

**BANK OF ALBANIA
SUPERVISORY COUNCIL**

REGULATION

**"ON RISK MANAGEMENT OF THE ACTIVITY
OF BRANCHES OF THE FOREIGN BANKS"**

Approved by the decision No. 57, dated 15.10.2007 of the Supervisory Council, of the Bank of Albania and amended by the decision No.62, dated 29.08.2008 of the Supervisory Council, of the Bank of Albania.

**Chapter I
General Provision**

**Article 1
Object**

The object of this regulation is:

- a. Defining instruments that ensure secure and sustainable activity of the foreign bank branch
- b. Setting maximum limitations of exposure to some of the operational risks of the foreign bank branch;
- c. Defining requirements and obligations on the reporting and certifying documents for the implementation of this regulation.

**Article 2
Subjects**

Subjects of this regulation are foreign bank branches licensed by the Bank of Albania to conduct banking and financial activity in the Republic of Albania, which for simplicity herein this regulation will be referred to as "branch".

**Article 3
Legal ground**

This Regulation is issued in accordance with Article 12, "a" of the Law No. 8269, dated 23.12.1997 "On the Bank of Albania", amended (hereafter referred to as the Law "On the Bank") and Article 57, paragraph 2, Article 58, paragraph 1 letter "b" and "c", Article 59, paragraph 8 and Article 108,

paragraph 2 of the Law No. 9662, dated 18.12.2006 "On Banks in the Republic of Albania"(hereafter referred to as the Law "On Banks").

Article 4 Definitions

For the purpose of implementing this regulation, the terms used have the same meaning as in Article 4 of the Law "On Banks", whereas the following terms shall have the following meanings:

"Capital equivalent deposit" (CED) – is the part of the minimum initial capital endowed and paid-up by the parent-bank for the conduct of activity of its branch in the Republic of Albania, which the branch is obliged to invest in the assets defined under point 7 of Article 59 of the Law "On Banks", according to terms and requirements stipulated in this regulation.

"Parent bank" – is a foreign bank licensed by the responsible authority of the foreign country to conduct banking activity, being given the right by the Bank of Albania to open its branch in the Republic of Albania.

Chapter II Risk management instruments

Article 5 Types of instruments

The ensuring of conduct of banking and/or financial activity of the branch in a secure and sustainable way, as well as the meeting of its obligations to creditors is done through employment of the following instruments:

- a. Guarantees provided by the parent bank for the risk management of its branch, according to stipulations of Article 6 of this regulation.
- b. Investments of the CED, according to stipulations of point 7, Article 59 of the Law "On Banks" and the provisions of this regulation.

Article 6 Parent bank guarantees

To manage the branch risk, the parent bank shall sustain the activity of the branch through:

- a. Endowing initial capital and maintaining appropriate levels of the CED, in accordance with the requirements of this regulation;
- b. Official commitment (in written form) to the Bank of Albania, guaranteeing with its assets all the obligations deriving from the activity of its branch in the Republic of Albania;

- c. Covering financial losses of the branch during a financial year, within the first semester of the subsequent year;
- d. Implementing best standards of accountability in management, through approval and application of internal procedures for a clear division of responsibilities, specifying the reporting ways, adopting clear accounting policies as well as through approval and implementation of proper internal control systems and software for the activity of the branch;
- e. Full implementation of the regulatory supervisory framework of the Bank of Albania;
- f. Provision of information belonging to the parent bank and needed for the Bank of Albania as the supervisory authority of the branch that operates in the Republic of Albania.

Article 7 **CED investment functions**

CED investment is intended to ensure:

- a. Sustainability of the financial position of the branch as a consequence of its investment in high quality and low risk assets;
- b. quick return in cash or cash equivalents, maintaining its value in case the branch is passed to liquidation procedure;
- c. Branch depositors' protection and meeting of obligations to other creditors, in case the branch is subject to liquidation procedures.

Article 8 **CED size**

1. The minimum size of the CED (counter value in ALL) must be:
 - a. At least 50 percent of the initial minimum capital endowed and paid-up in money by the foreign bank, for two first years of the activity of the branch; and
 - b. At least 90 percent of the initial minimum capital endowed and paid-up in money by the foreign bank, in continuation.
2. The amount of the required reserve the branch must hold at the Bank of Albania, pursuant to Article 19 of the Law "On the bank", is not included in calculating the CED size.

Article 9 **CED investment**

1. The branch of a foreign bank, after receiving the licence, shall invest its CED in at least one of the following assets:
 - a) deposit at the Bank of Albania, at an interest rate specified in agreement between the parties and in compliance with the

- criteria specified in the regulation on the general and specific conditions of work at the Bank of Albania;
- b) treasury bills and bonds issued by the Council of Ministers of the Republic of Albania;
 - c) securities issued by the Bank of Albania.
2. The branch is in no case permitted to invest the CED at the parent-bank.
 3. The branch shall invest the assets specified under point 1 of this Article in the Bank of Albania, in case it is subject to liquidation procedures.

Chapter III Exposure to risks

Article 10 Maximum risk limits

1. Concerning the risk the branch is exposed to for specific operations or for its whole operation, it shall apply the following limits:
 - a. The credit outstanding shall not exceed 70 percent of its total assets as at end of the preceding quarter.
 - b. The exposure to a person and/or persons connected to it shall not exceed 5 percent of its total assets as at end of the preceding quarter.
2. The branch shall monitor and verify the observance of risk exposure limitations stipulated under point 1 of this Article, during the whole time of carrying out its activity.
3. In cases the exposure exceeds the limitations stipulated point 1 of this Article, the branch shall immediately report to the Bank of Albania. The notification shall be associated with the proposals for a plan of measures and time needed to reinstate the exposures within the limitations of this regulation.

Article 11 System risk management

1. In view of preventing and managing the system risk emerging from the operation of the branch in the territory of the Republic of Albania, the latter shall implement at least one of¹ the following limitations:
 - a. The average value of its assets, for 2(two) consecutive quarters, shall not exceed 6.25 per cent of the total of banking system assets²;

¹ As amended by the decision of the Supervisory Council No. 62, dated 29.08.2008.

- b. The average value of its deposits, for 2(two) consecutive quarters shall not exceed 6.25 per cent of the total of banking system deposits³.
2. If the branch exceeds the limitations under point 1 of this Article, the Bank of Albania shall notify the branch that in this case it will be subject to the regulatory and supervisory framework applicable for banks.

Chapter IV Supervision and reporting

Article 12 Supervisory measures

1. For the implementation of requirements and obligations of this regulation, the Bank of Albania shall continuously evaluate:
 - a. The CED size according to point 1 of Article 8 of this regulation;
 - b. Assets quality the CED has been invested in, according to point 1 of Article 9 of this regulation.
2. In case of non-meeting the obligations of point 1 of this Article, the Bank of Albania shall apply the provisions stipulated in Articles 74 to 91 of the Law "On Banks" and in other by-laws for its implementation.

Article 13 Reporting obligation

1. For the implementation of requirements and obligations of this Regulation, the branch shall report monthly to the Bank of Albania as specified in Form No. 1 and quarterly as specified in Form No. 2, attached to this Regulation⁴.
2. The branch shall report to the Bank of Albania in accordance with the Unified Reporting System approved by the Bank of Albania for the branch.
3. The branch shall present to the Bank of Albania, within the consecutive month, the monthly financial statements of the parent-bank:
 - a. Capital adequacy ratio;
 - b. Regulatory capital (own funds);
 - c. Non-performing loans to total loans indicator;

² As amended by the decision of the Supervisory Council No. 62, dated 29.08.2008.

³ As amended by the decision of the Supervisory Council No. 62, dated 29.08.2008.

⁴ As amended by the decision of the Supervisory Council No. 62, dated 29.08.2008

- d. Net non-performing loans to regulatory capital (own funds) indicator;
- e. Amount of reserve funds for covering loss loans to non-performing loans indicator;
- f. Liquid assets to total assets indicator.

Article 14 **Documentation of the branch**

For the purpose of implementing this regulation, the branch shall hold at its head-office and make at any time available to the Bank of Albania the documentation specified under point 2 of Article 55 of the Law "On Banks", as well as:

- a. A copy of the Collaboration Agreement concluded between the parent bank and the Bank of Albania;
- b. parent bank's statement, according to point b of Article 6 of this regulation;
- c. latest quarterly financial statements of the parent bank;
- d. latest report of the authorised chartered auditor of the parent bank; and
- e. Parent bank's performance evaluation by the international rating agencies.

Chapter V **Final provisions**

Article 15

The Bank of Albania, in case of non-meeting of the requirements of this regulation, shall execute the provisions stipulated in the Law "On Banks" and in other by-laws implementing it. .

Article 16 **Transitory provisions**

1. All the provisions of other by-laws on branch supervision adopted by the Supervisory Council of the Bank of Albania prior to the entry into force of this regulation will continue to be applied after the entry into force of this regulation, as long as they are not contrary to the provisions of this regulation.

2. The existing branches of foreign banks licensed by the Bank of Albania prior to entry into force of this regulation are bound to meet all the requirements stipulated in this regulation, not later than 3 (three) months after it becomes effective.

Article 17
Entry into force

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

CHAIRMAN
OF THE SUPERVISORY COUNCIL

Ardian Fullani

Form No. 1

FORM OF CAPITAL EQUIVALENT DEPOSIT		
No.	Capital Equivalent Deposit (CED):	Amount
1.	Deposit at the Bank of Albania bearing an interest rate as laid down in their agreement.	
2.	Treasury bills and bonds issued by the Government of the Republic of Albania	
3.	Securities issued by the Bank of Albania	
	AMOUNT	

Form No. 2

MEASURING AND CONTROLLING RISK LIMITS		
Code	(in thousand of leks)	Amount
1	Total of assets at end of the preceding quarter	
2	Credit outstanding of the reporting quarter	
3	Credit outstanding / total of assets ratio	
4	Maximum risk limit	70%
5	5 % of the total of assets at end of the preceding quarter	
	Exposure listing	
	Name of the beneficiary*	Amount
1		
2		
3		
etc.		

* Persons and/or connected persons exceeding the level of 5 % shall be reported at.