description of the protective applicable measures in the event the shareholders or other parties in the group of related parties are rated;
3. Declaration on the existence of an internal control function and/or that there exist means to ensure that the internal procedure to draft, review and draw rating of credit are implemented effectively;
4. Declaration on the right and needed professional capabilities for the members of assessment groups and committees, including the expertise and experience for the rating of credit, and their improvement through the sufficient training programs;
5. A description of the main characteristics of the internal code of conduct of ECAI;
6. Declaration on the policy for staff remuneration included in the rating of credit, which shall not affect the conduction of independent and objective credit ratings (for example, attestation that the remuneration of analysts is not related to the decisions on credit rating, payments by assessed entities or incomes from customers or consumers);
7. Detailed information on ECAI's commissions policy;
8. Declaration that the personnel involved in the rating process of credit is not engaged into business relationships with the assessed entities, which may hamper the issue of independent and highly qualitative assessments of credit.

On-going review of the methodology

1. General information on the review of credit assessment (for example on the spot process, main features, field of action, frequency and the teams/groups of the involved staff, the used means, treatment, the main stages of monitoring process, refresh of data, the information from the considered assessed entities, automatic systems, mechanisms that allow systematic errors, which are reflected on various potential changes in the assessment method, etc.);
2. A summary of the conducted reviews;
3. Information on the presence of a "back-testing" system installed on site and that functions at least from one year;
4. List of contacts with the executive management, of the assessed entities.

Transparency of the methodology

1. Attestation that are published the methodology principles used by ECAI with the purpose to formulate its credit ratings;
2. Description of the ways used to make public the methodologies and terms of receiving the credit ratings by all possible users;
3. A description of policies transparency, relating to the type of credit assessments: unsolicited and solicited.

Confidentiality

1. Every evidence that certifies/demonstrates that the market is based on credit assessments, such are: market part; number of assessed entities; how long ECAI has been active in the market; income received from the activity of ratings.

Transparency of credit assessments

1. A detailed description of the applicable procedures for the disclosures.

C. The needed information for mapping of credit rating.

The needed information for mapping of long -term credit rating.

1. Definition of default;
2. Cumulative Default Rate -CDR of more than three years for each category (to be offered every year, if ECAI will be known) and at least the two latest CDRs;
3. 10-year average of 3-year CDR and of that one is not available, an indicator of ECAI expectation relating to the 10-year average of 3-year CDR;
4. An information on the estimated failure probability for each category of credit assessment, if an estimated failure probability is used;
5. Description of methodology for the calculation of CDR: selection of the pool (static versus adjusted dynamic, definition of failure, aggregation of failures (weighting mechanism);
6. Statistical importance of failure rates;
7. Dynamic characteristics of assessment method;
8. Meaning of credit assessment categories;
9. Gamma of credit assessment that ECAI determines;
10. Term of credit assessment;
11. Transitional matrix;
12. Geographical covering.

The needed information for mapping of short-term credit rating.

1. Relation between crucial short-term credit assessments with crucial long-term credit ratings;
2. Relation between credit short-term assessments of structured finances and credit long-term ratings of structured finances.

ANNEX 7[27]

REPORTING TEMPLATES ON CAPITAL ADEQUACY (COREP) AND METHODOLOGY GUIDELINES

[27] Added by the Decision No. 43, dated 30.07.2014 of the Supervisory Council of the Bank of Albania.

Credit, counterparty, and non-DVP transactions settlement risk

FORM 1

CR SA - Claims or contingent claims on central governments or central banks

Nominated ECAI-s

		Original exposure pre conversion factors		(-) Value adjustments and provisions associated with the original exposure	Exposure net of value adjustments and provisions	Credit risk mitigation techniques with substitution effects on the exposure						Net exposure after CRM substitution effects pre conversion factors	Credit risk mitigation techniques affecting the amount of the exposure: Funded credit protection. Financial Collateral Comprehensive Method			Fully adjusted exposure value (E*)	Breakdown of the fully adjusted exposure of off-balance sheet items by conversion factors				Exposure value				
						Unfunded credit protection: adjusted values (Ga)		Funded credit protection		Substitution of the exposure due to CRM															
						Guarantees	Credit Derivatives	Financial Collateral: Simple Method	Other Funded Credit Protection	(-) Total outflows	Total inflows (+)		Volatility adjustment to the exposure	(-) Financial Collateral: adjusted value (Cvam)	(-) Volatility and maturity adjustments		0%	20%	50%	100%		Out of which: related to counterparty risk	Risk weighted exposure amount	Out of which: with a credit rating by a nominated ECAI	Out of which: with a credit rating derived from the central government's rating
		010	020	030	040	050	060	070	080	090	100	110=040-090+100	120	130	140	150 = 110 + 120 - 130	160	170	180	190	200=150-160-0,8*170-0,5*180	210	220	230	240
010	**Total exposures**																								
011	**Out of which: SME**																								
012																									
013																									
014																									
	Breakdown of total exposures by exposure type																								
020	On balance sheet items subject to credit risk																								
030	Off balance sheet items subject to credit risk																								
	Exposures/transactions subject to counterparty risk																								
040	Securities Financing Transactions																								
050																									
060	Derivatives and Long Settlement Transactions																								
070																									
080																									
	Breakdown of total exposures by risk weight																								
090	0%																								
100	10%																								
110	20%																								
120	35%																								
130	50%																								
140	75%																								
150	85%																								
160	100%																								
170	125%																								
180	150%																								
190	200%																								
200	1250%																								
210	Other risk weights																								
	Specific items																								
220																									
230																									
240																									
250																									

FORM No. 2

CR SEC SA - Securitisation positions

Securitisation type:
Nominated ECAI-s:

		Total amount of securitized exposures originated	Synthetic securitizations: Credit protection to the securtised exposures			Securitisation positions	(-) Value adjustments and provisions	Exposure net of value adjustments and provisions	Credit risk mitigation (CRM) techniques with substitution effects on the exposure				Net exposure after CRM substitution effects pre conversion factors	(-) Credit risk mitigation techniques affecting the amount of the exposure: funded credit protection / financial collateral comprehensive method adjusted value (Cvam)	Fully adjusted exposure value (E*)	Breakdown of the fully adjusted exposure value (E*) of off balance sheet items according to conversion factors				Exposure value			Breakdown of the exposure value subject to risk weights according to risk weights								Risk weighted exposure amount	Adjustment to the risk weighted exposure amount	Total capital requirements before CAP	Memorandum item: Capital requirements corresponding to the outflows from the SA securitisation to other exposure classes	Total capital requirements after CAP
			(-) Funded credit protection (Cva)	(-) Total outflows: Unfunded credit protection adjusted values (G*)	Notional amount retained or repurchased of credit protection				Unfunded credit protection: adjusted values (Ga)	Funded credit protection	Substitution of the exposure due to CRM: (-) Total outflows	Substitution of the exposure due to CRM: Total inflows				0%	>0% and <=20%	>20% and <=50%	>50% and <=100%		(-) deducted from own funds	Subject to risk weights	Rated (credit quality steps 1 to 4): 20%	Rated (credit quality steps 1 to 4): 50%	Rated (credit quality steps 1 to 4): 100%	Rated (credit quality steps 1 to 4): 350%	1250%: Rated	1250%: Unrated	LOOK-THROUGH	LOOK-THROUGH: OF WHICH: SECOND LOSS IN ABCP					
		010	020	030	040	050	060	070=050-060	080	090	100	110	120	130	140	150	160	170	180	190	200	210=190-200	220	230	240	250	260	270	280	290	300	300 bis	310	320	330
10	Total exposures																																		
20	*Originator: Total exposures*																																		
30	On balance sheet items																																		
40	Most senior																																		
50	Mezzanine																																		
60	First loss																																		
70	Off balance sheet items and derivatives																																		
80	Early amortization																																		
90	*Investor: Total exposures*																																		
100	On balance sheet items																																		
110	Most senior																																		
120	Mezzanine																																		
130	First loss																																		
140	Off balance sheet items and derivatives																																		
150	*Sponsor: Total exposures*																																		
160	On balance sheet items																																		
170	Off balance sheet items and derivatives																																		

FORM No. 3

MKR SA TDI - Position risk of debt securities

REPORTING CURRENCY:

		Positions					Risk capital charge (%)	Capital requirements	Risk weighted exposure
		All positions		Net positions		Net positions subject to capital charge			
		Long	Short	Long	Short				
		010	020	030	040	050		060	070
010	**Traded debt instruments in trading book**								
011	**General risk**								
012	Derivatives								
013	Other assets and liabilities								
020	**Maturity based approach**								
030	Zone 1								
040	0 ≤ 1 month								
050	> 1 ≤ 3 months								
060	> 3 ≤ 6 months								
070	> 6 ≤ 12 months								
080	Zone 2								
090	> 1 ≤ 2 (1,9 for cupon of less than 3%) years								
100	> 2 ≤ 3 (> 1,9 ≤ 2,8 for cupon of less than 3%) years								
110	> 3 ≤ 4 (> 2,8 ≤ 3,6 for cupon of less than 3%) years								
120	Zone 3								
130	> 4 ≤ 5 (> 3,6 ≤ 4,3 for cupon of less than 3%) years								
140	> 5 ≤ 7 (> 4,3 ≤ 5,7 for cupon of less than 3%) years								
150	> 7 ≤ 10 (> 5,7 ≤ 7,3 for cupon of less than 3%) years								
160	> 10 ≤ 15 (> 7,3 ≤ 9,3 for cupon of less than 3%) years								
170	> 15 ≤ 20 (> 9,3 ≤ 10,6 for cupon of less than 3%) years								
180	> 20 (> 10,6 ≤ 12,0 for cupon of less than 3%) years								
190	(> 12,0 ≤ 20,0 for cupon of less than 3%) years								
200	(> 20 for cupon of less than 3%) years								
210	**Duration-based approach**								
220	Zone 1								
230	Zone 2								
240	Zone 3								
250	**Specific risk**								
251	Capital requirement for unsecuritised debt instruments								
260	Debt securities under the first category in Table 22, of the CAR Regulation						**0,00**		
270	Debt securities under the second category in Table 22, of the CAR Regulation								
280	*With a residual maturity ≤ 6 months*						**0,25**		
290	*With a residual maturity > 6 months and ≤ 24 months*						**1,00**		
300	*With a residual maturity > 24 months*						**1,60**		
310	Debt securities under the third category in Table 22, of the CAR Regulation						**8,00**		
320	Debt securities under the fourth category in Table 22, of the CAR Regulation						**12,00**		
321	Rated n-th to default credit derivatives								
325	Capital charge for securitised positions								
330									
340	Particular approach for position risk in CIU-s								
350	Additional charge for options (non-delta risks)								
360	*Simple approach*								
370	*Delta plus approach - additional charge for gamma risk*								
380	*Delta plus approach - additional charge for vega risk*								
390									

FORM No. 4

MKR SA EQU – Position risk of equities

		Positions					Risk capital charge (%)	Capital requirements	Total risk weighted exposures
		All positions		Net positions		Net positions subject to capital charge			
		Long	Short	Long	Short				
		010	020	030	040	050		060	070
010	Equities in trading book								
020	General risk						8,00		
021	Derivatives								
022	Other assets and liabilities								
030	Exchange traded stock index futures broadly diversified, subject to particular approach								
040	Other equities than exchange rated stock-index futures broadly diversified								
050	Specific risk						4,00		
080	Particular approach for positions in CIU-s								
090	Additional charge for options (non delta risks)								
100	Simple approach								
110	Delta plus approach - gamma risk								
120	Delta plus approach - vega risk								

FORM No. 5

CR TB SETT - Settlement risk

		Unsettled transactions at settlement price	Price difference exposure due to unsettled transactions	Capital requirements	Total risk weighted exposure
		010	*020*	*030*	*040*
010	***Total unsettled transactions in the banking book***				
020	Transactions unsettled up to 4 days (0 %)				
030	Transactions unsettled between 5 and 15 days (8%)				
040	Transactions unsettled between 16 and 30 days (50%)				
050	Transactions unsettled between 31 and 45 days (75%)				
060	Transactions unsettled over 46 days and more (100%)				
070	***Total unsettled transactions in the trading book***				
080	Transactions unsettled up to 4 days (0 %)				
090	Transactions unsettled between 5 and 15 days (8%)				
100	Transactions unsettled between 16 and 30 days (50%)				
110	Transactions unsettled between 31 and 45 days (75%)				
120	Transactions unsettled over 46 days and more (100%)				

FORM No. 6

MKR SA COM - Commodity investment risk

		All positions		Net Positions		Positions subject to capital charge	Risk capital charge (%)	Capital requirements	Risk weighted exposure
		Long	Short	Long	Short				
		010	020	030	040	050		060	070
010	***Total positions in commodities***								
020	*Precious metals (except gold)*								
030	*Base metals (zinc, copper, etc.)*								
040	*Agricultural products (softs)*								
050	*Other*								
060	Out of which: energy products (oil, gasoline)								
070	Maturity ladder approach								
080	Extended maturity ladder approach								
090	Simple approach: All positions								
100	Additional charge for options (non delta risks)								
110	*Simple approach*								
120	*Delta plus approach - additional charge for gamma risk*								
130	*Delta plus approach - additional charge for vega risk*								
140	Scenario matrix approach								

FORM No. 7

MKR SA FX - Foreign exchange risk

		Currency code	All positions		Net positions		Preferential treatment positions			Risk capital charge (%)			Capital requirements	Risk weighted exposure
			Long	Short	Long	Short	Long	Short		Long	Short			
		010	020	030	040	050	060	070	080				090	100
010	Total positions in foreign currencies													
020	Currencies closely correlated													
030	*All other currencies (including CIUs treated as different currencies)*									**8,00**	**8,00**			
040	Gold									**8,00**	**8,00**			
050	Additional charge for options (non delta risks)													
060	*Simple approach*													
070	*Delta plus approach - additional charge for gamma risks*													
080	*Delta plus approach - additional charge for vega risks*													
090	Scenario matrix approach													
	Breakdown of positions according to instrument type													
100	*Financial instruments*													
110	*Off balance sheet items*													
120	*Derivatives*													
	Positions in different currencies													
130	*Euro*	EUR												
140	*Albanian Lek*	ALL												
150	*Argentinian Peso*	ARS												
160	*Australian Dollar*	AUD												
170	*Brasilian Real*	BRL												
180	*Bulgarian Lev*	BGN												
190	*Canadian Dollar*	CAD												
200	*Czech Koruna*	CZK												
210	*Danish Krona*	DKK												
220	*Egyptian Pound*	EGP												
230	*British Pound*	GBP												
240	*Hungarian Forint*	HUF												
250	*Japanese Yen*	JPY												
260	*Letonese Lata*	LVL												
270	*Lithuanian Lita*	LTL												
280	*Macedonian Denar*	MKD												
290	*Mexican Peso*	MXN												
300	*Polish Zloty*	PLN												
310	*Romanian Leu*	RON												
320	*Russian Rouble*	RUB												
330	*Serbian Denar*	RSD												
340	*Swedish Krona*	SEK												
350	*Swiss Francs*	CHF												
360	*Turkish Lira*	TRY												
370	*Ukrainian Hryvnia*	UAH												
380	*American Dollar*	USD												
390	*Icelandic Krona*	ISK												
400	*Norvegian Krona*	NOK												
410	*Other*													

FORM No. 8

OPR - Operational risk

	Banking activities		Gross Income		Loans and advances (in case of ASA application)			Capital requirements	Risk weighted exposure
		Year-3	Year-2	Last year	Year-3	Year-2	Last year		
		010	020	030	040	050	060	070	071
010	**1. TOTAL BANKING ACTIVITIES SUBJECT TO BASIC INDICATOR APPROACH (BIA)**								
020	**2. TOTAL BANKING ACTIVITIES SUBJECT TO STANDARDISED (STA) / ALTERNATIVE STANDARDISED (ASA) APPROACHES**								
	Subject to the Standardised approach:								
030	CORPORATE FINANCE (CF)								
040	TRADING AND SALES (TS)								
050	RETAIL BROKERAGE (RBr)								
060	COMMERCIAL BANKING (CB)								
070	RETAIL BANKING (RB)								
080	PAYMENT AND SETTLEMENT (PS)								
090	AGENCY SERVICES (AS)								
100	ASSET MANAGEMENT (AM)								
	Subject to the Advanced Standardised Approach:								
110	COMMERCIAL BANKING (CB)								
120	RETAIL BANKING (RB)								
130	**AMA**								

FORM No. 9[28]

CAR - Capital Adequacy Ratio

1)

Indicators	Value
Regulatory Capital	(a)
Risk weighted assets and off-balance sheet items	(b)
Capital Adequacy Ratio (in %)	(a)/(b)*100

2)

Indicators	Value
Risk weighted assets and off-balance sheet items	(d) = (a)+(b)+(c)
Risk weighted assets and off-balance sheet items, for credit risk	(a)
12.5*capital requirements for market risk	(b)
12.5*capital requirements for operational risk	(c)

[28] Amended by the Decision No. 34, dated 2.5.2018 of the Supervisory Council of the Bank of Albania.

[29]*Methodology guidelines for reporting templates on capital adequacy 'COREP'*

[29] Added by the Decision No 43, dated 30.07.2014 of the Supervisory Council of the Bank of Albania.

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1 Capital requirement for credit risk

1.1 Form CR SA- Credit, counterparty, and non-DVP transaction settlement risk

1.1.1 General provisions

This form covers the following capital requirements:

- Credit risk in the banking book, which includes the counterparty risk in the banking book
- Counterparty risk in the trading book
- Non-DPV transaction settlement risk (Article 164), both in the banking and the trading books.

Banks shall report in this form for each exposure class, as defined in Article 10 of the Regulation, and for the total exposure classes, excluding securitised exposures.

Exposures, which according to the regulatory framework in force, are considered as unhedged against the exchange rate, shall be reflected in the exposure class wherein they would be classified if they did not have this feature, although in the Regulation such exposures are classified in the high-risk exposure class.

Banks shall not fill in the fields in grey.

In the field of nominated ECAI and/or ECA, banks shall write the names of all nominated ECAIs by the bank and/or ECAs to be used for rating exposures included in each of exposure classes.

When filling this table in, banks shall take into consideration all the exposures that have not been deducted from the regulatory capital, and those that are not subject to banks' capital requirements for market risk.

This form shall be reported quarterly.

1.1.2 Content of the columns

The form has 24 columns, as follows:

Columns 010-030: These columns are highlighted in grey and shall not be filled by the banks.

Column 040 - Original exposure pre conversion factors (net of value adjustments and provisions)

In Column 040, in row 'Total exposures', banks shall present the total value of net exposure, pertaining to the category specified in the field 'exposure class', in accordance with the following rules:

- Value of an individual exposure, included in the banks' balance sheet, is equal to the net value of the relevant exposure in the balance sheet (after deducting provisions).

- Value of an individual exposure, included in the banks' off-balance sheet items, is equal to the value of the relevant exposure in the off-balance sheet items (after deducting provisions).

- Value of individual exposures, deriving from repo agreements for securities or commodities, loan agreements or securities or commodity borrowing, which are not subject to the master netting agreements and lending transactions with margins, is equal to the value of the relevant transaction.

- In the case of master netting agreements that cover repo agreements with securities or commodities, the loan agreements or borrowing of securities or commodities, the value of exposure deriving from these netting agreements equals the fully-adjusted exposure value (E*), calculated in accordance with Article 75 (6) of the Regulation.

- Value of an individual exposure deriving from long settlement agreements is calculated according to the methods stipulated in Chapter IV of the Regulation.

- Value of exposure, arising from derivatives specified in Annex IV of the Regulation shall be calculated in accordance with stipulations set out in Chapter IV of the Regulation.

Banks shall detail the amount reported in the first column, under row 'Total exposure' in individual rows:

- By type of exposure (On balance sheet items, off-balance sheet items, securities financing transactions[30] and derivatives and long settlement transactions)

- By risk share (0%, 10%, 20%, 35%, 50%, 75%, 85%, 100%, 125%, 150%, 250%, 1250% and other shares).

Columns 050-100: Credit risk mitigation techniques with substitution effects on the exposure

Columns from 050 to 100 refer to funded and unfunded credit protection that mitigates credit risk for one or more exposures through the substitution effect, in accordance with articles 53-57 (*funded protection - simple method for collateral)* and articles 94-96 (*unfunded protection*), substituting the risk share for the covered part of the exposure with the share of the collateral risk or collateral pledger.

Columns 050-060 - Unfunded credit protection: Adjusted value (GA)

Banks in these columns present the value of unfunded credit protection, adjusted for maturity mismatch and currency, calculated according to articles 90-92 of the Regulation. The adjusted value of guarantees and credit derivatives is given separately, in columns 050 and 060.

[30] Securities financing transactions include repo agreements for securities or goods, loan agreements or borrowing of securities or goods and transactions of margin loans.

Columns 070-080 - Funded credit protection

Columns 070 and 080 refer to the funded credit protection (not taking into account framework netting agreements, which are taken into consideration with the original exposure value, in column 1). *Credit linked notes* and netting in the balance sheet are treated as collateral in the form of cash deposit (Article 49(1)(a), of the Regulation).

Banks, which use the financial collateral simple method specified in articles 53-56 of the Regulation, shall report in column 070 the financial collateral values; banks that use the all-inclusive financial collateral method shall not fill in this column. The value of other funded credit protection, specified in articles 77-78 of the Regulation shall be given in column 080.

Columns 090 and 100 - Substitution of the exposure due to Credit Risk Mitigation

Column 090 - Total outflows

In this column, banks shall present the amount of outflows that means the mount of those parts of exposures included in column 040, which are guaranteed by funded and unfunded credit protection in accordance with columns from 050 to 080. If the issuer of the funded credit protection or the provider of unfunded credit protection is classified in the same class as the debtor, the individual outflow for this exposure shall be presented as inflow in column 100 of the same table, taking into account the type of exposure and weight of credit risk for the funded or unfunded protection, in accordance with articles 54, 94 and 95 of the Regulation. If the issuer of the funded credit protection or the provider of unfunded credit protection is not classified in the same class of exposure as the debtor, individual inflows shall be presented as inflows in the respective column of the table, presenting the class of exposures including the exposure of the issuer of the funded credit protection or the provider of the unfunded credit protection.

Column 100 - Inflows

In column 100, row 'Total exposures' shall present the amount of total outflows of column 090 of the same exposure class and outflows of tables of other exposure classes, as a result of taking into consideration the funded and unfunded credit protection (in accordance with articles 54, 94 and 95 of the Regulation) whose issuer and provider are classified in the exposure class corresponding to the form that is filled in.

The amount presented in column 100 in the total row, shall be broken down according to individual rows, taking into account:

- type of exposure guaranteed by funded or unfunded protection, whose issuer or provider are classified in the exposure class corresponding to the form that is filled in.
- share of weighting determined for the funded and unfunded credit protection.

Column 110 - Net exposure after credit risk mitigation substitution effects pre-conversion factors

In this column, banks shall report the amount of exposures after the amount of outflows and inflows has been taken into consideration, from the application of credit protection

substitution effects on exposures, calculated by deducting from net exposure in column 040 the inflows in column 090 and adding the inflows in column 100.

Columns 120 - 140, Credit risk mitigation techniques affecting the amount of the exposure:
Financial Collateral Comprehensive Method

Columns from 120 to 140 refer to the calculation of the adjusted value of exposure and funded credit protection.

Column 120 - Volatility adjustment to the exposure

Banks shall report the volatility adjustment to the exposure, calculated according to the formula (EVA – E) = E × HE

Column 130 - Financial collateral: Adjusted value (CVAM)

Banks shall report the value of financial collateral as calculated according to Article 158 (3), according to the formula: CVAM = C × (1-HC-HFX)×(t-t*)/(T-t*).

Column 140 - Volatility and maturity adjustment

Banks shall present volatility and maturity mismatch adjustments as calculated according to the formula (CVAM – C) = C × [(1-HCHFX)×(t-t*)/(T-t*) - 1], whereby the effect of volatility adjustment is calculated according to the formula (CVAM – C) = C × [(1-HCHFX) ×(t-t*)/(T-t*) – 1 and the effect of maturity mismatch adjustment is calculated according to the formula (CVAM – CVA) = C × [(1-HC-HFX)×(t-t*)/(T-t*) - 1].

Column 150: Fully adjusted exposure value (E)*

Banks shall report the fully-adjusted exposure value, which takes into consideration the exposure volatility and financial collateral effects, in accordance with Article 158 (4). This value shall be calculated adding to the amount in column 110, the amount in column 120, and deducting from it the amount in column 130.

Columns 160 - 190 Breakdown of the fully adjusted exposure of off-balance sheet items by exposure factors

- In column 0% shall be presented the part of the amount from column 15 that represents off-balance sheet exposures, which are classified as posing low risk, according to Annex 2 'Classification of off-balance sheet items' of the Regulation.
- In column 20% shall be presented the part of the amount from column 15 that represents off-balance sheet exposures, which are classified as posing low risk, according to Annex 2 'Classification of off-balance sheet items' of the Regulation.
- In column 50% shall be presented the part of the amount from column 15 that represents off-balance sheet exposures, which are classified as posing low risk, according to Annex 2 'Classification of off-balance sheet items' of the Regulation.
- In column 100% shall be presented the part of the amount from column 15 that represents off-balance sheet exposures, which are classified as posing low risk, according to Annex 2 'Classification of off-balance sheet items' of the Regulation.

The amounts reported in columns 160 - 190, in the row on 'Total exposures' shall equal the amounts included in the intersection of row 030 'off-balance sheet items', with these columns.

Column 200 - Exposure value

In this column, banks shall report the net exposure value, after taking into consideration the credit protection effects and conversion factors for off-balance sheet items. To calculate the exposure value for off-balance sheet items, from column 150 the total of column 160 is deducted, 80% of the amount in column 170, 50% of the amount of column 180. For other types of exposure, the amount in column 200 equals the amount in column 150.

The amount reported in this column, intersecting with row total exposures, equals the amount of rows 020, 030, 040, 060, of the same column.

Column 210 - Of which: related to counterparty risk

In this column, banks shall report the part of the amount reflected in column 200, which is related to exposures arising from derivatives, repo transactions with securities or goods, lending or borrowing agreements with securities or goods, lending transactions with margins and long settlement agreements.

Column 220 - *Risk weighted exposure amount*

Banks, assign for exposure values from column 200 a risk weight, depending on the credit quality. The amount that banks report in column 210, row 'total exposures' equals the sum of values in column 210 for rows 020-060, and sum of values for column 210 for rows 090-210.

Column 230:

This column presents that part of exposures classified by risks, for whose calculation banks have used weights based on the counterparties' credit rating by a nominated ECAI.

Column 240:

This column shall present that part of exposures classified by risks, for whose calculation banks have used weights based on the central government credit rating (the case of exposures to supervised institutions).

1.1.3 Content of the Rows

Row 010 'Total exposures'

In 'Total exposures', banks shall report the total amount by individual columns, which presents the amount of individual columns against exposure type or risk weight

Row 011 - Out of which: SME

This row shall be filled in for the classes of exposure or contingent exposures to corporates; exposures or contingent retail exposures; exposures or contingent exposures

secured on real estate property; non-performing exposures (loans); as well as in the aggregate table of all exposure classes.

Rows 020 - 060 - Breakdown of total exposure by type of exposure:

The amount of exposure presented in column 040 in row 'Total exposures' is broken down by type of exposure as follows:

- On balance sheet items: these items are not listed under any of the other types of exposure.
  Exposures arising from non-DVP settlement; although they are off-balance sheet items they are presented in this row.
  Exposures that are on-balance sheet items and treated as transactions for funding securities and as a derivatives or long settlement transactions are not included in this row, but in rows 040 and 060, respectively.

- Off-balance sheet items: items set out in Annex 2 of the Regulation. Exposures that are off-balance sheet items and treated as transactions for funding securities and as a derivatives or long settlement transactions are not included in this row, but in rows 040 and 060, respectively.

- Securities transactions (including repo transactions, lending and borrowing transactions in securities and commodities, margin funding transactions and E* value of master netting agreement related to such transactions).

- Derivatives and long settlement transactions: Derivatives, as specified in Annex IV of the Regulation and long settlement transactions.

Rows 090 - 210 - Total exposure by risk weight:

Amount of exposure value presented in the cell in the intersection between column 040 and row 'Total exposures' broken down by specified risk weights (at 0%, 10%, 20%, 35%, 50%, 75%, 85, 100%, 150%, 1,250%, other risk weights).

Rows 220 - 270 - Special items

These rows are reflected in grey and shall be filled in by banks according to the requirements of the authority for the period.

1.2 Form CR SEC SA-Securitisation

1.2.1 General provisions

Banks shall report in Form CR SEC SA exposures related to securitisation transactions, especially those related to traditional and synthetic securitisation, as determined in the field 'Type of securitisation.

Reporting will depend on the role that banks assume in the securitisation process. Therefore, the reporting of items will vary depending on the fact whether the bank is the originator, investor or sponsor.

In the nominated ECAI field, banks shall write the name of all nominated ECAIs for rating such exposures.

Banks shall not fill in the fields in grey.

This form shall be reported quarterly.

1.2.2 Content of the columns

The CR SEC SA template has 34 columns as follows:

Column 010 - Total amount of securitized exposures originated

This shall be reported only by banks that are originators in a securitisation. In this column, banks shall write the actual amount of all securitised positions originated during securitisation transaction, regardless of who holds the positions.

Thus, both securitised exposures in the balance sheet (bonds, subordinated bonds) and off-balance sheet exposures (subordinated credit lines, liquidity facilities and financial derivatives) originated during the securitisation process shall be reported.

In the event of overlap positions, only the position or part of the position that generates the highest risk-weighted exposure shall be reported. In the row 'Total' in column 1 shall be reported the actual amount of securities exposures (*underlying pool of exposures and reserve account*).

Asset and liability items shall be presented separately in column 1, according to individual rows, in their book value, taking into account that:

a) On-balance sheet items do not include impairment.
b) Off-balance sheet items do not include provisions created for such engagements.
c) Off-balance sheet items do not include conversion factors.
d) On and off balance sheet items do not include credit protection effects, except for master netting agreements (master netting agreements referring to some executable financial instruments, issued by the same SPV, shall be taken into consideration).

In the event of a working exposure, with the right to early amortization, it is necessary to write the amount of 'investor's interest' in the respective row in accordance with Article 152 (2).

Columns 020-040: Synthetic securitizations: Credit protection to the securitised exposures

Columns 020 - 040 refer to credit protection of a synthetic securitisation, through which securitised exposures are segmented (*tranching*).
Only originator banks in a synthetic securitisation shall fill in these columns. Credit protection shall not include adjustments for maturity mismatch.

Columns 020 and 030 refer to funded and unfunded credit protection.

Column 020 - Funded credit protection (CVAm)

Banks shall fill in the amount of funded credit protection according to Article 158 of the Regulation. For the financial collateral, banks may use only the comprehensive method. For this reason, the collateral value in this column shall be presented as adjusted for volatility and maturity mismatch as set out in Article 158 (3). *Credit linked notes* shall be treated as funded credit protection according to Article 90 (2).

Column 030 - Unfunded credit protection: Adjusted values (G)*

Banks shall report the value of unfunded credit protection, adjusted for currency mismatch (G*), according to Article 91 (1).

Column 4 - Amount retained or purchased of credit protection

Banks shall report the value of funded credit protection, retained or purchased by the originator from collateral providers. The effects of volatility adjustments, as set out in articles 58 and 59 of the Regulation, shall not be taken into account when calculating the retained or repurchased value of the credit protection.

Column 050- Securitisation positions: Original exposure pre conversion factors

Banks shall report the book value of securitised individual positions, without devaluation or provisions and conversion factors. The originator that uses the synthetic securitisation shall calculate this value according to columns 010-020-030+040 (columns 020 and 030 have negative values). Thus the exposure value shall be filled in after taking into consideration inflows and outflows as a result of credit protection used for segmenting (*trancheing*).

Netting is important only in the case of multiple derivative contracts provided to the same SPV.

In the case of early amortization clauses, banks shall specify the amount of 'investors' interest' in accordance with Article 152 of the Regulation.

Column 060 - Value adjustments

The amount of amortization and provisions for assets and off-balance sheet items.

Column 070 - Exposure net of value adjustments

Exposure net value, calculated as the difference between columns 050 and 060, less conversion factors.

Columns 080 - 013 shall be filled in only when purchasing additional collateral that has not been taken into account in columns 020 - 040.

Columns 080 - 110 Credit risk mitigation techniques with substitution effects on the exposure.

Columns 080-110 refer to funded and unfunded credit protection, which leads to downward credit risk based on substitution of exposure, with the risk weight for the protected part being substituted with the risk weight of the collateral (which means collateral provider).

Column 080 - Unfunded credit protection: adjusted values (Ga)

Banks shall report the value of unfunded credit protection, adjusted for maturity mismatch and currency, in accordance with articles 90 and 92 of the Regulation.

Column 090 - Funded credit protection:

For the financial collateral, this column shall be reported only by banks that use the simple financial collateral method, in accordance with articles 53-56 of the Regulation.

Columns 100 and 110 - Substitution of the exposure due to CRM

Column 100 - Total outflows

The collateral amount is reported for each of the roles of the bank in securitisation (originator, investor, etc.) and equals the sum of columns 8 and 9.

The same amount is reported for column 11 - Total inflows for the same role (originator, investor, and sponsor).

Column 120 - Net exposure after credit risk mitigation substitution effects pre conversion factors

The amount of net exposure is reported, after taking in account inflows and outflows, as a result of the exposure substitution effect, which is calculated by deducting the total amount in column 100 from column 070 and adding the amount from column 110. (070-100+110).

Column 130 - Credit risk mitigation techniques affecting the amount of the exposure: Financial Collateral Comprehensive Method.

Column 140 - Fully adjusted exposure value (E): calculated as the sum of columns 120 and 130*.

Columns 150 - 180 - Breakdown of the fully-adjusted exposure value of off balance sheet items according to conversion factors.

The fully-adjusted exposure value of off balance sheet items from column 140 shall be classified in one of the corresponding columns 150 - 180 according to conversion factors.

Column 190 - Exposure value

The net exposure value is reported, after taking into account credit protection effect and conversion factors.

For off-balance sheet items, the amount in column 190 is the sum of the fully-adjusted nominal value in columns 150 - 180 and of corresponding conversion factors. For on-balance sheet items, the value from column 140 is filled in (after deducting off-balance sheet items)

Column 200 - Items deducted from regulatory capital

The amount of securitised positions, which have been risk-weighted for 1250%, and the bank deducts from the regulatory capital, in accordance with regulatory capital instruction.

Column 210 - Subject to risk weights

In this column, banks shall report the amount resulting from the difference between columns 190 and 200.

Columns 220 - 290 - Breakdown of the exposure value subject to risk weights.

Columns 220 - 250 - Rated exposures (credit quality steps 1 to 4)

Securitised exposures by credit quality rating by a nominated ECAI, filling the respective column according to the risk weight.

Column 260 - 1250% (Rated exposures)

Sum of securitised positions with a credit rating by a selected ECAI, which are risk weighted for 1250%.

Column 270 - 1250% (Unrated exposures)

Sum of securitised positions, unrated by a selected ECAI.

Columns 280-290 Unrated positions - 'Look Through Method'

Unrated positions by a nominated ECAI; risk is weighted based on the group of core exposures, in accordance with Article 110 of the Regulation. In the case of circulating exposures with early amortization clauses, banks shall take into consideration obligations arising from Article 110 of the Regulation.

Column 290 - Of which: second tranche that covers loss

The unrated part of exposures from column 28, which, in accordance with Article 110 of the Regulation, as part of an ABCP programme, has a special treatment.

Column 300: Risk weighted exposure amount

The risk-weighted amount as an amount of multiplication of individual exposures from columns 220-290 and corresponding risk shares, without taking into account the exposures addressed according to articles 109 and 117, and excluding any risk-weighted exposure that corresponds to redistributed exposures through outflows in other formats.

For maturity mismatch synthetic securitisations, the reported amount in this column shall not consider maturity mismatches.

Column 300 bis - Adjustment to the risk weighted exposure as a result of the maturity mismatch

Maturity mismatches in synthetic securitisation between the funded protection, which ensures the segmenting of securitised exposure, and securitised exposures shall be calculated in accordance with Article 125 of the Regulation as RW*-RW(SP). Maturity mismatches shall be ignored in the case of segments (tranches) subject to 1250% risk weight, when the reported amount is 0. The RW(SP) includes not only the amount of risk-weighted exposures reported in column 30, but also the amount of risk-weighted exposures that correspond to exposures distributed through outflows in other tables.

Column 310 - Total capital requirements before CAP

CAP is the maximum capital requirement for total risk-weighted exposures for securitised positions, set out in articles 109 and 117.

The capital requirement for securitisation credit risk is calculated as 12% of the amount from columns 300 and 300 bis.

Column 320 - Memorandum item: Capital requirements corresponding to the outflows from the securitisation to other exposure classes.

This column shall be reported only by the originator, reflecting the capital requirement for exposures from column 300, which as a result of the application of the credit protection, exceed the capital requirement for core exposures, if they weren't securitised (CAP). These capital requirements correspond to outflows of capital requirement for securitised exposures to other exposure classes. When calculating it, limitations laid down in articles 109 and 117 of the Regulation shall be taken into consideration.

Column 330 - Total capital requirements after CAP

Capital requirement after taking into consideration limitations laid down in articles 109 and 117. Column 330 shall be calculated as the amount of values in columns 310 and 320.

Banks shall report securitisation exposures by column and analyse the fields covered by such activity in rows according to the assumed role in the securitisation.

1.2.3 Content of the Rows

Form CR SEC SA has 17 rows.

The value in row 010 'Total exposures' shall equal the amount of bank's total exposure by the assumed roles in securitisation.

- ✓ Originator
- ✓ Investor
- ✓ Sponsor

Securitisation exposure by individual roles shall be further divided according to:

- Assets, within this group divided by credit risk segments related to the payment schedule (reported by the originator and investor)
- Off balance sheet items and derivatives (reported by banks for all the roles they have assumed).
- Circulating exposure with the right to early settlement (reported only by the originator).

Asset items belonging to three different credit risk segments are presented in separate rows:

- Highest risk items (most senior tranche in a securitisation)
- Medium risk items (mezzanine tranche in a securitisation)
- First loss cover item, which includes positions in first loss segments (tranches). If this segment (tranche) does not guarantee the improvement of credit quality for

other segments in the securitisation, it is necessary to take into consideration the next segment, as the one that covers losses. The assessment of *credit enhancement* provided by various segments continues until a considerable credit enhancement is achieved through the segment (tranche) that first covers loss.

Off-balance sheet items include exposures for amounts that are not withdrawn, which the originator must ensure for liquidity and other credit facilities when making payments to the securitisation *servicer* and *credit facilities* in the case of overall deteriorated market conditions when conducting a securitisation transaction.

Banks, which have investments in securitisations in this form shall fill out only the cells highlighted in yellow.

2 Capital requirements for market risk

2.1 FORM MKR SA TDI – Position risk of debt securities

2.1.1 General provisions

Form MKR SA TDI contains information on the position and capital requirements for position risk (general and specific) for debt securities held in the trading book, as part of capital requirements for market risk.

Banks shall fill this form out separately for the major currencies (ALL, EUR, USD), for all the other currencies (excl. major ones) in which they have positions in these instruments in the trading book and in total (for both major and other currencies).

Banks shall write the currency symbol in the field 'currency'

The rows show the approaches implemented for calculating the capital requirement.

- General risk: maturity-based approach
- General risk: duration-based approach
- Specific risk
- Specific risk for positions in SIK
- Non-delta (gamma and vega) risks related to options

Banks shall not fill out the fields in grey.

This form shall be reported half-yearly.

2.1.2 Content of the columns

The form has nine columns, as follows:

Columns 010 and 020 - All positions (long and short)

In columns 010 and 020, banks shall note gross positions, without taking into consideration netting agreements and positions derived from the underwriting of debt securities, from third parties in accordance with Article 167 of the Regulation.

Columns 030 and 040 - Net positions (long, short)

Column 030 (net long position) and column 040 (net short position) refer to the net position (long or short), in accordance with Article 146. Banks shall calculate the net position as the difference between the long/short position and short/long ones in financial instruments of the same type. Banks shall report the value of the net position, i.e. the offset position for each maturity band.

Column 050 - Net positions subject to capital charge

This column refers to weighted positions, subject to capital charge, calculated under the approaches reflected in the rows of this form. For the maturity-based approach, these positions are reflected in Article 155 (c), whereas for the duration-based approach they are reflected in Article 156 (d).

Column 060 - Capital requirements

Banks shall calculate the capital requirement for each approach reflected in the rows and the total capital requirement. The total, reflected in row 010 'Traded debt instruments in trading book', is the amount of capital requirement for total risk (reflected in row 020 of this column when the bank applies the maturity based approach, or in row 210, when the bank applies the duration-based approach) and capital requirement for specific risk (reflected in row 250; the value in this row is the sum of rows 251, 325, 340 and 350).

2.1.3 Content of the Rows

In the rows of this form, the banks shall report positions in debt securities and respective capital requirements based on the category of risk, maturity and approach.

Rows 012-013

These rows shall be filled out for only the first two columns of the form and shall contain information on the initial gross positions from derivatives on interest rates and debt securities (in accordance with Article 147 of the Regulation) and other assets and liabilities, whose value depends on the dynamics of the interest rate.

Rows 020 - 200 - General risk: Maturity based approach

In these rows, the banks shall report the positions in debt securities in accordance with Article 155 (1) (a) of the Regulation. Thus, banks assign net positions to each of the approrpiate maturity bands (see Table 22 of the Regulation), based on the residual maturity for fixed-rate debt securities and the residual period until next interest rate fixing, for variable-rate debt securities, hence distinguishing between coupons of 3% and higher than 3%;

Rows 210 - 240 - General risk: Duration-based approach

In these rows, the banks shall report positions in debt securities in accordance with Article 156 (1 (a) and (b) of the Regulation, based on the duration of each instrument.

Row 250 - Specific risk

In this row, in column 060, banks shall report the capital requirement for the specific risk (see explanation for column 060)

In this row, from column 010 to column 040, banks shall report positions in debt securities subject to the capital requirement for the specific risk, as a sum of rows 260-231.

Row 251 - Capital requirement for unsecuritised debt instruments

In this row, banks shall report the capital requirement for the specific risk on debt securities, as an aggregate of capital requirements for four categories of debt securities, set out in rows 260 - 320, and Rated n^{th} to default credit derivatives in row 321.

In calculating capital requirement, bank shall also consider the reductions in capital resulting from protection of positions with credit derivatives, in accordance with Article 151 of the Regulation.

Row 325 - Capital charge for securitised positions

This row refers to Article 153 (6) of the Regulation. In this row, banks shall report securitised exposures in columns 010-040 and capital requirement in column 060.

Row 341 - Particular approach for position risk in CIU-s

This row refers to the position risk in investments in CIU, calculated in accordance with Article 161 of the Regulation. In this row, banks shall register positions in CIU by individual columns 010-040 and capital requirement for column 060.

Capital requirement for positions in CIU is calculated as 32% of the net position in CIU investments. If a bank calculates the capital requirement for the foreign exchange risk in CIU investments, the capital requirement will be the lowest between the 32% of the net position and the difference between the 40% of the net position and the capital requirement for the exchange rate risk calculated for these positions.

Rows 350-380 - Additional charge for options, non-delta risks

Row 350 - Additional charge for options (non-delta risks) represents the amount of the capital requirement reflected in the following rows, 360:380.

Row 360 - 'Simple approach' represents the capital requirement calculated for those positions in debt securities options specified in Article 176 of the Regulation.

Row 370 - 'Delta plus approach - additional charge for gamma risk' represents the capital requirement for gamma risk of the debt securities option, calculated in accordance with Article 180 (3) of the Regulation.

Row 380 - 'Delta plus approach - additional charge for vega risk' represents the capital requirement for vega risk of the debt securities option, calculated in accordance with Article 180 (5) of the Regulation.

Banks calculate risk-weighted exposures by multiplying the total capital requirement with 12.5 and the result is reflected in column 070, row 010.

2.2 FORM MKR SA EQU– Position risk of debt securities

2.2.1 General provisions

This form shall report information on the position risk and capital requirement for position risk (general and specific) related to equity securities held in the trading book, as part of the capital requirement for the market risk.

Banks shall not fill in the fields in grey.

This form shall be reported half-yearly.

2.2.2 Content of columns

The form has 7 columns, as follows:

Columns 010 and 020 - Individual positions (long and short)

In columns 100 and 200, banks shall fill out the gross positions, not taking into consideration netting agreements and the positions derived from the underwriting of financial instruments.

Columns 030 and -040 - Net positions (long and short)

The net position is the difference between the long/short positions and short/long ones in financial instruments of the same type. Banks shall report the value of the net position, i.e. the offset position for each maturity band. When filling out these columns, banks shall take into consideration the provisions of Article 167, setting out the deduction factors - when applicable.

Column 050 - Net positions subject to capital charge

This columns refers to the net positions subject to capital charge calculated under the approaches reflected in rows 010-120 of this form. The total net position shall be calculated as the sum of positions from rows 010-120 of this form in the row 'Equities in trading book'.

Capital charge in %

This column reports the shares with which net positions subject to capital charge are multiplied, to calculate the respective capital charge.

Column 060 - Capital requirements

Column 060 reports the capital requirement calculated as the multiplication of shares in column ‘weights’ and net positions subject to capital charges from column 6. The total capital requirement is the sum of capital requirements for rows 1-6 of this form and reflected in row 'Equities in trading book'.

2.2.3 Content of rows

This row contains rows as follows:

Row 020 - General risk

The row on 'General risk' has general positions of equity securities calculated in accordance with Articles 159 and 160 of the Regulation. In the individual rows 021 and 022, banks shall report positions pointed in columns 010-070. In row 020, they shall report the respective amounts of rows 021 and 022.

Row 030 - Exchange traded stock index futures broadly diversified, subject to particular approach

Banks shall report in row 030 positions in equity securities for exchange-rated stock index futures, traded in renowned stock exchanges, and represent broadly diversified stock indices, subject to a particular approach, calculated in accordance with Article 160 of the Regulation.

Row 040 - Other equities than exchange rated stock-index futures broadly diversified

Banks shall fill out row 040 with positions in other equities than exchange rated stock-index futures, traded in renowned stock exchanges, representing broadly diversified stock indices, calculated in accordance with Article 159 of the Regulation.

Row 050 - Specific risk

Row 'Specific risk' shows positions in equity securities subject to specific risk calculations in accordance with articles 158 and 160 of the Regulation.

Row 080 - Particular approach for position risk in CIU-s

This row refers to the position risk in investments in CIUs, in accordance with Article 161 of the Regulation. In this row, banks shall register positions in CIU by individual columns 010-040 and capital requirement for column 060.

Capital requirement for positions in CIU is calculated as 32% of the net position in CIU investments. If a bank calculates the capital requirement for the exchange rate risk in CIU investments, the capital requirement will be the lowest between the 32% of the net position and the difference between the 40% of the net position and the capital requirement for the exchange rate risk calculated for these positions.

Rows 090-120 - Additional charge for options, non-delta risks

Row 090 - Additional charge for options (non-delta risks) represents the amount of the capital requirement reflected in the following rows, 100:120.

Row 100 - 'Simple approach' represents the capital requirement calculated for those positions in debt securities options specified in Article 176 of the Regulation.

Row 110 - ‘Delta plus approach - additional charge for gamma risk’ represents the capital requirement for gamma risk of the debt securities option, calculated in accordance with Article 180 (3) of the Regulation.

Row 120 - 'Delta plus approach - additional charge for vega risk' represents the capital requirement for vega risk of the debt securities option, calculated in accordance with Article 180 (5) of the Regulation.

Banks shall calculate risk-weighted exposures for this risk by multiplying the total capital requirement with 12.5 and the result is reflected in column 070, row 010.

2.3 Form CR TB SETT – Settlement risk

2.3.1 General provisions

Form CR SETT contains information on unsettled transactions in the banking and trading books, even after the settlement (value date) and capital requirement for the settlement risk in accordance with Article 144 of the Regulation.

In this form, bank shall report information on the settlement risk related to debt securities, equity securities, currency and commodities in the trading book and the banking book.

In the case of unsettled transactions after the settlement date (value date), banks shall calculate the difference at price, to which they are exposed. This is the difference between the agreed settlement price for the instrument and its actual price, when this difference results in loss for the bank.

Banks shall multiply this difference with the respective factor in accordance with table 24 of the Regulation. For transactions unsettled up to four days, the weighting factor shall be 0%.

2.3.2 Content of the columns

This form has columns as follows:

Column 010 - Unsettled transactions at settlement price

This column shows all DVP transactions at their settlement price, which result as unsettled after the value date, irrespective of whether they result in loss or profit after the settlement date.

Column 020 - Price difference exposure due to unsettled transactions

According to Article 144 of the Regulation, banks shall report in this column the difference between the agreed settlement price for the instrument and its actual price, when the difference results in loss for the bank. Banks, therefore, shall report in this column only transactions resulting in loss after the settlement date (value date).

Column 030 - Capital requirements

In this column, banks shall report the capital requirement for the settlement risk for DVP transactions, in accordance with Article 368 of the Regulation.

Column 040 - Risk weighted exposure

Banks calculate risk-weighted exposures for this risk by multiplying the total capital requirement with 12.5 and the result is reflected in column 040, row 010.

2.3.3 Content of the Rows

This table has rows as follows:

Row 010 - Total unsettled transactions in the banking book

In row 010, banks shall report aggregated information in relation to the settlement risk for transactions in the banking book.

Banks shall report in cell 010/010 (row/column) the amount of unsettled transaction after the settlement date (value date) at the settlement price.

Banks shall report in cell 010/020 (row/column) the amount of price difference, due to unsettled transactions resulting in loss.

Banks shall report in cell 010/030 (row/column) the aggregate capital requirement for transactions in the banking book.

Rows 020 - 060 - Unsettled transactions

In these rows, banks shall report transactions in the banking book subject to the settlement risk in accordance with the categories established in Table 24 of the Regulation.

For transactions unsettled up to four days, the weighting factor shall be 0%.

In the next rows, banks shall report the same information as in rows 010-060, but related to transactions in the trading book.

2.4 Form MKR SA COM- Commodity investment risk

2.4.1 General provisions

Form MKR SA COM requests information on positions in commodities and the corresponding capital requirement for these positions, as part of the capital requirement for the market risk.

Banks shall not fill in the fields in grey.

This form shall be reported half-yearly.

2.4.2 Content of the columns

The template has columns, as follows:

Columns 010-020 - All positions - long and short

Banks shall fill out gross long/short positions considering positions in the same *commodity*, in accordance with Article 168 (2) and (6) of the Regulation.

Columns 030-040 - Net positions

Banks shall fill out the net position, in accordance with Article 168 (5).

Column 050 - Positions subject to capital charge

Banks shall fill out positions subject to capital charge in accordance with the methodology set out in Article 168 of the Regulation.

Column 060 - Capital requirements

Banks shall report capital requirements for commodity risk, in accordance with Article 168 of the Regulation.

Column 070 - Risk weighted exposure

Banks calculate risk-weighted exposures for this risk by multiplying the total capital requirement with 12.5 and the result is reflected in column 070, row 010.

2.4.3 Content of Rows

The template has rows, as follows:

Row 010 - Total positions in commodities

Banks shall fill out positions in commodities and the corresponding capital requirement.

Rows 020-060 - Positions by commodity classes

For the purpose of reporting, banks shall group commodities in the following four classes:

- Base metals (zinc, copper, etc.)
- Precious metals (except gold)
- Agricultural products (softs)
- Other

Row 070 - Maturity ladder approach

Banks shall fill out positions in commodities, subject to the maturity ladder approach, in accordance with Article 172 of the Regulation.

Row 090 - Simple approach

Banks shall fill out positions in commodities, subject to the maturity ladder approach, in accordance with Article 171 of the Regulation.

Rows 100-130 - Additional charge for options, non-delta risks

Row 100 - Additional charge for options (non-delta risks) represents the amount of the capital requirement reflected in the following rows, 060:080.

Row 110 - 'Simple approach' represents the capital requirement calculated for those positions in commodities options specified in Article 176 of the Regulation.

Row 120 - 'Delta plus approach - additional charge for gamma risk' represents the capital requirement for gamma risk of commodities options, calculated in accordance with Article 180 (3) of the Regulation.

Row 130 - 'Delta plus approach - additional charge for vega risk' represents the capital requirement for vega risk of commodities options, calculated in accordance with Article 180 (5) of the Regulation.

2.5 Form MKR SA FX- Foreign exchange risk

2.5.1 General provisions

The calculation of the capital requirement for the foreign exchange risk refers to provisions in the Regulation 'On the management of foreign exchange positions' and articles 173 and 174 of the Regulation, as part of the capital requirement for market risk.

Banks shall not fill in the fields in grey.

This table shall be reported half-yearly.

2.5.2 Reporting the net foreign currency position

This table has 13 columns (010-100), of which three are not open for entering data (060-090).

Banks shall first fill out columns 020 and 030, for rows 130 - Euro to row 410 - other currencies.

Positions that banks shall fill out in these cells are related to the ALL equivalent of positions reported in Form 32 of the SRU, except for gold positions. Banks shall fill out the long and short positions (columns 020 and 030 of the form) for rows from 130 - EUR to 400 - Norwegian Corona, based on form 32 of the SRU as follows:

- Long positions for each currency = sum of the spot position (long) + forward position (long) + options position long.
- Short positions for each currency = sum of the spot position (short) + forward position (short) + options position short.

In cells 020/410 (column/row) and 030/410 (column/row), banks shall report positions deriving from investments in CIU, which shall be treated as different currencies, in accordance with Article 174.

The sum of rows 130-410 with column 020, which represents long positions, shall be filled out in cell 020/030 (column row) - All other currencies (including CIUs treated as different currencies).

The sum of rows 130-140 with column 030, which represents short positions, shall be filled out in cell 030/030 (column row) - All other currencies (including CIUs treated as different currencies).

Banks shall fill out cell 020/040 (column/row) long and short positions in and in cell 030/040 referring to the value reported in Form 32 of the SRU.

Banks shall fill out the net position for each currency (columns 040 and 050), for rows 130-140 as a difference between the long and short position for each currency. The difference refers to column 10 of form 32 of the SRU.

The total sum of net long positions for rows 130-410 shall be filled out in cell 040/030 (column/row) - All other currencies (including CIUs treated as different currencies)

The total sum of net short positions for rows 130-410 shall be filled out in cell 050/030 (column/row) - All other currencies (including CIUs treated as different currencies)

Banks shall fill out in row 040, columns 040 and 050 net positions (long and short) in gold.

2.5.3 Reporting capital requirement for open foreign currency net position

Banks shall calculate the net long foreign exchange position of the bank in all currencies as a sum of rows 030 and 040 in column 040.

Banks shall calculate the net short foreign exchange position of the bank in all currencies as a sum of rows 030 and 040 in column 040.

The highest value between the positions, as described above, constitutes the bank's net foreign exchange position. When the net foreign exchange position is higher than 2 %, the banks shall calculate the capital requirement by weighting this position by 8%. The capital requirement shall be filled out in column 090, in rows 030 and 040.

2.5.4 Other risks

To calculate the total capital requirement for the foreign exchange risk, banks shall include also the capital requirement for non-delta risks related to foreign exchange options in the trading book.

This requirement shall be reported in rows 050-080 of the form, according to column 090.

Row 050 - Additional charge for options (non-delta risks) represents the amount of the capital requirement reflected in the following rows, 060:080.

Row 060 - 'Simple approach' represents the capital requirement calculated for those positions in foreign exchange options specified in Article 176 of the Regulation.

Row 070 - 'Delta plus approach - additional charge for gamma risk' represents the capital requirement for gamma risk of foreign exchange options, calculated in accordance with Article 180 (3) of the Regulation.

Row 080 - 'Delta plus approach - additional charge for vega risk' represents the capital requirement for vega risk of foreign exchange options, calculated in accordance with Article 180 (5) of the Regulation.

2.5.5 Capital requirement

Banks shall calculate the total capital requirement for the foreign exchange risk in column 090, row 010 as the sum of capital requirements for foreign exchange positions (row 030 + row 040) and the capital requirement for non-delta risk options (row 050).

Banks calculate risk-weighted exposures for this risk by multiplying the total capital requirement with 12.5 and the result is reflected in column 100, row 010.

3 Capital requirement for operational risk

3.1 Form OPR - Operational risk

3.1.1 General provisions

This form is used to report on the capital requirements for operational risk under the Basic Indicator Approach, the Standardised Approach, and the Advanced Standardised Approach.

Banks shall report only that part of the form that refers to calculations for the selected approach to calculate the capital requirement.

Banks shall not fill in the fields in grey.

This form shall be reported at the end of every year.

3.1.2 Basic Approach

To report the capital requirement according to this approach, banks shall report in columns 010-030 the net income from banking activity for the last three years calculated in accordance with Article 184 (1),(2),(3) (Years: T-3, T-2, T-1, where T is the actual reporting year).

Banks shall report the capital requirement in cel 070/010 (column/row), calculated in accordance with Article 184 (4).

Banks calculate risk-weighted exposures for this risk by multiplying the total capital requirement with 12.5 and the result is reflected in cell 071/010.

3.1.3 Standard Approach

To report the capital requirement according to the standard approach, banks shall report in rows 030-100, in columns 010-030, the net income from banking activity for the last three years in accordance with Article 185 (table 30) of the Regulation.

Banks shall report the capital requirement in cell 070/020, calculated in accordance with Article 185 (1).

3.1.4 Standard Advanced Approach

Rows 110 and 120, in columns 040-060 are related to specific reporting requirements according to the Advanced Standard Approach. In these rows, banks shall report the alternative indicator for both business lines, Commercial Banking and Retail Banking, in accordance with Article 185 (2), and (3).

Banks shall report the capital requirement in accordance with this approach in cell 070/020.

4 Form RMK-Capital Adequacy Ratio

This form is used to reflect the calculation of the capital adequacy ratio by banks.

The form shall be reported quarterly.

ANNEX 8[31]

[31] Repealed by the Decision No. 34, dated 2.5.2018 of the Supervisory Council of the Bank of Albania.