REPUBLIC OF ALBANIA
BANK OF ALBANIA
SUPERVISORY COUNCIL

DECISION
No. 10, dated 26.02.2014

ON
APPROVING THE REGULATION
“ON THE RISK MANAGEMENT FROM LARGE EXPOSURES OF BANKS”

Pursuant to and in implementation of Article 12, letter “a”, Article 43, letter “c” of the Law No. 8269, dated 23.12.1997 “On the Bank of Albania”, as amended, Article 57, paragraph 2, Article 58, letters “b” and “c”, Articles 60, 62, 63,64, 65 and 131 of the Law No. 9662, dated 18.12.2006 “On Banks in the Republic of Albania”, with proposal by the Supervision Department, the Supervisory Council of the Bank of Albania

DECIDED:

1. To approve the Regulation “On the Risk Management from Large Exposures of Banks”, as attached herein.

2. Banks licensed by the Bank of Albania are responsible for implementing this decision.

3. The Bank of Albania's Supervision Department is responsible for observing the implementation of this decision.

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

5. Upon entry into force of this decision, the decision no. 31, dated 30.04.2008 “On Approving the Regulation “On the Risk Management from Large Exposures of Banks”, amended, shall be abrogated.

This decision shall enter into force on December 31, 2014.

SECRETARY	**CHAIRMAN**
Elvis Çibuku	**Ardian Fullani**

REGULATION

"ON THE RISK MANAGEMENT FROM LARGE EXPOSURES OF BANKS"

(Adopted with decision No. 10, dated 26.02.2014 and amended by decision No.20, dated 04.03.2015, by decision No.50, dated 01.07.2015, by circulating decision No.23, dated 1.4.2020, by decision No.53, dated 2.9.2020 and by decision No.6, dated 13.1.2021 of the Supervisory Council of the Bank of Albania)

CHAPTER I
General Provisions

Article 1
Purpose

The purpose of this Regulation is to set out rules and criteria for calculating, supervising and reporting bank's large exposures to a person/client or group of persons/clients connected between them or with the bank, for the purpose of managing the risk arising from concentrated exposure to them.

Article 2
Entities subject to this regulation

Entities subject to this regulation are banks licensed by the Bank of Albania to carry out financial and banking business in the Republic of Albania.

Article 3
Legal basis

This regulation is compiled pursuant to and in implementation of:

a) Article 12, letter 'a', Article 43, letter 'c' of the Law No. 8269, dated 23.12.1997 "On the Bank of Albania", as amended; and
b) Article 57, paragraph 2, Article 58, letters 'b' and 'c', Articles 60, 62, 63, 64, 65 and 131 of the Law No. 9662, dated 18.12.2006 "On Banks in the Republic of Albania".

Article 4
Definitions

1. The terms used in this Regulation have the same meaning as those defined in Article 4 of the Law No. 9662, dated 18.12.2006 "On Banks in the Republic of Albania" and

Regulation “On Capital Adequacy Ratio” (for simplicity, hereinafter called regulation on capital adequacy).

2. [1]In addition to paragraph 1 of this Article, for the purpose of implementing this Regulation, the following terms shall have these meanings:

   a) “exposures to a scheme” – are exposures that are classified, according to the regulation on capital adequacy, into the following exposure classes:

      i. Exposures on securitization positions;
      ii. exposures in the form of collective investment undertakings;
      iii. other items.

   b) “unknown person” - is a single hypothetical person, to whom the bank assigns all exposures, for which it fails to identify the debtor, as provided in Annex 1 of this regulation;

   c) “qualifying central counterparty” - is an entity that is licensed to operate as a central counterparty, by the appropriate supervisory and regulatory authorities. Qualifying central counterparty is established and prudentially supervised in a jurisdiction where the relevant regulator/supervisor has established and applies on an ongoing basis, rules and regulations that are in line with international principles for financial market infrastructure;

   d) “systemically important banks” - are the banks licensed and conducting their activity in Republic of Albania, being defined as such according to the decision of the Bank of Albania, based on the regulation "On macroprudential capital buffers";

CHAPTER II
Calculation of large exposures

Article 5
Exposures

1. Exposure of a bank to a person, group of connected persons or a third party is calculated in accordance with the provisions of Article 62 of the Law “On Banks in the Republic of Albania”.

2. [2]Banks, in the cases when they are obliged to calculate the capital requirement for market risk, in accordance with Chapter VII of the regulation on capital adequacy ratio, shall

[1] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020.
[2] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020.

determine also the risk position in trading books and the total exposure to a borrower or group of connected borrowers according to Article 165 of the regulation on capital adequacy, by following the steps below:

a) banks shall net/offset the long (buy) and short (sell) positions for the same issue[3]. This way, banks will consider the net position in each specific issue, for the purposes of calculating the bank's exposure to a given counterparty;
b) banks shall net/offset the long (buy) and short (sell) positions on diferent issues (type of securities) from the same counterparty (same issuer), only when the short position is junior to the long position, or when the positions are of the same seniority;
c) for positions hedged by credit derivatives, the hedge may be recognized only if the hedging and the hedged position meet the condition of letter "b";
d) in order to determine the relative seniority of positions, banks allocate securities into broader buckets, according to the level of senority (for example: "Capital", "Subordinated debt" and "Senior debt". If banks find it difficult to allocate securities to different buckets based on relative senority, they do not recognize offsetting of long and short positions in different issues related to the same counterparty, for the purpose of calculating exposures;
e) in the case of positions hedged by credit derivatives, for any reduction in exposure to the original counterparty, as a result of an acceptable credit risk mitigation technique, banks recognize a new exposure to the credit protection provider. The amount of exposure assigned to the credit risk protection provider is equal to the amount by which the exposure to the original counterparty is reduced (except in the cases specified in letter "f" of this paragraph);
f) when the credit protection takes the form of a credit default swap and the protection provider or referenced entity is not a financial entity, the amount to be assigned to the credit protection provider is not the amount by which the exposure to the original counterparty is reduced, but is the counterparty credit risk exposure value, calculated according to Chapter VI of regulation on capital adequacy ratio. For the purpose of this letter, financial entities include:

    i. supervised institutions, as defined in Article 4 of regulation on capital adequacy ratio; and
    ii. other financial institutions, other than those provided in sub-paragraph “i”.

2/1. [4]Banks do not net/offset between short positions in the trading book and long positions in the banking book.

2/2. [5]When the offsetting result is a net short position with a single counterparty, this net exposure shall not be considered as an exposure for the purpose of calculating large exposures.

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[3] Two issues will be considered "the same" if the issuer, coupon, currency and maturity are the same.
[4] Added upon the Supervisory Council decision No. 53, dated 2.9.2020.
[5] Added upon the Supervisory Council decision No. 53, dated 2.9.2020.

3. Banks shall calculate the total exposure to a person or group of connected persons as the sum of exposures in the banking and trading books.

4. Exposure to a group of connected persons is the sum of exposures to persons forming the group of connected persons.

5. In determining the group of connected persons, in the case of exposures to a scheme, the banks shall assess the total scheme, underlying exposures or the aggregate (scheme & exposures).

6. In pursuance of requirements in paragraph 5 of this Article, the banks shall assess the economic nature and risks inherent in the structure of transaction, using one of the methods specified in Annex 1 attached to this Regulation.

7. [6]Banks, when calculating the exposure value in the banking book, take into account the accounting value of the asset items (the balance sheet value after deducting the reserve funds to cover losses) and the value of the off-balance sheet items (after applying the percentages specified in article 9, paragraph 1 of the regulation on capital adequacy), before weighting by risk weights.

8. In calculating the exposure value for derivatives provided in Annex 4 of the regulation on capital adequacy, the banks shall use one of the methods specified in Chapter VI of the regulation on capital adequacy (Counterparty Credit Risk).

9. Notwithstanding the above provisions of this Article, the banks shall not consider as part of exposure the items deducted from the bank's regulatory capital.

10. Notwithstanding the above provisions of this Article, the banks shall not include in the calculation of exposure:

    a) in the case of foreign exchange transactions, exposures (payments in process), arising from the normal settlement activity during two working days;

    b) in the case of outright transactions, exposures (payments in process) arising from the normal settlement activity during five working days of making the payment or delivering the security, whichever is the earliest;

    c) [7]exposures (payments in process), in the case of money transfers, including the execution of payment services, clearing and settlement in any currency and correspondent banks, or financial instruments clearing, settlement and custody services to clients, delayed receipts in funding and other exposures arising from client activity which do not last longer than the following business day, as well as

[6] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020.
[7] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020.

d) [8]exposures (payments in process), in the case of money transfers, including execution of payment services, clearing and settlement in any currency and correspondent banks, intra-day exposures to institutions providing those services.

Article 6[9]
Large exposures

1. Bank exposure to a person or group of persons connected between them or with the bank is considered as large, when its value is equal to or above 10% of its regulatory capital.

2. The banks shall calculate large exposures before applying the credit risk mitigation techniques and exemptions or reductions specified in Article 8[10] of this regulation.

CHAPTER III
Calculation of large exposures

Article 7[11]
Maximum allowed exposure

1. The banks shall observe, at any time, the maximum allowed limits on large exposure, provided in Article 64 of the Law "On Banks in the Republic of Albania" and in Bank of Albania's by-laws, as well as restrictions on lending, provided in Article 131 of the Law "On Banks in the Republic of Albania".

1/1. [12]Exposure of one systemically important bank to another systemically important bank and and group of persons connected to it (with the bank), subject to the consolidated supervision of the Bank of Albania, shall not exceed 15 percent of its (bank's) Tier 1 capital.

2. The banks shall calculate the maximum permissible exposure after applying the risk mitigation techniques and exemptions or reductions provided in Article 8[13] of this Regulation.

3. [14]The Board of Directors of the bank shall establish special rules and regulations for monitoring and controlling the exposures to persons with a special relationship with the bank, including the loans, granted to them.

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[8] Added upon the Supervisory Council decision No. 53, dated 2.9.2020.
[9] Renumbered upon the Supervisory Council decision No. 53, dated 2.9.2020.
[10] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020.
[11] Renumbered upon the Supervisory Council decision No. 53, dated 2.9.2020.
[12] Added upon the Supervisory Council decision No. 53, dated 2.9.2020.
[13] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020.
[14] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020.

Article 8[15]
Exemptions and reductions

1. In cases of using funded or unfunded credit protection, which results in total or partial exemption of an exposure or in its reduction, the banks shall meet the recognition criteria and all the minimum requirements stipulated in Chapter IV of the regulation on capital adequacy (including credit derivatives but excluding credit linked notes).
2. In calculating the maximum permissible exposures, banks shall exclude, either totally or partially, the following exposures:

   a) exposures to central governments and their central banks, which are assigned a 0% risk weight, in accordance with the regulation on capital adequacy;
   b) exposures to international organisations and multilateral development banks, which are assigned a 0% risk weight, in accordance with the regulation on capital adequacy;
   c) exposures guaranteed literally by central governments, central banks, international organisations, multilateral development banks or public sector units, in the conditions when exposures to provider of the guarantee of the guarantee are assigned a 0% risk weight, in accordance with the regulation on capital adequacy;
   d) other exposures, which may be classified as exposures to units specified in letter “c” of this paragraph or are guaranteed by units specified in letter “c” of this paragraph, when exposures to such units are assigned a 0% risk weight, in accordance with the regulation on capital adequacy;
   e) exposures to or guaranteed by regional governments or local authorities, which are assigned a 0% risk weight, in accordance with the regulation on capital adequacy;
   f) other exposures secured by collateral, in the form of deposits placed at the bank calculating the exposure, or at its subsidiary or its parent bank, and:
      i. cash accepted in the case of credit-linked notes issued by banks; and
      ii. loans made by banks and deposits at banks that are subject to on-balance-sheet netting, in accordance with the regulation on capital adequacy;
   g) other exposures secured by collateral, in the form of certificates of deposits, issued and registered by the bank calculating the exposure, or its subsidiary or its parent bank;
   h) exposures arising from non-withdrawn loan commitments, which are classified as risk-free off-balance-sheet items (Annex 2 of the regulation on capital adequacy), provided an agreement or contract has been signed, on the basis of which the funds shall not be withdrawn, if funds withdrawal causes exceeding of the limits set in Article 7[16] of this Regulation;
   i) exposures to qualifying central counterparties[17] and funds’ contributions to covering qualifying central counterparty[18] losses;
   j) [19]exposures, with not more than 80% of their value, in the form of guaranteed bonds, which meet the conditions set out in Article 26 of the regulation on capital adequacy ratio;

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[15] Renumbered upon the Supervisory Council decision No. 53, dated 2.9.2020.
[16] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020.
[17] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020.
[18] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020.
[19] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020.

k) [20]repealed;

l) exposures, not exceeding 50% of their value, to regional governments or local authorities of EU member states, which will be assigned a 20% risk weight, and other exposures to or guaranteed by regional governments or local authorities of EU countries, which will be assigned a 20% risk weight;

m) [21]when the counterparty of the bank is its parent bank, another subsidiary of the parent bank, its subsidiary (bank) or a financial institution, where the bank holds a qualifying holding, the bank reduces exposures, based on the risk weight assigned to the counterparty, in accordance with Chapter III of the regulation on capital adequacy, according to the following percentages:

   i. by not more than 80% of the value of the exposures, if the counterparty is assigned a risk weight of 20%,
   ii. by not more than 60% of the value of the exposures, if the counterparty is assigned a risk weight of 50%,
   iii. by not more than 40% of the value of the exposures, if the counterparty is assigned a risk weight of 100%,

and when the following conditions are met:

   iv. the counterparty is a supervised bank or institution, established in Albania, in one of the EU member states or in a third country with regulatory and supervisory criteria, at least equivalent to those of the Bank of Albania,
   v. the counterparty is included in the same consolidated supervision of the Bank of Albania such as the bank, or is part of the same foreign banking / financial group to which the bank belongs to, and
   vi. exposures to this counterparty are not part of its (counterparty's) regulatory capital;

n) [22]exposures, with not more than 50% of their value, that are created and derived from off-balance sheet items with low risk, in the form of documentary credit, in which underlying shipment or the commodity serves as collateral and undrawn credit facilities, as provided in Annex 2 of the regulation on capital adequacy;

o) [23]repealed;

p) [24]exposures, not exceeding 50% of their value, in debt securities of the Albanian Government in foreign currency.

3. [25]Repealed.

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[20] Repealed upon the Supervisory Council decision No. 53, dated 2.9.2020.
[21] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020.
[22] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020.
[23] Added upon the Supervisory Council decision No. 20, dated 04.03.2015 and repealed upon the Supervisory Council decision No. 53, dated 2.9.2020.
[24] Added upon the Supervisory Council decision no. 50, dated 01.07.2015. This change is valid for a period up to January 1, 2021.
[25] Repealed upon the Supervisory Council decision No. 53, dated 2.9.2020.

4. [26]Banks shall not use simultaneously two exemptions or reductions provided in paragraph 2 of this article, for the same exposure.

Article 9[27]
Exposures secured by guarantee or collateral issued by a third party (Substitution approach)[28]

1. In the cases that the exposure to a person is secured by a third party, the banks may treat/consider the secured part of the exposure as exposure to the guarantor, only if, in accordance with the regulation on capital adequacy, the unsecured exposures of the guarantor would be assigned a risk weight equal to or smaller than the risk weight assigned to an unsecured exposure of the person/client.

2. In calculating the exposure to guarantor (in the cases of implementing the provision specified in paragraph 1 of this Article), the banks shall consider the following criteria:
   a) if the collateral is expressed in a currency other than that of the exposure, the amount of the covered (guaranteed) exposure[29] is calculated in accordance with the provisions on treatment of currency mismatches in the case of unfunded credit protection[30], as specified in Chapter IV of the regulation on capital adequacy;
   b) if there is a mismatch between the maturity of exposure and the maturity of collateral, it shall be treated in accordance with the provisions on treatment of maturity mismatches, as provided under Chapter IV of the regulation on capital adequacy; and
   c) if the coverage is partial, the [31]partial recognition of the guarantee is realized as defined in Chapter IV of the regulation on capital adequacy.

3. In the cases when exposure to a person is secured by a recognised collateral issued by a third party, the banks may treat/consider the secured/collateralised part of exposure as exposure to issuer of collateral, only if the following conditions are met:

   a) the recognised collateral is estimated at market price;
   b) the secured/collateralised part of exposure is assigned a risk weight equal to or less than the risk weight that would be assigned to an unsecured exposure to a person/client, in accordance with the regulation on capital adequacy;
   c) there is no maturity mismatch between the maturity of [32]exposure and maturity of collateral.

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[26] Added upon the Supervisory Council decision No. 53, dated 2.9.2020.
[27] Renumbered upon the Supervisory Council decision No. 53, dated 2.9.2020.
[28] Amended the title of the article upon the Supervisory Council decision No. 53, dated 2.9.2020.
[29] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020.
[30] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020.
[31] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020.
[32] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020.

CHAPTER IV
Supervision and reporting

Article 10[33]
Monitoring and supervisory requirements

1. Banks shall compile and implement policies and procedures for identifying, recording and monitoring large exposures to a person or group of connected persons, arising from items in the banking and trading books.

2. Steering Council shall be particularly responsible for decision-making in the cases of creation and restructuring of exposures to large borrowers.

3. Banks shall compile complete administration and accounting procedures, appropriate information systems and appropriate internal audit systems to implement the policies and procedures provided in paragraph 1 of this Article.

4. Banks shall compile internal audit systems, in order to prevent temporary transfers of exposures in question to another person and conducting of fictive transactions to close exposure and create a new exposure.

5. In order to determine the possible concentration risk, the banks shall compile policies and procedures for identifying, analysing and monitoring exposures to credit protection providers and unfunded credit protection providers, and exposures in the form of secured bonds and exposures to schemes.

6. Banks shall analyse the risk of exposure to large borrowers from the moment that the exposure was created and onward, being based on certified/audited financial statements.

7. Banks shall compile recovery and resolution plans on large borrowing and shall review them not less than once a year.

8. [34]Banks draft and review in cooperation with each other, common recovery and resolution plans, for borrowers/group of related borrowers, when the exposure to this borrower/group is a large exposure, in at least one of the banks.

[33] Renumbered upon the Supervisory Council decision No. 53, dated 2.9.2020.
[34] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020.

Article 11[35]
Reporting requirements

1. [36]Banks, for the purpose of reporting and monitoring, complete and submit on a quarterly basis to the Bank of Albania, Form No. 1, part of Annex 2, attached to this regulation, which includes the following information:

   a) reporting of all large exposures of the bank to individual persons/clients and groups of connected clients, the value of which, before exemptions, reductions and before application of credit risk mitigation techniques, is equal or above 10% of the bank's regulatory capital, as provided in article 6 of this regulation;
   b) reporting of all bank exposures to individual persons/clients and groups of connected clients, the value of which, before exemptions, reductions and before application of credit risk mitigation techniques, is equal or above 10% of the bank's Tier 1 capital;
   c) reporting the bank's 20 largest exposures, regardless of whether or not they reach/exceed 10% of regulatory capital, before exemptions, reductions and before application of credit risk mitigation techniques;
   d) reporting the bank's 10 largest exposures to supervised institutions, regardless of whether or not they reach/exceed 10% of regulatory capital, before exemptions, reductions and before application of credit risk mitigation techniques ;
   e) reporting of all exposures of the systemically important bank to other systemically important banks and group of persons connected to them (with the banks), subject to the consolidated supervision of the Bank of Albania;
   f) reporting of all bank exposures to persons/groups of persons with special relationship with the bank;
   g) reporting of all bank exposures to central governments.

2. The banking group shall report, on a consolidated basis, the maximum allowed exposures and relations with connected persons, every 3 (three)[37] months. This reporting shall be made in accordance with the forms required in [38]in the regulation "On the consolidated supervision".

3. The Bank of Albania, when it deems as reasonable, has the right to require and order changes in the content and frequency of reporting, [39]from what is provided in paragraph 1 and 2 of this article.

[35] Renumbered upon the Supervisory Council decision No. 53, dated 2.9.2020.
[36] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020.
[37] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020.
[38] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020.
[39] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020.

Article 12[40]
Preventive and penalising measures

The Bank of Albania, when noticing any infringement, by banks, of obligations deriving from this regulation, shall apply the administrative, supervisory, preventive and penalising measures provided in Articles 74 to 81, and Article 89 of the Law “On Banks in the Republic of Albania”.

Article 13[41]
Temporary provision

Exceptionally from the definition of Article 8, paragraph 2, letter ‘‘p’’ [42], of this regulation, the exposures in Albanian Government’s debt securities in foreign currency that will be issued during 2020, shall not be included in the maximum permissible limit.

This provision shall apply until the maturity of these securities.

Chairman of the Supervisory Council

Ardian Fullani

[40] Renumbered upon the Supervisory Council decision No. 53, dated 2.9.2020.
[41] Renumbered upon the Supervisory Council decision No. 53, dated 2.9.2020
[42] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020.

[43]ANNEX 1

Treatment of exposures to schemes

1. Banks shall treat exposures to schemes by considering/assessing the exposure to total scheme, to underlying exposures of a scheme or the aggregate (scheme and underlying exposures).

2. If the banks identify the individual underlying exposure to a scheme, they shall monitor the structure of respective exposures to a scheme regularly and, at least, on monthly basis.

Determination of the relevant counterparties to be considered

3. A bank may assign the exposure amount to the scheme itself, defined as a distinct counterparty, if it can demonstrate that the bank's exposure amount to each underlying asset of the scheme is smaller than 0.25% of its regulatory capital, considering only those exposures to underlying assets that result from the investment in the scheme itself and using the exposure value calculated according to paragraphs 8 and 9[44] of this Annex. In this case, a bank is not required to analyse the scheme with *"Look-Through"* approach to identify the underlying assets.

4. A bank must analyze the scheme, using "*Look-Through"* approach to identify those underlying assets for which the underlying exposure value is equal to or above 0.25% of its regulatory capital. In this case, the counterparty corresponding to each of the underlying assets must be identified so that these underlying exposures can be added to any other direct or indirect exposure to the same counterparty. The bank's exposure amount to the underlying assets that are below 0.25% of the bank's regulatory capital may be assigned to the scheme itself (the bank may conduct a partial *look-through* analysis).

5. If a bank is unable to identify the underlying assets of a scheme, where the total amount of its exposure to the scheme does not exceed 0.25% of its regulatory capital, the bank must assign the total exposure amount of its investment to the scheme. Otherwise, it must assign this total exposure amount to the "unknown client". The bank must aggregate all unknown exposures as if they related to a single counterparty (the "unknown" client) and the exposure of the bank to that "unknown" client shall not exceed the required limit for large exposure of 20% of regulatory capital.

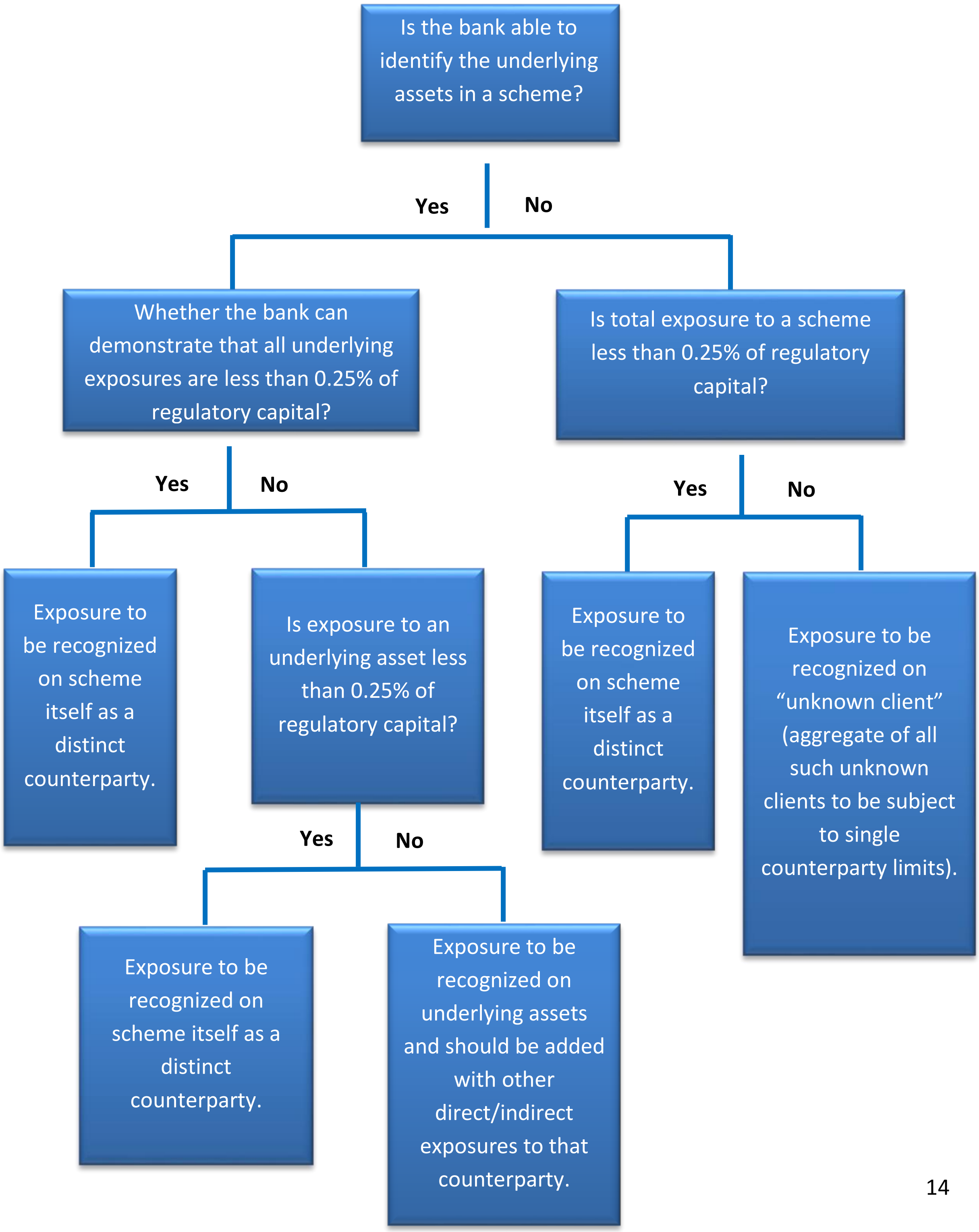
6. Banks shall not, at any case, abuse in selecting the exposure treatment method, for purposes of preventing compliance with the maximum allowed large exposure limit, by investing in several individually immaterial transactions with identical underlying assets. At any case the banks shall demonstrate that the decision to apply one of the treatments

[43] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020

[44] By definition, this required test will be passed if the bank's whole investment in a scheme is below 0.25% of its regulatory capital.

included in this Annex is taken on the basis of assessment of the economic nature and risks arising from these exposures/transactions.

<u>***"Look – Through"* Approach – Decision-making chart**</u>



Calculation of underlying exposures - bank’s exposure amount to underlying assets

7. If the “*Look-Through*” approach need not be applied, a bank’s exposure to the scheme must be the nominal amount it invests in the scheme.

Schemes where all investors rank pari passu (eg collective investment undertakings CIU)

8. When the analysis (*Look-Through* approach) is required according to the paragraphs above, the exposure value assigned to a counterparty is equal to the pro rata share that the bank holds in the scheme, multiplied by the value of the underlying asset in the scheme. Thus, a bank holding a 1% share of a scheme that invests in 20 assets, each with a value of 5 units, must assign an exposure of 0.05 to each of the counterparties. An exposure to a counterparty must be added to any other direct or indirect exposures the bank has to that counterparty.

   Schemes with different seniority levels among investors (eg securitisation vehicles)

9. When the analysis (*Look-Through* approach) is required according to the paragraphs above, the exposure value to a counterparty is measured for each tranche within the scheme, assuming a pro rata distribution of losses amongst investors in a single tranche. To compute the exposure value to the underlying asset, a bank must:
   • *first*, consider the lower of the value of the tranche in which the bank invests and the nominal value of each underlying asset included in the underlying portfolio of assets; and
   • *second*, apply the pro rata share of the bank’s investment in the tranche to the value determined in the first step above.

Identification of additional risks

10. Banks must identify third parties that may constitute an additional risk factor inherent in a scheme itself rather than in the underlying assets. Such a third party could be a risk factor for more than one scheme that a bank invests in. Examples of roles played by third parties include originator, fund manager, liquidity provider and credit protection provider.

11. The identification of an additional risk factor has two implications.

- *First,* banks must connect their investments in those schemes with a common risk factor to form a group of connected counterparties. In such cases, the manager would be regarded as a distinct counterparty so that the sum of a bank’s investments in all of the funds managed by this manager would be subject to the maximum allowed limit for large exposures, with the exposure value being the total value of the different investments. But in other cases, the identity of the manager may not comprise an additional risk factor – for example, if the legal framework governing the regulation of particular funds requires separation between the legal entity that manages the fund and the legal entity that has custody of the fund's assets.

In the case of structured finance products, the liquidity provider or sponsor of short-term programmes (asset-backed commercial paper – ABCP – conduits and structured investment vehicles – SIVs) may be considered as an additional risk factor (with the exposure value being the amount invested). Similarly, in synthetic deals[45], the protection providers (sellers of protection by means of credit default swaps/guarantees) may be an additional source of risk and a common factor for interconnecting different structures (in this case, the exposure value would correspond to the percentage value of the underlying portfolio).

- *Secondly*, banks may add their investments in a set of schemes associated with a third party, which constitute a common risk factor to other exposures (such as a loan) it has to that third party. Whether the exposures to such schemes must be added to any other exposures to the third party would again depend on a case-by-case consideration of the specific features of the structure and on the role of the third party. In the example of the fund manager, adding together the exposures may not be necessary because potentially fraudulent behaviour may not necessarily affect the repayment of a loan. The assessment may be different where the risk to the value of investments underlying the scheme arises in the event of a third-party default. For example, in the case of a credit protection provider, the source of the additional risk for the bank investing in a scheme is the default of the credit protection provider.

  The bank must add the investment in the scheme to the direct exposures to the credit protection provider since both exposures might translate into losses, in the event that the protection provider defaults (ignoring the covered part of the exposures may lead to the undesirable situation of a high concentration risk exposure to issuers of collateral or providers of credit protection).

[45] Synthetic deals are deals/contracts for financial instruments that are engineered to simulate other instruments while altering key characteristics. Often, synthetic deals offer investors customized cash flow models, maturities, risk profiles, etc. Synthetic deals are structured to respond to the needs of the investor.

[46]ANNEX 2

Form No.1

No.	Reporting date	Bank name	Exposure typology	Name of the group of related parties	Client number depending on the exposure typology	Accounting Typology	Ranking of exposures	Ranking of the bank's largest exposures to Supervised Institutions	Client name	NUIS / Identification Number	Exposure prior to exemptions, reductions and credit risk mitigation (for BBI only)	Positions in financial instruments (for TBI only)		
												Long position	Short position	Net long position
	1	2	3	4	5	6	7	8	9	10	11	12	13	14 = 12 - 13
1														
2														
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[46] Amended upon the Supervisory Council decision No. 53, dated 2.9.2020

Positions in financial instruments in the case of a signed promise to purchase (for TBI only).			Counterparty credit risk exposure (for TBI only)	Exposure prior to exemptions, reductions and credit risk mitigation (for TBI only)	Total exposure prior to exemptions, reduction and credit risk mitigation (BBI+TBI)	Of which (20): Exposure prior to exemptions, reductions and credit risk mitigation as a result of substitution	Of which (20): Exposure prior to exemptions, reductions and credit risk mitigation from the amount of loans (only for exposures to SIRB, GSIRB, ICRB and GPRB categories)	Percentage to regulatory capital prior to exemptions and credit risk mitigation	Percentage toTier 1 capital prior to exemptions and credit risk mitigation	Unfunded credit protection	Funded credit protection	Exemptions and reductions
Promise to purchase	Transferred to a third party	Difference										
15	16	17 = 15 - 16	18	19 = 14 + 17 + 18	20 = 11 + 19	21	22	23 = 20 / 30	24 = 20 / 31	25	26	27

Exposure after exemptions, reductions and credit risk mitigation for BBI	Total exposure after exemptions, reductions and credit risk mitigation	Bank's regulatory capital on the reporting date	Bank's Tier 1 capital on the reporting date	Percentage to regulatory capital, after exemptions, reductions and credit risk mitigation	Percentage to Tier 1 capital, after exemptions, reductions and credit risk mitigation	Maximum allowed limit	Exceeding the maximum allowed limit	Large exposures that exceed 10% of the bank's regulatory capital	Measurement of the sum of large exposures that exceed 10% of the bank's regulatory capital	Measurement of loan exposures for groups of counterparties related to the bank (SIRB, GSIRB, ICRB and GPRB)
28 = 11 - (25 + 26 + 27)	29 = 20 - (25 + 26 + 27)	30	31	32 = 29 / 30	33 = 29 / 31	34	35	36	37	38

Instructions for filling the Form 1

Number of	Title of column	Content description
1	**Reporting date**	The reporting date is selected according to the reporting period.
2	**Bank name**	The bank name is selected according to the following abbreviations.
		AB - Alpha Bank
		ABI - American Bank of Investments
		UBA - United Bank of Albania
		CB - Credins Bank
		NCB - National Commercial Bank.
		PCB - ProCredit Bank
		FIB - First Investment Bank
		RB - Raiffeisen Bank
		TB - Tirana Bank
		UB - Union Bank
		ISBP - Intesa Sanpaolo Bank
		OTP - OTP Bank
3	**Exposure typology**	Contains the categorization of exposure based on the counterparty, as defined in this regulation. The column shall be filled in according to predefined criteria. The counterparty categorization list is given below. For each of the counterparties there will be an ordinal number to distinguish the counterparties of the same typology. This column will be completed for all exposures. In cases where more than one exposure belongs to a related group, for GRP, GRSI, GSIRB, GPRB codes, for each of the exposures the same code with the same ordinal number will be completed.
	IC	Individual client
	GRP	Group of Related Persons
	ISI	Individual Supervision Institutions
	GRSI	Group of Related Supervised Institutions
	SIRB	Supervised Institutions with special relationship (Related) with the Bank
	GSIRB	Group of Supervised Institutions with special relationship (Related) with the Bank
	ICRB	Individual client with special relationship (Related) with the Bank
	GPRB	Group of Persons with special relationship (Related) with the Bank
	CG	Central Government
	CB	Central Bank
	IO & MDBS	International Organizations and Multilateral Development Banks
	RG & LA & PSEs	Regional Government, Local Authorities and Public Sector Entities
	SYS	Systemic Bank within the country and the group of related persons, which are subject to the consolidated supervision of the Bank of Albania
4	**Name of the group of related parties**	A summary name is established for the group of related parties and the same name is repeated for each individual exposure reported.
5	**Client number depending on the exposure typology**	Contains the individual exposure number when it is part of a related group. This column is completed only for exposures that in the "Exposure Typology" column have received the code GRP, GRSI, GSIRB, GPRB . For the first value of each group, select the "Total" option. In the following, for each exposure of the group select from an ordinal number, starting from number 1, in order to identify the number of exposures part of the group.
6	**Accounting Typology**	Contains the determination of the accounting nature recorded by dividing the items of the banking book and the items of the trading book.
	BBI	Banking book item
	TBI	Trading book item
	BBI + TBI	This choice is made when the exposure to the client or group contains both types of accounting typology
7	**Ranking of exposures**	Determine the order to which the exposure belongs. The ranking is done by setting no. 1 for the bank's largest exposure, and so on. Referring to Article 11 of the Regulation, in this column the ordinal number must reach at least 20, and more than 20 if the bank has more than 20 large exposures that exceed the level of 10% of the bank's regulatory capital and at the same time those that exceed the level of 10% of the bank's tier I capital. In the case of group related parties, for each of the exposures of the same group, the same ordinal number is assigned to which corresponds the order of the group exposure.
8	**Ranking of the bank's largest exposures to Supervised Institutions**	Determine the order to which the exposure to a supervised institution belongs (including exposures to supervised institutions with a special relationship with the bank). The ranking is done by setting no. 1 for the bank's largest exposure to the supervised institution, and so on. Referring to Article 11 of the Regulation, in this column the ordinal number must reach at least 10, and more than 10 if the bank has more than 10 large exposures that exceed the level of 10% of the bank's regulatory capital and at the same time those that exceed the level of 10% of the bank's tier I capital. In the case of related groups of supervised institutions (with the code GRSI or GSIRB), for each of the exposures of the same group, the same ordinal number is assigned to which corresponds the order of the group of supervised institutions' exposure.
9	**Client's name**	
10	**NUIS / Identification Number**	A unique identification number is assigned to each client. For cases of exposures that are reported in the credit register, NUIS is set, the same as that reported in the credit register. In other cases, the bank sets its own identification number.
11	**Exposure prior to exemptions, reductions and credit risk mitigation (for BBI only)**	The sum of exposure, calculated in accordance with Article 5 of this regulation, added for the amount of exposure, as a result of substitution, according to Article 9 of this regulation (part from exposure guaranteed by a third party or secured by collateral issues by a third party, which has been treated as exposure to collateral pledgers or issuers), only for banking book items.
	Positions in financial instruments (for TBI only)	The value of short and long positions of all financial instruments issued by the said person/client, where the net position for each financial instrument are calculated in accordance with the regulation "On capital adequacy ratio" (Chapter VII - Market Risk). When calculating the exposure to a person/individual client as a result of positions in various financial instruments, there are summed the net positions for different financial instruments of these persons/clients. The columns 12, 13 and 14, are completed only for trading book items.
12	Long position	Long positions in financial instruments
13	Short position	Short positions in financial instruments
14	Net long position	Net long position in financial instruments
	Positions in financial instruments in the case of a signed promise to purchase (for TBI only)	The amount of exposure arising from promise to purchase financial instruments of persons/individual clients, in the case of preparing and finalising the signing, reduced for the amount of financial instruments, which are already transferred to third parties and the calculated net exposure (difference). The columns 15, 16 and 17, are completed only for trading book items.
15	Promise to purchase	Commitment/Promise to purchase
16	Transferred to a third party	The sum of financial instruments that have been transferred to third parties
17	Difference	Calculated net exposure
18	**Counterparty credit risk exposure (for TBI only)**	Exposure to a person/individual client, as a result of transactions, agreements or contracts related to counterparty credit risk, calculated in accordance with the methods provided in the regulation "On capital adequacy ratio".
19	**Exposure prior to exemptions, reductions and credit risk mitigation (for TBI only)**	The sum of exposures presented in columns 14, 17 and 18, for trading book items.

20	**Total exposure prior to exemptions, reductions and credit risk mitigation (BBI+TBI)**	The total of columns 11 and 19 (for banking book and trading book items).
21	**Of which (20): Exposure prior to exemptions, reductions and credit risk mitigation as a result of substitution**	The part of exposure guaranteed by a third party or secured by collateral issued by a third party, which is treated as exposure to guarantor or issuer of collateral - use of substitution in accordance with Article 9 of this regulation (the amount included in column 20).
22	**Of which (20): Exposure prior to exemptions, reductions and credit risk mitigation from the amount of loans (only for exposures to SIRB, GSIRB, ICRB and GPRB categories)**	Should be completed only for the value of the exposure reported in column 20, in the form of loans to categories SIRB, GSIRB, ICRB and GPRB, within the meaning of Article 131 of the Law on Banks.
23	**Percentage to regulatory capital prior to exemptions and credit risk mitigation**	Percentage of exposure value reported in column 20, to the bank's regulatory capital on the reporting date.
24	**Percentage to Tier 1 capital prior to exemptions and credit risk mitigation**	Percentage of exposure value reported in column 20, to the Tier 1 capital on the reporting date.
25	**Unfunded credit protection**	Amount of unfunded credit protection, which, in accordance with letter "c", partly with letter "d", and partly with letter "e" of paragraph 2 of Article 8 and paragraph 2 of Article 9 of this regulation, may be used to determine whether the maximum allowed limits are reached or not.
26	**Funded credit protection**	Amount of funded credit protection, which, in accordance with letters "f" and "g" of paragraph 2 of Article 8 and paragraph 3 of Article 9 of this regulation, may be used to determine whether the maximum allowed limits are reached or not.
27	**Exemptions and reductions**	The sum of exceptions in accordance with the letters "a", "b", partly with the letter "d", partly with the letter "e" and the letters "h", "i", "j", "l", "m", "n" and "p", of paragraph 2 of Article 8.
28	**Exposure after exemptions, reductions and credit risk mitigation for BBI**	Value of exposure calculated in accordance with this regulation (after exemptions and application of credit risk mitigation techniques), for banking book items.
29	**Total exposure after exemptions, reductions and credit risk mitigation**	The value of the total exposure (for banking book items and trading books items), calculated in accordance with the requirements of this regulation, after reductions, exemptions and application of credit risk mitigation techniques.
30	**Bank's regulatory capital on the reporting date**	The amount of the bank's regulatory capital on the reporting date.
31	**Bank's Tier 1 capital on the reporting date.**	The amount of Tier 1 capital of the bank on the reporting date.
32	**Percentage to regulatory capital, after exemptions, reductions and credit risk mitigation**	Percentage of exposure value reported in column 29, to the bank's regulatory capital on the reporting date.
33	**Percentage to Tier 1 capital, after exemptions, reductions and credit risk mitigation**	Percentage of exposure value reported in column 29, to the Tier 1 capital on the reporting date.
34	**Maximum permissible limit**	This column sets the maximum allowed exposure limits, depending on the nature of the exposure set out in column 3.
35	**Exceeding the maximum allowed limit**	This column is automatically filled in only if the exposure exceeds the maximum allowed limit.
36	**Large exposures that exceed 10% of the bank's regulatory capital**	This column will automatically record all large exposures (column 29) that exceed 10% of the bank's regulatory capital.
37	**Measurement of the sum of large exposures that exceed 10% of the bank's regulatory capital**	The automatic evaluation of the following will be conducted in this column: a) The sum of exposures reported in column 36; b) The ratio of this sum with the regulatory capital of the bank; c) Assessment of compliance with the maximum limit of 700% of the sum of these exposures to the bank's regulatory capital.
38	**Measurement of loan exposures for the categories of counterparties related to the bank (SIRB, GSIRB, ICRB and GPRB)**	The automatic evaluation of the following will be conducted in this column: a) The sum of credit exposures reported in column 22; b) The ratio of this sum with the regulatory capital of the bank; c) Assessment of compliance with the maximum limit of 100% of the sum of these loans to the bank's regulatory capital.