

RULES AND REGULATIONS OF THE BANK OF ALBANIA

VOLUME II

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REGULATION ON CREDIT RISK MANAGEMENT

Approved with Decision of the Supervisory Council No. 52, dated 14.07.2004

LEGAL BASIS

ARTICLE 1

This regulation is drafted in compliance with Law No. 8269, dated 23.12.1997 "On the Bank of Albania", Article 12, Letter "a" and Law No. 8365 dated 02.07.1998 "On the Banks in the Republic of Albania", Article 26, Point 3, Letter "b", Article 28; Article 31, Point 2; Article 36 and Article 37.

GOAL

ARTICLE 2

The goal of this regulation is to provide guidance to credit risk management in order for the Bank to minimize possible losses from loans and other comparable assets, susceptible to interest rate fluctuations (hereinafter, other assets).

This regulation defines the criteria, categories and methods for classification of loans and other bank assets, calculating an appropriate level of provisions to cover possible losses given the inability to regain the full value of loans and other assets.

For purposes of this regulation, credit risk means the inability of the borrower, guarantor or counterparty for other assets to fulfill their obligations to the bank in accordance with the terms set forth in the credit agreement.

ENTITIES

ARTICLE 3

Entities subject to this regulation are banks, branches of foreign banks, and other non-bank entities licensed by the Bank of Albania to grant credit. Hereinafter, these entities will be referred to as "banks".

CREDIT CLASSIFICATION

ARTICLE 4

4.1. Banks will classify their loans into one of the following five categories:

1. Standard
2. Special mention
3. Substandard
4. Doubtful
5. Loss

Category 1 represents the highest quality of loans, while Category 5 represents the lowest one.

- 4.2. Loans classified in Categories 1 and 2 make up the group of quality loans. Their gross amount (principal + interest) represents the total amount of quality loans.
- 4.3. Loans classified in Categories 3, 4, 5 make up the group of problem loans. Their gross amount (principal + interest) represents the total amount of problem loans.

CHARACTERISTICS FOR CREDIT CLASSIFICATION

ARTICLE 5

- 5.1. For classification of loans into the aforementioned categories, banks will perform, according to priority and on a complementary basis, a detailed analysis of the following characteristics:
 - a. An analysis of the financial condition of the borrower; this analysis should be given priority in classifying the loan;
 - b. An analysis of the financial condition of the guarantor, when the bank is not convinced or when it finds it difficult to classify the loan by relying solely on Characteristic "a";
 - c. An analysis of loan guarantee and assessment of the quality of collateral and/or guarantee, when such collateral and/or guarantee do exist. The analysis of loan guarantee, being continuously an indispensable element, shall be considered necessary when the bank is not convinced or when it finds it difficult to classify the loan by relying solely on Characteristic "a";
 - d. An analysis of principal and/or interest delinquency. The overdue status of a loan could be reason enough for a bank to reclassify the credit.
 - e. Account activity analysis in overdraft credit facilities, except for reclassifications, interest accruals or recapitalization, as well as repayment of credit to immediately benefit another one of higher value, under the situations when there has been no account activity for previous repayment of credit. This analysis takes on greater importance when the bank is not convinced or when it finds it difficult to classify the loan by relying solely on the aforementioned Characteristics.
 - f. Credit restructuring due to inability of the borrower and/or guarantor to repay the loan. This Characteristic is considered independent of the other Characteristics, for classifying loans as problem loans;
 - g. Other Characteristics set forth in the banks' own documents, which are used only when a loan is classified into a category of lower quality than the one specified by the analyses of the aforementioned Characteristics.
- 5.2. The supervisory inspectors have the right to require a change of loan classification category in cases when:
 - they deem the interpretation of the aforementioned Characteristics from banks is not accurate;
 - they deem there are additional elements, besides the aforementioned Characteristics, to justify the change of loan classification category.

GENERAL REQUIREMENTS

ARTICLE 6

With the approval of the Board of Directors, banks are required to develop a manual of the internal policies, procedures and regulations for the continuous monitoring and control of loan portfolio quality and the bank's other assets. The manual, at a minimum, should contain:

- a. Credit administration strategies;
- b. Policies on interest rates, terms, repayment, and size of the credits;
- c. Informational and analytical requirements for the borrower and/or guarantor;
- d. Procedures on the documentation requirements for granting loans, including loan

- e. approval by hierarchy;
- e. Risk management policies on the whole portfolio, and each particular client, limits to one borrower, concentration of credit by sectors and the ratio between credit risk and the other risks (change of exchange rates, interest rates, etc.).
- f. Procedures for tracking performance, with particular attention to problem loans, re-evaluating guarantee and collateral, on a continual basis, and assessing the adequacy of provisions for possible losses;
- g. Procedures for evaluating the quality of other assets and unused financing commitments, and for making and assessing the adequacy of provisions for possible losses from asset depreciation;
- h. Approval and administration procedures on overdraft lines of credit (in accordance with the meaning of "overdraft account credit" as described in Point 2.3.3. of the Banking Accounting Manual, approved by the Council of Ministers Decision No. 820 dated 30.12.1998).

GENERAL RULES

ARTICLE 7

The bank's manuals and/or policies will provide for a continuous evaluation of the quality of the loan portfolio and other assets, as well as the risk of loss from their depreciation. For this purpose, these documents will, at a minimum, contain the following general rules:

- 7.1. The organization of the credit follow-up process, including, but not limited to, the following elements:
 - a. Administrative units performing risk assessments, provisions accrual and their execution;
 - b. Methods for assessing the repayment capacity of the borrower (including risks arising from crediting in cases when the monetary unit of credit is different from the one stated in the borrower's income, etc.), the relevant guarantee and collateral;
 - c. Cooperation with the independent internal and/or external control units;
 - d. Periodic assessment of classifications and forecasts for risk provisions coverage;
 - e. Periodic reporting to the bank's administrators.
- 7.2. The analysis of the financial condition and creditworthiness of the borrower (as a primary element for the classification of credit), including, but not limited to, the following elements:
 - a. The borrower's income and source of income;
 - b. Other credits and regularity of repayment;
 - c. Credit to related persons and regularity of repayment;
 - d. Balance sheet and account statement (loss and profit);
 - e. Business plan with cash flow statements and forecasts;
 - f. Credit history;
 - g. Capacity to repay the credit: for businesses this includes an analysis of the borrower's business cycle.
- 7.3. The analysis of the financial condition and creditworthiness of the guarantor. This analysis is aimed at assessing the guarantor's capacity to repay and is based on the same documents used for the analysis of the borrower's financial condition.
- 7.4. The analysis of loan guarantee, which is aimed at assessing whether a loan has or not been well-secured.

A loan is well-secured when the collateral and/or guarantee is sufficient to protect the bank from the loss of principal and interest.

Sufficiency means in this case the collateral/guarantee should be accompanied by legal documentation

that assures the bank of its legal claim, and a valuation demonstrating that the collateral/guarantee is sufficient to cover the principal and interest, as well as the cost of the disposition of the collateral/guarantee.

STANDARD CREDITS

ARTICLE 8

The banks classify as "Standard Credits" all loans, except for those classified in accordance with Articles 9,10,11 and 12.

When a standard credit is an installment loan and is past due from 1 to 30 days, then only the unpaid installment amount is classified in Section 2.1. (Past due credits and advances for the customer) in accordance with the "Bank Accounting Manual". This amount is also included in Standard Credits.

SPECIAL MENTION CREDITS

ARTICLE 9

The banks classify as "Special Mention Credits" all loans that have one or more of the following characteristics:

1. the financial condition of the borrower is evaluated as good; but there are possible weaknesses, which might weaken the financial condition of the borrower in the future;
2. the financial condition of the guarantor is evaluated as good;
3. the loan is considered "well-secured", in accordance with Article 7, Point 7.4. of this regulation;
4. the principal or interest is past due from 1 to 30 days from the maturity date in the case of non-installment loans;
5. the principal or interest is past due from 31 to 90 days from the due date in the case of installment loans;
6. the borrower does not have account transactions for a period from 31 to 60 days in cases of credit limit.

SUBSTANDARD CREDITS

ARTICLE 10

The banks classify as "Substandard Credits" those loans that have one or more of the following characteristics:

1. the financial condition of the borrower is evaluated as unsatisfactory and his income from the main business activity is considered insufficient;
2. the financial condition of the guarantor is evaluated as good, but problems are expected in the future;
3. the loan is not considered well-secured; the value of the collateral and/or guarantee is not considered to be in accordance with the requirements set forth in Article 7, Point 7.4. of this regulation;
4. the principal or interest is past due from 31 to 90 days from the maturity date in the case of non-installment loans;
5. the principal or interest is past due from 91 to 180 days from the due date in the case of installment loans;
6. the borrower does not have account transactions for a period from 61 to 180 days in cases of credit limit;

7. the credit has been restructured once due to an inability to repay it, and at the same time the following conditions are met:
 - a. the credit is not being repaid on the value of principal and interest, according to the new conditions;
 - b. notwithstanding the credit performance with the new conditions, no more than 365 days have past from the restructuring date.

DOUBTFUL CREDITS

ARTICLE 11

The banks classify as "Doubtful Credits" those loans that have one or more of the following characteristics:

1. the financial condition of the borrower is such that the borrower will not be able to repay the total obligation or other obligations to the bank or other creditors;
2. there is a real possibility that the borrower might go bankrupt;
3. the financial condition of the guarantor is such that the guarantor will not be able to meet commitments to the borrower or the bank, at least temporarily;
4. the loan is not considered to be well-secured, in accordance with the requirements set forth in Article 7, Point 7.4. of this regulation;
5. the principal or interest is past due for a period from 91 to 180 days from the maturity date in the case of non-installment loans;
6. the principle or interest is past due for a period from 181 to 365 days from the due date in the case of installment loans;
7. the borrower does not have account transactions for a period from 181 to 365 days in cases of credit limit;
8. the credit has been restructured twice due to an inability to repay it, and at the same time the following conditions are met:
 - a. since last restructuring, credit is not being repaid on the value of principal and interest, according to the new conditions;
 - b. notwithstanding the credit performance with the new conditions, no more than 550 days have past from the last restructuring date.
9. the bank has acted on a legal basis (submitting a request to the Court of District) to initiate the process of execution of the collateral from the Executor.

LOSS CREDITS

ARTICLE 12

The banks classify as "Loss Credits" those loans that have one or more of the following characteristics:

1. the financial condition of the borrower is such that the borrower is clearly unable to meet principal and interest repayment terms;
2. the borrower has gone bankrupt or is going through a liquidation process and there is a danger that some creditors will remain unsatisfied;
3. the borrower has died and there is no one to pay the credit;
4. the bank has definitely acted on a legal basis (the Court decision is issued and payment for execution of the collateral is performed) to carry out the process of execution of the collateral from the Executor;
5. the borrower has pledged the same collateral to other creditors and the bank is unable to execute in due time and appropriately the collateral, to recover the credit value;
6. the financial condition of the guarantor is such that the guarantor is unable to meet commitments to the borrower and the bank on a continuous basis;

7. the loan is not considered to be well-secured, in accordance with the requirements set forth in Article 7, Point 7.4. of this regulation;
8. the principal or interest is past due for a period of more than 181 days from the maturity date in the case of non-installment loans;
9. the principal or interest is past due for a period of more than 365 days from the due date in the case of installment loans;
10. the borrower does not have account transactions for more than 365 days in cases of credit limit;
11. the credit has been restructured more than two times due to an inability to repay it.

ACCOUNTING FOR INTEREST ACCRUALS

ARTICLE 13

For the credits classified in accordance with Article 10 that are passed due more than 90 days and for credits classified in accordance with Articles 11 and 12, there is no accounting of the accrued interest.

In cases the borrower shall pay the obligation, the accrual of non-accounted interests is included in the obligation. This is done to avoid overloading the balance sheet of the bank for those interest values that are unsafe to be received.

Subsequent receipts of the bank should be applied first to payment of interest of all the period and subsequently to payment of principal.

PROVISIONS RATES FOR LOSSES ON LOANS

ARTICLE 14

1. Depending on the classification categories, the banks set up corresponding provisions to cover the possible losses from loans. The rates for calculating provisions are as follows:
 - A. fixed rates for the group of qualitative loans:
 - 1- for "Standard loans" and "Past due loans and advances for the customer"1 per cent.
 - 2- for "Special mention loans"5 per cent.

The provisions for the above mentioned loans are calculated on the common value of principal and interest and are considered provisions to cover the statistical risk.

B. variable rates for the group of bad loans:

1- for the principal:

- "substandard loans" not lower than 20 per cent;
- "doubtful loans" not lower than 50 per cent;
- "loss loan" not lower than 100 per cent.

2- for the accounted interest the rate is 100 per cent in each case.

Provisions accounted for problem loans are considered as provisions for covering the credit depreciation risk.

2. If for a loan the following conditions are simultaneously met:
 - a) for the whole credit guarantee (or part of it) is used as collateral and/or guarantee a

- b) banking deposit/account in cash, for which,
the bank possesses all the legal documented rights and physical possibilities to own and benefit the collateral/guarantee on behalf of the bank in due time and appropriately, if the borrower shall not meet the conditions on due loans.

The bank, through analysing all risk types, shall classify the loan (or its collateral part in cash) into the category where it is more confident that the collateral and/or guarantee value (or the collateral part in cash), together with the provisions value established in accordance with the definition of this article, but not indispensably with its requirements, cover adequately the value of principal and interest (or the collateral part).

ACCOUNTING OF THE CREDIT CLASSIFICATIONS AND PROVISIONS FOR CREDIT LOSSES

ARTICLE 15

In the same category with the loan that is classified (principal and interest), other loans related to it are classified as well. They represent loans granted from the bank for the related persons financially depending on the borrower and/or the guarantee provided from the bank for the same borrower or the related persons financially depending on him.

The provisions calculated based on the above article are to be recorded as expenses.

If a loan is reclassified from one category into another:

1. Overall credit balance (principal and interest) and other related accounts that represent loans granted from the bank for the related persons financially depending on the borrower and/or the guarantee provided from the bank for the same borrower or the related persons financially depending on him, are classified into the same category.
2. Accounted provisions are recorded as "income" from the reversal of provisions and provisions established in accordance with the loan classification into the new category are recorded as "expenses".

For loan assessments in accordance with this regulation, banks and foreign banks branches are required to complete, for each loan, the form No. 1 attached to this regulation. This form is to be enclosed in the borrower's file.

CAPITALIZATION OF INTEREST

ARTICLE 16

Capitalization of interest is the process whereby the "accrued interest" is added to the principal, being recorded in the principal accounting.

Capitalization of interest from banks occurs only if the following conditions are simultaneously met:

- 1- the borrower is able to pay its obligations from the business activity income;
- 2- capitalization of interest is included in the terms and conditions of the initial loan agreement, in case the borrower is in a difficult position of liquidity;
- 3- the loan, including the capitalized interest, is well guaranteed;
- 4- the business plan of the borrower ensures that the financial condition in the future will be considerably improved, or his business activity income will be considerably increased;
- 5- there is no an instant risk for the loss of loan, including the capitalized interest;
- 6- the borrower may procure funds to repay the loan from other sources at the same time and

exact amount of the loan maturity.

CREDIT RESTRUCTURING

ARTICLE 17

Banks, in agreement with the borrower, restructure the credit in cases when the borrower does not repay the credit in accordance with the terms and conditions set forth in the initial loan agreement and on the basis of the criteria specified in the credit manual approved by the Board of Directors. In case of credit restructuring, in the file is added also the restructuring agreement signed between the bank and the borrower.

WRITING OFF LOSSES

ARTICLE 18

1. The writing off losses is done with the decision of the Board of Directors when one of the following conditions is met:
 - a. the legal process of demanding payment from the borrower is completed and the borrower continues to be a debtor to the bank for the unpaid portion;
 - b. the loan is, with the Board of Directors decision, on the list of loss credits, which may be written-off, and the deadline for the loan to remain on this list has expired.
 - c. the loan is classified Loss and has not been paid for more than 365 days after being classified as Loss.
 - d. the loan is classified Loss by the examiners and is to be written-off as required in the report of examination.
2. The files of written-off loans are to be kept and assessed on a continuous basis, and reviewed by the Board of Directors no less than every six months. Every receipt from written-off loans is considered to be extraordinary income.

CLASSIFICATION OF OTHER ASSETS AND OUTSTANDING FINANCING COMMITMENTS

ARTICLE 19

Other assets and financing commitments are to be classified into two categories:

1. Standard or Regular
2. Doubtful or With Problems

The policies on the classification of other assets and financing commitments into Category "Doubtful or With Problems", as well as the size of the provisions to cover possible loss from their depreciation are to be approved by the Board of Directors.

The size of provisions for possible loss from the depreciation of other assets, which are sensitive to interest rate, should not be less than the accrued interest.

The accounting treatment is to be in accordance with the methodology specified in Article 15 of this regulation.

REPORTING

ARTICLE 20

Banks, at least quarterly, perform the classification of loans and other assets of the bank and the calculation of provisions for credit losses.

They draft and submit to the Bank of Albania the forms attached to this regulation (forms 2 and 3 are component part of the Unified Reporting System, while forms 4, 5 and 6 are to be reported quarterly to the Supervision Department).

ARTICLE 21

Bank of Albania shall, at any time, require to banks to provide additional and analytical data on the credit risk management and the provisions for credit losses.

SPECIAL CASES

ARTICLE 22

Manuals approved by the Board of Directors must contain special rules and regulations in compliance with the regulation "Regulation on bank relations with persons related to bank".

Credits to "Related Persons" are assessed on a continuous basis and reviewed by the Board of Directors no less than every six months.

FINAL PROVISIONS

ARTICLE 23

Violations of the provisions of this regulation will be addressed by the Bank of Albania based on Articles 44 and 45 "On Violations and Sanctions" of the Law No. 8365, dated 02.07.1998, "On banks in the Republic of Albania".

ARTICLE 24

The regulation "On Credit Risk Management" approved by the decision No. 13, dated 21.02.2001, and changed by the decision No. 32, dated 08.05.2002, of the Supervisory Council of the Bank of Albania, is invalidated.

ARTICLE 25

This regulation shall enter into force 15 days after its publication in the Official Gazette of the Republic of Albania.

CHAIRMAN OF THE SUPERVISORY COUNCIL

Shkëlqim CANI

FORM 1

DATA ON CREDIT BALANCE OF THE CUSTOMER

		Estimation Period			
Nr		31.03...	30.06...	30.09...	31.12...
1	Scope				
2	Ownership type				
3	Purpose of granting the loan				
4	Loan type (according to the term)				
5	Guarantee obligation given to the bank				
6	Total unpaid amount:				
	- principal				
	- interest				
7	Financial position of the borrower:				
	- reliable, good				
	- not reliable				
	- not satisfactory				
	- worsened				
	- bankrupt				
8	Credit guarantee				
	- sufficient, well-secured				
	- insufficient, not well-secured				
9	Repayment of principal and payment of interest:				
	- paid at maturity term				
	- is not paid for 1-30 days				
	- is not paid for 31-90 days				
	- is not paid for 91-180 days				
	- is not paid for more than 181 days				
	- installment is not paid for 1-30 days				
	- installment is not paid for 31-90 days				
	- installment is not paid for 91-180 days				
	- installment is not paid for 181-360 days				
	- installment is not paid for more than 361 days				
10	Number of credit restructuring				
11	Credit classification:				
	- standard, past due loans and advances for the customer (installment)				
	- special mention				
	- substandard				
	- doubtful				
	- loss				
12	Provisions to credits (according to the term)				
13	Provisions for the collateral/guarantee				

FORM 2

PROVISIONS FOR CREDIT LOSSES

Table No.1		Principal				Provisions for the principal			
No	Credit classification	Credits to the customer	Interbank credits	Doubtful commitments	Provisions rates	Credits to the customer	Interbank credits	Doubtful commitments	SUM
		1	2	3	4	5=1*4	6=2*4	7=3*4	8=5+6+7
1	Standard and past due credits (installment)				0.01				
2	Special mention				0.05				
3	Substandard				0.20				
4	Doubtful				0.50				
5	Loss				1.00				
6	TOTAL								

Table No.2		Accrued interests			Provisions for interests		
No	Credit classification	Credits to the customer	Interbank credits	Provisions rates	Credits to the customer	Interbank credits	SUM
		1	2	3	4=1*3	5=2*3	6=4+5
1	Standard and past due credits (installment)			0.01			
2	Special mention			0.05			
3	Substandard			1.00			
4	Doubtful			1.00			
5	Loss			1.00			
6	TOTAL						

Table No.3		Provisions reversal for the principal				Provisions reversal for interests			
Nr	Credit classification	Credits to the customer	Interbank credits	Doubtful commitments	Principal sum	Credits to the customer	Interbank credits	Interest sum	SUM
		1	2	3	4=1+2+3	5	6	7=5+6	8=4+7
1	Standard and past due credits (installment)								
2	Special mention								
3	Substandard								
4	Doubtful								
5	Loss								
6	TOTAL								

FORM NO. 3
PROVISIONS ESTABLISHED BY THE BANK FOR CREDIT
LOSSES

Accounts numbers	Accounts denomination	Initial balance 1(+)	Provisions growth 2(+)	Provisions reversal 3(+)	Written-off credits during the period 4(-)	Corrections performed during the period 5 (+ or -)	Balance by the end of the period (6= 1+2+3- 4±5)
128							
198							
238							
248							
258							
268							
298							
3128							
3138							
3228							
418							
518							
528							
538							
551							
558							

FORM NO. 4

FOREIGN CURRENCY CREDIT AND CUSTOMER FUNDS INFLOWS

<i>Purpose of foreign currency credit</i>	<i>Total credit portfolio value</i>	<i>Foreign currency credit portfolio value</i>	<i>Foreign currency credit balance</i>	<i>No. of immature foreign currency credits</i>	<i>No. of foreign currency credits, when the customer does not perform any business activity in foreign currency</i>	<i>Foreign currency credit balance, when the customer does not perform any business activity in foreign currency</i>
	<i>(000 Lek)</i>	<i>(000 Lek)</i>	<i>(000 Lek)</i>			<i>(000 Lek)</i>
	(a)	(b)	(c)	(d)	(e)	(f)
<i>Trade</i>						
<i>Real estate</i>						
<i>Business development</i>						
<i>Consumer credits</i>						
<i>Other</i>						
Total						

The exchange rate used in filling in the form : 1 EUR = ____ Lek ; 1 USD = _____ Lek

Source : _____

Note:

- in column (e), the number of credits, for which according to the bank the customer does not generate his main foreign income, must be recorded.

FORM NO. 5

FOREIGN CURRENCY CREDIT AND QUALITY

Purpose of foreign currency credit	Foreign currency credit balance, when the customer does not perform any business activity in foreign currency	In Euro	Problem credits	Average exchange rate (EUR/Lek) at full disbursement	Total provisions For credit in Euro	In USD	Problem credits	Average exchange rate (USD/Lek) at full disbursement	provisions for c
	(1) = (2) + (6)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
Trade									
Real estate									
Business development									
Consumer credits									
Other									
Total									

The exchange rate used in filling in the form : 1 EUR = _____ Lek ; 1 USD = _____ Lek Source: _____

Note:

- Columns of this form (from number (2) up to number (10)) are filled in accordance with the credit nature presented in column (1).
- In column (1), amounts originated from the column (e) of the form No. 4. " Foreign currency credit and customer funds inflows" must be recorded.
- Column (3) is filled in accordance with the meaning of the term "bad loans", specified in the regulation "On credit risk management".
- On credits disbursed by some installments, the exchange rate at full disbursement, will be the average exchange rate weighted by the disbursed credit portions, at disbursement.

FORM NO. 6

FOREIGN CURRENCY CREDIT AND DURATION STRUCTURE

<i>Purpose of foreign currency credit</i>	<i>Foreign currency credit balance, when the customer does not perform any business activity in foreign currency*</i>	<i>Held to maturity</i>				<i>In USD</i>	<i>Held to maturity up to 1 year</i>	<i>Held to maturity up to 5 years</i>
		<i>In Euro</i>	<i>up to 1 year</i>	<i>up to 5 years</i>	<i>over 5 years</i>			
	<i>(000 Lek)</i>	<i>(000 Lek)</i>	<i>(000 Lek)</i>	<i>(000 Lek)</i>	<i>(000 Lek)</i>	<i>(000 Lek)</i>	<i>(000 Lek)</i>	<i>(000 Lek)</i>
	<i>(1) = (2) + (6)</i>	<i>(2) = (3) + (4) + (5)</i>	<i>(3)</i>	<i>(4)</i>	<i>(5)</i>	<i>(6) = (7) + (8) + (9)</i>	<i>(7)</i>	<i>(8)</i>
<i>Trade</i>								
<i>Real estate</i>								
<i>Business development</i>								
<i>Consumer credits</i>								
<i>Other</i>								
Total								

GUIDELINE ON REGULATORY BANK CAPITAL

Approved by Supervisory Council Decision No. 57, dated 05.05.1999 and
changed by Supervisory Council Decisions No. 21, dated 24.03.2004, and No. 45,
dated 08.06.2005.

CHAPTER I

GENERAL

1. This guideline is issued pursuant to Law No. 8269, date 23/12/1997 "On Bank of Albania" and Law No. 8365, date 02/07/1998 "On Banks in the Republic of Albania."
2. Entities subject to this Guideline are banks and branches of foreign banks that exercise banking activities in the Republic of Albania.
3. The purpose of this Guideline is to define the calculation method of Regulatory Capital of banks in order to cover credit risk.
4. Definition: Credit Risk shall mean the negative effect to a bank's capital due to default of the counterparty (or third parties).

CHAPTER II

REGULATORY CAPITAL FOR CREDIT RISK COVERING

1. Regulatory Bank Capital is composed of **core capital** and **supplementary capital**.
2. Elements of regulatory capital are:
 - 2.1. Core Capital is composed of two groups:
 - 2.1.1. Elements that are added **(A)**:
 - Subscribed Capital
 - Reserves (besides the revaluation reserves)
 - Primes of emissions and mergers (merging, blending)
 - Retained earnings (carried over)
 - Profits at the end of the fiscal year (as defined in section 5 below)
 - Profits of the current year (as defined in section 4.1. below)
 - Credit revaluation differences
 - 2.1.2. Elements that are subtracted **(B)**:
 - Unpaid Subscribed Capital
 - Nominal value of bank shares in bank's possession (redeemed or unissued shares)
 - Undistributed losses (carried over)
 - Losses during the Fiscal Period (as defined in section 4.2.)
 - Debt revaluation differences
 - Intangible fixed assets

Total of Core Capital is equal to C = [(A)-(B)]

2.2. Elements of Supplementary Capital:

2.2.1. Supplementary Capital is composed of these elements (j):

- Revaluation Reserves
- General Reserves (as defined in section 6)
- Subordinated Liabilities:
 - i) hybrid Instruments (as defined in section 8.1)
 - ii) time subordinated liabilities (as defined in section 8.2).

2.2.2. LIMITS AND RESTRICTIONS

Elements of supplementary capital have the following limitation when included in the calculation of the regulatory capital.

2.2.2.1. The total of supplementary capital should not be greater than 100% of the total of core capital.

2.2.2.2. The total of time subordinated liabilities, that are a part of supplementary capital, should be no greater than 50% of the total of core capital.

3. The regulatory capital is calculated by subtracting from the amount of core capital and supplementary capital, as calculated in section 2, the following elements:

3.1. Participation and subordinated rights in banks and other financial institutions (p).

(i) Participation in banks and other financial institutions with an amount greater than 10% of their capital or less than 10% of their capital but which plays an important role in the decision making process of such institutions. Subordinated rights in the same banks and financial institutions would be added to the participation.

(ii) The total amount of participation in banks and other financial institutions, that do not meet the above mentioned conditions, along with other subordinated rights in the same banks and other financial institutions, after they are decreased by 10%, that is, $[10\% \times (C + J)]$.

3.2. Guarantees given to the Mutual Guarantee Fund according to the terms and conditions defined by the Bank of Albania (q).

3.3. ¹All projected deductions provided in the Bank of Albania regulations (V).

THE TOTAL AMOUNT OF REGULATORY CAPITAL IS $[C + J - (P + Q + V)]$.

THE TOTAL AMOUNT OF REGULATORY CAPITAL IS $[C + J - (P + Q)]$.

4. INTERMEDIATE RESULTS

Intermediate Result shall mean the fiscal earning or loss in every fiscal period except the fiscal period at the end of the year.

4.1. Earnings of the Fiscal Period shall be included in the total amount of the regulatory capital, calculated according to the methodology described in this guideline, as an element of the core capital if the following conditions are met at the same time;

4.1.1 If it is calculated after a full accounting of all expenses of the corresponding period, including here the amortization expenses and expenses for provisions;

4.1.2. If it is calculated as a net earning after subtracting projected income tax

¹ Amended upon the Supervisory Council decision no. 21, date 24.03.2004.

and projected dividends;

4.1.3. If it is verified by the bank audit committee and its authorized accounting expert.

4.2. Losses during the Fiscal Period, for business and supervision reasons, regardless of the fiscal year in which it occurred, shall be included in the total amount of regulatory capital as an element of the core capital, which is calculated according to the methodology described in this guideline.

5. FISCAL YEAR END EARNINGS

²For the purpose of this guideline, fiscal year end earnings shall mean the earnings of the fiscal period 01.01 to 31.12. It will be included in the core capital when the following conditions shall be simultaneously met:

- after it has been verified by the Audit Committee and the authorized accounting expert;
- after it is decreased by the liability to the state for the income tax and by the amount of dividends projected to be distributed.

6. RESERVES³:

Reserves, excluding revaluation reserves, come out of the allocation of bank's profit after the taxation and before the allocation of dividends. They are created:

- upon the decision of the decision – making authorities
- pursuant to the internal regulations of the bank, being adopted by the decision – taking authorities,
- pursuant to the legal and regulative framework into force.

Reserves include the following categories:

- 6.1. Legal reserves established pursuant to the legal by – laws into force.
- 6.2. Statutory reserves established pursuant to the bank statute.
- 6.3. Re – evaluating reserves that represent the counterpart of fixed re-evaluating assets in the framework of the revaluation upon the decision of the decision – making authorities and/or the observance of the by-laws.
- 6.4. Other reserves that represent all the reserves created from the profit allocation, excluding those in paragraph 6.1 and 6.2.
- 6.4.1. The general reserves are part of the other ones that meet the following terms and conditions:
 - *they are frequently used by the bank to cover the unidentified risks related to bank activity and which do not reflect the reduction of a certain asset value,*
 - *they are presented in the bank accounting;*
 - *the amount is established by the executives and it is verified by the Audit Committee of the Bank and by the authorized audit expert.*

7. SUBORDINATED LIABILITIES

Subordinated liabilities are defined as “liabilities that originate from the emission of subordinated titles or loans, with maturity time or not, whose payment in case of liquidity is made after the payment of other liabilities.” Their classification depends on the subordinated condition and not on the emission method (title or loan) or the maturity criteria (with or without maturity dates).

In accounting, they will be entered as a credit of account 56 “Subordinated Liabilities” and as a debit of account 112 “Central Bank”, or as a debit of account 131 “Current account with Banks ...” or as a debit of account 271 “Transactions with Clients”, depending on the counterparty.

8. TYPES OF SUBORDINATED LIABILITIES

- 8.1 Hybrid instruments:
 - They are uninsured, subordinated and fully paid,

² Amended upon the Supervisory Council decision no. 45, date 08.06.2005.

³ Amended upon the Supervisory Council decision no. 21, date 24.03.2004.

- They are paid only on the initiative of the debtor and upon approval of the Bank of Albania;
 - Contract terms foresee the possibility of extending the payment time of interest in case the entities included in this regulation are working at a loss;
 - Contract terms foresee that payments of principal and unpaid interest may be used to recover losses, without making these entities stop their activity.
 - Are included in the Regulatory Capital only for the collected amounts.
- 8.2. Time subordinated liabilities:
- In case the contract foresees a certain payment date, the initial maturity date should be no less than 5 years.
 - If the contract does not foresee a certain date, liability may be paid after a 5 year notice is given.
 - In no cases is prepayment allowed, unless it is done without the approval of the Bank of Albania.
 - Payments are not used to cover losses.
 - Only amounts actually collected are included in the regulatory capital, after they are progressively deducted by 20% for the last 5 years before the maturity date.
- 8.3. The Bank of Albania gives approval only in cases when all of following terms and conditions are met at the same time:
- 8.3.1. Entities subject to this guideline are profitable,
- 8.3.2. Any payments of principal and interest of instruments, defined in paragraphs 8.1.and 8.2., do not reduce the capital adequacy under the limits defined by the Bank of Albania.

9. **REPORTING PERIOD**

Regulatory Capital is reported every month to the Bank of Albania, Supervision Department.

10. **REPORTING METHOD**

Reporting of regulatory capital is made based on the following form, which is part of the reporting system.

11. This guideline takes effect on 01.06.1999.

CHAIRMAN OF THE SUPERVISORY COUNCIL

Shkëlqim CANI

REPORTING FORM⁴
(Regulatory Capital for covering credit risk)

Bank Name
Reporting Period
Reporting Date
Prepared by (Name, Last Name, Signature)
Director (Name, Last Name, Signature) in thousands lek

Core Capital	Acc. No.		Amount
I. Elements that are added to (A):			
1. Subscribed Capital	5711		
2. Reserves (other than the re-evaluation capital)	5731,5733 5734		
3. Primes of emissions and mergers	572		
4. Undistributed earnings (carried over)	577 (P)		
5. Fiscal Year End Earnings	578(P)		
6. Earnings during the Fiscal Period	578(P)		
7. Credit re-evaluation differences	574(P)		
Subtotal A= (1+2+3+4+5+6+7)		A	
II. Elements that are subtracted (B)			
1. Unpaid Subscribed Capital	5712		
2. Nominal value of bank shares in (redeemed or unissued shares)			
3. Undistributed losses (carried over)	577(-P)		
4. Losses during Fiscal Period	578(-P)		
5. Debt re-evaluation differences (negative)	574(-P)		
6. Intangible fixed assets ⁵	531-5371		
Subtotal B= (1+2+3+4+5+6)		B	
Total of Core Capital C= (A-B)		C	
SUPPLEMENTARY CAPITAL			
III. Elements of Content (J):			
1. Re-evaluation Reserves	5732	EA	
2. General Reserves		EB	
3. Hybrid Instruments	58	EC	
4. Time Subordinated Liabilities	58	F	
If $F \leq C/2$, then $G=F$		G	
If $F > C/2$, then $G=C/2$		G	
Limited Subtotal H= (EA+EB+EC+G):		H	
First Limitation: If $H \leq C$, then $J=H$		J	
Second Limitation: If $H > C$, then $J=C$		J	
Total of Supplementary Capital prior to deductions (J)		J	
IV. Elements that are subtracted (P+Q+V)			

⁴ Amended upon the Supervisory Council decision no. 21, date 24.03.2004.

⁵ According to the Banking Account Manual, it should be replaced with "assets".

1	Participation in Banks and financial institutions (P): Participation over 10% in them and adding to it subordinated rights in the same bank or financial institution.		K
-	Participation amount that does not meet the above conditions along with other Subordinated Rights in the same bank or financial institution is reduced by 10% of Its Own Funds (C+J)		L
	For Example $M = (C+J) * 10\%$ Retained after the above deduction: $N = (L - M)$ if positive		M N
	Subtotal $P = (K+N)$		P
2	Guarantees given to Mutual Guarantee Fund according to the terms set by the Central Bank		Q
3	Regulative acts of Bank of Albania (V)		
-	Regulation "On investments from banks in the V1 capital of trade associations" approved upon Bank of Albania Supervisory Council decision no. 42, date 06.06.2001.		V1
-	Regulation "On the amount and complement of the minimum initial capital on licensed bank activities and licensed foreign bank branches". approved upon Bank of Albania Supervisory Council decision no. 51, date 22.04.1999: $V2 = AQT - 25\% (C+J)$, if $V2 > 0$.		V2
-	Other regulative acts The total of Regulations: $V = (V1 + V2 + \dots + Vn)$		V
	Subtotal of the subtracted amount is $(P+Q+V)$		$P+Q+V$
	Summarized Calculation of the Core Capital and Supplementary Capital after deductions of No. IV		
1	If $J \leq (P+Q+V)$ then:		
-	Supplementary Capital after the subtraction $JA=0$		JA
-	Core Capital $CA=C+J-(P+Q+V)$		CA
2	If $J > (P+Q+V)$ then:		
-	Supplementary Capital after the subtraction $JA=J-(P+Q+V)$		JA
-	Core Capital $CA= C$		CA
	Total of regulatory capital (E): Core Capital and Supplementary Capital: $E = (JA+CA)$		E

REGULATION ON CAPITAL ADEQUACY

Approved upon the decision no.58, dated 05.05.1999 amended upon decision no.86, dated 07.11.2001, decision no.72, dated 11.09.2002, decision no.30, dated 16.04.2003, decision no.82, dated 08.10.2003, decision no.22, dated 24.03.2004 and upon decision no. 46, dated 08.06.2005 of the Supervisory Council.

CHAPTER I GENERAL PROVISIONS

- 1- This regulation is issued pursuant to the Law no. 8269, dated 23.12.1997 "On the Bank of Albania", and the Law no. 8365, dated 02.07.1998 "On banks in the Republic of Albania".
- 2- Subject to this regulation are banks and foreign bank branches that exercise banking activities in the Republic of Albania. Hereinafter, these entities will be referred to as "banks".
- 3- The purpose of this regulation is to establish the ratio between regulatory capital to risk-weighted assets and off-balance sheet items, referred to as "The capital adequacy ratio", and to set the minimum required limit for this ratio, referred to as "The minimum capital adequacy ratio".
- 4- Definitions:
 - 4.1 **Capital adequacy ratio** is the ratio of the regulatory capital to risk-weighted assets and off-balance sheet items, expressed as a percentage.
 - 4.2 **Modified capital adequacy ratio** is the ratio of the core capital to risk-weighted assets and off-balance sheet items, expressed as a percentage.

CHAPTER II

- 5- The Minimum Capital Adequacy Ratio required is 12 percent. ¹The inspectors of the Bank of Albania, when they deem it is appropriate, can ask to every bank in pre-defined or not defined terms, for an adequacy ratio bigger than the minimum ratio.

COMPONENT ELEMENTS:

- 5.1. The bank's regulatory capital, calculated according to the methodology described in the guideline "On bank's regulatory capital", shall constitute the numerator of the adequacy ratio.
- 5.2. The risk-weighted amounts of the following elements shall constitute the denominator of the adequacy ratio:
 - 5.2.1. Balance sheet assets;
 - 5.2.2. Off-Balance sheet items representing term financial instruments contracts related to interest and exchange rates;
 - 5.2.3. Other off balance-sheet items.

ITEMS TO BE SUBTRACTED

- 6- The following items are subtracted from the balance sheet assets, prior to their risk-weighting:
 - 6.1. Assets included in the regulatory capital as subtracting items.
 - 6.2. Assets included in trading securities portfolio that are analyzed in the light of market risks.

¹ Added upon the Supervisory Council decision no. 86, dated 07.11.2001.

- 6.3. Specific reserve funds provided for standard loans, which include past due installments and special mention loans, from the respective assets.
- 6.4. Reserve funds for revaluation or similar items, closely related to the respective balance sheet assets that are classified as components of the supplemented capital but that are not included as a restriction to paragraph 2.2.2.1 of the instruction "On bank's regulatory capital".
- ²6.5. Bank's balance sheet assets guaranteed by guarantee account and/or blocked account for accounting guarantee at the liabilities items of the bank's balance sheet.

7. METHODOLOGY OF CALCULATION

- 7.1. The total of risk-weighted assets is calculated in Form No.1;
- 7.2. The total of risk-weighted off-balance sheet items, which involve interest norms and foreign exchange rates, is calculated in Form No. 2;
- 7.3. The total of other risk-weighted off-balance sheet items is calculated in Form No. 3;
- 7.4. The total amount of risk-weighted assets and off balance-sheet items is calculated in Form No. 4;
- 7.5. The capital adequacy ratio is calculated in Form No. 5 and the result is compared to the minimum ratio set by the Bank of Albania.

8. CALCULATION

- 8.1. The risk-weighting of assets is made as follows:
 - 8.1.1. Assets at no risk are weighted with a 0% weighting rate.

Such assets include the following:

- a) Cash and cash equivalents;
 - b) Claims on the Central Bank and the Government of Albania when such are denominated in the national currency;
 - c) Claims on central banks and central governments of **OECD countries**³ (as defined in paragraph 12.1), explicitly guaranteed by them and by International Institutions (as defined in paragraph 12.3);
 - d) Claims on central banks and central governments of **non OECD countries**⁴ (as defined in paragraph 12.2), endorsed, guaranteed and funded in the national currency of the borrowing country;
 - e) Claims on a debtor of **non OECD countries** explicitly backed by the central banks and the governments of **non OECD countries**, endorsed, guaranteed and funded in their national currency;
 - f) Claims on the European Community and explicitly guaranteed by it.
 - g) Assets guaranteed through collateral or similar, as follows:
 - i) Securities issued by the central banks, by governments of **OECD countries** or the European Community;
 - ii) Deposits in the lending banks;
 - iii) Certificates of deposit or similar instruments issued by, and deposited in the lending banks.
 - h)⁵ Claims on the Bank of Albania fully guaranteed by it in foreign currency.
 - i)⁶ Claims in Lek and/or in foreign currency on Ex-Im Bank of the United States or fully guaranteed by it.
- 8.1.2. Assets at low risk are weighted at a 20% weighting ratio.
The following are included in this asset category:
- a) Short term claims (no longer than one year) on banks and financial institutions operating in the Republic of Albania.
 - b) Claims on multilateral development banks (as defined in paragraph 12.4).

² Added upon the Supervisory Council decision no. 46, dated 08.06.2005.

³ Amended upon the Supervisory Council decision no. 22, dated 24.03.2004.

⁴ Amended upon the Supervisory Council decision no. 22, dated 24.03.2004.

⁵ Amended upon the Supervisory Council decision no. 30, dated 16.04.2003.

⁶ Amended upon the Supervisory Council decision no. 82, dated 08.10.2003.

- c) Claims on banks and financial institutions operating in countries of **OECD** and explicitly guaranteed by them, except when such claims that are included in their Regulatory Capital according to the regulations in force.
 - d) Claims on central, regional and local government bodies of **OECD countries**.
 - e) Short term claims on banks and financial institutions of **non OECD countries** or claims on central banks and central government of **non OECD countries**, or explicitly guaranteed by them, except when such claims are included in their Regulatory Capital according to the regulations in force.
 - f) Assets guaranteed through collateral or similar, as follows:
 - i) Securities issued by multilateral development banks;
 - ii) Securities issued by the local and regional government bodies of **OECD countries**;
 - iii) Deposits in banks of **OECD countries**;
 - iv) Certificates of deposit or similar instruments issued by banks of **OECD countries**.
 - g) Transit items and claims on instruments payable at sight (traveler-check, credit cards, etc.).
- 8.1.3. Assets at medium risk are weighted at a 50% weighting ratio.
Such assets include the following:
- a) Loans that simultaneously fulfill the following characteristics:
 - have as a subject the purchase of a resident possession (house, apartment);
 - the borrower is the buyer of this residential ownership;
 - are fully collateralized through a pledge of a residential ownership, which is in the possession of the borrower and it is in use or for rent from him.
 - b) Operations of financial lease for tangible fixed assets.
 - c) Settlement asset accounts (that are not offset by the liability ones) for which there is no specific counterparty.
- 8.1.4. Assets at high risk are weighted at a 100% weighting ratio.
Such assets include the following:
- a) ⁷Claims on the Government of Albania, or fully guaranteed by it, when denominated in foreign currency.
 - b) Claims of over-1-year maturities on banks operating in Albania.
 - c) Claims on central banks and governments of **non-OECD countries**, which are not endorsed, guaranteed or funded in the borrowing country's currency.
 - d) Claims on local government bodies of **non-OECD countries**.
 - e) Claims of over-1-year maturities on other banks of **non-OECD countries**.
 - f) ⁸Other credits to the clientele, except the ones described above and evaluated from the bank itself.
 - g) Fixed tangible assets and those fixed intangible assets which have not been deducted from the supplementary capital.
 - h) All participations of a 100% extent which are not deductible from the regulatory capital.
- 8.2. Risk-weighting for off-balance sheet items that represent financial term contracts on interest and foreign exchange rates, are evaluated according to the "initial risk assessment" method, if no renewal or compensation agreement between the two parties exist:
- 8.2.1. Term financial contracts agreed upon interest rates are weighted based on the amount of the contract as follows:
- 8.2.1.1. At 0.5% when maturity is less than 1 year;
 - 8.2.1.2. At 1% when maturity is from 1 to 2 years;
 - 8.2.1.3. At 1% for each additional year if maturity exceeds 2 years.
- 8.2.2. Term financial contracts agreed upon foreign exchange rates are weighted based on the amount of the contract as follows:
- 8.2.2.1. At 2% when maturity is less than 1 year;

⁷ Amended upon the Supervisory Council decision no. 30, dated 16.04.2003.

⁸ Added upon the Supervisory Council decision no. 86, dated 07.11.2001.

- 8.2.2.2. At 5% when maturity is from 1 to 2 years;
- 8.2.2.3. At 3% for each additional year when maturity exceeds 2 years.

8.3. Risk-weighting for other off-balance sheet items (commitments issued):

8.3.1. Off-balance sheet items at high risk, which are weighted at a 100% ratio, include the following:

- a) Guarantees issued to fund a loan as a substitution to a guarantee issued from another bank to cover the same loan originally.
- b) Banking acceptances.
- c) Endorsed bills of exchange that carry no additional endorsement from another bank.
- d) Transactions with repurchasing rights to the buyer.
- e) Commitments for revocable and irrevocable credit lines in case of letters of credit offered as a substitution of another originating bank.
- f) Commitments to purchase within a certain term as irrevocable commitments to buy any asset at a pre-fixed price.
- g) Securities to be repurchased or received.
- h) Other items at high risk ⁹assessed by the bank itself.

8.3.2. Off-balance sheet items at medium risk, which are weighted at a 50% ratio, include the following:

- a) Commitments for documentary credit, issued or confirmed, without the pledge of the respective commodities.
- b) Guarantees to successfully complete the operations and customs and fiscal commitments if they do not substitute the initial issuer of the loan.
- c) Commitments to receive assets if their holder has a reselling option.
- d) Commitments to open letters of credit.
- e) Commitments for credit facilities in unused overdrafts. These facilities may involve lending, purchase of securities, banking acceptances with an original maturity of over 1 year. Overdraft facilities should be confirmed and irrevocable.
- f) Commitments for facilities in issuing securities.
- g) Other off balance-sheet items of medium risk ¹⁰evaluated from the bank itself.

8.3.3. Off-balance sheet items at moderated risk, which are weighted at a 20% ratio, include the following:

- a) Commitments for the documentary credit, granted or confirmed, guaranteed by the respective goods and other similar operations.
- b) Other items at moderated risk ¹¹evaluated by the bank itself.

8.3.4. Off-balance sheet items at low risk, which are weighted at a 0% ratio, include the following:

- a) Commitments for facilities such as unused overdraft. Such commitments involve lending, purchase of securities, banking acceptances with an original maturity of up to 1 year. Overdraft facilities can be annulled at any moment, at no conditions and without prior notice.
- b) Other items at low risk ¹²assessed by the bank itself.

9. REPORTING PERIOD

The Capital Adequacy ratio is reported to the Supervision Department in the Bank of Albania, on a quarterly basis, together with the accounting balance sheet of the respective period.

10. CONTROL

If the capital adequacy ratio is observed to be under the level set in paragraph 5:

⁹ Added upon the Supervisory Council decision no. 86, dated 07.11.2001.

¹⁰ Added upon the Supervisory Council decision no. 86, dated 07.11.2001.

¹¹ Added upon the Supervisory Council decision no. 86, dated 07.11.2001.

¹² Added upon the Supervisory Council decision no. 86, dated 07.11.2001.

- 10.1. The bank should report to the Supervision Department in the Bank of Albania, on a monthly basis, the capital adequacy ratio for a period of at least 6 months.
- 10.2. The bank should report to the Supervision Department in the Bank of Albania, on a monthly basis, the modified capital adequacy ratio that is expressed as a percentage, and which is no less than 6%.
- 10.3. The bank should accomplish the requirement of paragraph 5 no later than the end of the succeeding month.
- 10.4. If the bank fails to meet the requirements established in the paragraph 10.3 above, the Bank of Albania may act in accordance with the Law No. 8365, dated 02.07.1998, "On banks in the Republic of Albania", Article 44, Article 45, paragraph 3.

11. REPORTING FORM

Each bank is obliged to report to the Banking Supervision Department in the Bank of Albania, according to the following forms, which are an integral part of the reporting system.

12. DEFINITIONS

12.1. **The list of OECD countries, other than Turkey:**

¹³Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Great Britain, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovakia, Spain, Sweden, Switzerland, USA.

12.2. **All the countries not listed above do not pertain to OECD countries.**

12.3. The list of International Institutions:

- Bank for International Settlements (BIS);
- European Bank for Reconstruction and Development (EBRD);
- World Bank (WB);
- International Monetary Fund (IMF);
- European Community Commission;
- Other World Bank Institutions;

12.4. The list of Multilateral Development Banks:

- European Investment Bank (EIB);
- International Bank for Reconstruction and Development (IBRD-WB);
- International Financial Corporation;
- Inter-American Development Bank;
- Asian Development Bank;
- African Development Bank;
- Council of Europe Social Development Fund;
- Nordic Investments Bank;
- Caribbean Development Bank;
- European Investment Fund;
- Inter-American Investment Corporation.

13. The regulation No.2, dated 16.08.1996 "On the Adequacy of the Bank's Own Funds (Capital)", approved by the Supervisory Council of the Bank of Albania, is abrogated.

14. This regulation enters into force on 01.06.1999.

CHAIRMAN OF THE SUPERVISORY COUNCIL
Shkëlqim CANI

¹³Amended upon the Supervisory Council decision no. 72, date 11.09.2002.

REPORTING FORM NO. 1

RISK-WEIGHTED ASSET ITEMS (in thousand lek) Name of the Bank Reporting Period Date of the Report Prepared By (Name, Surname, Signature) Manager (Name, Surname, Signature)				
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CODE	Description	Booked Value	Weighting Ratio	Weighted Amount
	1-Assets at no risk (0% risk weighting ratio):		0	
	- Cash and cash equivalents		0	
	- Claims on the Central Bank and the Albanian Government, when such are denominated in the national currency		0	
	- Claims on central banks and governments of OECD countries (P.12.1) or explicitly guaranteed by them and by the International Institutions (P.12.3)		0	
	- Claims on central banks and governments of non OECD countries (P.12.2) endorsed, guaranteed or funded in the national currency of the borrowing country		0	
	- Claims on a debtor of non OECD countries explicitly backed by the central banks and the governments of countries of non OECD countries, endorsed, guaranteed and funded in their national currency		0	
	- Claims on the European Community or explicitly guaranteed by it.		0	
	Assets guaranteed with collateral or similar: <ul style="list-style-type: none"> • Securities issued by the central banks, governments of OECD countries or the European Community • Deposits in the lending banks • Deposit Certificates or similar instruments issued by, and deposited in, the lending banks. 		0	
	2-Assets at low risk (20% risk weighting ratio):		0.2	
	- Claims of an up-to-1-year maturity on credit institutions operating in the Republic of Albania		0.2	
	- Claims on multilateral development banks as listed in P.12.4.		0.2	
	- Claims on banks and financial institutions operating in OECD countries and explicitly guaranteed by them, except when such claims are included in the own funds of the credit institution, based on the regulations in force.		0.2	

	- Claims on local and regional government bodies in OECD countries.		0.2	
	-Claims of an up-to-1-year maturity on banks and financial institutions in non OECD countries or explicitly guaranteed by central banks and governments in non OECD countries, except when such claims are included in the regulatory capital of the banks, based on the regulations in force		0.2	
	-Assets secured with collateral or similar: -Securities issued by the multilateral banks for development -Securities issued by the local and regional government bodies in OECD countries: -Deposits in banks and financial institutions in OECD countries, different from the lending bank or institution -Certificates of deposits or similar instruments issued by the banks and financial institutions in OECD countries, different from the lending bank or institution		0.2	
	- Transit items and claims on instruments payable at sight (travel-check, credit cards, etc.)		0.2	
	3-Assets at medium risk (50% risk weighting ratio):		0.5	
	- Mortgage loans issued to borrowers to purchase, rent or improve the conditions of the building, which serves as a mortgage (according to B.1.3 a).		0.5	
	- Leasing operations of fixed tangible assets (according to B.1.3.b)		0.5	
	- Settlement asset accounts (which are not offset by the liability ones) for which there are no specific counterparts		0.5	
	4-Assets at high risk (100% risk weighting ratio):		1	
	- Claims on the Government and the Bank of Albania, or fully guaranteed by them, when they are endorsed, guaranteed or funded in foreign currency.		1	
	- Claims of over-1-year maturity on banks operating in Albania		1	
	- Claims on central banks and Governments in non OECD countries, which are not endorsed, guaranteed or funded in the currency of the borrowing country.		1	
	- Claims on local government bodies in non OECD countries.		1	
	- Claims of over-1-year maturity on banks in non OECD countries.		1	
	- Other loans to customers, except the ones stated above		1	
	- Fixed tangible and intangible assets which have not been deducted from the regulatory capital		1	
	- All participation of 100% extent, that are not deductible from the regulatory capital.		1	
	TOTAL RISK-WEIGHTED ASSETS			

REPORTING FORM NO 2

OFF BALANCE-SHEET ITEMS REPRESENTING CONTRACTS FOR FINANCIAL INSTRUMENTS INVOLVING INTEREST AND FOREIGN EXCHANGE RATES WEIGHTED AT RISK (in thousand lek)

Name of the Bank
 Reporting Period
 Reporting Date
 Prepared by (Name, Surname, Signature)
 Manager (Name, Surname, Signature)

	5-CONTRACTS AT FLOATING INTEREST AND FOREIGN EXCHANGE RATES	Booking Value	Weighting Ratio	Weighted Amount
	1. Items with floating exchange rate:			
	- Maturity less than 1 year:		0.03	
	-Maturity between 1 and 2 years;		0.05	
	-Maturity over 2 years, for each subsequent year.		0.03	
	2. Items with floating interest rate:			
	- Maturity less than 1 year;		0.005	
	- Maturity between 1 and 2 years;		0.01	
	- Maturity over 2 years, for each subsequent year.		0.01	
	TOTAL RISK-WEIGHTED OFF BALANCE-SHEET ITEMS			

REPORTING FORM NO. 3

OTHER OFF BALANCE-SHEET ITEMS (in thousand lek)				
Name of the Bank				
Reporting Period				
Reporting Date				
Prepared by (Name, Surname, Signature)				
Manager (Name, Surname, Signature)				
Code	DESCRIPTION	Booking Value	Weighting Ratio	Weighted Amount
	1- Off balance-sheet items at high risk (100% risk-weighting ratio)		1	
	- Guarantees issued to fund a loan as a substitution to a guarantee issued from another bank to cover the same loan originally:		1	
	- Banking acceptances;		1	
	- Endorsed bills of exchange carrying no additional endorsement by another bank;		1	
	- Transactions with repurchasing rights to the buyer;		1	
	- Commitments to open a conditioned or unconditioned letter of credit offered as a substitution to another originating bank;		1	
	- Commitments to purchase within a certain term: unconditioned commitments to purchase any assets at a pre-fixed price;		1	
	- Securities to be received within an operation where it can be chosen to repurchase or get them back;		1	
	- Other off balance-sheet items at high risk.		1	
	2- Off balance-sheet items at medium risk (50% risk-weighting ratio)		0.5	
	- Issued or confirmed commitments for documentary credit payment, unsecured by the pledge of the corresponding commodities;		0.5	
	- Guarantees for the successful completion of the transaction and customs and fiscal commitments if they do not constitute a replacement of the original lender;		0.5	
	- Commitments to receive assets for as long as a holder has a reselling option;		0.5	
	- Commitments to open letters of credit;		0.5	
	- Commitments for facilities, such as unused overdrafts. These commitments may involve lending, purchase of securities, banking acceptances of over-1-year original maturity. Overdraft facilities are confirmed and irrevocable.		0.5	
	- Commitments for facilities regarding issuance of securities;		0.5	
	- Other off balance-sheet items at medium risk.		0.5	
	3- Off balance-sheet items at moderated risk (20% risk-weighting ratio)		0.2	
	- Commitments for the documentary credit, opened or confirmed, guaranteed by pledging the corresponding commodities or other similar operations;		0.2	
	- Other off balance-sheet items at moderated risk.		0.2	
	4- Off balance-sheet items at low risk (0% risk-weighting ratio)		0	

3- Off-balance sheet items at moderated risk (20% risk-weighting ratio)		0.2	
- Commitments for the documentary credit, opened or confirmed, guaranteed by pledging the corresponding commodities or other similar operations		0.2	
- Other off-balance sheet items at moderated risk		0.2	
4- Off-balance sheet items at low risk (0% risk-weighting ratio)		0	
- Commitments for facilities such as overdrafts unused .These involve lending, purchase of securities, and banking acceptances of an up-to-1-year original maturity. Facilities such as the overdrafts, may be annulled at any moment, at no conditions and without pre-notification.		0	
- Other off balance-sheet items at low risk		0	
TOTAL OF OTHER OFF BALANCE-SHEET ITEMS			

REPORTING FORM NO. 4

TOTAL RISK-WEIGHTED ASSETS AND OFF BALANCE-SHEET ITEMS AND OTHER OFF BALANCE-SHEET ITEMS (in thousand lek)

Name of the Bank

Reporting Period

Reporting Date

Prepared by (Name, Surname, Signature)

Manager (Name, Surname, Signature)

No	Type of Form	Description	Amounts
1	Form No. 1	Total Risk-Weighted Assets	
2	Form No. 2	Total Risk-Weighted Off Balance-sheet items representing financial contracts on interest and foreign exchange rates	
3	Form No. 3	Total Other Off Balance-sheet items	
		TOTAL (1+2+3)	

REPORTING FORM NO. 5

CAPITAL ADEQUACY RATIO (in thousand lek)

Name of the Bank

Reporting Period

Reporting Date

Prepared by (Name, Surname, Signature)

Manager (Name, Surname, Signature)

No.	DESCRIPTION	AMOUNTS
1	Regulatory Capital computed according to the instruction "On the Regulatory Capital of the Bank".	
2	Amounts reported in Form no. 4	
3	Capital Adequacy Ratio $[(1:2) \div 100]$ (expressed as a percentage)	
4	Minimum Capital Adequacy Ratio	12%

REPORTING FORM NO. 6

MODIFIED CAPITAL ADEQUACY RATIO (in thousand lek)

Name of the Bank

Reporting Period

Reporting Date

Prepared by (Name, Surname, Signature)

Manager (Name, Surname, Signature)

No.	Description	Amounts
1	Regulatory Capital computed according to the instruction 'On Bank Regulatory Capital'.	
2	Base Capital computed based on chapter II of the instruction 'On Bank's Regulatory Capital'	
3	Amounts reported according to Form No. 4	
4	Capital Adequacy Ratio $[(1:3) \cdot 100]$ expressed as a percentage	
5	Modified Capital Adequacy Ratio $[(2:3) \cdot 100]$ expressed as a percentage	
6	Minimum Modified Ratio	6 percent
7	Minimum Capital Adequacy Ratio	12 percent

REGULATION ON OPEN FOREIGN POSITIONS

Approved by the decision of the Supervisory Council, No 59, dated 05.05.1999.

I. GENERALS PROVISIONS

1. Legal grounds of this Regulation are the Law No. 8269, dated 23.12.1997 " On the Bank of Albania " chapter VII, article 61 and the Law No. 8365, dated 02.07.1998 "On Banks in the Republic of Albania", article 27.
2. Scope of this regulation is to determine the level of Net maximum foreign open positions for such entities as banks and foreign bank branches, which are licensed by the Bank of Albania to conduct banking activity in the territory of the Republic of Albania.
For the purpose of this Regulation, these entities will be referred to as " banks " .
3. Purpose of this regulation is to determine rules for measuring the open foreign exchange positions of banks. These rules are intended to limit the losses of banks from both foreign exchange transactions and precious metal ones.

4. Definition of the following terms:

Assets shall be considered the sum of foreign currency assets in the balance sheet plus assets from off balance sheet items (commitments given).

Liabilities shall be considered the sum of foreign currency liabilities in the balance sheet plus liabilities from off balance sheet items (commitments received).

Net open foreign exchange position in a certain currency is the equivalent amount in Lek of the difference between all assets and liabilities of the bank in that currency.

A bank has a " Net long open foreign exchange position", when the equivalent amount in lek of all its assets in a certain currency exceeds the equivalent amount in Lek of all its liabilities in that currency.

The Bank has a "Net short open foreign exchange position", when the equivalent amount of all its liabilities in a certain currency exceeds the equivalent amount in Lek of all its assets in that currency.

"Total net open foreign exchange position "is the difference between the amount of net long open foreign exchange positions and the amount of net short open foreign exchange positions.

¹Precious metals held in a negotiable way are to be treated as foreign currencies.

²To calculate the open position, all the currencies that are exchanged at a fixed exchange rate with the Euro (are its components) shall be converted into Euro and the net position in euro shall be reported at the Bank of Albania. The currencies shall be converted into Euro at a published fixed exchange rate.

The component currencies of the euro shall be replaced with the euro (that is they shall not be reported in DM, ITL etc), in the reporting statement of foreign exchange positions.

¹Amended by the Supervisory Council Decision No. 118, dated 01.12.1999.

²Amended by the Supervisory Council Decision No. 118, dated 01.12.1999.

With " Structural foreign exchange position " we mean the equivalent amount in Lek of the following elements:

- a) Total of item " Ownership interests "
- b) Total of item " Affiliates "
- c) Total of item " Fixed tangible and intangible assets "
- d) Capital donation to bank branches opened abroad

With " Operational foreign exchange position " we mean the equivalent amount in Lek of all components that are not included in the components of " Structural foreign exchange position " .

With " Global foreign exchange position " we mean the amount of " Structural foreign exchange position " and " Operational foreign exchange position " .

II. PERMISSIBLE LIMITS ON OPEN FOREIGN EXCHANGE POSITION

All the banks licensed to perform banking transactions in foreign currencies shall monitor the process and shall not exceed the following rates at the end of each day:

- 1.1³ A maximum ratio of 20% of the net open foreign exchange position in each foreign currency to bank regulatory capital;
- 1.2 A maximum ratio of 30% of net total open foreign exchange position to bank regulatory capital.

III. INDEX CALCULATION

1. Bank regulatory capital is defined pursuant to the Regulation of the Bank of Albania "On Bank Regulatory Capital " .
2. Short or long open foreign exchange positions shall be determined by taking into account the following elements:
 - 2.1 The difference between assets and liabilities in foreign currency, including accrued interests, paid in capital and its premiums in foreign currency.
 - 2.2 Off balance sheet items in foreign currency.
3. To determine the foreign exchange positions, the data must be taken from bank accounting books and the estimation of the data shall be performed by the interest rate of the last day proclaimed by the Bank of Albania.
4. In calculating the " Net long or short open foreign exchange position " and " Net total open foreign exchange position " , the following elements shall be excluded:
 - 4.1 Foreign exchange operations whose foreign exchange risk is covered by the state.
 - z
 - 4.2 Structural foreign exchange position when its financing resource is in domestic currency (Lek).

IV. RULES TO MANAGE FOREIGN EXCHANGE POSITION

1. The Banks operating regularly with foreign currencies must have:
 - 1.1 A permanent accounting system to record transactions, to calculate results and to

³Amended by the Supervisory Council Decision No. 118, dated 01.12.1999.

⁴Amended by the Supervisory Council Decision No. 118, dated 01.12.1999.

- determine a total foreign exchange position and a net position by each currency;
- 1.2 A supervisory system to administrate the risks in continuity, the boundaries established by the institution, as well as the conditions to ensure that are applied these boundaries.
 - 1.3 A permanent audit system to ensure that all necessary procedures are applied to fulfill the above mentioned measures.
- 2 Banks shall compile written policies on foreign exchange operations they perform. These written policies shall be approved by the Board of Directors of the bank and shall include at least the following data:
- 2.1 Types of foreign exchange transactions the banks are authorized to perform;
 - 2.2 Internal bank limits for maintaining open foreign exchange positions;
 - 2.3 Internal reporting system;
 - 2.4 Structural and organizational measures that ensure the allocation of the activity, authorities and responsibilities concerning those people who are responsible for performing foreign exchange operations.
 - 2.5 Other rules on the criteria and competences to determine interest rates on foreign currency operations, level of knowledge of the staff involved in these operations, and risk management techniques.
3. The banks operating in the Republic of Albania shall submit the above established policies at the Supervision Department of the Bank of Albania within a month from the day this regulation enters into force and within 10 days from the date of their change. Meanwhile, new banks shall present their policies from the beginning of these operations.

V. REPORTING

1. In the end of each business day, all the banks licensed to perform foreign exchange operations shall draft a Report and submit it at the Monetary Operations Department of the Bank of Albania on their daily trading foreign exchange positions.
2. Open foreign exchange positions for each foreign currency and in total shall be reported monthly at the Supervision Department of the Bank of Albania. The reporting shall be made according to the attached forms approved by the Bank of Albania, and they shall constitute an integral part of the reporting system.

VI. OTHER PROVISIONS

1. Banks that do not observe the approved rules at the moment this regulation enters into force shall draft an acceptable scheduled plan to bring the open positions within the limit. These plans shall be submitted for approval at the Supervision Department of the Bank of Albania, which supervises their implementation following the approval.
2. In case of violations of supervision norms " On open foreign exchange positions ", the banks and their managers shall be subject to Articles 44 and 45 of the Law No. 8365, dated 2.07.1998 " On Banks in the Republic of Albania ".

3. The Supervision Department shall compile a methodic instruction "On calculating open foreign exchange positions".
4. The Regulation of the Bank of Albania "On open foreign exchange positions", approved by the decision of the Supervisory Council of the Bank of Albania", No 42, dated 31.03.1998 shall be abrogated.
5. This regulation shall enter into force on 1.06.1999.

CHAIRMAN OF THE SUPERVISORY COUNCIL

Shkëlqim CANI

FOREIGN POSITIONS

In thousands of Lek

NAME :

CLOSING DATE :

Form 1

Currency	Amount in Foreign Currency				Exchange Rate	ALL Equivalent in Net Position	Net Position against Regulatory Capital
	Assets	Liabilities	Off-Balance net	Net Position In purchase In sale			
USD							
DEM							
EUR							
GRD							
....							
....							
1. Amount of positions in purchase							
2. Amount of positions in sale							
Net position for all currencies (1 - 2)							
Total net position (in % against regulatory capital)							
Regulatory capital							

Approved rate for one currency
Approved rate for all currencies

Prepared by (Name, Surname, Signature)
Directed by (Name, Surname, Signature)

METHODIC GUIDELINE ON FOREIGN EXCHANGE RISKS

This Guideline is issued to implement the provisions of the Law No. 8365, dated 02.07.1998 "On Banks in the Republic of Albania" and the Regulation of the Bank of Albania "On Open Foreign Exchange Positions", approved by the decision of the Supervisory Council, No. 59, dated 05.05.99. The purpose of this Guideline is to provide some procedural knowledge and guidelines in foreign exchanges area.

I. CONCEPT OF RISKS FROM OPEN FOREIGN EXCHANGE POSITIONS

Banks, throughout their activity, to satisfy their customers' demands in foreign currency through extending loans, accepting deposits, providing/receiving guaranties, commitments or through spot¹, forward², swap, futures, options, and other operations, or to assume operations of foreign exchanges if licensed for such operations by the Bank of Albania, undertake the risks from foreign exchange fluctuations after the performance of foreign currency transactions.

The ratios of foreign exchanges, as otherwise called foreign exchange rates, should be searched in the domestic and international market. The means of obtaining information on these ratios and on their forecasts for the future are various. Risks spring from different ways.

1. Net open position – during foreign exchange operations a bank may find itself in a selling or purchasing position for a particular currency. These positions have equal exchange rate risk, but are conditioned by the direction of this currency, that is by its appreciation or depreciation.

A bank is on a net open position in a certain foreign currency, when its assets (including cash in hand, deposits at foreign banks, deposits at central banks or at other banks, loans extended in foreign currency, precious metals, contracts for buying spots, forward, swap, future, option, etc, or other off – balance sheet items), and liabilities (including foreign exchange loans from domestic or foreign banks, foreign currency deposits of all types, paid in capital when it is paid in foreign currency, contracts for selling spot and forward, swap, future, option etc., or other off – balance items) are not equal. When assets are higher than liabilities we have a "purchasing position (+) (long), whereas when liabilities are higher than assets, we have a "selling position"(-) (short). "A net purchasing position" in a certain foreign currency (for example in dollar) that is being depreciated, will lead to its loss, on the other hand "a net selling position"(-) in an appreciating currency (there are increased the exchange rates of national currency) represents a loss, since more domestic currency is needed to fulfil the obligations toward third parties.

Example

The exchange rate of USD in Lek as of January 1st was 1usd = 160 Lek. The bank has a net selling position of USD 2000.

	Assets	Liabilities	Position
USD	3.000	5.000	-2.000
Lek Equivalent	480.000	800.000	-320.000

¹ We have *spot* when the operation is performed two working days from the agreements date. This kind of operation is used in most banking operations and as a result in most operations we have the implication of spot prices when no other operation is emphasized.

² We have *forward* when the operation is performed at a second term after the agreement date. This term is determined at the moment the agreement is concluded. In theory the forward price should be equal with the spot one, but practically it is not so. In practice, the forward price may be higher (premium) or lower (discount) than the spot one. Forward operations in most cases, may serve to prevent the risk of foreign exchange fluctuations, for both the commercial and financing area. Also, forward may be used even for speculative operations, particularly in capital markets. To avoid misunderstandings, when speaking about pure forward operations, they are called "outright" so as to distinguish them from forward operations, as a component part of swap operation.

If on February 1st, the Lek value against USD is reduced (Lek is depreciated) from 160 to 170 for 1 USD, the Lek equivalent position would be:

	Assets	Liabilities	Position
USD	3.000	5.000	-2.000
Lek equivalent	510.000	850.000	-340.000

As the Lek value decreases against USD, the "Net selling position" causes the bank to result in a loss. Although the value of bank assets expressed in USD is increased in comparison with the previous month by Lek 30.000 = (510.000 - 480.000), the cost of fulfilling the liabilities is increased by Lek 50.000 (850.000 - 800.000) leading to a net loose of Lek 20 thousand (50.000 - 30.000).

2. Maturity discrepancy. The risk of foreign exchange operations may spring from maturity discrepancy as well, furthermore when banks do not have open "net position"(assets = liabilities). Discrepancies are a result of imbalances of coming maturities, creating a discrepancy in purchasing or selling's in that foreign currency, for daily or longer periods. For example, a maturity discrepancy of bank assets and liabilities may make possible that a considerable amount in a certain foreign currency be received at a time when the payments in this foreign currency are projected to be effected later on. Following is an example to illustrate this phenomenon:

We suppose that a bank has a one-month deposit of USD 20.000 at a foreign bank. This amount of money is ensured through a 3 - month deposit being established by its client. As a balance position, we do not have an open position.

Assets	Liabilities
A deposit of USD 20.000 at a foreign bank	Time deposit of USD 20.000

But, as concerns to maturity, we have a discrepancy

Assets	Liabilities
One month	Three months

The above case is called "positive discrepancy". In this case, once the one-month maturity is over, the deposit at the foreign bank is matured, while the maturity of liabilities (deposit established from clients) needs two other months. In such case, the bank decides if it should:

- continue to keep the money at the corresponding bank;
- invest or extend short - term loans with them;
- sell them (spot or forward, etc) up to the avoidance of discrepancy (2 months).

An opposite situation happens when the discrepancy reflects the short-term maturities of liabilities, and as a result, considerable outflows of foreign currency amounts are needed prior to maturity of assets ("negative discrepancy"). This case constitutes a risk for bank liquidity. This may be presented as follows:

Assets = Liabilities in USD, but

Assets	Liabilities
three months	one month

The bank should fulfil its liabilities as they fall due. Therefore, it should either borrow or purchase spot, forward, etc., with maturity up to reaching the maturity term of assets. The decision to close the

discrepancy or to let it open is determined through the analyses of applicable spot and forward interest rates, or between two forward exchange rates. The potential loss or profit for the bank is determined by the future or current changes in "swap" rate between the time when the discrepancy is established and closed.

3. Client's credibility and solvency. When a bank assumes a foreign currency transaction, it should become ensured that the other party (the client) has a good financial position and is able to fulfill the obligations when they fall due.

II. THE WAYS OF MANAGING FOREIGN EXCHANGES RISKS.

Banks should know clearly the risks of foreign currency transactions, determine in written form the targets and policies concerning the amount of risks they will undertake, establish necessary security and information system to reflect and control risks. At least, there should be established the limits, indicators to be reported, control types to ensure continuous supervision of limits as prescribed in the regulation.

1. Supervision rate.

The Bank of Albania has established the percentage rates of open foreign exchange positions in relation to bank regulatory capital (stipulated in the Bank of Albania guideline "On Bank Regulatory Capital". There are established rates on both net open foreign exchange position for each foreign currency and on total net open foreign exchange position. Each bank should keep net open foreign exchange position for each particular foreign currency by the end of each day and the total open foreign exchange position, not higher than the regulatory capital percentages established by the Bank of Albania.

2. General risk exposure from foreign currencies operations.

General risks exposure of the foreign currencies operations is accounted as the total of Lek sums of all the "net positions in selling" (-) or of all "net positions in purchasing" (+), in foreign currencies in which the respective bank has a net open position.

3. Calculation method of risk exposure from foreign currency operations.

An example on how the calculation is made:

Accounting balance – sheet as of December 31st

FX	Position of bank accounting balance sheet assets	Position of bank accounting balance- sheet liabilities	Off-balance sheet items	Open position
USD	11.000.000	10.000.000	-2.000.000	-1.000.000
DEM	7.000.000	6.000.000	-500.000	+500.000
FRF	19.000.000	20.000.000		-1.000.000
NLG	2.200.000	2.000.000		+200.000
BEF	8.000.000	5.000.000		+3.000.000
ATS	1.000.000	2.000.000		-1.000.000
JPY	7.200.000	7.000.000		+ 200.000

It results from the calculation of regulatory capital pursuant to the Guideline "On Bank Regulatory Capital" that for the same period they are Lek 350.000.000.

Using the exchange rate (rate that is used to estimate the accounting balance – sheet according to accounting procedures) in Lek for each foreign currency, for the reporting day, we calculate the equivalent positions in Lek of the foreign currencies:

FOREIGN CURRENCIES	Foreign Exchange Positions	Exchange Rate in Lek	Equivalent positions in Lek
USD	-1.000.000	160	- 160.000.000
DEM	+ 500.000	88	+ 44.000.000
FRF	-1.000.000	26	- 26.000.000
NLG	+ 200.000	78	+ 15.600.000
BEF	+3.000.000	4	+ 12.000.000
ATS	-1.000.000	13	- 13.000.000
JPY	+ 200.000	117	+ 23.400.000

We sum up together the Lek equivalent for all the "selling positions" (-) of foreign currencies:

Bank selling position in foreign currency	Their equivalent in Lek	
USD	-1.000.000	-160.000.000
FRF	-1.000.000	- 26.000.000
ATS	-1.000.000	- 13.000.000
Total		-199.000.000

The same way is followed for the "purchasing positions" for all the foreign currencies of (+) sign:

Bank foreign purchasing position (+)	Their equivalent in Lek	
DEM	+ 500.000	+ 44.000.000
NLG	+ 200.000	+ 15.600.000
BEF	+ 3.000.000	+ 12.000.000
JPY	+ 200.000	+ 23.400.000
Total		+ 95.000.000

We calculate the ratio of net open foreign exchange position for all the foreign currencies together to regulatory capital:

$$R = 104.000.000 / 350.000.000 \times 100 = 29.7 \text{ per cent}$$

We compare this ratio with the maximum permitted rate for total exposure, which presently is 20 per cent, which results to be higher than the permitted limit (29.7 per cent – 20 per cent).

We calculate the exposure ratio of any particular foreign currency, for which the bank has open positions and is, in consequence, exposed to risks.

Lek equivalence of open FX positions (A)	Regulatory capital (B)	Ratio in percentage A/ B X 100
USD Lek 160.000.000	350.000.000	45,71 per cent
DEM Lek 44.000.000	350.000.000	12,57 per cent
FRF Lek 26.000.000	350.000.000	7,43 per cent
NLG Lek 5.600.000	350.000.000	4,46 per cent
BEF Lek 12.000.000	350.000.000	3,43 per cent
ATS Lek 13.000.000	350.000.000	3,71 per cent
JPY Lek 23.400.000	350.000.000	6,68 per cent

Any individual ratio on foreign currencies is compared with the maximum limit stipulated by the Bank of Albania (presently 10 per cent). As it is shown, the bank has exceeded the stipulated limit for both foreign currencies, USD and DEM, and it should take measures for observance of the stipulated rate.

III. REPORTS ON OPEN POSITIONS

Reporting evidences, being rightly established, are the most useful means of reflecting and managing risks of foreign exchange operations. Bank managers should receive daily notification (evidence) on open positions for any foreign currency and for all the foreign currencies together.

IV. ACCOUNTING RE-EVALUATION AND RECORDING

The re-evaluation of foreign currencies is made at the last day exchange rate, published by the Bank of Albania. Losses and profits resulting from the re-evaluation of foreign currencies are accounted as an income or expenditure in the result account.

All the data on calculating foreign exchange open positions are taken from the accounting balance – sheet of the bank for the reporting date.

There are not taken into account the items on which:

- a) foreign exchange risk is covered by the state;
- b) all the foreign exchange structural assets that serve for a long period of time, such as interests in participation (banks and financial institutions), accorded amounts for branches abroad, fixed tangible or intangible assets when their financing source is in domestic currency (Lek);
- c) off-balance sheet items held to justify balance sheet items, such as:
 - Guarantees received from banks or clients on loans extended by the reporting bank;
 - Letters of credit with coverage ;
 - Guarantees given with coverage;
 - Other items of such nature.

(For reporting reasons, off-balance sheet items of the statement attached to the Regulation should be based on accounting and off-balance sheet items deducted according to point "c" should be recorded at the end of the statement).

Also, the standards of accounting entries in foreign currency and in lek should be taken into account and observed, and the below items are summarized and they may have sub-items for each foreign currency.

What items of accounting balance – sheet are taken into account for calculating the position of various foreign currencies:

ASSETS

Item 1.1.1.2:	Foreign Exchange cash in hand.
Item 1.1.1.4:	Travellers' checks in other currencies.
Group 1.1.2:	Relations with the Bank of Albania (in foreign currency)
Item 1121	Current accounts
Item 1122	Required reserves
Item 1123	Deposit accounts with central banks
Item 1124	Loans to central banks
Item 1127	Overdue accounts with the central bank.
Item 1128	Other accounts with central banks.

(Here are included both the principal and accrued interests for foreign exchange sub - items, in any foreign currency).

Rubric 1.2	T-Bills and other bills eligible for refinancing with the central bank.
Group 121	T-Bills.

Group 122 Other bills eligible for refinancing with the central bank.
(Here are included both the principal and accrued interests for the foreign exchange sub-items, in any foreign currency).

Rubric 1.3 Current accounts with banks, credit institutions, and other financial institutions.
Group 131 Current accounts with resident banks, credit institutions, and other financial institutions.
Group 132 Current accounts with non-resident banks, credit institutions, and other financial institutions.
Group 137 Past due current accounts with banks, credit institutions, and other financial institutions.

(Here are included both the principal and accrued interests for foreign exchange sub - items, in any foreign currency).

Rubric 1.4 Deposits with banks, credit institutions, and other financial institutions.
Group 141 Deposits with resident banks, credit institutions, and other financial institutions.
Group 142 Deposits with non-resident banks, credit institutions and other financial institutions.

(Here are included both the principal and the accrued interests for foreign exchange sub - items, in any foreign currency.)

Rubric 1.5 Loans to banks, credit institutions, and other financial institutions.
Group 151 Loans to resident banks, credit institutions, and other financial institutions.
Group 152 Loans to non-resident banks, credit institutions, and other financial institutions.
Group 153 Commercial paper and remittances received under a repurchase agreement.
Group 157 Overdue loans to banks, credit institutions, and other financial institutions.

(Here are included both the principal and the accrued interests for foreign exchange sub - items, in any foreign currency.)

Rubric 1.8 Other accounts with banks, credit institutions, and other financial institutions.
Item 1821 Guarantee paid to banks (in foreign currency).
Item 1822 Accrued interest (in foreign currency)
Item 1831 Amounts deposited in an escrow account at a bank (in a foreign currency).
Item 1832 Accrued interest (in foreign currency).
Group 186 Other accounts with banks, credit institutions, and other financial institutions.
Group 187 Other overdue accounts with banks, credit institutions, and other financial institutions.

Rubric 1.9 Doubtful receivables with banks banks, credit institutions, and other financial institutions.

Rubric 2.0 Standard loans and advances to customers
Group 201 Short – term loans.
Group 202 Medium – term loans.
Group 203 Long – term loans.
Group 204 Real estate loans
Group 205 Financial lease contracts.

Rubric 2.1 Overdue loans and advances to customers.
Similar as in Rubric 2.0.

Rubric 2.2 Special mention loans and prepayment
Similar as in Rubric 2.0.

Rubric 2.3 Substandard loans.
Group 231 Short – term loans.
Group 232 Medium – term loans.
Group 233 Long – term loans.

Group 234 Real estate loans
Group 235 Financial lease contracts.
Group 238 Provisions on substandard loans.

Rubric 2.4 Doubtful loans.
Similar as in the rubric 2.3.

Rubric 2.5 Loss loans.
Similar as in Rubric 2.3.

Rubric 2.6 Albanian Government and public administration.
Group 261 Current accounts.
Group 262 Loans to Albanian Government and public administration.
Group 266 Doubtful receivables with Albanian Government and other public administration.
Group 267 Overdue accounts with Albanian Government and other public administration.
Group 268 Provisions on doubtful receivables with Albanian Government and other public administration.
Group 269 Other doubtful accounts with Albanian Government and other public administration.

(Here are included both the principal and the accrued interests for the foreign exchange sub - items, in any foreign currency.)

Rubric 2.7 Customer current accounts.
Group 271 Current accounts.
Group 277 Past due debtor customer current accounts.

(Here are included both the principal and the accrued interests for foreign exchange sub - items, in any foreign currency.)

Rubric 2.8 Other customer accounts.
Group 286 Other customer accounts.
Group 288 Other overdue customer accounts.

(Here are included both the principal and the accrued interest for foreign exchange sub - items, in any foreign currency.)

Rubric 2.9 Receivable customer accounts, other than loans.

Rubric 3.1 Fixed income securities.
Group 311 Trading securities.
Group 312 Placement securities
Group 313 Investment securities.

(Here are included both the principal and the accrued interests for foreign exchange sub - items, in any foreign currency.)

Rubric 3.2 Variable income securities.
Group 321 Trading securities.
Group 322 Placement securities.

(Here are included both the principal and the accrued interests for foreign exchange sub - items, in any foreign currency.)

Rubric 3.4 Securities purchased and sold under repurchase agreement.
Group 341 Securities purchased under re-selling agreement.
(Here are included both the principal and the accrued interests for foreign exchange sub - items, in any

foreign currency.)

Rubric 3.5 Collateral on securities transactions.
Group 351 Collateral paid for securities lent.

Rubric 3.6 Premiums on financial instruments.
Group 361 Received.

Rubric 4.1 Other assets.
Group 411 Sundry debtors.
Group 412 Inventories.
Group 418 Provisions for other assets.
Group 419 Accrued income and deferred expenses.

Rubric 4.3 Agent transactions.

Rubric 4.5 Suspense, differences and position accounts.
Group 451 Suspense accounts

Rubric 5.1 Participating interests.

Rubric 5.2 Affiliates.

Rubric 5.3 Fixed assets.
(It stands for fixed assets evaluated in foreign currency).

Rubric 9.0 Financing commitments.
Group 901 Commitments given.

Rubric 9.1 Guarantees.
Group 911 Guarantees given.

Rubric 9.2 Commitments on securities.
Group 922 Securities to be received.
Group 924 Securities given as a guarantee for credit or re-financing.
Group 926 Borrowed securities.

Rubric 9.3 Foreign currency transactions.
Group 931 Forward foreign currency purchases.

Rubric 9.4 Other commitments.

Rubric 9.5 Commitments on financial instruments.
Group 952 Given.

Liabilities

Group 1.1.2: Relationships with the Bank of Albania (in foreign currency).
Item 1121 Current accounts.
Item 1125 Deposits with central bank.
Item 1126 Loans with central bank.
Item 1128 Other accounts with central banks.

(Here are included both the principal and the accrued interests for foreign exchange sub - items, in any foreign currency.)

Rubric 1.2 T- bills and other bills eligible for refinancing with the central bank.

Item 1215 T-bills sold under repurchase agreement.
Item 1225 Other T-bills sold under repurchase agreements.

Rubric 1.3 Current accounts with banks, credit institutions, and other financial institutions.
Group 131 Current accounts with resident banks, credit institutions, and other financial institutions.
Group 132 Current accounts with non - resident banks, credit institutions, and other financial institutions.

(Here are included both the principal and the accrued interests for foreign exchange sub - items, in any foreign currency.)

Rubric 1.6 Deposits from banks, credit institutions, and other financing institutions.
Group 161 Deposits from resident banks, credit institutions, and other financing institutions.
Group 162 Deposits from non-resident banks, credit institutions, and other financing institutions.

(Here are included both the principal and the accrued interests for foreign exchange sub - items, in any foreign currency.)

Rubric 1.7 Loan received from banks, credit institutions and other financial institutions.
Group 171 Loan received from resident banks, credit institutions and other financial institutions.
Group 172 Loans received from non – resident banks, financial institutions and other financial institutions.
Group 173 Commercial papers and amounts of cash delivered under repurchase agreement.

(Here are included both the principal and the accrued interests for foreign exchange sub - items, in any foreign currency.)

Rubric 1.8 Other accounts with banks, credit institutions, and other financial institutions.
Item 1823 Banking guarantees (in foreign currency).
Item 1829 Accrued interest (in foreign currency).
Item 1833 Amounts received in an escrow account (in foreign currency) from a bank.
Item 1839 Accrued interest (in foreign currency).
Group 186 Other accounts with banks, credit institutions, and other financial institutions.

Rubric 2.6 Albanian Government and public administration.
Group 261 Current accounts.
Group 263 Deposit accounts.
Group 264 Time deposits from Albanian Government and public administration.
Group 265 Borrowings from Albanian Government and public administration.
Group 269 Other doubtful accounts with Albanian Government and public administration.

(Here are included both the principal and the accrued interests for foreign exchange sub - items, in any foreign currency.)

Rubric 2.7 Customer current account and deposit liabilities.
Group 271 Current accounts.
Group 272 Demand deposit accounts.
Group 273 Time deposit accounts.

(Here are included both the principal and the accrued interests for foreign exchange sub - items, in any foreign currency.)

Rubric 2.8 Other customer account.
(the whole rubric, excluding group 288)

(Here are included both the principal and the accrued interests for foreign exchange sub - items, in any

foreign currency.)

Rubric 3.3 Debts represented by securities.

Rubric 3.4 Securities purchased and sold under repurchase agreement.
Group 342 Securities sold under repurchase agreement.

(Here are included both the principal and the accrued interests for foreign exchange sub - items, in any foreign currency.)

Rubric 3.5 Collateral on securities transactions.
Group 352 Collateral received for borrowed securities.

Rubric 3.6 Premiums on financial instruments.
Group 362 Paid.

Rubric 4.2 Other liabilities.
Group 421 Sundry creditors.
Group 429 Accrued expenses and deferred income.

Rubric 4.3 Agent transactions.

Rubric 4.5 Suspense, of differences and position accounts.
Group 451 Suspense accounts.

Rubric 5.4 Grants and public financing.

Rubric 5.5 Provisions.
Group 551 Provisions for risks and expenses.
Group 558 Other provisions.

Rubric 5.6 Subordinated debt.

Rubric 5.7 Shareholders' equity.
Group 571 Paid in capital.
Group 572 Share premiums.

Rubric 9.0 Financing commitments.
Group 902 Commitments received.

Rubric 9.1 Guarantees.
Group 912 Guarantees received.

Rubric 9.2 Commitments on securities.
Group 921 Securities to be delivered.
Group 923 Securities received as a guarantee for a credit or a refinancing.
Group 925 Securities borrowed.

Rubric 9.3 Foreign currency transactions.
Group 932 Forward foreign currencies sold.

Rubric 9.4 Other commitments.

Rubric 9.5 Commitments on financial instruments.
Group 952 Received.

Given the operations in some banks or branches of foreign banks, we clarify that in no case is the financial result account from foreign currency operations considered as a component item in calculating the foreign exchange open position. This is so, because the financial result of a bank, at any case, is held in Lek, the domestic currency.

Total asset = Balance sheet asset + off-balance sheet asset; and

Total liability = Balance sheet liability + off-balance sheet liability, or another presenting way:

A. Balance-sheet asset	C. Off balance-sheet asset items	E. Total asset (A+C)
B. Balance sheet liability	D. Off balance-sheet liability items	F. Total liabil (B+D)
Difference (A-B)	Difference (C- D)	Total of differen.(E-F)

Based on the data from the accounting balance sheet of the reporting period, we calculate:

- a- amount of open positions in purchasing (+);
- b- amount of open positions in selling (-).

The difference between the above amounts 'a' and 'b' shall be put in ratio to regulatory capital.

DIRECTOR
Miranda RAMAJ

REGULATION ON MARKET RISKS

Approved by the Supervisory Council Decision No. 72, dated 02.06.1999 and amended with the Decision no. 98, dated 19.12.2001.

CHAPTER I

GENERAL PROVISIONS

- 1- This regulation is issued pursuant to Law No. 8269, dated 23.12.1997, "On the Bank of Albania", and to Law No. 8365, dated 02.07.1998, "On the banks of the Republic of Albania".
- 2- Subject to market risk analysis are banks and branches of foreign banks. For purposes of this regulation, these subjects will be referred to as "banks". They shall satisfy at least one of the following conditions:
 - 2.1. The booking value of the portfolio of securities for trading is on average higher than 5% of total assets and off-balance sheet items during the last two six month periods, or higher than 6% of total assets and off-balance sheet items at any moment.
 - 2.2. Total value of portfolio of securities for trading is on average higher than 15 million EURO during the last two six month periods or, at any time, higher than 20 million EURO.

The calculation as to whether the bank meets the above conditions shall be disclosed in the Reporting Form No.1.

- 3- The purpose of this regulation is the calculation of the Regulatory Capital to cover market risks. Market risk shall mean the risk of loss for on- and off- balance sheet positions as a result of changes in prices of financial markets. It involves analysis of position risk for:
 - 3.1. the interest rate on fixed-income securities;
 - 3.2. the market value of variable-income securities;
 - 3.3. settlement of payment with the counterparty;
 - 3.4. the surpass of limits on significant risks;
 - 3.4. the foreign exchange.
- 4¹- Reporting shall be rendered to the Supervision Department, Bank of Albania, according to article 2 of this regulation:
 - 4.1. In case of non-compliance with requirements set in the paragraphs 2.1 and 2.2, only Reporting Forms No. 1, 2, 6, 7 shall be submitted. Trading portfolio shall be included in the computation of capital adequacy, according to the regulation "On Capital Adequacy".
 - 4.2. In case of compliance with requirements established in paragraphs 2.1 and 2.2, all enclosed reporting forms shall be reported.

Reporting forms are to be considered a part of the reporting system.

- 5- The control to cover market risks involves:
 - 5.1. The Regulatory Capital required to cover market risk shall be not higher than the Regulatory Capital available to the bank to cover market risk.

In case of non-compliance with the above condition:

¹ Amended by the Supervisory Council with the Decision no. 98, dated 19.12.2001.

- 5.2. Banks shall take measures to comply with it within three months.
 - 5.3. In case of bank's failure to meet the requirements set in paragraph 5.2, and a continuous failure to comply with the ones set in paragraph 5.1, the Bank of Albania may act in accordance with articles 44 and 45, paragraph 3, of the Law No. 8365, dated 02.07.1998, "On the banks of the Republic of Albania".
- 6- The following definitions are given for purposes of this regulation:
- 6.1. Securities of Trading Portfolio include:
 - 6.1.1 Trading securities: securities purchased or benefited for reselling or repurchasing purposes within a short period of time. They should be traded in an active and liquid market. The market prices for these securities are constantly in use by third parties and maintained by banks for verification when closing the accounts.
 - 6.1.2 Securities for Placement: securities benefited with the purpose of keeping them for a period over 6 months, other than fixed-income securities that are kept up to maturity (investment). In calculating the value of trading portfolio, banks may omit securities for placement from the total amount of trading portfolio, if total trading portfolio plus securities for placement are not higher than 10% of total assets and off-balance sheet items on average during the last two six-month periods:
 - 6.1.3 Derivative instruments used for the purpose of:
 - 6.1.3.1 Keeping open positions in order to benefit from the price evolution;
 - 6.1.3.2 Specialized managing of trading securities including derivative instruments, securities and equivalent financial operations, at the condition of simultaneous fulfillment of the following:
 - i) The bank is able to ensure a continuous and steady participation in the market of derivative instruments such as interest rate swap contracts and foreign exchange contracts;
 - ii) The Trading Portfolio that includes such derivative instruments should include a large volume of transactions in the market;
 - iii) The Trading Portfolio circulates continuously and as a whole.
 - 6.1.3.3 Limitation, since its origin, of the market risk to which banks are exposed while performing their operations with securities of the Trading Portfolio.
 - 6.2 Eligible Issuers must have the following characteristics:
 - 6.2.1 Issuers that are weighted at 20% in the calculation of Capital Adequacy Ratio;
 - 6.2.2 Issuers that fulfill the following conditions:
 - 6.2.2.1 One of the securities issued by these issuers is traded in regulated markets or markets acknowledged by third countries;
 - 6.2.2.2 The bank may consider as adequately liquid the securities issued by such issuers, while the Bank of Albania may object this consideration;
 - 6.2.2.3 The bank may consider the risk of issuer as not higher than the one of paragraph 6.2.2.1, while Bank of Albania may object this consideration.

CHAPTER II

REGULATORY CAPITAL TO COVER MARKET RISKS

- 1. The structure of bank's Regulatory Capital to cover market risks is:
 - 1.1. Residual Base Capital
 - 1.2. Residual Additional Capital
 - 1.3. Capital Surplus
- 2. The following are the components of bank's Regulatory Capital to cover market risk:
 - 2.1. The Regulatory Capital, calculated according to the regulation "On Bank's Regulatory Capital", shall be reduced by its portion that serves the compliance with the capital adequacy ratio (12% of total assets and off-balance sheet items weighted at the

respective risk), as calculated in the regulation "On Regulatory Capital Adequacy".
The difference constitutes the Residual Regulatory Capital.

The Residual Regulatory Capital is composed of:

- 2.1.1. Residual Base Capital calculated according to Table 5 of the Form No. 2.
- 2.1.2. Residual Additional Capital calculated according to Table 5 of the Form No. 2.

- 2.2. Surplus Capital is comprised of:
 - 2.2.1 Intermediate Earnings that do not simultaneously fulfill the following conditions:
 - They are determined after booking all expenses incurred during the respective period, including expenses for depreciation and provisions;
 - They are calculated for the net value after deduction of anticipated tax on profit and dividends;
 - They are certified by the bank's Audit Committee and the certified public accountant.

 - 2.2.2 Subordinated Debts with the following characteristics:
 - Subordinated Term Debts defined in the regulation "On Bank's Regulatory Capital" that are not included in the calculation of Regulatory Capital due to the limitation established by paragraph 2.2.2.2 of the same regulation;
 - Hybrid instruments and Subordinated Term Debts determined in the regulation "On Bank's Regulatory Capital", which are not included in the calculation of Regulatory Capital due to the limitation established by the paragraph 2.2.2.1 of the same regulation;
 - Subordinated Debts with initial maturity over 2 years, which fulfill the following conditions:
 - i) They are fully repayable, and the contract for issuance or loan does not stipulate any case of prepayment without the approval by the Bank of Albania ;
 - ii) Principal or interest payment for such Subordinated Debts shall under no circumstances reduce Regulatory Capital to cover market risks, in a way that this capital does not fall below the level required to cover market risks.

- 2.3. The amount of the Residual Additional Capital along with the Surplus Capital shall not be higher than 250% of the Residual Base Capital.

- 2.4. The sum between the elements defined in paragraphs 2.1 and 2.2, and the limitation of paragraph 2.3, shall constitute Bank's Global Regulatory Capital.

3. Regulatory Capital to cover market risks shall be reported every six months to the Supervision Department in the Bank of Albania.

If deemed necessary by the Supervision Department of the Bank of Albania, such reporting may be required quarterly.

4. Reporting of Regulatory Capital to cover market risks shall be rendered according to the Reporting Form No. 2.

CHAPTER III

DETERMINATION OF NET POSITION

1. Definition: Net Position shall represent the net long or short position resulting from bank transactions in each of securities and instruments of the Trading Portfolio, which are related to market risks.

2. Net positions for securities of the trading portfolio are calculated through:

- 2.1. Evaluating them at the market price per foreign currency on a daily basis;
- 2.2. Offsetting net long positions with the short ones, when simultaneously dealing with the following:
 - 2.2.1 Variable income securities of the same issuer;
 - 2.2.2 Fixed income securities of the same issuer, having similar maturities and nature regarding the contract of issuance;
 - 2.2.3 Variable and fixed income securities traded in markets regulated by the members of the European Union or acknowledged by the Ministry of Finance.
- 3. The net positions for the securities of trading portfolio shall be reported in LEK. Net foreign exchange positions shall be converted in LEK on a daily basis at the daily official rate issued by the Bank of Albania.
- 4. Specific Cases:
 - 4.1. Security lending and sales through REPO agreements are included in the calculation of net positions according to the nature of contracted securities. On the other hand, security borrowing and purchases through REPO agreements are not included in the net positions.
 - 4.2. Positions resulting from commitments for irrevocable purchase of securities shall be included in the calculation of net positions starting only from the first working day, thus two days after the bank is irrevocably committed to accept a given amount of securities at a predetermined price.

In this case, two conditions shall be simultaneously fulfilled:

- 4.2.1. Positions signed by third parties based on a formal agreement shall be deducted from positions created as a result of bank's commitments for irrevocable purchases;
- 4.2.2. Net positions determined as shown above shall be weighted at the appropriate ratios, according to workdays:

Open Workdays	Weighting Ratios
Day zero	0%
Day one	10%
Day two and three	25%
Day four	50%
Day five	70%
After day five	100%

Between the first moment of commitment and the workday one, the bank shall assume that amount of risks that can be covered by the Regulatory Capital.

CHAPTER IV

INTEREST RATE RISK

- 1- Entities are the ones defined in paragraph 2 of Chapter I, and the interest rate risk review is to be performed for items of the trading portfolio defined in paragraph 6.1 of Chapter I of this regulation.
- 2- The purpose is the calculation of the Regulatory Capital required for the bank to protect and cover risks related to interest rates. These risks may be of two types:
 - 2.1. Specific Risk related to the adverse evolution of security prices due to the deterioration in the issuer's financial conditions;
 - 2.2. Overall Risk related to the risk of loss due to adverse market changes in the interest rates.

- 3- Banks shall classify their net positions, evaluated at the market rate, for each currency, and shall calculate, using the methodology described in Chapter III, the amount of Regulatory Capital to cover specific and overall risk.
- 4- The calculation methodology of the Regulatory Capital required to cover the specific risk consists of:
 - 4.1. Determining the net position for each security through the methodology described in Chapter III;
 - 4.2. Weighting each net position at the appropriate ratio;
 - 4.3. Determining the required Regulatory Capital.
- 5- The calculation method of the required Regulatory Capital to cover the specific risk is: Net positions, depending on the nature of the issuer and the residual maturity, are weighted at the following ratios:
 - 5.1. Securities of administrations and central banks of zone A, at 0%.
 - 5.2. Securities from eligible issuers (Chapter I, paragraph 3) with a maturity of:
 - 5.2.1. 0 to 6 months, are weighted at 0.25%
 - 5.2.2. 6 to 24 months, are weighted at 1.00%
 - 5.2.3. Over 24 months, are weighted at 1.60%
 - 5.3. Securities from other issuers are weighted at ...8%.

The amount of net positions weighted as above shall constitute the Regulatory Capital required to cover specific risk.

- 6- There are two methods for the calculation of required Regulatory Capital to cover overall risk, and the methodology for each one is:
 - 6.1. For the Maturity Method:
 - 6.1.1. The net position is determined for each security according to the methodology described in Chapter II;
 - 6.1.2. The net position is weighted for each security according to the maturity. This weighting reflects the sensitivity to the overall fluctuation of interest rates;
 - 6.1.3. The net weighted positions are offset according to the following steps:
 - 6.1.3.1. The offset within each timeframe;
 - 6.1.3.2. The offset of each timeframe within each area;
 - 6.1.3.3. The offset between all areas;
 - 6.1.4. The Requirement for Regulatory Capital is determined.
 - 6.2. The Duration Method:
 - 6.2.1. The calculation of Modified Duration for each security;
 - 6.2.2. The distribution of positions according to areas;
 - 6.2.3. The offset within each area;
 - 6.2.4. The offset between areas;
 - 6.2.5. The Requirement for Regulatory Capital is determined.

- 7- The calculation method of the Requirement for Regulatory Capital to cover the overall risk is:
 - 7.1. For the Maturity Method:
 - 7.1.1. First Stage: Determination of net weighted positions.

Each position of the respective Timeframe shall be weighted at the ratios listed in column (4). Subject to this regulation shall classify the net positions in the following table according to:

- 7.1.1.1. Residual maturity for fixed interest rate securities;
- 7.1.1.2. Duration up to the interest rate change, for variable interest rate securities.
- 7.1.1.3. Coupon rate, making the distinction between securities at a coupon rate less than 3%, and those at a coupon rate not less than 3%.
- 7.1.2. Second Stage: Offsetting

7.1.2.1. For every timeframe:

Weighted Short Positions are offset against the Weighted Long Positions:

- The lowest of them shall constitute the offset weighted positions for every timeframe.
- The difference between them, short or long, shall constitute the uncompensated weighted positions for each timeframe.

ZONE	Timeframe according to maturity		Weighting Ratio (%)	Interest Rate Potential Change (%)
	Coupon not less than 3%	Coupon more than 3%		
(1)	(2)	(3)	(4)	(5)
1	0 <= 1 month	0 <= 1 month	0.00	-
1	> 1 <= 3 months	> 1 <= 3 months	0.20	1.00
1	> 3 <= 6 months	> 3 <= 6 months	0.40	1.00
1	> 6 <= 12 months	> 6 <= 12 months	0.70	1.00
2	> 1 <= 2 years	> 1 <= 1,9 years	1.25	0.90
2	> 2 <= 3 years	> 1,9 <= 2,8 years	1.75	0.80
2	> 3 <= 4 years	> 2,8 <= 3,6 years	2.25	0.75
3	> 4 <= 5 years	> 3,6 <= 4,3 years	2.75	0.75
3	> 5 <= 7 years	> 4,3 <= 5,7 years	3.25	0.70
3	> 7 <= 10 years	> 5,7 <= 7,3 years	3.75	0.65
3	> 10 <= 15 years	> 7,3 <= 9,3 years	4.50	0.60
3	> 15 <= 20 years	> 9,3 <= 10,6 years	5.25	0.60
3	Over 20 years	> 10,6 <= 12 years	6.00	0.60
3		> 12 <= 20 years	8.00	0.60
3		Over 20 years	12.50	0.60

7.1.2.2. For each Zone:

- i) All uncompensated weighted long positions for each timeframe are totaled;
 - ii) All uncompensated weighted short positions for each timeframe are totaled;
 - iii) The total of uncompensated weighted long positions for each timeframe shall be offset against the total uncompensated weighted short positions for each timeframe;
- Their minimum shall constitute the offset weighted positions for each zone;
 - Their difference, long or short, shall constitute the uncompensated weighted positions for each zone.

7.1.2.3. Between zones:

- A) In ascending order:
 - i) The uncompensated weighted long (short) positions of zone 1 are offset against the uncompensated weighted short (long) positions of zone 2:
 - The lowest of them shall constitute the offset weighted position between zone 1 and zone 2;
 - The difference between them shall constitute the residual uncompensated weighted position.
 - ii) The residual uncompensated weighted long (short) positions of zone 2 are offset against the uncompensated weighted short (long) positions of zone 3:
 - The least of them shall constitute the offset weighted position between zone 2 and zone 3;
 - The difference between them shall constitute the residual uncompensated weighted position.
- B) In descending order:
 - i) The uncompensated weighted long (short) positions of zone 2 are offset against the uncompensated weighted short (long) positions of zone 3:

- The least of them shall constitute the compensated weighted position between zone 2 and zone 3;
- The difference between them shall constitute the residual uncompensated weighted position.
- ii) The residual uncompensated weighted long (short) positions of zone 2 are offset against the uncompensated weighted short (long) positions of zone 1:
 - The lowest of them shall constitute the offset weighted position between zone 2 and zone 1;
 - The difference between them shall constitute the residual uncompensated weighted position.

Finally, either in the Ascending Method or the Descending one, the residual uncompensated weighted position of zone 1 is offset against the residual uncompensated weighted position of zone 3, thus obtaining the Residual Final Uncompensated Weighted Position.

7.1.3. Third Stage: Determining the Requirement for Regulatory Capital:

The Requirement for Regulatory Capital is calculated as the total of the following items:

- 10% of the amount of compensated weighted positions of all timeframes;
- 40% of the compensated weighted position of zone 1;
- 30% of the compensated weighted position of zone 2;
- 30% of the compensated weighted position of zone 3;
- 40% of the compensated weighted position between zone 1 and zone 2;
- 40% of the compensated weighted position between zone 2 and zone 3;
- 150% of the compensated weighted position between zone 1 and zone 3;
- 100% of the final residual uncompensated weighted position.

7.2. For the Duration Method:

7.2.1. First Stage: Calculation of Modified Duration for each security:

7.2.1.1. For fixed income securities:

The bank, based on the market value of security, shall calculate the yield-to-maturity, which is also the security's discount rate.

7.2.1.2. For variable income securities:

The bank, starting from the market value of the security, calculates the yield-to-maturity, considering the period up to the change of interest rate as the maturity.

7.2.1.3 The Modified Duration is calculated through the formula:

$$\text{"Duration" } D = \frac{\sum_{t=1}^m \frac{r^* \cdot Ct}{(1+r)^t}}{\sum_{t=1}^m \frac{Ct}{(1+r)^t}} \qquad \text{"Modified - Duration" } Dm = \frac{D}{(1+r)^t}$$

- "Ct" is the financial flow received by the security holder in the moment "t" of time
- "m" is the residual duration
- "r" is the yield-to-maturity (discount rate)

7.2.2. Second Stage: Determination of net weighted positions.

Each position, depending on the Modified Duration (column 2), is weighted at the ratios in column (3), thus obtaining the weighted positions for each zone.

Zone	Modified Duration (in years)	Potential Interest Rate (Change in %)	Maturity (in years)
(1)	(2)	(3)	(4)
1	0 <= 1,0	1,00	0 <= 1,0
2	> 1,0 <= 3,6	0,85	> 1,0 <= 4
3	> 3,6	0,70	> 4

7.2.3. Third Stage: Offsetting.

7.2.3.1. For each Zone:

The Long or Short weighted position shall be determined, and:

- The lowest of them shall constitute the compensated weighted positions for each zone;
- The difference between them, short or long one, shall constitute the uncompensated weighted positions for each zone.

7.2.3.2. Between zones:

A) In ascending order:

- i) The uncompensated weighted long (short) positions for zone 1 are offset against the uncompensated weighted short (long) positions for zone 2:
 - The lowest of them shall constitute the compensated weighted position between zone 1 and zone 2;
 - The difference between them shall constitute the residual uncompensated weighted position.
- ii) The residual uncompensated weighted long (short) positions for zone 2 is offset against the uncompensated weighted short (long) positions for zone 3:
 - The lowest of them shall constitute the compensated weighted position between zone 2 and zone 3;
 - The difference between them shall constitute the residual uncompensated weighted position.

B) In descending order:

- i) The residual uncompensated weighted long (short) positions for zone 2 is offset against the uncompensated weighted short (long) positions for zone 3:
 - The lowest of them shall constitute the compensated weighted position between zone 1 and zone 3;
 - The difference between them shall constitute the residual uncompensated weighted position.
- ii) The residual uncompensated weighted long (short) positions for zone 1 is offset against the uncompensated weighted short (long) positions for zone 2:
 - The lowest of them shall constitute the compensated weighted position between zone 1 and zone 2;
 - The difference between them shall constitute the residual uncompensated weighted position.

Finally, in either the Ascending or the Descending Method, the residual uncompensated weighted position of zone 1 is offset against the residual uncompensated weighted position of zone 3, thus obtaining the Residual Final Uncompensated Weighted Position.

7.2.4. Fourth Stage: Determining of the Requirement for Regulatory Capital:

The Requirement for Regulatory Capital is defined as the total of the following items:

- 2% of the compensated weighted position for zone 1;
 - 2% of the compensated weighted position for zone 2;
 - 2% of the compensated weighted position for zone 3;
 - 40% of the compensated weighted position between zone 1 and zone 2;
 - 40% of the compensated weighted position between zone 2 and zone 3;
 - 150% of the compensated weighted position between zone 1 and zone 3;
 - 100% of the final residual uncompensated weighted position.
- 8- The reporting on the Regulatory Capital required to cover market risks as calculated by the bank, and the comparison between the Requirement for Regulatory Capital and the actual Regulatory Capital, shall be rendered according to Reporting Form No. 3, 4, 5, 6.

CHAPTER V

FOREIGN EXCHANGE RISK

- 1- Entities subject to this regulation are defined in paragraph 2 of Chapter I and the foreign exchange risk analysis is done exclusively in this case for all assets and off-balance sheet items in foreign currency.
- 2- The purpose is to calculate the required Regulatory Capital providing protection and coverage from foreign exchange risk in, cases when the Global Net Position in foreign currency is higher than 2% of the Global Regulatory Capital.
- 3- The components are:
 - 3.1. Global Regulatory Capital calculated in Chapter II of this regulation.
 - 3.2. Global Net Position, which shall mean the maximum of the amounts of "Foreign exchange long positions" and "Foreign exchange short positions".

"Foreign exchange long positions" and "Foreign exchange short positions" shall be calculated according to the methodology established in the regulation "On Foreign Exchange Open Positions" and respective guidelines.

- 4- The Regulatory Capital required to cover foreign exchange risk shall be equal to 8% of the balance of Global Net Position over the Global Regulatory Capital.
- 5- The Calculation of the Requirement for Regulatory Capital shall be performed according to the attached Form No. 7, which is an integral part of the reporting system.

FINAL PROVISIONS

Requirements described in this regulation shall be fulfilled using the accounting information as of 31.12.1999.

This regulation enters into force 15 days following its publication in the Official Bulletin.

CHAIRMAN OF THE SUPERVISORY COUNCIL
Shkëlqim CANI

REPORTING FORM NO. 1

Calculation of Prudential Ratio for Market Risks (in thousands of LEK)
Bank
Reporting Period...
Reporting Date...
Prepared by (Name, Surname, Signature)...
Reviewed by (Name, Surname, Signature)...

CALCULATION OF TRADING PORTFOLIO AND THE REQUIREMENT OF ARTICLE 2 OF CHAPTER I	Code	Average	Maximum
I. Calculation of Trading Portfolio in Book Value			
1 – Components of Trading Portfolio			
- Trading Securities	A		
- Securities for Placement	B		
- Off-Balance Sheet Operations with Securities	C		
- Derivative Instruments Defined in Paragraph 6.1.3. of Chapter I	D		
2 – Calculation of Portfolio with the Reserve Defined in Paragraph 6.2.1 of Chapter I			
- Total of Assets and Off-Balance Sheet Items	E		
- E * 10%	F		
- If $A+B+C+D > F$ on average during two six-month periods, then $G=A+B+C+D$	G		
- If $A+B+C+D < F$ on average during two six-month periods, then the bank may choose as $G=A+B+C$	G		
II. Calculation of the Requirement of Paragraph 2.1 of Chapter I:			
- E * 5%			
- E * 6%			
III. Calculation of the Position of Trading Portfolio:			
- Trading Securities	J		
- Securities for Placement	K		
- Off-Balance Sheet Operations with Securities			
- Derivative Instruments Defined in Paragraph 6.1.3. of Chapter I	L		
- If $G=A+B+C+D$ then $N=J+K+L+M$	N		
- If $G=A+B+C$ then $N=J+K+L$	N		
IV. Calculation of the Requirement of Paragraph 2.2 of Chapter I:			
- Equivalent in LEK of 15 million EURO at the closing day	O		
- Equivalent in LEK of 20million EURO at the closing day	P		

First Case: The bank shall report to the Supervision Dept. in the Bank of Albania on all market risk-related operations according to following forms, if:

- 1) At the reporting date, the conditions that $G > I$ or $N > P$ are fulfilled; or
- 2) At the reporting date, the conditions that $G > H$ or $N > D$ on average during the last six-month periods, are fulfilled.

Second Case: In case of non-compliance with the above conditions, the bank shall report only the reporting form No. 1 to the Supervision Dept. in the Bank of Albania.

REPORTING FORM NO. 2

Calculation of Regulatory Capital to Cover Market Risks (in thousands of LEK)	
Bank	
Reporting Period...	
Reporting Date...	
Prepared by...	
Reviewed by...	

	CORE CAPITAL	Acc. No.	Amount
	I – Components to be Added (A):		
1	Subscribed Capital	5711	
2	Reserves (other than Reserves for Revaluation)	5731, 5733, 5734	
3	Premiums of Issuings and Merging	572	
4	Retained Earnings	577 (P)	
5	Earnings of the End of Year (Chapter IV, Paragraph 2)	578 (P)	
6	Earnings of the Reporting Period (Chapter IV, Paragraph 3.1)	578 (P)	
7	Credit Revaluation Differences (Positive)	574 (P)	
	Sub-Total A=(1+2+3+4+5+6+7)		A
	II- Components to be Subtracted (B):		
1	Subscribed Unpaid Capital	5712	
2	Nominal Value of Shares (unsold, repurchased)		
3	Loss Brought Forward	577 (-P)	
4	Financial Loss (Chapter IV, Paragraph 3.2)	578 (-P)	
5	Debit Revaluation Differences (Negative)	574 (-P)	
6	Intangible Fixed Assets	531	
	Sub-Total B=(1+2+3+4+5+6)		B
	Total core Capital C= (A-B)		C

	SUPPLEMENTARY CAPITAL		
	III – Components to be Added (J)		
1	Reserves for Revaluation	5732	EA
2	Other Reserves (that fulfill the conditions defined in Chapter IV, Paragraph 4)		EB
3	Subordinated Debts (that fulfill the conditions defined in Chapter IV, Paragraph 5.1)	56	EC
4	Subordinated Debts (that fulfill the conditions defined in Chapter IV, Paragraph 5.2)	56	F
	If $F \leq C/2$ then $G=F$		G
	If $F > C/2$ then $G=C/2$		G
	Limited Sub-Total H=(EA + EB + EC + G):		H
	First limit: if $H \leq C$ then $J=H$		J
	Second limit: if $H > C$ then $J=C$		J
	Total Additional Capital before Deduction (J)		J
	IV – Components to be Subtracted (P+Q):		
1	Participations to banks and financial institutions (P)		
--	Participations over 10% in their equity or significant influences exercised over them along with Subordinated Claims (according to Chapter IV, Paragraph 5.1) over the same bank		K

--	The Amount of participations that do not fulfill the above criteria and other Subordinated Claims (Chapter IV, Paragraph 5.1) over the same banks, are reduced by 10% of the Own Funds (C+J) For example $M = (C+J)*10\%$		L
--	Remainder after subtraction: $N=(L-M)$ if it is positive		M N
	Sub-Total $P=(K+N)$		P
2	Guarantees given to Mutual Guarantee Funds under the conditions established by the central bank		Q
	Sub-Total of the Deduction is $(P+Q)$		P+Q
Summary of Calculation for the Core Capital and Supplementary Capital after subtraction IV:			
1	If $J \leq (P+Q)$ then:		
--	Additional Own Funds after subtraction $JA=0$		JA
--	Base Own Funds $CA=C+J(P+Q)$		CA
	If $J > (P+Q)$ then:		
--	Additional Own Funds after subtraction $JA=J(P+Q)$		JA
--	Base Own Funds $CA=C$		CA
Total Core Capital and Supplementary Capital: $E = (JA + CA)$			E
V. CALCULATION OF RESIDUAL CAPITAL			
A	Regulatory Capital to Cover Adequacy Ratio		D
B	Calculation of Residual Capital: $R = E - D$		R
C	Distribution of Residual Capital between the Core and the Supplementary Capital. Determination of Residual Core Capital and Residual Supplementary Capital:		
	1- If $JA \leq (D/2)$ then: Remainder of Supplementary Capital is: $JB = 0$ Remainder of Core Capital is: $CB = R$		JB CB
	2- If $JA > (D/2)$ then: Remainder of Supplementary Capital is: $JB = JA - (D/2)$ Remainder of Core Capital is: $CB = CA - (D/2)$		JB CB
VI. CAPITAL SURPLUS			
1.	Earnings of the reporting period (Chapter IV, Paragraph 3.1)		OA
2.	Securities and Subordinated Debts for purposes of Market Risk: - The Amount of Subordinated Term Debts, which are not included in the calculation of Supplementary I Capital for the purpose of the Restriction 2.2.2.2 in Chapter II of "Regulatory Capital" guidelines.		OB
	- The amount of Hybrid Instruments and Subordinated Term Debts, which are not included in the calculation of Supplementary Capital for the purpose of Restriction 2.2.2.1 in Chapter II of "Regulatory Capital" guidelines		OC
3.	Subordinated Debts that do not fulfill the criteria required to include them in the Supplementary Capital, while fulfilling the requirements of the Bank of Albania		OD
4.	Other Subordinated Debts with an initial maturity not less than 2 years		OE
TOTAL CAPITAL SURPLUS: $OF=(OA+OB+OC+OD+OE)$			OF

	VII. CALCULATION OF MAXIMUM LIMIT OF THE TOTAL BETWEEN THE REMAINDER OF SUPPLEMENTARY CAPITAL AND CAPITAL SURPLUS	
A	Total of Residual Supplementary Capital with Capital Surplus prior to restriction: $S = JB + OF$	S
B	Maximum Limit 1- If $S \leq CB * 2.5$ then $U=S$	U
	2- If $S > CB * 2.5$ then $U=CB * 2.5$	U
	VIII. TOTAL REGULATORY CAPITAL TO COVER MARKET RISK	
A	Total of Residual Core Capital with "U" (The amount "U" is the total of Residual Supplementary Capital with Capital Surplus after restriction 4.1) to cover Market Risks: ($W = CB + U$)	W
B	Total Regulatory Capital to cover Market Risks ($X = D+W$)	X

REPORTING FORM NO. 3

<p>Calculation of the Requirement for Regulatory Capital to cover Overall Risk related to interest rates (in thousands of LEK)</p> <p>Bank Reporting Period Reporting Date Maturity Method Prepared By Reviewed By</p>

A) CALCULATION OF WEIGHTED POSITIONS FOR EACH ZONE	Code	Amount
ZONE 1:		
Total Compensated Weighted Positions for the Timeframe of the Zone	PPKT1	
Amount of Uncompensated Weighted Long Positions		
Amount of Uncompensated Weighted Short Positions		
Compensated Weighted Position	PPK1	
Uncompensated Weighted Position	PPpK1	
ZONE 2:		
Total Compensated Weighted Positions for the Timeframe of the Zone	PPKT2	
Amount of Uncompensated Weighted Long Positions		
Amount of Uncompensated Weighted Short Positions		
Compensated Weighted Position	PPK2	
Uncompensated Weighted Position	PPpK2	
ZONE 3:		
Total Compensated Weighted Positions for the Timeframe of the Zone	PPKT3	
Amount of Uncompensated Weighted Long Positions		
Amount of Uncompensated Weighted Short Positions		
Compensated Weighted Position	PPK3	
Uncompensated Weighted Position	PPpK3	
Total Compensated Weighted Positions for the Timeframes of the three Zones: $PPK = (PPKT1 + PPKT2 + PPKT3)$	PPK	

B) CALCULATION OF WEIGHTED POSITIONS BETWEEN ZONES		
1- IN ASCENDING ORDER:		
OFFSETTING BETWEEN ZONE 1 AND ZONE 2:		
Compensated Position between PPpK1 and PPpK2	PPKZ 1/2	
Remaining Uncompensated Position of Zone 2	PPpKZ2	
Remaining Uncompensated Position of Zone 1	PPpKZ1	
OFFSETTING BETWEEN ZONE 2 AND ZONE 3:		
Compensated Position between PPpKZ2 and PPpK3	PPKZ 2/3	
Remaining Uncompensated Position of Zone 3	PPpKZ3	
Remaining Uncompensated Position of Zone 2	R2	
OFFSETTING BETWEEN ZONE 1 AND ZONE 3:		
Compensated Position between PPpKZ1 and PPpKZ3	PPKZ 1/3	
Remaining Uncompensated Position of Zone 1	R1	
Remaining Uncompensated Position of Zone 3	R3	

OFFSETTING BETWEEN ZONE 2 AND ZONE 1		
Compensated Position between PPkZ2 and PPk1	PPKZ 2/1	
Remaining Uncompensated Position of Zone 1	PPkZ1	
Remaining Uncompensated Position of Zone 2	R2	
OFFSETTING BETWEEN ZONE 1 AND ZONE 3:		
Compensated Position between PPkZ1 and PPkZ3	PPKZ 1/3	
Remaining Uncompensated Position of Zone 1	R1	
Remaining Uncompensated Position of Zone 3	R3	
C) CALCULATION OF FINAL REMAINING POSITION		
Final Remaining Position: $PF=(R1+R2+R3)$	PF	
D) CALCULATION OF THE REQUIREMENT FOR REGULATORY CAPITAL TO COVER THE OVERALL RISK OF INTEREST RATES		
PPK * 0.10	S1	
PPK1 * 0.40	S2	
PPK2 * 0.30	S3	
PPK3 * 0.30	S4	
PPKZ 1/3 * 0.40	S5	
PPKZ 2/3 * 0.40	S6	
PPKZ 1/3 * 1.60	S7	
PF * 1.00	S8	
The Requirement for Regulatory Capital: $VA2=(S1+S2+S3+S4+S5+S6+S7+S8)$	VA2	

REPORTING FORM NO. 4

The Calculation of the Requirement for Regulatory Capital to cover Overall Risk related to interest rates (in thousands of LEK)	
Bank	
Reporting Period...	
Reporting Date...	
Duration Method...	
Prepared by...	
Reviewed by...	

A) CALCULATION OF WEIGHTED POSITIONS FOR EACH ZONE:	Code	Amount
ZONE 1:		
Uncompensated Weighted Long Positions		
Uncompensated Weighted Short Positions		
Compensated Weighted Position	FPK1	
Uncompensated Weighted Position	PPpK1	
ZONE 2:		
Uncompensated Weighted Long Positions		
Uncompensated Weighted Short Positions		
Compensated Weighted Position	FPK2	
Uncompensated Weighted Position	PPpK2	
ZONE 3:		
Uncompensated Weighted Long Positions		
Uncompensated Weighted Short Positions		
Compensated Weighted Position	FPK3	
Uncompensated Weighted Position	PPpK3	
B) CALCULATION OF WEIGHTED POSITIONS BETWEEN ZONES:		
1— IN ASCENDING ORDER:		
OFFSETTING BETWEEN ZONE 1 AND ZONE 2:		
Compensated Position between PPpK1 and PPpK2:	PPKZ 1/2	
Uncompensated Remaining Position of Zone 2	PPpKZ2	
Uncompensated Remaining Position of Zone 1	PPpKZ1	
OFFSETTING BETWEEN ZONE 2 AND ZONE 3:		
Compensated Position between PPpK2 and PPpK3:	PPKZ 2/3	
Uncompensated Remaining Position of Zone 3	PPpKZ3	
Uncompensated Remaining Position of Zone 2	R2	
OFFSETTING BETWEEN ZONE 1 AND ZONE 3:		
Compensated Position between PPpZ1 and PPpZ3:	PPKZ 1/3	
Uncompensated Remaining Position of Zone 1	R1	
Uncompensated Remaining Position of Zone 3	R3	
2- IN DESCENDING ORDER		
OFFSETTING BETWEEN ZONE 2 AND ZONE 3:		
Compensated Position between PPpK2 and PPpK3		
Remaining Uncompensated Position of Zone 2		
Remaining Uncompensated Position of Zone 3		
OFFSETTING BETWEEN ZONE 2 AND ZONE 1:		
Compensated Position between PPpKZ2 and PPpK1		
Remaining Uncompensated Position of Zone 1		
Remaining Uncompensated Position of Zone 2		

OFFSETTING BETWEEN ZONE 1 AND ZONE 3:	
Compensated Position between PPkZ1 and PPkZ3	
Remaining Uncompensated Position of Zone 1	
Remaining Uncompensated Position of Zone 3	
C) CALCULATION OF FINAL REMAINING POSITION:	
Final Remaining Position: $PF = (RR1 + R2 + RR3)$	PF
D) CALCULATION OF THE REQUIREMENT FOR REGULATORY CAPITAL TO COVER OVERALL RISK OF INTEREST RATES	
PPK1 * 0.40	S1
PPK2 * 0.30	S2
PPK3 * 0.30	S3
PPKZ 1/4 * 0.40	S4
PPKZ 2/3 * 0.40	S5
PPKZ 1/3 * 1.50	S6
PF * 1.00	S7
The Requirement for Regulatory Capital: $VA3 = (S1+S2+S3+S4+S5+S6+S7)$	VA3

REPORTING FORM NO. 5

<p>The Requirement for Regulatory Capital to Cover Market Risk related with the Interest Rates (in thousands of LEK)</p> <p>Bank Reporting Period... Reporting Date... Duration Method... Prepared by... Reviewed by...</p>
--

A) FOR THE SPECIFIC RISK:	CODE	AMOUNT
1) Securities issued by eligible issuers: $RS1 = (sh1 + sh2 + sh3)$	RS1	
- From 0 to 6 months are weighted at 0.25%	Sh1	
- From 6 to 24 months are weighted at 1.00%		
- Over 24 months are weighted at 1.60%		
2) Mutual Rate Funds are weighted at 4.00%		
3) Other issuers are weighted at 8.00%		
Total Request: $VA1 = (RS1 + RS2 + RS3)$	VA1	

<p>B) FOR THE OVERALL RISK:</p> <p>1- Overall risk for each currency:</p> <p>- Based on the Forms 3 and 4 $VA10 = (VA2 + VA3)$</p> <p>- Based on the Forms 3 and 4 $VA10 = (VA + VA3)$</p> <p>Total Request: $VA100 = \sum VA10$</p>	VA 100
--	---------------

C) THE REQUIREMENT FOR REGULATORY CAPITAL TO COVER INTEREST RATES RISK:	
1) For the Specific Risk:	VA1
2) For the Overall Risk:	VA 100
Total of the Requirement for Regulatory Capital: $VA = (VA1 + VA 100)$	VA

REPORTING FORM NO. 6

The Comparison between the Bank's Regulatory Capital and the Requirement for Regulatory Capital to cover Market Risk related to Interest Rates (in thousands of LEK)

Bank
 Reporting Period...
 Reporting Date...
 Duration Method...
 Prepared by...
 Reviewed by...

	Code	Amount
A) AMOUNT OF REGULATORY CAPITAL:	X	
- Based on Reporting Form No. 2: $X = D + W$		
B) THE REQUIREMENT FOR REGULATORY CAPITAL	Y	
1- For the Trading Portfolio		
- Based on the Reporting Form No.5 for the interest rate risk:	VA	
- For the risk of changes in market prices of variable-income securities:	VB	
- For the risk of settlement with the counterparty:	VC	
- For the risk of exceeding the limits regarding significant risks:	VE	
2- For the Foreign Exchange:	VD	
Their total: $VF = (VA + VB + VC + VD + VE)$	VF	
Total Requirement for Regulatory Capital: $Y = D + VF$		
C) COMPARISON BETWEEN (A) AND (B):		
Overall Rate of Coverage: $Z = 100 * (X/Y)$	Z	
Minimum Overall Rate:	100%	

REPORTING FORM NO. 7

The Requirement for Regulatory Capital to cover Market Risk related to Foreign Exchange transactions (in thousands of LEK)

Bank
 Reporting Period...
 Reporting Date...
 Duration Method...
 Prepared by...
 Reviewed by...

	Code	Net Position	Weighting	Requirement for Regulatory Capital
A) COMPARISON BETWEEN				
- Net Global Position	VD 1			
- 2% of Global Regulatory Capital	XA			
B) REQUIREMENT FOR REGULATORY CAPITAL				
If $VD1 > XA$, then:				
$VD = VD1 - XA$	VD		8%	

REGULATION ON THE SIGNIFICANT RISK MANAGEMENT

Approved by Supervisory Council Decision No.78, dated 07.07.1999, amended
by Supervisory Council Decision No.119, dated 01.12.1999 and No.92, dated
05.12.2001.

GENERAL PROVISIONS

- 1- This Regulation is issued pursuant to Law No.8269, dated 23.12.1997, "On Bank of Albania" and to Law No. 8365, dated 02.07.1998, "On banks in the Republic of Albania".
- 2- Banks and branches of foreign banks that exercise banking activities in Albania are subjects to this regulation. These entities, for the purpose of this Regulation, shall be called "banks".
- 3- The purpose of this Regulation is to calculate and control the significant risk for a single beneficiary, to avoid the negative financial impact on the bank as a result of the significant risks on a single beneficiary.

This is fulfilled through simultaneously and permanently respect of:

- 3.1. A maximum ratio of 20% among all the risks that are taken from the bank during its operations on any beneficiary and on its own regulatory capital as well;
- 3.2. A maximum ratio of 700 % between the sum of significant risk and the regulatory capital of the bank, **which to mean** all risks incurred from operations concerning the same beneficiary when their ratio against the regulatory capital of the bank is higher than 10%.
- 3.3¹ A 30% maximum of total risks assumed by the bank during its operations with any other bank and to its regulatory capital as well.
4. For the purpose of this regulation, the following terms shall have the following meanings:
 - 4.1. risk means assets and off balance sheet items when these items are subject to counterpart risk;
 - 4.2. beneficiary² shall mean a person or affiliate in such relationships that financial difficulty of one or more of them render financial difficulties in reimbursement.
5. Specific cases:
 - 5.1. For bank related persons as well as bank employees, the risk shall be reported quarterly directly to the Board of Directors.

The maximal level of risk for bank related persons and bank employees should be determined every year by the board of directors³.

COMPOSITION, CALCULATION METHOD

6. The established ratios in paragraph 3.1. and 3.2⁴.are comprised of:
 - 6.1. regulatory capital calculated according to guideline "On the regulatory capital";

¹ Changed by the Decision of the Supervisory Council, No.92, dated 05.12.2001

² Changed by the Decision of the Supervisory Council, No.119, dated 01.12.1999

³ Point 5.2 is repealed by the Decision of Supervisory Council, No. 119, dated 01.12.1999

⁴ Changed by the Decision of the Supervisory Council, No.119, dated 01.12.1999

- 6.2. risks related to asset and off balance sheet items.
7. For the purpose of calculating risk ratios, before weighting, from asset and off balance sheet items:
- 7.1. shall be excluded those asset items that are used in regulatory capital calculation as deductions;
- 7.2. shall be deducted the following:
- 7.2.1. all reserve funds calculated for covering potential losses,
- 7.2.2. guarantees and collateral taken, whether they are effective for a period no shorter than the period the risk covers. These include the following:
- securities issued by Zone A governments and central banks, EU and EU members local or regional administrations;
 - deposits in cash at the lending bank, parent bank of the lending bank, or banks controlled by the lending bank;
 - certificates of deposits or other instruments similar to ones issued by the lending bank, parent bank of the lending bank or banks controlled by the lending bank;
 - guarantees issued by a third party with the following characteristics.
- A)⁵ The third party is:
- Zone A central administration, institutions known and specialized in issuing guarantees on the state behalf, especially for foreign trade purposes.
 - Zone A central banks;
 - International financial institutions.
- B) risk shall be considered by the bank which profit from the guarantee, as a risk assumed by the third party and not by the client. The guarantor bank assumes the risk of the client in any case;
- C) the guarantee given by the third party should be direct and unconditioned.

The Bank of Albania shall ask a formal guarantee agreement and may **disapprove** its consideration.

- 8.⁶ Risks reduced by the reserve funds and both the assumed collateral and guarantees (pursuant to point 7.2.2 of the regulation), shall be weighed according to the established rates of point 8 of the regulation "On capital adequacy" , approved by the Decision of the Supervisory Council of the Bank of Albania, No. 58, dated 05.05.1999.
9. Banks shall report quarterly near the Supervision Department, Bank of Albania. In specific cases, when Bank of Albania deems reasonable, Bank of Albania may ask submission of reports at any time. Reporting shall be according to the attached forms, which are part of the reporting system.
10. Control:
- 10.1. Banks must have an internal management and supervision system. This system shall assess, control and meet at any time the ratios specified by this regulation. Bank of Albania, whenever it deems reasonable, shall ask a written report on the above system. Furthermore, this system shall be object of on site inspections conducted by the Department of Supervision, Bank of Albania.
- 10.2. in cases when the bank does not meet the established ratios, it reports to the Supervision Department, Bank of Albania, on more frequent periods being determined by the Supervision Department. The bank is obliged to meet the established ratios no latter than the first month of the next quarter;
- 10.3. in case that banks do not fulfill the obligations stated in paragraphs 10.1 and 10.2, Bank of Albania shall act according to Law Nr. 8365, dated 02.07.1998 "On banks in the Republic of Albania", article 44, article 45, paragraph 3.

⁵ Changed by the Decision of the Supervisory Council, No.119, dated 01.12.1999

⁶ Changed by the Decision of the Supervisory Council, No.119, dated 01.12.1999

11. The Regulation No. 7/4, dated 26.02.1997, "On supervision norms for the maximum level of credits" is abrogated.
12. This regulation shall enter into force 30 days following its publication in the official Bulletin of the Bank of Albania.

CHAIRMAN OF THE SUPERVISORY COUNCIL
Shkëlqim CANI

REPORTING FORM NO. 1

MEASUREMENT AND CONTROL OF CONCENTRATION RISK (in millions of LEK)
 Bank's name:
 Reporting period:
 Reporting date:
 Prepared by (name, surname, signature)
 Manager (name, surname, signature)

REGULATORY CAPITAL	AMOUNTS
REGULATORY CAPITAL AT THE BEGINNING OF THE PERIOD:
ADDITIONS (+) / REDUCTIONS (-) DURING THE PERIOD:	
REGULATORY CAPITAL AT THE END OF THE PERIOD:	
(20 per cent) OF THE REGULATORY CAPITAL	
(10 per cent) OF THE REGULATORY CAPITAL
(700 per cent) OF THE REGULATORY CAPITAL	////////////////////

CONCENTRATION RISK						
Beneficiary's name, surname and address	Gross risk classification weighted with the respective risk			Secured guarantees and collateral		Net risk for each beneficiary
	0 per cent	20 per cent	50 per cent	100 per cent		
					(5)	(6)

CONCENTRATION RISK	
Beneficiary's name, surname and address	Total significant risk classification (in percentage)
.....	////////////////////
.....	////////////////////
.....	////////////////////
TOTAL SIGNIFICANT RISK:	////////////////////
MAXIMUM RATIO:	600 per cent or 800 per cent

REGULATION ON “BANK’S INVESTMENTS IN THE EQUITY OF COMMERCIAL COMPANIES”

Approved with the Supervisory Council Decision No. 42, dated 06.06.2001.

Based on Law No. 8269, dated 23.12.1997 “On the Bank of Albania”, article 12, paragraph a, and Law No. 8365, dated 02.07.1998 “On banks in the Republic of Albania”, article 31, paragraph 4 and article 33, the Supervisory Council of the Bank of Albania approved the regulation “On the bank’s investments in the equity of commercial companies” (hereinafter it will be referred to as “regulation”).

ARTICLE 1

Subject to this regulation are banks and branches of foreign banks that exercise banking activities in the Republic of Albania. Hereinafter, these entities will be referred to as “banks”.

ARTICLE 2

The purpose of this regulation is to establish a balance between the bank’s free activity to invest in the equity of commercial companies and its obligation to comply with certain prudential ratios.

ARTICLE 3

For purposes of this regulation, bank’s investment in the equity of commercial companies shall mean the purchase of shares of commercial companies that are non-banks or financial institutions, participation as a shareholder in commercial companies for more than 10% of their capital, participation in a joint venture or merging with other companies.

The approval of the Bank of Albania shall not be required for the following:

- a) participation in a bank’s capital;
- b) participation in the capital of a non-bank financial institution, either licensed or not by the Bank of Albania;

ARTICLE 4

The purpose of establishing these prudential ratios is to restrict bank from investing unlimitedly in the capital of commercial companies, in order to prevent the bank’s uncontrolled exposure to inherent risks.

ARTICLE 5

Banks are allowed to invest in the equity of commercial entities:

- 5.1 Without the approval of the Bank of Albania:
 - a) when the investment in equity is no greater than 10% of the capital of such companies;
 - b) when each of investments in equity does not exceed 15% of the bank’s regulatory capital;
 - c) when the total investments in equity does not exceed 60% of the bank’s regulatory capital
- 5.2 With the approval of the Bank of Albania:

- a) when the equity investment is greater than 10% but less than 50% of the capital of the commercial company;
 - b) when the equity investment is greater than 15% but less than 25% of the bank's regulatory capital;
- 5.3 The equity investment exceeding the percentage described in paragraph 5.1.b shall be deducted from the regulatory capital.

ARTICLE 6

The Bank of Albania approves investments in capital, provided in paragraph 5.2, when all the following conditions are met:

- a) commercial companies have shown a profit at least for the last two years, and their capital is not lower than the initial minimal capital;
- b) the bank's capital adequacy ratio after the investment in a commercial company's capital is not lower than 12%.
- c) when commercial companies are resident shareholders' companies, listed at the Shares Register Center.

ARTICLE 7

For purposes of compliance with the ratios provided in Article 5 of this regulation:

- a) as regulatory shall serve the one being defined as described in the guideline "On the regulatory capital" after the deductions provided in paragraph 5.3 are made;
- b) each participation shall be evaluated based on its net accounting value.

ARTICLE 8

When banks do not meet the obligations provided in Articles 5 and 6, the Bank of Albania shall take measures against them pursuant to Law No. 8365, dated 02.07.1998 "On banks in the Republic of Albania", Chapter VII "Infractions and Penalties".

ARTICLE 9

- 9.1 The approval for investment on equity, according to conditions prescribed in paragraph 5.2, shall be given by the administrators of the Bank of Albania. The Supervision Department is charged to prepare the proposal for the rejection or approval of the request. For this purpose:
- 9.2 Each bank is obliged to send a request to the Supervision Department. The request will include:
- a) the company's name, date of foundation and its activities;
 - b) supporting documentation:
 - the balance sheet and income statement for the last two years and the current year, and a statement from the external auditor stating that the conditions provided in paragraph 5.2.a are fulfilled;
 - the balance sheet, income statement, regulatory capital, risk weighted assets and off-balance sheet items that certify the conditions provided in paragraph 5.2.b are fulfilled;
 - any other additional information required by the Supervision Department.
- 9.3 By command of the director of the Supervision Department of the Bank of Albania, a working group consisting of the following shall be established:
- a) the respective responsible examiner for the bank;
 - b) the examiner in charge during the last limited or full scope inspection;

- c) an analyst appointed by the director.

The working group is entitled to require any additional information no later than 3 days from the day of its assignment.

9.4 The Bank of Albania shall respond within 10 days following the receipt of the complete documentation, but no later than 30 days from the receipt of the request.

9.5 For companies listed at the stock exchange, the response will be given within 5 days.

ARTICLE 10

The regulation "On participation in the equity of commercial companies by banks and branches of foreign banks", approved by the Supervisory Council Decision no.107, dated 03.11.1999 shall be repealed.

ARTICLE 11

This regulation shall enter into force 15 days following its publication in the Official Bulletin of the Bank of Albania.

CHAIRMAN OF THE SUPERVISORY COUNCIL

Shkëlqim CANI

GUIDELINE ON MANAGEMENT OF INTEREST RATE RISK

Approved by the Supervisory Council Decision of the Bank of Albania No. 61,
dated 05.07.2000

CHAPTER I

GENERAL PROVISIONS

ARTICLE 1

- 1.1 This instruction is issued pursuant to Article 3, paragraph 3 of the Law No. 8269, dated 23.12.1997, "On the Bank of Albania" and Articles 29, paragraph 1, letter "d" of the Law No. 8365, dated 02.07.1998, "On banks in the Republic of Albania".
- 1.2 Subject to this Guideline are banks and branches of the foreign banks that exercise banking activity in the Republic of Albania. Thereafter, these subjects will be referred to as " the bank".
- 1.3 The purpose of this Guideline is to provide recommendations regarding risk management, which risk derives from bank's position in securities, financial instruments trading portfolio, and interest rate fluctuations, as well as to evaluate bank's adequacy and effectiveness in the management of interest rate risk.

ARTICLE 2

- 2.1 The risk coming from interest rate fluctuations shall include bank's earnings along with the economic value of its assets, liabilities and off-balance sheet items.
- 2.2 Sound interest rate risk management involves the application of the following four basic elements, which relate to the management of assets, liabilities and off-balance sheet instruments:
 - A. Appropriate board and senior management oversight;
 - B. Adequate risk management policies and procedures;
 - C. Appropriate risk measurement, monitoring and control functions; and,
 - D. Comprehensive internal control and independent audit.

The specific manner in which a bank applies the above elements depends on the complexity and nature of its activities and the degree of interest rate risk exposure.

CHAPTER II

BASIC ELEMENTS OF INTEREST RATE RISK MANAGEMENT

ARTICLE 3

Appropriate Board and Senior Management Oversight

- 3.1 In order to carry out its responsibilities, the board of directors in a bank should approve strategies and policies with respect to the interest rate risk management, and should determine the appropriate steps to be taken by the senior management to monitor and control this risk.
- 3.2 The senior management should evaluate whether the business structure of the bank and the

- interest rate risk exposure are managed effectively, and whether policies and procedures to control and limit such risk are in place, and that there is adequate information to estimate and control this risk.
- 3.3 The bank should define the personnel and the unit responsible for interest rate risk management and should ensure appropriate separation of duties in key elements of the risk management process in order to avoid potential conflicts of interest.
 - 3.4 Banks should clearly identify duties, along with risk measurement, monitoring, and control functions, which should be independent from position-taking functions in the bank. Reports regarding risk exposure shall be submitted to senior management and board of directors.

ARTICLE 4

Adequate Risk Management Policies and Procedures

- 4.1 Banks shall clearly define interest rate risk management policies and procedures, their limits, and ensure their consistency with the nature and activities of the bank. Interest rate risk management should be complete and include each unit of the bank, as well as bank's overseas branches. It shall include other related risks as well. Interest rate risk management policies and procedures shall be periodically reviewed, and modified when necessary.
- 4.2 Banks shall identify risks inherent in new products and services and ensure these are subject to adequate procedures and controls prior to their introduction.

ARTICLE 5

Risk Measurement, Monitoring and Control

- 5.1 Banks should design interest rate risk measurement system, which capture all sources of this risk and that assess the effect of interest rate changes in consistency with the scope of their activities.
- 5.2 Banks shall establish operating limits and other practices that maintain interest rate risk exposure within the levels determined in bank's internal policies.
- 5.3 Banks should measure the sensitivity to loss under stressful market conditions, including potential failure of bank's major assumptions. The results of such measurement should be considered when the policies and limits regarding interest rate risk have been reviewed or updated.
- 5.4 Banks shall appropriate information systems to measure, monitor, control and report interest rate risk exposure. These reports shall be periodically submitted to the board of directors and senior management.

ARTICLE 6

Comprehensive Internal Control and Independent Audit

- 6.1 Banks should have an adequate system of internal controls over their interest rate risk management process.
- 6.2 A fundamental component of the internal control systems involves regular independent reviews and evaluations of the effectiveness of the system and, when necessary, ensures that appropriate revisions and enhancements to the bank's internal controls are made.

CHAPTER III

OTHER PROVISIONS

ARTICLE 7

- 7.1 The banks and foreign bank's branches, in implementing this instruction, shall design a complete regulatory framework for the interest rate risk management within 6 months after its entrance into effect.
- 7.2 This instruction shall enter into force 15 days following its publication in the Official Bulletin of the Bank of Albania.

CHAIRMAN OF THE SUPERVISORY COUNCIL

Shkëlqim CANI

REGULATION ON “ADMINISTRATORS OF BANKS AND BRANCHES OF FOREIGN BANKS”

Approved by the Supervisory Council with the decision No.120, dated 30.12.2003

ARTICLE 1

GENERAL PROVISIONS

- 1.1. The legal basis of this regulation is Law No. 8365, dated 02.07.1998 “On Banks in the Republic of Albania”.

The terms used in this regulation are defined pursuant to Article 2, Law No.8365, dated 02.07.1998 “On banks in the Republic of Albania”.
For the purpose of this regulation, the term “bank” includes banks and branches of foreign banks.
- 1.2. The purpose of this regulation is to define the requirements on professionalism and reputation of persons conducting control dismissal and removal bank administration as well as restrictions on their appointment, dismissal and removal.
- 1.3. The term administrator, as used herein includes:
 - 1.3.1. Members of the Governing Council,
 - 1.3.2. Members of the Audit Committee,
 - 1.3.3. Executive Directors of the bank/ branch of foreign bank,
 - a. General Director of the bank/ branch of the foreign bank,
 - b. Deputy Director of the bank/ branch of the foreign bank,
 - c. Heads of departments.
- 1.4. For purposes of this regulation, administrators of branches of foreign banks, as defined in Article 1, section 1.3.1 and 1.3.2, shall be referred by members of decision-making bodies and auditing bodies of the head-office, who are not subject to this regulation.

ARTICLE 2

QUALIFICATION, REPUTATION AND EXPERIENCE

- 2.1. All candidates and administrators shall have an irreproachable reputation and shall meet the moral and professional criteria established in this regulation.
- 2.2. All candidates and administrators shall have a university degree, preferably in economics or jurisprudence.
- 2.3. Candidates for administrators having a university degree in a field other than economics or jurisprudence, he/she should have at least five years of experience in the banking sector. Candidates having an academic title/scientific degree in economics or jurisprudence must satisfy the requirements of Sections 2.5, 2.6 and 2.7.
- 2.4. Administrators shall be selected based on professionalism and experience in:

- the financial sector,
 - business of a size that approximates with the proposed bank (total assets)
 - academic field of economics or jurisprudence;
 - management of real estates;
 - auditing;
 - academic title/degree in the economic or juridical sciences.
- 2.5. Administrators defined in Article 1, points 1.3.1, 1.3.2 and 1.3.3, letters “a” and “b”, should have at least three years of experience in exercising the activities and functions as provided for in point 2.4 of this Article.
- 2.6. Administrators defined in Article 1, point 1.3.3, letter “c” should have at least two years of experience in exercising the activities and functions as provided for in section 2.4 of this Article.
- 2.7. Administrators defined in Article 1, section 1.3.2, apart from the requirements in section 2.4 of this Article, should have at least three years of experience in accountancy and/or auditing.

ARTICLE 3

REQUIREMENTS AND DOCUMENTATION

- 3.1 The submission of a candidate by a bank shall be made only after a candidate has been approved in accordance with the following decision of:
- a) shareholders’ assembly for members of the Governing Council and members of Auditing Committee.
 - b) Governing Council for the administrators as defined in Article 1, point 1.3.3,
 - c) the decision-making body of the head office or its authorized person, for the appointment of the administrators of its branch office.
- 3.2 The request, defining the position of the candidate, should be accompanied by the following information:
- a) a certified copy of the university degree, as a rule in economics or jurisprudence;
 - b) a signed CV, as per Application Form No.1 attached to this regulation;
 - c) detailed information on the candidate’s activities and business affiliations during the last seven years, particularly those where the candidate had exercised significant influence;
 - d) at least one reference regarding the candidate’s professional capacity (from supervisory agencies, academics and/or previous employers);
 - e) personal declaration regarding the settlement of all taxation duties
 - f) personal declaration that the candidate, during his/her working activities has not been involved in activities as provided for in Article 21, section 2, Law No. 8365, dated 02.07.1998 “On banks in the Republic of Albania”
 - g) personal declaration on the extent of material profiting interests or material relationships, proposed or existing between the candidate-appointee and the bank.
 - h) 1) Albanian citizen candidates must provide penal records issued by the Ministry of Justice of the Republic of Albania, as well as evidence from the Court and the Prosecutor’s office, certifying that the candidate has no record of convictions, and is neither subject to nor the subject of any legal proceedings.
2) Foreign citizen candidates must provide certificates issued by the relevant home country authorities certifying that the candidate has no record of convictions, and is neither subject to nor the subject of any legal proceedings.
 - i) Foreign citizen candidates should submit the information certified and approved by

the Ministry of Foreign Affairs or by any other institutions as provided by the respective legislation of the candidate's home country. The information must be translated into Albanian and certified.

- j) Foreign candidates for administrator position must submit a copy of the request for a residence permit and labor permit to the respective Albanian organizations.

Once all this information is submitted and all the other requirements are satisfied, the Bank of Albania will grant temporary approval (valid up to six months) for the administrator, who having taken this approval is entitled to represent the bank. The approval for the appointment of the administrator shall be issued only after submitting the official resident permit and labor permit from the respective organizations.

ARTICLE 4

RESTRICTIONS

- 4.1 Existing administrators shall be relieved and candidates shall not be approved in the cases provided for in Article 21, section 2, Law No.8365, dated 02.07.1998 "On banks in the Republic of Albania".
- 4.2 Approval shall not be granted to a person who has interrupted legal relations with a bank or any other entity exercising banking activity due to infringement of laws or by-laws, abuse of fiduciary duty and due to an inability to perform managing functions.
- 4.3 The Chairman of the Governing Council cannot be at the same time an administrator as defined in Article 1, point 1.3.3.
- 4.4 Administrators as defined in Article 1, point 1.3.3, can serve at the same time on the Governing Council, but they cannot constitute more than one third of its membership.
- 4.5 Administrators as defined in Article 1, point 1.3.3, cannot be simultaneously members of the Audit Committee
- 4.6 Performing the function of administrator set forth in point 1.3.3 in more than one bank is not permitted.
- 4.7 Administrators performing according to Article I, point 1.3.2 cannot be employee of Certified Public Accountants firms.
- 4.8 Not more than two thirds (2/3) of administrators performing at Article 1, point 1.3.2 can be at the same time members of the Governing Council.

ARTICLE 5

APPROVALS

- 5.1 Banks shall appoint administrators only upon receiving the approval of the Bank of Albania.
- 5.2 The Bank of Albania shall approve candidates within 30 days from the date of the receipt of the complete set of documents as required herein.
- 5.3 The bank must inform in writing the Bank of Albania of any changes of approved administrator's position by submitting:
- the appointment document pursuant to Article 3, point 3.2 of this regulation,
 - a CV filled in according to the Application Form No.1 attached to this regulation, in order to assess the administrator's experience.
- 5.4 The Director of Bank Supervision Department of the Bank of Albania may require confidentially through the reasons for administrator's leaving the bank.
- 5.5 The Director of the Bank Supervision Department of the Bank of Albania is authorized to approve the administrator.
- 5.6 In the event of irregularities observed following the approval of an administrator, the Bank of

Albania reserves the right to review the approval based on the recommendation of the Bank Supervision Department and only with the approval of the Governor for a period no longer than one calendar year from the date of the first approval.

ARTICLE 6

DENIALS

- 6.1 The Bank of Albania shall deny the approval in cases where the candidate does not satisfy the requirements of this regulation.
- 6.2 The decision to deny a candidate shall be made by the Responsible Administrator at the Bank of Albania. A copy of the decision shall be sent to the bank/branch of foreign bank within 3 days from the date of the decision.

ARTICLE 7

REVOCAATION

- 7.1 The Bank of Albania shall revoke its approval when:
- a) Any one of the provisions in Article 5 of this regulation is violated, or;
 - b) The bank or the administrator submitted false information to obtain the approval of the Bank of Albania.
 - c) Pursuant to Article 5, section 5.6 of this regulation, the Bank of Albania observes that the appointment of the administrator has not been made in compliance with the requirements of this regulation.
- 7.2 Revocation of the Bank of Albania's approval shall be decided by the Responsible Administrator of the Bank of Albania. A copy of the decision shall be submitted to the bank within 3 days from the date of the decision.

ARTICLE 8

DISMISSALS AND REMOVALS

- 8.1 The Bank of Albania is empowered, pursuant to Article 44, point 2, letter "e", Law No.8365, dated 02.07.1998 "On Banks in the Republic of Albania" and in compliance with the approved regulatory framework, to order the dismissal and/or the removal of one or all administrators of the bank/ branch of foreign bank, in case of infringements provided for in the law and/or the legal framework adopted by the Bank of Albania. Such order shall be signed by the Responsible Administrator of the Bank of Albania and be addressed to the decision-making body of the bank.

ARTICLE 9

REGISTER OF ADMINISTRATORS

- 9.1 Every approval, revocation, dismissal and removal of the bank administrator pursuant to the provisions of this regulation shall be recorded in a special register in the Supervision Department

of the Bank of Albania.

- 9.2 Every denial or approval for a bank administrator candidate shall be recorded in a special list in the Supervision Department of the Bank of Albania.

ARTICLE 10

FINAL PROVISIONS

- 10.1 Banks shall review the code of ethics for administrators no later than 60 days following the effective date of this regulation.
- 10.2 Administrators approved by the Bank of Albania according to the regulation "On the requirements to be fulfilled by the administrators of banks and branches of foreign banks" approved by the Supervisory Council of the Bank of Albania, decision no.13, dated 17.02.1999 are not subject to this regulation. The requirements of this regulation should be met for their reappointment.
- 10.3 The regulation "On the requirements to be fulfilled by the administrators of banks and branches of foreign banks" approved by the Supervisory Council of the Bank of Albania, decision no.13, dated 17.02.1999 and its amendments approved by the Supervisory Council of the Bank of Albania, decision no. 17, dated 01.03.2000, shall be abrogated.
- 10.4 This regulation was approved by the decision no 120, date 30.12.2003 of the Supervisory Council of the Bank of Albania and shall become effective 15 days after its publication in the Official Gazette of the Republic of Albania.

CHAIRMAN OF THE SUPERVISORY COUNCIL

Shkëlqim CANI

APPLICATION FORM 1

CURRICULUM VITAE

1. Personal information

Name:

Surname:

Date of Birth:

Place of Birth:

Citizenship:

Residence addresses (current):

Civil Status: ___ Married ___ Single ___ Divorced

2. Education

Starting from the secondary level

1. Name of institution and address From year – to year	19xx – 19xx
Diplomas or certificates obtained	
2. Name of institution and address From year – to year	19xx – 19xx
Diplomas or certificates obtained	

3. Foreign languages

Foreign languages	Reading	Speaking	Writing

Mark evaluation from 5 – 1 (5 = very well, 4 = well, 3 = fair etc)

4. Governing boards/professional associations membership

5. Training courses

6. Work experience

Detailed description for each relevant post occupied, starting with the most recent employer.

Employment period (MM/YYYY -MM/YYYY)	
Type of employment	a. employed D b. self-employed D c. unemployed D d. full-time student D
Name and address of employer	
Type of business (public or private)	
Occupation or position held	
Responsibilities (detailed)	
Reasons for leaving	a. resignation D b. curtailment D c. retirement D d. termination of contract D e. dismissal D f. other (specify) D
Employment period (MM/YYYY- MM/YYYY)	
Type of employment	a. employed D b. self-employed D c. unemployed D d. full-time student D
Name and address of employer	
Type of business (public or private)	
Occupation or position held	
Responsibilities (detailed)	
Reasons for leaving	a. resignation D b. curtailment D c. retirement D d. termination of contract D e. dismissal D f. other (specify) D
Employment period (MM/YYYY- MM/YYYY)	
Type of employment	a. employed D b. self-employed D c. unemployed D d. full-time student D
Name and address of employer	
Type of business (public or private)	
Occupation or position held	
Responsibilities (detailed)	
Reasons for leaving	a. resignation D b. curtailment D c. retirement D d. termination of contract D e. dismissal D f. other (specify) D

Name of the candidate
 Signature
 Date

**REGULATION
ON
THE AMOUNT AND FULFILLMENT OF MINIMUM INITIAL
CAPITAL ON THE ALLOWED ACTIVITIES OF BANKS AND
BRANCHES OF FOREIGN BANKS**

Approved by the Bank of Albania Supervisory Council decision No.51, dated
22.04.1999

1. The legal basis of this regulation are Articles 8 and 26 of the Law No. 8365, dated 02.07.1998, "On banks in the Republic of Albania"; as well as the regulation "On granting a license to exercise banking activities in the Republic of Albania."
2. Banks and branches of foreign banks licensed under the regulation "On granting a license to exercise banking activities in the Republic of Albania" are subject to this regulation.
3. The purpose of this regulation is to define the fulfillment of required minimum initial capital of banks and branches of foreign banks licensed before the publication of changes to minimum initial capital by the Bank of Albania and to define the amount of capital for banks and branches of foreign banks that request to exercise financial activities according to Articles 4 and 5 of the Law No. 8365, dated 02.07.1998, "On banks in the Republic of Albania".
4. The Bank of Albania requires that the fulfillment of the minimum initial capital be completed by banks and branches of foreign banks licensed before the publication of changes to minimum initial capital by the Bank of Albania and for this purpose it will determine the time limits and amounts through separate bylaws.
 - 4.1. When the capital of a bank or a branch of a foreign bank is in Lek the required amount to fulfill the minimum initial capital is equal to the difference between the amount of the minimum initial capital defined in the latest publication of changes to the minimum initial capital by the Bank Of Albania and the balance of Group 571 as described in the "Bank Accounting Manual."
 - 4.2. When the capital of banks and branches of foreign banks is in U.S. dollars, the amount required to fulfill the minimum initial capital is:
 - 4.2.1. Initially, pursuant to the approval of the Bank of Albania, entities will transfer to the paid in capital of Group 571 the amount of Group 574 "Difference of revaluation" as described in the "Bank Accounting Manual", which shows the difference in the U. S. dollar exchange rate from the moment capital was paid to a given moment.
 - 4.2.2. The required amount to meet the minimum initial capital shall be equal to the difference between the amount of minimum initial capital defined in the latest publication of changes to minimum initial capital by the Bank of Albania and the balance in Group 571, created according to Article 4.2.1 above.
5. Allowed activities pursuant to the amount of capital:
 - 5.1 Banks which are licensed to perform financial activities as defined in Article 26, point 3 of Law No. 8365, dated 02.07.1998, "On banks in the Republic of Albania":
 - 5.1.1. Continue to perform financial activities as defined in their licenses when their base

capital (as defined in regulation "On Regulatory Capital") is not less than minimum initial capital as defined in the publication of changes to minimum initial capital by the Bank of Albania.

- 5.1.2 Are authorized by the Bank of Albania to perform financial activities under Article 26.4 of the Law No. 8365, dated 02.07.1998, "On banks in the Republic of Albania" when their base capital is not less than twice the amount of minimum initial capital as defined in the publication of changes to minimum initial capital by the Bank of Albania.
- 5.1.3. Are authorized by the Bank of Albania to perform financial activities under Article 26.5 of the Law No. 8365, dated 02.07.1998, "On banks in the Republic of Albania" when their base capital is not less than three times the minimum initial capital as defined in the publication of changes to minimum initial capital by the Bank of Albania.
- 5.2. Banks which are licensed to perform financial activities under Article 26.4 of the Law No. 8365, dated 02.07.1998, "On banks in the Republic of Albania":
 - 5.2.1 Continue to perform financial activities as defined in their licenses when their base capital (as defined in regulation "On Regulatory Capital") is not less than twice minimum initial capital as defined in the publication of changes to minimum initial capital by the Bank of Albania.
 - 5.2.2. Are authorized by the Bank of Albania to perform financial activities under Article 26.5 of the Law No. 8365, dated 02.07.1998, "On banks in the Republic of Albania" when their base capital is not less than three times the minimum initial capital as defined in the publication of changes to minimum initial capital by the Bank of Albania
- 5.3. Banks which are licensed to perform financial activities under Article 26.5 of Law No. 8365, dated 02.07.1998, "On banks in the Republic of Albania": may continue to perform financial activities under Article 26.5 of the Law No. 8365, dated 02.07.1998 when their base capital is not less than three times minimum initial capital as defined in the publication of changes to minimum initial capital by the Bank Of Albania.
- 5.4. In order to perform financial activities as defined in Article 26.4 and 26.5 of the Law No. 8365, dated 02.07.1998, "On banks in the Republic of Albania", entities subject to this regulation should also present simultaneously to the Bank of Albania the following:
 - i) Documents that certify the professional skills of bank's employees who will perform such financial activities;
 - ii) Information on the technical requirements needed for the management of such financial activities;
 - iii) The evaluation of the impacts of such financial activities on the banks' performance through financial projections for the next three years.
6. Pre-operational expenses and purchasing expenses, which in accounting are entered as tangible fixed assets or intangible fixed assets, shall not be included in the paid minimum initial capital.
7. The total amount of investment by banks or branches of foreign banks in buildings and other tangible assets shall not exceed 25% of the regulatory capital. Any amount over this percentage shall be deducted from the regulatory capital.
8. Banks or branches of foreign banks shall create their general reserves at 1.25% up to 2% of total assets and of risky elements not included on the balance sheet. This will be created by deducting one fifth of the profit after paying taxes and before paying dividends.

- When the reserve fund falls below the required minimum as described above, banks or branches of foreign banks are required to meet that minimum within two years.
9. Entities that do not meet the requirements established in this regulation after it is passed, shall draft acceptable programs for their compliance with it where the latest time limit for improvement shall be 30.09.1999. Such programs shall be presented to the Bank of Albania within a month of the day this regulation enters into force.
 10. Articles 44 and 45 of the Law No. 8365, dated 02.07.1998, "On banks in the Republic of Albania" shall apply to violations of this regulation.
 11. This regulation enters into force immediately.

VICE CHAIRMAN OF THE SUPERVISORY COUNCIL

Fatos IBRAHIMI

REGULATION ON FOREIGN EXCHANGE ACTIVITIES

Approved by the Decision No. 64, dated 30.07.2003 and amended by the Decision No. 101, dated 10.12.2003 of the Supervisory Council of the Bank of Albania.

CHAPTER I

GENERAL PROVISIONS

ARTICLE 1

Legal foundation and the purpose of the regulation

- 1.1. This regulation is issued pursuant to Law No. 8269, dated 23.12.1997 "On Bank of Albania", and Law No. 8365, dated 02.07.1998 "On banks in the Republic of Albania".
- 1.2. The purpose of this regulation is the establishment of the rules relating to the transactions on the capital account and current account between residents and non-residents, inside and outside the territory of the Republic of Albania, and vice-versa.

ARTICLE 2

Definitions

For the purpose of this regulation, the following terms shall mean:

a- Resident

- Any individual, if he/she is an Albanian citizen and has a permanent residence in the territory of the Republic of Albania, according to the definition stated in Article 12 of the Civil Code;
- An Albanian diplomat and employee and their families nominated by the Albanian Government working outside Albania in the Embassies, Consulates or International Organizations that are not involved in the economic or commercial activities;
- An individual, if he/she stays constantly or periodically in the Republic of Albania for more than 183 days during a calendar year;
- A legal and physical person, if it has its permanent headquarters in the Republic of Albania.
- Any foreign citizen that has a residence permit in the Republic of Albania issued pursuant to the Law No. 8492, dated 27.05.1999 "On the foreigners";
- Individuals outside the Republic of Albania for business, studies, medical treatment or other similar reasons, despite the duration, and that are registered in the Republic of Albania.

b- Permanent headquarter

The location that is defined in the act of the foundation or establishment of the legal person in compliance with respective law. It should also be considered as permanent headquarter the branch, subsidiary or representative office of the legal person.

- c- **Non-residents**
All persons (individuals, physical or legal persons) that are not included in the definition of "resident" expressed in this regulation.
- d- **Instruments of payment in foreign currency** shall mean each type of monetary instrument in the form of banknotes, coins, checks, bills of exchange, promissory notes, letters of credit, money orders or other payment instruments in foreign currency and paid in foreign currency.
- e- **Foreign currency** shall mean financial assets in the form of foreign bank notes and coins, of legal tender. They also include financial assets such as foreign currency accounts and deposits in local and foreign financial institutions, which may be transferred through payment instruments, for payments in foreign currency.
- f- **Convertible currency** shall mean a currency that can be freely converted against another currency in the international market.
- g- **Exchange rate** shall mean the relative price of a currency expressed in units in another currency, referred to a particular date.
- h- **Foreign exchange transaction** shall mean to exchange, buy, or sell foreign currency in cash through a personal account or that of third parties. The repayment of a loan in a currency other than the one in which the loan has been granted or accepted, only unless stipulated in the written agreement between the parties.
- i- **Foreign exchange market** shall mean the market where the foreign exchange transactions take place.
- j- **Gold and precious metals:**
The standardized gold and precious metals.
The non-standardized gold and precious metals.
- k- **Standardizing of the gold and precious metals** shall mean the unique form of gold and precious metals accepted to be exchanged in the international gold market.
- l- **Precious metals** shall mean platinum.
- ll- **License to conduct foreign exchange activity** shall mean the administrative act issued by the Bank of Albania providing the right to the holder to conduct foreign exchange activities.
- m- **Contract** shall mean a legal act through which, one or several parties may create, change or cancel a juridical relation. The parties in a contract may freely design the content of the contract, within the boundaries established by the legislation in force.
- n- **Monetary obligation** shall mean the repayment of an amount of money in its nominal value, unless otherwise defined by the law or the contract.
- o- **The licensed entities** shall mean all the entities licensed by the Bank of Albania to conduct the transactions defined in this regulation.
- p- **Foreign exchange market operators** shall mean the Bank of Albania and entites licensed by the Bank of Albania.

CHAPTER II

FOREIGN EXCHANGE TRANSACTIONS

ARTICLE 3

Types of foreign exchange transactions

- 3.1 Foreign exchange transactions are carried out through the transactions, which are included in:
- a. Capital account, and in
 - b. Current account
- 3.2 Resident and non-residents may freely exchange the foreign currency in local currency and vice-versa as well as one foreign currency into another foreign currency through foreign exchange market operators.

ARTICLE 4

Capital account transactions

- 4.1 Capital account transactions shall mean transactions performed between residents and non-residents, which are recorded in the capital account of the balance of payments. Those transactions are as follows:
- a) direct investments;
 - b) securities transactions;
 - c) credit transactions;
 - d) deposits transactions;
 - e) insurance and reinsurance transactions, when allowed by the Albanian legislation.
- 4.1.1 Direct investment
Direct investments include:
- a) establishment or expansion of a company that is fully owned by an investor, establishment of a subsidiary or a branch, or purchase of an existing company that transfers complete ownership of one investor to another;
 - b) participation in a new or existing company, when the investor owns or controls over 10% of the base capital of the company, or over 10% of voting rights;
 - c) a loan with maturity of 5 years or more, aiming at the establishment of the long term economic relationship as described in letters "a" and "b" of this paragraph;
 - d) use of earnings from an existing investment in the same investment (earnings reinvestment).
 - e) investment in the tangible assets for commercial or living conditions purposes.
- 4.1.2 Securities transactions
In order to meet this regulation requirements:
- 4.1.2.1 Securities shall be all the ownership financial instruments and interest rate financial instruments.
- 4.1.2.2 Securities transactions shall mean all transactions for issuing, investing and listing of securities, which represents the onset of trading securities of foreign entities in the Republic of Albania, or securities of domestic entities outside the country. Such securities transactions shall include the following:
- a) issuing and listing securities of domestic entities outside the Republic of Albania;
 - b) investment by residents in securities outside the Republic of Albania;
 - c) issuing and listing of securities of foreign entities in the Republic of Albania;
 - d) investment by non-residents in securities of domestic entities in the Republic of Albania.

- 4.1.3 Credit transactions
Credit transactions imply the completion of a credit or borrowing agreement whose object is money. Credit or borrowing agreements might be in the form of:
- a) commercial loans that represent credits related to the international commerce and to the offering of international services, where one of the parties is a resident;
 - b) household loans that represent loans involving persons that have legal hereditary relationships, where one of the parties is non-resident;
 - c) financial loans, which represent loans despite those defined in the paragraph 4.1.1.c. Financial loans include even loans for real estate purchasing (mortgage loans) and financial leasing.
- 4.1.4 Deposits transactions
Deposit transactions shall mean transactions performed based on a contract, which involve opening of current or deposit account from a resident bank to a non-resident one, or vice versa.
- 4.1.5 Insurance transactions
Insurance transactions shall mean transactions performed based on an insurance contract between a non-resident and a resident, or vice-versa, which may result in:
- a) capital transfer from a non-resident (the insurer) to a resident (the beneficiary); and/or
 - b) capital transfer from a resident (the insurer) to a non-resident (the beneficiary), according to the definition stipulated in the Albanian legislation.
- 4.2 For the purpose of this article, capital account transactions shall also mean the transactions on transferring ownership of an investment on a legal basis.

ARTICLE 5

Current account transactions

- 5.1. Current account transactions shall mean all the transactions performed between residents and non-residents, which are recorded in the current account of the balance of payments.
- 5.2 Payments and transfers for current account transactions include:
- a) all settlements resulting from international trade, especially:
 - payments for purchases for reselling purposes, and generally any payment for trading connected to re-trading;
 - any payments for the service provided in the field of: industrial, construction, mining, transportation, insurance, storage, public shows, advertisement, consulting, publishing and non handcrafted typography undertaking acts;
 - payments for any banking and exchange operation;
 - payments for all intermediary operations.
 - b) payments of loan principal and interest due;
 - c) unilateral capital transfers, which include the following:
 - c.1 Personal assets transfers shall mean assets transfer from/to the Republic of Albania in the form of household loans, gifts, inheritances, repayments of obligations by emigrants in his/her native land, transfer of an emigrant's assets to a foreign country following a court decision, incomes from gambling, and savings of persons employed in the Republic of Albania who are not residents.
 - c.2 Physical assets transfer shall mean cash transportation of domestic or foreign currencies, and securities, from and to the Republic of Albania (according to the Instruction No.1 of this Regulation).

The licensed entities can carry out unilateral capital transfers for the account of residents and

non-residents, after the completion of the documentation that certifies the purpose of the transaction defined by the entity itself.

d) Transfers defined in the Instruction 2, part of this regulation.

CHAPTER III

CAPITAL TRANSFER

ARTICLE 6

Capital transfer criteria

- 6.1. Incoming capital transfers to the territory of the Republic of Albania may be carried out without any restrictions by residents or non-residents.
- 6.2. The capital transfer from the territory of the Republic of Albania for the account of the entities themselves licensed by the Bank of Albania can be made with the decision taken by their respective bodies.
- 6.3. The licensed entities can carry out the capital transfer from the territory of the Republic of Albania for the account of their customers after the completion of the documentation defined here below, as well as additional documentation that can be deemed reasonable by the entities as follows :
 - 6.3.1. for the physical and legal persons:
 - a) The request where should be explained the reasons for the capital transfer, its creation source, amount of the capital that is required to be transferred outside Albania and the address where this capital has to be transferred,
 - b) The document of the foreign entities that explains this transfer (if there will be such document),
 - c) The decision taken by the decision-making body of the entity for carrying out the capital transfer,
 - d) Court registration decision,
 - e) The certificate issued by the Tax Office certifying the settlement of the tax obligations to tax authorities.
 - 6.3.2. for individuals:
 - a) The request where should be explained the reasons for the capital transfer, amount of the capital that is required to be transferred outside of Albania and the address where this capital has to be transferred,
 - b) A declaration on the creation source of the capital that is required to be transferred.
- 6.4. For special cases provided in this paragraph, the capital transfer from the territory of the Republic of Albania, by the licensed entities can be carried out after the completion of the documentation defined for each case as follows:
 - a) when the capital transferred for investment purposes in Albania through a foreign bank has not been used. Such a transfer is executed upon submission to the bank the following:

the decision taken by the decision-making authority of the entity to halt the investment, and the bank is certain the funds were not used as originally intended.
 - b) capital transfer from the territory of the Republic of Albania, for an amount up to the total of paid-in capital and earnings resulted from such capital investment, if this is supported by the appropriate documentation (Law No. 7764, dated 02.11.1993, "On Foreign Investments"). In this case, a certificate issued by the tax authorities showing the amount of capital invested plus resulting earnings (after pay-off of all tax obligations), and a decision from the appropriate authority of the entity on distribution

- and use of such earnings, are required as additional supporting documentation;
- c) interbank deposit transactions performed based on a contract, which involve transactions in current or deposit accounts between a resident licensed bank and a non-resident bank, or vice versa, between a resident bank and a non-resident financial institution;
 - d) commercial loans with maturity up to one year, which are directly associated with the international commerce and offering of services in international barter. The loan agreement shall serve as supporting documentation;
 - e) foreign currency transfers coming from deposits of a non-resident, and related income. In such cases, the bank statement certifying the amount transferred shall serve as supporting documentation;
 - f) foreign currency transfer from the country by an Albanian emigrant when leaving the Republic of Albania. In this case, the interested person shall submit to the bank one of the following documents:
document certifying his/her foreign citizenship, or his/her residence permit issued by respective authorities in the country where he/she resides;
other legal documents issued by respective authorities of the foreign country certifying his/her residency in that country;
the document or the visa issued by representative authorities of the foreign country certifying his/her permanent residence in that country.
 - g) The transfer of earnings deriving from a property or investment of an Albanian emigrant who lives outside Albania. The interested person should submit to the bank one of the documents described in the point "f", as well as a personal declaration (or when possible a document which certifies this) for the source of earnings that are required to be transferred.
 - h) Capital transfer up to the amount of capital and profits resulting from sales, partial or total liquidation of an investment. In this case, the sale document or liquidation document issued by the court and the confirmation of paying-off tax liabilities shall serve as additional supporting documentation.

ARTICLE 7

Outgoing transfers

- 7.1 The licensed entities carry out outgoing transfer transactions.
- 7.2 Each individual is entitled to freely transfer from the territory of the Republic of Albania, the equivalent in any other currency of the amount up to Lek 3.5 million, using the exchange rate of the date of the transaction, within a time period of one calendar year. The transfer up to this limit may be made in one time or in parts.
In order to carry out the transfer, the client shall submit:
 - a) an application request for funds transfer, specifying the purpose of such transfer; and,
 - b) personal declaration that he/she complies according to the limit defined in paragraph 7.2 of this Regulation.
- 7.3 The documentation that should be completed regarding to commercial and non-commercial transfers in foreign currency is defined in Instruction 1 and 2 of this Regulation.
- 7.4. For foreign payment transactions, international rules and agreements, interbank bilateral and multilateral agreements, and banking custom, shall be applied in the Republic of Albania.

CHAPTER IV

INVESTMENTS AND NON-RESIDENTS' ACCOUNTS

ARTICLE 8

Securities investment

Non-residents may buy or sell securities in the Republic of Albania and exercise related rights, only through a bank or an authorized financial institution acting as custody of securities, based on a contract for securities' custody services.

ARTICLE 9

Non-resident's account

Non-residents may open accounts in local or foreign currency in a bank or branch of a foreign bank licensed by the Bank of Albania, without any restrictions.

CHAPTER V

OBLIGATION FOR REPORTING

ARTICLE 10

The operators in the foreign exchange market, pursuant to Article 65 of Law No. 8269 dated 23.12.1997, "On the Bank of Albania", shall report to the Bank of Albania according to Instruction "On Reporting of Foreign Exchange Transactions", approved by the Supervisory Council of the Bank of Albania.

CHAPTER VI

PHYSICAL TRANSFER OF FOREIGN CURRENCIES, GOLD AND PRECIOUS METALS

ARTICLE 11

Physical transfers of the foreign currencies at customs offices

- 11.1 Residents are entitled to freely transfer from the territory of the Republic of Albania, an amount of foreign currency in cash and traveler checks up to the equivalent amount of Lek 3.5 million. For the amounts over 1 million Lek, any resident is obliged to declare about the origin of the money that he/she requires to transfer;
- 11.2 Non-residents and foreign citizens (residents) who visit Albania temporarily, are entitled to transfer from the territory of Albania foreign currency in cash and traveler checks up to the declared amount at the entry moment to Albania which should be justified with the presentation of completed declaration and relevant additional documentation if there will be additional documentation;

- 11.3 Business people, such as Albanian physical and legal persons, are entitled to transfer from the territory of the Republic of Albania at customs offices for any case they leave the country amounts in cash or in traveler checks up to the equivalent amount of Lek 3.5 million in any foreign currency. Along with the amount declaration, the business people should present to the customs authorities the tax registration certificate.

ARTICLE 12

Physical transfer of gold and precious metals at customs offices

- 12.1 Residents and non-residents are entitled to transfer from the territory of the Republic of Albania, standardized gold and precious metals only through entities licensed by the Bank of Albania in accordance with the definition in the license annex issued by the Bank of Albania. The entities licensed by the Bank of Albania, which provides such a service, should determine the documentation that should be completed.
- 12.2 Residents and non-residents are entitled to transfer from the territory of the Republic of Albania, non-standardized gold and precious metals at customs offices only after the completion of the declaration related to:
Its source (origin), the transfer purpose, the quantity that needs to be transferred, returning or not of the precious metals and the form in which this should be returned.
This documentation should not be presented in cases of jewelries of personal use.
- 12.3 Banks and branches of foreign banks are entitled to conduct gold and precious metals transactions only after the Bank of Albania licenses them for such activity. The gold and precious metals transactions from and to Albania are treated and performed in the same way as for the foreign currencies.

CHAPTER VII

FINAL DISPOSITIONS

ARTICLE 13

Documentation submission and entities obligations

- 13.1 The required documentation in this regulation and the instructions that are its integral part should be submitted to the licensed entity in original and it is certified by the entity itself which should make the photocopy from the original and put a special (dated) bank stamp on each photocopied sheet which gives the relevant validity to the document. In spite of the above, for the customs clearance even the original should be stamped.
- 13.2 Residents and non-residents that carry out a foreign exchange transaction in the foreign exchange market should be responsible for the authenticity of all submitted documentation.
- 13.3 The licensed entities are obliged to complete and keep all the documentation prescribed in this regulation and instructions that are its integral part.
- 13.4 The Bank of Albania may decide about disciplinary and penalties sanctions in accordance with Chapter VI of the Law No. 8365, dated 02.07.1998 "On banks in the Republic of Albania", whenever the licensed entities do not comply with this regulation and the instructions that are its integral part.

ARTICLE 14

- 14.1 Integral part of this regulation are the following:
- Instruction No.1 "On transfers of commercial transactions in foreign currency".
 - Instruction No.2 "On transfers of non-commercial transactions in foreign currency".
- 14.2 This regulation was approved by the Supervisory Council of the Bank of Albania with Decision No. 64, dated 30.07.2003, and enters into force 15 days following its publication in the Official Gazette of the Republic of Albania.
- 14.3 The regulation "On Foreign Exchange Activities" and its instructions approved by the Supervisory Council of the Bank of Albania with Decision No. 12, dated 21.02.2001, are abrogated.

CHAIRMAN OF THE SUPERVISORY COUNCIL

Shkëlqim CANI

INSTRUCTION NO. 1

ON

TRANSFERS RELATED TO COMMERCIAL TRANSACTIONS IN FOREIGN CURRENCY

1. Commercial transactions transfers for goods.

Commercial transactions transfers for goods, from the territory of the Republic of Albania by the same entity during a working day, by physical and legal persons shall be carried out against submission of the following documents:

1.1. When the payment is made in advance or prior to the arrival of goods in the Republic of Albania:

- a) the request for execution of the transaction, where the nature and the purpose of transaction should be described and signed by the person who has presented the request. In the above request, the entity should declare that the submitted documentation is not used in the earlier period to justify the execution of other transfers;
- b)² pro-forma invoice and/or the contract where the payment term is defined,
- c) goods customs clearance;
- c.1³ in case of partial payment of the total amount, in compliance with the contract terms, the deadline for the submission of the goods customs clearance should up to three months after the payment is made. Subsequent transfers shall not be executed if the customs clearance document of the previous funds transfer has not been submitted. There are exceptions when the terms of delivery of goods, or the rendering of services, are otherwise stated in the contract, but no more than 12 months.
- c.2 in case of partial transfers, when it is operated with the customs storehouse, according to the Customs Code, the subsequent payment will be executed only after submitting customs clearance document to the bank for the cleared part of the goods, which was under the customs storehouse regime.

The deadline for presenting this document is 12 months, starting from the import date. However, a postponement of 12 months is allowed unless authorities that have such competences according to the Customs Code accept this. After this period, no subsequent payment will be executed until the custom clearance document is presented;

- c.3 in cases of immediate payment of the contract amount, the maximum term for the submission of the custom clearance document is 3 months after execution of payment. There are exceptions when the terms of delivery of goods, or the rendering of services, are otherwise stated in the contract, but no more than 12 months.

1.2. When payment is made after the goods are delivered in the Republic of Albania.

- a) the request as described in point 1.1., letter "a";
- b) the customs clearance document.

1.3 For transfers in the market of goods that come under a transitory regime in the Republic of Albania, the provisions of the Law No. 8449, dated 27.01.1999 "On the Customs Code of the Republic of Albania" shall be applied.

1.4 In cases when the purchase and sale of the goods is carried out between two different countries outside Albania and the goods are not delivered in Albania, but only the payment of

² Amended by the Decision No. 101, dated 10.12.2003 of the Supervisory Council of the Bank of Albania.

³ Amended by the Decision No. 101, dated 10.12.2003 of the Supervisory Council of the Bank of Albania.

⁴ Amended by the Decision No. 101, dated 10.12.2003 of the Supervisory Council of the Bank of Albania.

the goods is performed through Albania, the transfer can be executed based on the documentation defined in point 1.1 of this Instruction. The requirement of point 1.1, letter "c" is completed with the customs clearance document of one of these countries.

- 1.5⁴ When the payment is performed as a pre-payment or before the goods arrive in the Republic of Albania for amounts up to Lek 3.5 million or its equivalent in foreign currency accounted with the rate of the day when the payment is performed:
- a) The request for the operation performance, describing the nature and aim of the performance, signed by the demander. The entity declares, in the same request, that the presented documentation is not used previously to justify the performance of other transfers.
 - b) Goods customs clearance pursuant to the cases described in point 1.1 letter "c".
2. Commercial transactions transfers for services.
- 2.1 For commercial transactions transfers for any service case, in compliance with the specifications defined in Article 5.2 of the regulation "On Foreign Exchange Activities", the licensed entities shall require from their customers the submission of the following documentation, specified for each customer:
- a) the request according to point 1.1, letter "a",
 - b) the respective invoice of the entity or a document that certifies the purpose for which the transfer is required;⁵ and/or the respective contract and/or the respective agreement.

⁵ Amended by the Decision No. 101, dated 10.12.2003 of the Supervisory Council of the Bank of Albania.

INSTRUCTION NO. 2

ON

TRANSFERS RELATED TO NON-COMMERCIAL TRANSACTIONS IN FOREIGN CURRENCY

1. The transfers of non-commercial transactions in foreign currency include the following:
 - a) studies and audits performed by foreign companies;
 - b) courses, conferences and contests abroad;
 - c) studies and training sessions abroad;
 - d) medical and health services abroad;
 - e) technical expertise, commissions for construction planning and control, implementation of projects and other plans;
 - f) electronic data processing;
 - g) technical and administrative planning;
 - h) rents on movies and television programs, and payments of copyrights;
 - i) current expenses of branches and representative offices of companies and banks, Albanian or foreign diplomatic missions, commercial missions, peace-keeping troops, cultural exchange programs and promotion of tourism. Such expenses may include rent, operating expenses, etc.
 - j) patents and copyrights, salaries and regular wages, non-residents expenses of an inconsistent nature;
 - k) financial lease for operation of equipment and machinery;
 - l) short-term financial lease (up to 1 year);
 - m) loan repayments;
 - n) pensions;
 - o) membership fees;
 - p) aid given to religious organizations;
 - q) transactions with international organizations;
 - r) various rents in favor of emigrants and non-residents;
 - s) family living expenses in compliance with Article 5, point "b" and "c".
2. Non-commercial transfers transactions shall also include all other transfers similar to the ones defined in point 1 of this Instruction.
3. In order to carry out transfers defined in this Instruction, the licensed entities shall require their customers to submit the following documents:
 - a) the request according to the point 1.1, letter "a" of Instruction No.1;
 - b) the certificate (if possible) issued by a competent authority which certifies the purpose of the transaction in compliance with this instruction;
 - c) the certificate issued by the tax authorities for the settlement of the tax obligations from the physical and legal persons.

GUIDELINE ON THE LIQUIDITY OF THE BANK

**Approved by the Supervisory Council with Decision No.04,
dated 19.01.2000 and amended with Decision No.08, dated 12.02.2003.**

ARTICLE 1

1. This guideline is issued pursuant to Article 3, point 3 of the Law No. 8269, dated 23.12.1997, "On the Bank of Albania" and to Article 27, point 2, and Article 31, point 3 of the Law No. 8365, dated 02.07.1998, " On banks in the Republic of Albania".
2. Subject to this guideline are banks and branches of foreign banks, which exercise banking activities in the Republic of Albania. Hereinafter, these subjects will be referred to as "banks".
3. For the purposes of this regulation:
 - Liability degree shall mean the bank's ability or inability to withdraw from a contract.
 - A group of related depositors shall mean two or more depositors (individuals, physical or legal persons) toward whom the bank has a liability arising from the collection of their deposits, and which are interrelated in the following manners:
 - a) one depositor exercises control over the rest of the group, either directly or through other persons; or,
 - b) their interrelations are such that financial difficulties for one depositor may cause insolvency for the rest of the group; or,
 - c) they act in collaboration.
4. Banks should at any time be able to pay off their obligations. Bank liquidity management involves planning for future inflows and outflows of their financial assets.
5. Banks shall maintain the liquidity within those levels, structure and ratios which allow them to meet their obligations and commitments in a timely fashion, with reasonable costs and at a minimum risk, while:
 - a) Ensuring interests of depositors, other creditors and their shareholders.
 - b) Carrying out normal bank transactions without any obstacles.
 - c) Avoiding any premature disposal of earning assets (such as securities, etc.)
6. Planning for liquidity shall be based on the accomplishment of two fundamental conditions:
 - a) Availability of an adequate information system; and,
 - b) A prompt posting of all the transactions in the general ledger.

ARTICLE 2

1. Through its information system, the bank shall classify its assets, liabilities and off-balance sheet items, according to:
 - a) the maturity date of fixed term assets, liabilities and off-balance sheet items;
 - b) the expected development of fixed term liabilities in relation with the possible volume of deposits replaced from the creditor by the maturity date;
 - c) the depositor's behavior in the past with respect to both demand and time deposits under specific conditions;
 - d) the liquidity degree of assets with respect to:
 - i. their immediate availability to cover fund outflows;
 - ii. their ability to be converted into cash from the Bank of Albania;

- iii. their tradability in the financial markets, whose size shall determine the possibility to sell the required amount of assets for a price which corresponds to their market value, or for a price higher or equal to their booking value;
- iv. the potential of asset value decrease concurrent with the liability value decrease;
- e) the amount of deposits by a individual depositor or a group of joint depositors (see paragraph 2 below);
- f) the type and the degree of liability for off-balance sheet items given or received by the bank;
- g) the currencies in which assets, liabilities and off-balance sheet items are denominated, with special focus on Lek, convertible and non-convertible currencies.

ARTICLE 3

In order to ensure the necessary liquidity, the bank should concentrate its activity particularly on:

- a) obtaining funds from stable sources within agreed terms,
- b) diversification of funding sources according to maturity, type of bank instrument and bank's clientele,
- c) implementing organizational measures aimed at an effective liquidity management (assigning an employee of the bank with the liquidity management, introducing an effective audit and internal control on the bank's liquidity management, integrating specific issues associated with the existence of bank's branches abroad, subsidiaries, etc.),
- d) the degree of bank's integration into the money market, short-term bonds issued and traded in the market,
- e) formulation of its commercial policy alongside with financial planning for funding needs in order to avoid any potential deficiency in resources necessary for its developmental plans, and to reduce any structural asset and liability shortcomings resulting from differences between the maturity dates agreed and the actual ones,
- f) maintaining a sufficient volume of highly liquid assets with respect to trades effected; for the purpose of this regulation, highly liquid assets shall mean cash values, current accounts with other banks, short-term deposits with other banks with maturity up to 7 days, treasury bills, short-term bonds of central banks and other similar instruments, and excess reserves with the Bank of Albania,
- g) drafting a contingency plan for unusual events which may threaten bank's liquidity, which is comprised of its compiling method and its terms of use including designation of a responsible employee, identification and value (volume) of assets, which, according to the plan, are held to promote and secure bank's liquidity; the bank should regularly update the contingency plan with respect to changing internal (asset and liability structure of the bank) and external (situation in the interbank market) conditions.

ARTICLE 4

1. The bank shall notify the Bank of Albania on:

- a) the employee responsible for:
 - i. proposals for recommendations and implementation of the bank's liquidity policy;
 - ii. Daily monitoring of liquidity and preparing proposals for the bank's management;
 - iii. Reviewing the liquidity management, focusing on the identification of unjustified high cash reserves and other highly-liquid assets held, which increase the costs for the bank;
- b) the body responsible within the bank for approval of liquidity policy proposals;
- c) the body responsible within the bank for supervising and controlling the implementation

of the approved liquidity policy.

2. If the bank has one or more branches abroad or controls some other banks, it should adopt, in a consolidated manner, its liquidity policy according to the established situation.
3. The liquidity management system is subject to regular controls from the bank's internal audit and the Bank of Albania.

ARTICLE 5¹

1. Banks shall determine the total minimum amount Banks shall determine the total minimum amount of liquidity sources or their specific categories in compliance with article 31, point 1 of the Law No. 8365, dated 02.07.1998, "On banks in the Republic of Albania".
Bank calculates certain liquidity ratios, which are: highly-liquid assets to total assets, the ratio of highly-liquid assets to short-term liabilities, the ratio of net cumulative balance sheet position (GAP) for a period up to 3 months, to total assets, as well as other ratios established by it.
The bank shall establish the degree and methodology of their calculations.
2. Liquid-assets minimally include the integrity of the following elements:
Monetary assets, other accounts in the central banks, T-bills and other re-financing bills accepted by the central banks, relationship with the other banks, securities operations (net).
Short – term assets are minimally the integrity of the following elements:
Interbank operations (class 1), demand deposits (class 2), 10 per cent of current accounts of credit outstanding (class 2).

ARTICLE 6

1. The bank shall report every month to the Bank of Albania on liquidity. In case the bank has an unfavorable liquidity position, Bank of Albania is entitled to require reports more frequently.
2. The reports shall be compiled according to the enclosed sample reporting form.

ARTICLE 7

1. The report must be signed by two persons authorized to act on behalf of the bank and responsible for the management of the bank as a whole.
2. The bank shall ensure the control for completeness and accuracy of data presented throughout the report
3. Bank's internal control shall require that, under specific circumstances, review the following:
 - a) whether the report compiling system is designed in such a way as to truly reflect the actual liquidity of the bank,
 - b) whether liquidity reports as of December 31 are correct and to verify such reports.

ARTICLE 8

1. Banks shall submit to the Bank of Albania the information described in paragraph 1 of Article 4, within 30 days from the date this regulation comes into effect.
2. Banks shall formulate the internal regulation that stipulates, according to this regulation, the principles for composing the contingency plan for unusual events threatening bank's liquidity.
3. Banks shall submit the internal regulation to the Bank of Albania, in accordance with the

¹ Changed by the decision No. 08, dated 12.02.2003 of the Supervisory Council.

above paragraph 2, within two months from the date this regulation comes into effect. The bank shall also submit to the Bank of Albania any amendments to the above internal regulation, immediately after they are approved.

ARTICLE 9

The "Regulation on Liquidity Ratio", approved by the Decision of the Supervisory Council of the Bank of Albania No. 71, dated 02.06.1999, is abrogated.

ARTICLE 10

This guideline shall enter into force 15 days following its publication on the Official Bulletin of the Bank of Albania.

CHAIRMAN OF THE SUPERVISORY COUNCIL

Shkëlqim CANI

THE PERIOD REMAINING UP TO MATURITY								
Description	Up to 10 days	10 days – 1 month	1-3 months	3-6 months	6-9 months	9 months to 1 year	1-5 years	More than 5 years
1. Assets								
2. Liabilities								
3. Change + or -								
4. 1:2 / 100								
5. 3:1 / 100								

FORM NO. 1

BANK _____

REPORTING DATE _____

THE RESIDUAL MATURITY OF ASSETS AND LIABILITIES REPORT

THE PERIOD REMAINING UP TO MATURITY								
Description	Up to 10 days	10 days - 1 month	1-3 months	3-6 months	6-9 months	9 months to 1 year	1-5 years	More than 5 years
1. Assets								
2. Liabilities								
3. Change								
+ or -								
4. 1:2 / 100								
5. 3:1 / 100								

Prepared by _____

Manager of the Bank _____

GUIDELINE ON THE INTERNAL AUDIT IN BANKS AND FOREIGN BANK BRANCHES

Approved by Supervisory Council with Decision No.107, dated 03.11.1999

CHAPTER I

GENERAL PROVISIONS

1. This instruction is issued pursuant to Article 12, letter "a" of the Law No. 8269, dated 23.12.1997, "On the Bank of Albania" and Articles 17, 18, 19, 20 of the Law No. 8365, dated 02.07.1998, "On banks in the Republic of Albania".
2. The purpose of this instruction is the implementation of an effective internal auditing system as an important factor for the management and administration of the banks.
3. Subject to this instruction are banks and branches of the foreign banks that conduct banking business in the Republic of Albania. Thereafter, these subjects will be referred to as "the bank".
4. Definition:
"Internal audit system consists of a set of procedures, rules and structures which exist within a bank. They are designed to implement bank strategies and programs, to provide for efficiency in banking operations, prevent losses (both administrative and operational), maintain a high degree of accuracy in financial and management information, and ensure compliance with laws, rules and regulations".

CHAPTER II

PERFORMANCE OF THE INTERNAL AUDIT

5. The basic principle for the functioning of the internal auditing system in a bank is its use independently from administrative and management structures of the bank. To ensure this, the following issues are to be considered:
 - 5.1. The Governing Board shall approve the strategy and the policies for managing the risks to which a bank is exposed and shall ensure that appropriate measures are taken by the senior management in order to monitor and control the bank's exposure to these risks.
 - 5.2. The administrators of the bank shall be responsible for the implementation of strategies and policies approved by the Governing Board, through the process of identification, measurement, monitoring and control of risks that a bank incurs.
 - 5.3. The Governing Board and the senior management shall be responsible for the establishment of high ethical standards in banking operations. All the bank employees should be aware of their role in the internal auditing process.
 - 5.4. An effective internal audit system requires an evaluation of internal and external factors

that impede achievement of the bank's goals and objectives. This includes all those areas related to banking risk. Internal audit activity can be modified according to the evolution of present risks and threats, as well as to the new ones emerging.

- 5.5. Internal audit activity, as a part of the daily operations of the bank, shall be transparent. It should include auditing over each of the divisions or departments of the bank; physical control over bank's assets and information, evaluation of compliance with laws, rules and regulations, verification and reconciliation of the financial information, as well as periodic review of effectiveness of previous controls.
- 5.6. An effective internal auditing system requires an appropriate distribution of duties to employees in order to avoid potential conflicts of interests and responsibilities.
- 5.7. An effective internal auditing system requires availability of adequate and complete information in the bank regarding bank's operations, market conditions and problems affecting the process of decision-making. The information should be reliable, timely, acceptable and consistent.
- 5.8. An effective internal auditing system requires effective modes of communication to ensure that all the staff is fully aware of the policies and procedures, which will affect their duties and responsibilities.
- 5.9. An effective internal auditing system requires the presence of an adequate information system, automated or not, in order to assist the management of bank activities. This system shall regularly be checked for accuracy.
- 5.10. An effective internal auditing system requires a consistent monitoring, in accordance with the overall monitoring of the bank's exposure to risks.
- 5.11. The banks shall have an effective internal audit system, which shall be performed by competent and qualified staff. The internal auditing should report directly to the Governing Board, the Audit Committee or the senior management of the bank.
- 5.12. Deficiencies revealed by the internal auditing shall be reported to bank managers within the established timeframes. The same shall be applied regarding corrective actions, when deficiencies result from the internal audit.

CHAPTER III

TYPES OF INTERNAL AUDIT

6. Depending on the ways or means the internal audits are performed, they are divided as follows:
 - administrative audit;
 - risk management audit;
 - internal audit;
 - audit committee control
- 6.1. Administrative audits are exercised over the management of daily activities performed by the bank, based on bank's internal regulations where duties, functions, limits of competence, etc., are determined. All the managers of the bank shall exercise these audits.
- 6.2. Risk management audits include establishment of effective policies and limits, in order to reduce the risk of losses in banking activities. All bank's managers or the management and control entities shall exercise these controls. The purpose of these

controls is the identification, measurement, management and monitoring of the bank's exposure to risks. In banking supervision, the following 9 types of risks are to be considered: credit risk, liquidity risk, interest rate risk, market risk, exchange rate risk, operational risk, the risk of noncompliance with regulations, strategic risk, and the risk of reputation. The first seven are considered as direct risks. These are the risks inherent in most part of the banking transactions. The last two are indirect risks. These are present in almost every decision taken by bank managers.

Credit Risk represents the probability of failure by the debtors to meet their contractual liabilities toward the bank. This risk accompanies the loan portfolio, investment portfolio, derivative contracts, and the relations between bank and third parties.

Liquidity Risk represents the probability of failure by the bank to meet its contractual liabilities at maturity, unless incurring unacceptable loss or expenses. Liquidity risk is present when bank managers are unable to identify market changes, which may affect bank's ability to sell off its assets within a limited timeframe. This risk becomes present in case of inability to manage any unanticipated shortages, or even changes, in the bank's sources of funds.

Interest Rate Risk is caused by interest rate fluctuations. These fluctuations should be considered from two standpoints. First, the accounting standpoint, which represents the effect of interest rate fluctuations over the accrued interest income. Second, the effect of interest rate fluctuations over the capital, which represents the sensitivity of bank's market value, or the position of its own capital, to interest rates fluctuations.

Market (Price) Risk relates to changes in the market value of the portfolio of financial instruments.

Exchange Rate Risk represents the risk arising from exchange rates fluctuations. This risk affects the bank's activities in foreign currencies, and particularly the accrued interests in foreign currencies such as for loans, deposits, etc.

Operational Risk represents the probability that adversities may occur during the performance of bank activities. This risk is inherent in all products and services that the bank offers. It depends from the level of internal controls, information systems, work process and personality of employees.

Risk of Non-compliance with Regulations comes from non-compliance with laws, rules, practices, or ethical standards. This risk is accentuated by vagueness in laws and regulations. It has the form of penalties, fines or other penalizing measures.

Strategic Risk arises when inappropriate decisions are taken or when right decisions are inappropriately applied. This risk is a function of matching bank's objectives, methods and sources employed to meet these objectives, with the managers' ability to implement them.

Risk of Reputation relates to the impact that the adverse public opinion may have over the bank. This risk affects bank's ability to build new relations with customers and to develop the existing ones.

- 6.3. Internal audit unit, as part of the internal control system, shall provide for an effective auditing over the application of policies, regulations, and procedures approved by the Management Board, as well as ensure accuracy of information and effectiveness of preventive actions taken against risks that the bank may face.

The purpose of this control is:

- 6.3.1. To ensure consistent compliance with limits established in laws, regulations and internal policies of the bank in managing the risks that the bank faces during its activity.
- 6.3.2. To verify the presence of fixed assets and related procedures in order to minimize

- potential loss, fraud or misuse.
- 6.3.3. To ensure compliance with bank's legal obligations and decisions of the Board of Directors, in cases of capital reduction and distribution of dividends.
 - 6.3.4. To ensure compliance with standards for reports on capital adequacy, liquidity, large risks and foreign exchange positions.
 - 6.3.5. To control effectiveness of work performed by bank units in charge of protecting from, and monitoring of, market risks.
 - 6.3.6. To verify bank's financial position with regard to the Profit and Loss account.
 - 6.3.7. To ensure application of banking accounting manual procedures, compliance with international accounting standards, accuracy and completeness of accounting records, as well as availability and reliability of accounting information.
 - 6.3.8. To control application of policies approved by the Board of Directors or the management.
 - 6.3.9. To verify that performance of banking operations, organization and internal policies are in compliance with provisions of laws and regulations presently in force, as well as with decisions and instructions issued by the leading bodies.
 - 6.3.10. To ensure immediate correction of any violations to the law, providing written information to the Governing Board and to the Bank of Albania on the violation and the respective corrective action.
 - 6.3.11. To control whether transactions performed by the bank affect adversely the regulatory limits established by the Bank of Albania, such as the capital adequacy, liquidity, large risks, assessment of loans, and computation of reserve funds, and whether they are in opposition with the Albanian fiscal laws.
- 6.4. The Audit Committee shall perform controls based on provisions of Law No. 8365, dated 02.07.1998 "On banks of the Republic of Albania".

CHAPTER IV

OTHER PROVISIONS

7. The banks and foreign bank's branches, in implementing this instruction, shall design a complete regulatory framework for the internal control within 6 months from its coming into force.
8. This instruction shall enter into force 15 days following its publication in the Official Bulletin of the Bank of Albania.

CHAIRMAN OF THE SUPERVISORY COUNCIL

Shkëlqim CANI

REGULATION ON THE AUTHORIZED CHARTERED AUDITORS OF BANKS

Approved with decision No.06, dated 29.01.2003 and amended with decision No.102, dated 10.12.2003 of the Supervisory Council of the Bank of Albania.

ARTICLE 1

GENERAL PROVISIONS

- 1.1 In this regulation there are defined:
- The criteria and procedures on the approval of authorized chartered auditors being appointed from banks;
 - The scope of activity; form and content of both audit and auditing' reports of banks of the authorized chartered auditors.
- 1.2 The legal foundation of this regulation is composed of: Law No. 8269, dated 23.12.1997 "On the Bank of Albania", Article 43, Letter c; Law No. 8365, dated 02.07.1998 "On the banks in the Republic of Albania", Chapter IV, " Accounts, auditing, inspection and reporting requirements" and Law No. 7638, dated 19.11.1992 "On trade companies".
- 1.3 Subject to this regulation shall be the banks and branches of foreign banks, licensed by the Bank of Albania to conduct banking activity in the Republic of Albania, which thereafter will be called "bank".
- 1.4. For the purpose of this regulation, "the auditing performed by the authorized chartered auditor" includes:
- a- the auditing of basic financial statements, that thereafter will be called "financial statements", which are prepared by the bank in accordance with "International Accounting Standards (IASs), except otherwise defined in the Law "On accounting" and in the "Bank Accounting Manual". The basic financial statements are prepared to be published for general use;
 - b- the assessment of financial statements of particular character prepared by the bank in accordance with the Bank of Albania by-laws;
 - c- the assessment of sufficiency, quality and implementation of the bank by-laws and procedures.
- 1.5¹ According to written procedures of the bank, Audit Committee chooses and proposes authorized-chartered auditor to the bank shareholders' assembly.

Audit Committee assesses the reports of authorized-chartered auditor, prepared in accordance with requirements of this regulation.

ARTICLE 2

¹ Amended by the decision No. 102, dated 10.12.2003 of the Supervisory Council of the Bank of Albania.

THE REQUIRED DOCUMENTATION

- 2.1 No later than July of every year, the bank informs the Bank of Albania on the authorized chartered auditor being selected by the bank itself, to perform the auditing of annual financial statements of the current financial year, and presents the request for approval to the Bank of Albania.
- 2.2 Bank of Albania approves the authorized-chartered auditor when the proposed candidate is an "Association of authorized-chartered auditor" being registered in the list of the Institute of Authorized Chartered Experts (IACE), and when the requirements of this regulation are met.
- 2.3 For the approval of the authorized-chartered auditor, the bank presents to the Bank of Albania, the following documentation:
- the decision of the bank shareholders' assembly or of the organ which has been delegated this right, for the nomination of the authorized-chartered auditor;
 - auditing program;
 - a commitment letter presented by the association of chartered auditors;
 - the document that certifies the association of authorized-chartered auditors is registered in the IACE's list;
 - the document from licencing authority that certifies that the association of chartered auditors has an experience not less than 5 years on the audit expertise or that the international auditing company, whom Albanian association of chartered auditors is owned (subsidiary) and is contracted by it, has an experience not less than 5 years on the audit expertise².
- 2.4 The document shall be in Albanian, in original or certified photocopies. When the documentation is in foreign language either the original or certified photocopy must be accompanied by the certified translation into Albanian.

ARTICLE 3

THE APPROVAL OR REJECTION OF THE AUTHORIZED-CHARTERED AUDITOR

- 3.1 The Bank of Albania, within one month from the date of the submission of the full documentation, being required pursuant to article 2 of this regulation approves or rejects the appointment of the authorized-chartered auditor of the bank. In case of rejection, the respective reasons will be extended in written form.
- 3.2 In case the presented documentation is incomplete, the Bank of Albania informs the bank within 10 days. The bank must complete the shortages within 15 working days.
- 3.3³ The Director of the Supervision Department gives the approval of the appointment of the authorized-chartered auditor. The Administrator responsible for Supervision Department of the Bank of Albania gives the rejection of the appointment of the authorized-chartered auditor.
- 3.4 Refusal on the appointment of the authorized-chartered auditor happens, as well, when Bank of Albania estimates that the authorized-chartered auditor has not operated in accordance with or has not fulfilled sufficiently the requirements of article 4, article 5 point 5.1, article 6

² Amended by the decision No. 102, dated 10.12.2003 of the Supervisory Council of the Bank of Albania.

³ Paragraphs 3.3; 3.4 and 3.5 are amended by the decision No. 102, dated 10.12.2003 of the Supervisory Council of the Bank of Albania.

points 6.1 to 6.4 and article 7 of this regulation.

- 3.5 The authorized chartered auditor and/or the bank, in case of refusal, has the right to appeal to the Supervisory Council of the Bank of Albania. The decision of the Supervisory Council of the Bank of Albania is definitive.

ARTICLE 4

THE AUDITING OF FINANCIAL STATEMENTS

- 4.1 The authorized-chartered auditor, appointed by the Bank of Albania, audits whether the financial statements of the bank are prepared in compliance with the "International Accounting Standards", except otherwise defined in the Law "On accounting" and on the "Bank Accounting Manual".

These statements include:

- Profit and loss account (income and expenditure statement).
 - Balance – sheet
 - Capital changes report
 - Cash – flow statement
 - Notes to the financial statements
- 4.2.⁴ The auditing of financial statements, pursuant to point 4.1 of this article, is performed in compliance with the international audit standards.
- 4.3. Based on the performed examination, pursuant to the point 4.2 of this article, the authorized-chartered auditor presents an opinion, pointing out whether the financial statements present fairly, in all material respects of the assets, liabilities, capital, cash-flow, etc.
- 4.4. During the planning and the performance of financial statements auditing, the authorized chartered auditor independently decides on the way of considering each document and the business transactions, in order to give an accurate opinion on financial statements of the performed audit.

ARTICLE 5

THE OPINION OF THE AUTHORIZED CHARTERED AUDITOR

- 5.1.⁵ Based on the audit performed on the financial statements of the financial year, the authorized chartered auditor compiles the respective report on this audit, being exercised pursuant to the International Audit Standards and presents this report to the bank's management and audit committee.
- 5.2. The bank's management presents to the bank's shareholders assembly the financial statements being certified by the authorized-chartered auditor alongside with his opinion. The bank's management signs the financial statements being certified by the authorized-chartered auditor.
- 5.3. After the respective decision is taken by the shareholders' assembly, pursuant to the definition of point 5.2, the bank publishes in its official bulletin the balance-sheet, the annual financial statements and the report of the authorized-chartered auditor.
- 5.4. A copy of the official bulletin of the bank, being published pursuant to point 5.3 of this article,

⁴ Amended by the decision No. 102, dated 10.12.2003 of the Supervisory Council of the Bank of Albania

⁵ Amended by the decision No. 102, dated 10.12.2003 of the Supervisory Council of the Bank of Albania.

⁶ Amended by the decision No. 102, dated 10.12.2003 of the Supervisory Council of the Bank of Albania.

shall be delivered also to the Bank of Albania not later than 6 months from the end of reporting period.

ARTICLE 6

THE ASSESSMENT OF FINANCIAL STATEMENTS OF PARTICULAR CHARACTER

- 6.1. The authorized-chartered auditor reviews and assesses the financial statements of the bank, which show the bank financial position at the end of financial year and/or of the intermediate periods during the current year. These financial statements are compiled by the bank in accordance with the by-laws of the Bank of Albania, including the overall statements of bank's reporting system.
- 6.2. The assessment of financial statements, pursuant to point 6.1 of this article, includes:
 - a) the verification of the accuracy of statements being compiled pursuant to the by-laws of the Bank of Albania, that settle their way of compiling.
 - b) The verification of matching of the corresponding key positions on financial statements with those on financial reports, pursuant to article 4 of this regulation.
- 6.3. In cases when the authorized-chartered auditor is unable to present an assessment based on the results achieved from the inspection of financial statements, he makes comments on each statement for which he might not give a positive assessment, and presents the irregularities noted in the said financial statement.
- 6.4.⁶ The authorized-chartered auditor delivers his written assessment to the bank's management and audit committee for the assessment of financial statements being defined in this article.
- 6.5. The financial statements, being compiled in accordance with the by-laws of the Bank of Albania alongside with the report/assessment of the authorized-chartered auditor pursuant to the point 6.4 of this article, are presented by the bank's management to the Bank of Albania not later than 6 months after the end of reporting period.
- 6.6. Any financial statement of the bank will be preliminary signed by the managers of the bank.

ARTICLE 7

OTHER PROCEDURES OF AUDITING

- 7.1. The authorized-chartered auditor performs also the assessment of sufficiency and quality of both by-laws and procedures of the bank and their implementation as well. This includes the assessment of the authorized-chartered auditor for:
 - a) the organization and efficiency of the internal audit system of the bank;
 - b) the quality and implementation of the internal regulations of the bank for the administration of assets and liabilities;
 - c) the organization of information technology system and its coordination with the targets of both business and with the preservation of integrity of the data.
- 7.2.⁷ The authorized-chartered auditor requires and estimates the notifications of the Bank of Albania on special issues of the bank's activity.

⁷ Amended by the decision No. 102, dated 10.12.2003 of the Supervisory Council of the Bank of Albania.

⁸ Amended by the decision No. 102, dated 10.12.2003 of the Supervisory Council of the Bank of Albania.

- 7.3. The authorized-chartered auditor compiles a report where he expresses his own opinion and assessment on the achieved results for the organization and efficiency of the internal audit of the bank and on the quality of the bank regulations and their implementation as well. He delivers this report to the bank's management, audit committee and a copy of it to the Bank of Albania as well, not later than 6 months after the end of the reporting period.

ARTICLE 8

FINAL PROVISIONS

- 8.1. The authorized-chartered auditor of the bank, approved by the Bank of Albania, performs the auditing of the bank for a period not longer than three years following his appointment, in compliance with the provisions of this regulation.
- 8.2.⁸ Pursuant to the request of the Bank of Albania, the bank's management presents, for information, to the Bank of Albania "The management letter" that, the authorized-chartered auditor compiles for the top management of the bank. Issuance of "The management letter" is part of the engagement letter.
- 8.3. A copy of the reports of the authorized-chartered auditor, prepared according to requirements of the articles 5, 6 and 7 of this regulation and the assessments of the audit committee as well are delivered by managers of the bank to the Bank of Albania, not later than 6 months after the end of the reporting period.**
- 8.4. Representatives of the Bank of Albania (Supervision Department), the authorized-chartered auditor and the representatives of the bank, have regular periodic meetings.
- Before or after the end of the full inspection performed by the supervisors of the bank;
 - Under the circumstances when important decisions on the bank are taken.
- 8.5. The instruction "On the authorized chartered auditors of bank and foreign branches", approved by the decision No. 39, dated 16.05.2001 of the Supervisory Council of the Bank of Albania is repealed.
- 8.6. This regulation was approved by the decision No. 06, dated 29.01.2003 of the Supervision Council of the Bank of Albania and shall enter into force 15 days following its publication on the Official Gazette of the Republic of Albania.

CHAIRMAN OF THE SUPERVISORY COUNCIL

Shkëlqim CANI

GUIDELINE ON CERTIFICATE OF DEPOSITS

Approved by the Supervisory Council Decision of the Bank of Albania No.79,
dated 03.10.2001

CHAPTER 1

GENERAL PROVISIONS

1. DEFINITION

Certificates of deposits (CD) represent a special form of time deposits. They can be issued either as nominal CDs or bearer CDs.

2. ISSUERS

CDs are issued by banks and branches of foreign banks licensed by the Bank of Albania to conduct banking activity, and hereinafter will be referred to as "banks".

3. MINIMUM AMOUNT

CDs are issued in Lek, US dollar and Euro.

The minimum amount for a CD issued in Lek is 50,000 Lek.

The minimum amount for a CD issued in USD is 1,000 USD.

The minimum amount for a CD issued in Euro is 1,000 EUR.

Banks can issue CDs over the minimum amount, but these must be in multiples of 10,000 for CDs issued in Lek and multiples of 500 for CDs issued in USD and EUR.

4. TERM TO MATURITY

Term to maturity of a CD ranges from one month up to sixty months.

All CDs with a term to maturity of 1 to 12 months are considered short-term.

All CDs with a term to maturity of 12 to 36 months are considered mid-term.

All CDs with a term to maturity of 36 to 60 months are considered long-term.

5. INTEREST RATE

The interest rate can be:

- fixed (unchangeable) throughout the maturity term;
- adjustable according to some acknowledged ratings in the international interbank market;
- mixed, which is a combination of the adjustable and fixed rates.

6. INTEREST

The interest can be calculated at time of maturity and paid out at the end of the maturity term or it can be calculated in advance and paid out when the CD is issued.

7. RESERVE REQUIREMENTS

The Supervisory Council of the Bank of Albania decides the reserve requirements for a CD.

8. CIRCULATION REGIME

8.1. On the CD of bearer

- All claims on the interest and settlement of principal at the end of the maturity shall rest upon the CD bearer.
- Issuing banks formulate the internal procedures in order to establish the forms, features, denomination, type, size, the size of multiples, settlement of CDs and in particular, the internal procedures on the circulation regime and client information on the CD of the bearer.

9. RESTRICTIONS

Under no circumstances will the issuing bank liquidate the CD prior to its maturity date. The issuing bank assists its client or the owner of the CD in liquidating the CD before maturity by:

- finding a new client who is ready and willing to purchase the CD at hand;
- finding a bank with which it has a mutual understanding about the early liquidation of a CD, issued respectively by the banks.

In every case CDs are entered into books the issuing bank, which should settle the principal and interest duly.

CHAPTER 2

ACCOUNTING IN RELATION TO CERTIFICATES OF DEPOSIT

1. CHART OF ACCOUNTS

CD^s are classified in Class "Operations with clients", section 27 "Obligations to clients on current accounts and deposits", and group 274 "Certificates of Deposits" in the chart of accounts.

The Structure of group 274 is presented as follows:

- 2741. Nominal Certificate of Deposits.
 - 27411. Households.
 - 27412. Private commercial and industrial units.
 - 27413. Public commercial and industrial units.
 - 27414. Bank employees.
 - 27415. Other clients.
 - 27419. Accrued interest.
- 2742. Bearer's Certificate of Deposit.
 - 27421. Principal.
 - 27429. Accrued interest.

2. ACCOUNT RECORDING ASSESSMENT

All nominal CDs are recorded in the account 2741, whereas the CDs of the bearer are registered in the account 2742.

CD^s calculated at time of maturity are assessed with the nominal value of the principal and are

registered in the respective sub-accounts (27411, 27412, 27413, 27414, 27415, 27421).

The calculated interest is assessed as "*prorata temporis*" and registered in the respective accounts (27419, 27429).

CDs calculated in advance are assessed with the price (the spread between the nominal value the pre-paid interest) and are recorded in the respective accounts (27411, 27412, 27413, 27414, 27415, 27421).

The accrued interest is assessed "*prorata temporis*" and recorded in the respective sub-accounts (27419, 27429).

CHAIRMAN OF THE SUPERVISORY COUNCIL

Shkëlqim CANI

DECISION
NO. 26, DATED 29.03.2000
ON
EXEMPTION OF SOME ENTITIES FROM THE
REQUIREMENTS OF THE PROVISIONS OF LAW NR. 8365,
DATED 02.07.1998
“ON BANKS IN THE REPUBLIC OF ALBANIA”,
PURSUANT TO ARTICLE 1, POINT 2 OF THIS LAW

The Supervisory Council of the Bank of Albania, following a proposal by the Supervision Department of the Bank of Albania, and pursuant to Article 1, point 2 of the Law No. 8365, dated 02.07.1998 “On banks in the Republic of Albania”,

D E C I D E D :

1. To exempt from the requirements of the provisions defined in the Law “On banks in the Republic of Albania”, those entities that perform lending activities, whose financial sources originate from international organizations or governments of foreign countries in the form of grants to develop small and medium businesses in the Republic of Albania, which do not perform deposit collection activities.
2. These entities are obliged to report to the Bank of Albania according to the approved reporting system.
3. The Supervision Department is in charge to implement this Decision.
4. The Department of Research and Publications is in charge to publish this Decision.
5. This Decision shall enter into force 15 days following its publication in the Official Bulletin of the Bank of Albania.

SECRETARY

Ylli MEMISHA

CHAIRMAN OF THE SUPERVISORY COUNCIL

Shkëlqim CANI

REGULATION

ON MONEY LAUNDERING PREVENTION

Approved by the Supervisory Council Decision No. 10, dated 25.02.2004

GENERAL PROVISIONS

Article 1

This regulation is issued in conformity with Article No. 43 (c) of Law No. 8296, dated 23.12.1997 "On the Bank of Albania", Article 24 of Law No. 8365, dated 2.7.1998 "On Banking Law in the Republic of Albania", and Law No. 8610, dated 17.5.2000 "On Money Laundering Prevention", amended by Law No. 9084, dated 19.06.2003 "On some additions and changes in the Law No. 8610, dated 17.05.2000 'On Money Laundering Prevention'" (hereafter, Law "On Money Laundering Prevention").

Article 2

Subject to this regulation shall be all the entities licensed by the Bank of Albania based on the Law "On Banking Law in the Republic of Albania", hereafter being referred to as "the banks".

For the purpose of this regulation the terms shall have the following meanings:

- "Responsible Authority" is the General Directorate for Preventing Money Laundering in the Ministry of Finance;
- "Customers" include all the physical and juridical persons, and individuals that have performed at least one transaction with the bank.

Article 3

The object of this regulation is to prevent the banks from being used for the purpose of money laundering and financing of terrorism, and also to support the prevention of criminal activities in the economic and financial field.

Money laundering and financing of terrorism can inflict damage upon the reputation of the bank in particular and of the banking system in general. To avoid such consequences, it is essential that the banks apply on a continuous basis the highest standards of prevention and detection.

IDENTIFICATION PROCEDURES

Article 4

- 4.1 To support the prevention of money laundering and the financing of terrorism, it is essential that the banks know their customers. This concept of "Know Your Customer" includes a thorough and formal procedure for the identification and understanding by the bank of the normal business to be conducted by the customer.
- 4.2 Banks are required to carry out the identification procedures in accordance with Article 4 of Law "On Money Laundering Prevention". Full and accurate identification of the customer shall be the responsibility and obligation of the bank. The bank may require additional information

to identify the customer, if necessary. The bank shall identify the customer:

- a. when he opens an account;
 - b. when he performs a transaction with the bank over the limit defined by the law;
 - c. when he performs a transaction with the bank below the limit defined by the law but the bank finds the transaction suspicious.
- 4.3. When a person (individual) is not customer of the bank, but goes to it for the first time, and wants to open a bank account, the bank makes the identification of that person through the submitted documentation, which should be legally recognized and in case of any suspicion, verifies it previously, being confronted with another document, for example: another banking document, bankbook, driving license, etc., or with any public register, regardless the transaction amount.
- 4.4. When an individual is not customer of the bank, but goes to it for the first time, and applies to perform a single transaction (occasional) through it, the bank makes the identification of the individual as provided in Paragraph 4.3, if the transaction amount exceeds LEK 2 million, or when the individual's transaction is one of a series of transactions which in aggregate exceed LEK 2 million.
- 4.5. The Bank is required to apply the procedures on recording, identifying, verifying and reporting of customer's transactions pursuant to its internal regulations that are compiled in compliance with this regulation and with the instructions issued by the Ministry of Finance, the Responsible Authority, for the implementation of the Law "On Money Laundering Prevention", being approved by the bank's Executive Board.
- The internal procedures of the bank, being approved by the respective decision-making authorities, define the required documents for identification of the customer and for recording of the data on his financial transactions, when opening an account and when performing transactions with the bank.
- 4.6. The bank makes the identification of the customer on the basis of the legally recognized official documents. The documents are submitted in original to the bank. The bank photocopies them and keeps in the customer's file their photocopies being sealed by it.
- 4.7. The bank is not allowed to open anonymous accounts, being either numbered or of fictitious names of the customers.
- 4.8. The opening of an electronic banking account (e-banking account) is performed only in the physical presence of the customer, to fully identify the latter. All the operations of the customer through this account are subject to the requirements of point 4.3 of this regulation.
- 4.9. In case of customer's representation with a legal representative (legal authorization), banks require data on the identification of the legal representative as they do for any common case, as well as its authorization to act on behalf and on the account of the customer. Banks keep a photocopy of the authorization. In this case, banks are not allowed to open an account without the physical presence of the person ordering its opening, while the other operations are performed by the legal representative.
- 4.10. For customers who have already an account or other ongoing relationships with the bank, the bank is required pursuant to its internal policy to update the validity of identification data of the customer periodically, and immediately in case they deem that conditions of its customers have changed.
- 4.11. For the identification of the customer as a juridical person, who goes to the bank for the first time, banks require, at a minimum, information based on the following documents to identify the customer:

- a. the court registration act and chart of the juridical person;
- b. the list of the shareholders with significant interests;
- c. the list of the executive directors;
- d. the list of the persons who act on the account of the juridical person, if they are different;
- e. the permission to conduct business activity from the respective authorities.

At the moment of the opening account, the bank makes the identification of the executive directors of the juridical person, according to the provisions of Point "a", Article 4 of the Law "On Money Laundering Prevention".

- 4.12 In case the person does not meet the bank's requirements on identification, the bank rejects the opening of customer's account and shall not enter into a business relationship with him until the identification requirements have been fully met. The bank shall notify the Responsible Authority pursuant to the case.
- 4.13 If the bank either observes or proves the fictive identity even after a transaction is done, it immediately interrupts any transaction with the customer and notifies the Responsible Authority.
- 4.14 Banks do not execute financial transactions if the customer refuses to declare the source of the transaction amount for the values established by law and/or the identity of beneficiary.

REGISTRATION PROCEDURES

Article 5

- 5.1 The bank shall record data and details about every customer who performs financial transactions on his own behalf or on behalf of third parties, at an amount exceeding Lek 2 million, or its equivalent in foreign currency.

The bank shall record data and report to the Responsible Authority on every financial transaction even below the value mentioned above, if the bank has reason to believe or suspects that a transaction may involve money laundering or the financing of terrorism. The information collected and retained about the transaction should contain sufficient details to allow the authority to establish the full circumstances of the transaction. The bank through the customer's identification should retain the information regarding such suspicious transaction.

Data recording is made pursuant to the requirements established by the Responsible Authority.

- 5.2 The bank has the right to ask for clarifications and make verifications about every transaction in order to find out the source of the money used for the transaction and the beneficiary of the transaction. The bank must keep a record of the known facts.

DEADLINE FOR KEEPING DOCUMENTATION

Article 6

- 6.1 The bank shall keep and preserve the documentation presented for the customer's identification since the opening of the account and including all subsequent transactions, for a period not less than five years from the day the customer interrupts the relationship with the bank (account

- closure).
- 6.2 The bank shall keep the records of data and the documentation about each transaction, including the customer's data, independently of the fact the transaction is performed either on his own behalf or on behalf of third parties, for all transactions at an amount exceeding Lek 2 million, or its equivalent in foreign currency, together with all the supporting documentation, for a period not less than five years from the date of the transaction.
- 6.3 The bank shall keep the records of data and the documentation about each transaction, including the customer's data, independently of the fact the transaction is performed either on his own behalf or on behalf of third parties, for the amounts below Lek 2 million, or the equivalent in foreign currency, together with all the supporting documentation, for a period not less than five years from the date of the transaction, when there are suspicious elements on which the bank has reported to the Responsible Authority.

REPORTING TO RESPONSIBLE AUTHORITY

Article 7

- 7.1. Banks are required to compile their internal procedures for reporting the suspicious transactions to the Responsible Authority.
- 7.2. When a bank is requested, either by a customer with an account relationship or an occasional customer, to carry out a transaction and the bank has reason to believe or suspects that the transaction may involve money laundering or the financing of terrorism, it shall immediately report the matter to the Responsible Authority, pursuant to the procedures established throughout the internal guidelines of the bank and seek guidance as to whether proceed with the transaction or not.
- The bank shall refuse to proceed with the transaction, if the Responsible Authority so instructs.
- 7.3 In any case when the bank has reason to believe or suspects that a transaction may involve money laundering or the financing of terrorism, it should retain all records of the case and report it in writing as soon as possible, but not later than 72 hours, to the Responsible Authority, in accordance with the procedures set out by this Authority. A copy of the suspicious transaction report should be sent to the Bank of Albania (Supervision Department), for information.
- 7.4 Banks should immediately inform the Responsible Authority in every case when they have information or suspicions that a transaction has as its source, derives from, or is used, or is intended to be used to foster support, facilitate, protect, incite, or hide terrorist acts or the financing of terrorism or the perpetration of criminal activities in the economic and financial field.
- 7.5 Banks do not perform any financial transactions when there are reasons or facts to believe that they are related with money laundering. Banks in these cases shall immediately inform the Responsible Authority and about every case, not later than 72 hours.
- 7.6 Banks are required to develop internal procedures for dealing with suspicious transactions. The responsible officials in the head offices, branch offices, and agencies shall examine the known case announced from an employee who has identified a suspicious transaction and, if they find it substantiated, they notify the Responsible Authority in the Ministry of Finance as soon as possible, but not later than 72 hours after the suspicious transaction has been identified, in accordance with the relevant procedures laid down by the Responsible Authority.

- 7.7 The bank shall also retain any additional information to be reported to the Responsible Authority, which is provided only by the authorized administrators of the bank.
- 7.8 Banks shall report to the Responsible Authority about all cases of one or several financial transactions in cash and/or transfer of funds for the amounts greater than Lek 20 million, or their equivalent in foreign currency, in compliance with the "reporting form" compiled by the Responsible Authority.
- 7.9 Banks, when receiving electronic transfers, should provide information on the sender of the money (name, address and the account number). In case this information is not complete, they shall inform the Responsible Authority.
- 7.10 Banks shall inform the Responsible Authority on all suspicious money laundering cases and on the transactions over the amounts specified in Paragraph 2 of Article 5 of the Law "On Money Laundering Prevention" and its amendments on the banking activities presented in the Annex 2 of this regulation.
- 7.11 The bank should have adequate policies and procedures pertinent to any specific risk associated with the business transactions and relations that are carried out in the absence of the customer or his representative.

RELEVANT BANKING STRUCTURES AND RESPONSIBILITIES

Article 8

- 8.1 Banks are required to set up the necessary structure and infrastructure for the prevention of their use as a way of money laundering, deriving from illegal activities, in accordance with Article 7 of Law "On Money Laundering Prevention".
- 8.2 Banks are required to establish an internal procedure on identifying and signaling the suspicious transactions, being formalized in its internal regulations and approved by the Board of Directors. This written procedure must be distributed to all relevant staff.
- 8.3 The bank branches operating in the Republic of Albania shall record all the financial transactions of each customer for the amounts greater than Lek 2 million, or its equivalent in foreign currency. Meanwhile the Head Office keeps all the reports presented by the branches of the bank as well as the summarized data about its whole network throughout Albania.
- 8.4 Banks shall compile their internal policies and procedures on the prevention of money laundering, as well as an annual training program for their employees on this issue. Copies of these documents, as well as their subsequent changes, are submitted to the Bank of Albania, immediately after their approval.
- 8.5 Banks must periodically inform their employees about any change of the legal procedures on the punishment of the criminal act of money laundering, as well as on their obligations to apply these changes.

Article 9

- 9.1 The bank shall assign a person or persons responsible for ensuring that the bank's obligations for combating money laundering and the financing of terrorism are fully met. These responsible persons should be empowered of both sufficient authority and required experience to effectively carry out this duty. The responsible persons should maintain regular contacts with the

- Responsible Authority and the Bank of Albania.
- 9.2 Banks shall inform the Responsible Authority and the Bank of Albania on the name of the contact person, responsible for reporting, being committed to the implementation of the bank's obligation to combat money laundering and the financing of terrorism.

Article 10

The bank shall establish and maintain a database on its customers, providing information about their economic and financial characteristics, to help its employees to assess and identify transactions that are potentially linked with illegal activities.

Article 11

- 11.1 The bank shall be attentive to cases when certain branches demand cash supply, or cases of cash transactions exceeding by a big difference the usual demands on the basis of the characteristics of the area and local customers.
- 11.2 The banks shall draw up policies aimed at increasing the volume of transactions through account operations and the introduction of new banking products, such as payment instruments, which increase the interest of the public to become bank customers and perform their operations through banks. The target is cash reduction.

Article 12

The bank's employees are obliged to keep the confidentiality of the reporting process related with the money laundering and the financing of terrorism, and are prohibited to inform the customer on the verification procedures of the suspicious case and on the report intended to the Responsible Authority.

SUPERVISORY REQUIREMENTS

Article 13

- 13.1 The Bank of Albania, in exercising its role of banking system supervision, shall monitor the implementation of Law "On Money Laundering Prevention" and of this regulation as well.
- 13.2 The Bank of Albania shall report to the Responsible Authority on the cases that it considers suspicious during the banking supervision process.
- 13.3 The Bank of Albania shall assess the adequacy of the bank's programs and that of the internal control system for money laundering prevention.

Article 14

- 14.1 For all the violations identified from the Bank of Albania, which are subject to sanctions and disciplinary measures by the Responsible Authority, the Bank of Albania reports to the latter and submits the full documentation of violation ascertainment. It might inform the Responsible Authority at the moment of the violation ascertainment and then act together.
- 14.2 For all the violations identified from the Bank of Albania, in case they are not subject to

punishment or disciplinary measures by the Responsible Authority, the Bank of Albania applies punishments or disciplinary measures in compliance with Article 44, of Law No. 8365, dated 02.07.1998 "On Banking Law in the Republic of Albania".

- 14.3 The Bank of Albania selects and appoints the receiver of the bank and revokes its license in case there are reliable facts that the bank's administrators are involved in illegal transactions, such as money laundering and/or the financing of terrorism, have committed grave fraudulent acts or have personally benefited and caused considerable damages either to the bank or to third parties.

Article 15

The Guideline "On Money Laundering Prevention" issued with decision of the Supervisory Council No. 102, dated 29.12.2001, is abrogated and superseded by this Regulation.

Article 16

This Regulation, including the Annexes 1 and 2 hereto attached, is approved by the decision of the Supervisory Council No. 10, dated 25.02.2004, and shall enter into force 15 days following their publication in the Official Gazette of the Republic of Albania.

Shkëlqim Cani
CHAIRMAN OF THE SUPERVISORY COUNCIL

ANNEX 1

SUSPICIOUS TRANSACTIONS

The banks shall make a full analysis of all available information and assess the operations to check whether there is a need for signaling to the Responsible Authority an account or transaction as being suspicious. The assessment is made on the basis of the analysis of data, which to a professionally prudential entity should give rise to a doubt about the illegal origin of the money, wealth, or material assets, which are object of the operation, or of their use to support, incite, or hide terrorist acts or the financing of terrorism.

The operations, which display objective anomalies, might ultimately prove to be justified and unsuspecting if assessed in the light of the data possessed by the bank.

The following list comprises a number of operations with which the banks should deal, as they might result suspicious operations. However, it is not a final list and should be used only for guidance.

1. Anomaly indicators in operations carried out in all banks
 - 1.1 Operations, which in connection with the entity executing them, consist in an unusual amount or are economically unjustifiable.
 - 1.2 Operations of the same nature, repeatedly carried out at the same branch or agency in a such a way that lead to suspicions about illegal targets.
 - 1.3 Operations carried out continuously on behalf of the third parties that never appear personally at the bank, when such operations do not derive from evident operational or organizational request of the customer, and, especially when justifications and pretexts which cannot be checked (for instance, illness, business commitments, etc.) are brought forward for consideration.
 - 1.4 Operations, whose data are clearly inaccurate or incomplete, or such that lead to suspicions about deliberate hiding of essential information, particularly pertaining to the entities interested in the operation.
 - 1.5 Operations with bank related persons.
 - 1.6 Complex, unusual and huge amount transactions.
 - 1.7 Transactions with foreign banks in the countries of banking or financial paradise, with countries that allow the opening of anonymous accounts or whose legislation does not either consider or classify the penal act from which the money or wealth have generated as a penal act for money laundering.
 - 1.8 Transactions with companies known as "Offshore", with persons being implicated in the announced lists as financiers of terrorism, with companies and persons involved in financial scandals or other grave crimes.
2. Anomaly indicators in cash operations
 - 2.1 Demands, which are frequently made, and for big amounts of checks against cash payments.
 - 2.2 Withdrawals or payments of huge amounts in cash that the customer's activity is unable to motivate (particularly when the paid amounts are transferred after a short lapse of time or with data and destinations that are not associated with the customer's normal activity).
 - 2.3 The frequent use of huge amounts in cash to effect payment orders (on behalf of third parties), without acceptable reasons associated with the customer's normal activity, particularly when the transaction is performed abroad.
 - 2.4 Frequent payments in cash made in such way that the amount of specific operations does not attract attention, while the total amount results to be considerable (for instance, separate payments into several accounts).
 - 2.5 Operations of cash payments and withdrawals, which are different from the instruments and means of payment that are usually used in the economic activity conducted by the customer.

- 2.6 Frequent operations of cash foreign exchange, in other currencies for considerable amounts, particularly if they are not performed through the current account.
 - 2.7 Exchanges of a considerable amount of banknotes or coins with banknotes or coins of a different denomination.
 - 2.8 Frequent purchases of huge amounts of coins and banknotes with commemorative values for numismatic purposes.
 - 2.9. Buying and selling of the winning tickets of bets, lotteries, casinos tickets, sport lotteries, etc.
 - 2.10. Buying and selling of properties (houses, cars, equipments, etc.) registered over the real market value.
 - 2.11 The banks should also pay particular attention to the transactions and/or remittances of physical money and to equivalent instruments among financial institutions, or to transactions among financial groups, and the transactions related to tax authorities.
3. Indicators of anomaly in securities operations
- 3.1 The purchase and/or deposit of huge amounts of securities, when this does not comply with the financial condition of the customer.
 - 3.2 Cash collection or depositing — even with credible guarantees — of considerable amounts of domestic and foreign securities, particularly if their spread is limited, when the operation does not appear normal in view of the customer's characteristics, or when no acceptable justifications are given on the origin.
 - 3.3 The negotiation of securities for cash collection or the purchase of other securities (shares, bonds, public securities, etc.) and the operation is not performed through the current account used by the customer.
4. Anomaly indicators in foreign transactions
- 4.1 The transfers, including the electronic ones, of huge amounts to or from other countries through cash payment order, especially when not being channeled through an account or when the characteristics of the operation, including the foreign country of the origin or destination of the amounts, are not justified by the economic business conducted by the customer, or other circumstances.
 - 4.2 Operations with local offices or branches of the financial institutions located in the vicinity of geographic areas known as areas of drug trafficking or as "offshore centers", and which are not justified by the economic business conducted by the customer.
 - 4.3 The use of other trade financing systems to transfer amounts among countries and the relevant transaction is not justified by the usual economic business conducted by the customer.
 - 4.4 Frequent payments of traveler's checks, securities, or other financial instruments in foreign currency, without reasonable justification.
 - 4.5 Several transfers to a specific destination, various transfers to a common beneficiary, regardless of the amount.
5. Anomaly indicators in operations and other services
- 5.1 The repeated use of security containers or storage services, or frequent deposits and withdrawals of sealed packages, that are not justified by the usual business conducted by the customer.
 - 5.2 Authorizing the third parties to operate with the security containers in cases when this third party does not belong to the immediate family of the holder, or is not related with them on basis of cooperation or other kind of relationship, which would have justified this authorization.
 - 5.3 Giving the guarantees by the third parties, who are not bank customers, to which insufficient data are provided about the relationship with the beneficiary customer, or reasons that justify the release of such a guarantee.

- 5.4 Buying or selling huge amounts of currencies, precious metals, or other assets without evident justification and/or in accordance with the customer's financial condition.
 - 5.5 The request, which a customer presents to the bank, to provide financing to another legal person, to whom the customer offers a real guarantee (for instance, real estate or securities) in case the relations between the given customer and the other legal persona are not justifiable.
6. Anomaly indicators in account history
- 6.1 Accounts, which are not used for normal personal operations or related economic activities but to withdraw or pay considerable amounts, which on the basis of available elements are not justified or connected with the account holder and/or his activity.
 - 6.2 Accounts, which have been passive for a long time or have been little active and, which, without reasonable justification, are reactivated with operations in huge amounts, or which have short time ago received, all of a sudden, huge amounts of crediting, especially if they come from abroad.
 - 6.3 Accounts, which present a very high active surplus that does not comply with the usual transactions of the customer, especially if it is transferred to an account abroad.
 - 6.4 Accounts, which include a big number of payments for amounts obtained without reasonable justification.
 - 6.5 Accounts, which include transactions that are not justified by the customer's activity (for instance, frequent payments of checks — particularly when they contain repetitive elements — by a legal person, who is not engaged in financing activity).
 - 6.6 Economically abnormal structuring of the relationship, which the customer has with the bank, for instance, many unjustified accounts opened with the same bank, frequent transfers of amounts through different accounts, or balancing, within a short period of time, cash payments with withdrawals in the same account or deposit, voluntary acceptance of unfavorable terms and conditions, which do not concur with those on the market.
 - 6.7 The customer might open several accounts and effect frequent transfers of funds through them.
7. Anomaly indicators in customer's behavior
- 7.1. Customers, who seek to restructure the transaction when the presented configuration since the beginning implies types of identification and recording, or completeness of investigations or verifications from the mediator's personnel, or the adoption of the restrictive clauses on the freedom of titles circulation (for example, the reduction of the transaction value to lower than Lek 2 million, or its equivalent in foreign currencies, to avoid identification).
 - 7.2 Customers, who refuse, or who without justification hesitate to provide information about the transactions, declare their activities, submit the accounting documentation or other documents, report on the relations with the other banks, and present information, which under other circumstances, would make the customer suitable to obtain the credit or other bank services.
 - 7.3 Customers in economic difficulties, who, suddenly, seek to partially or fully pay their obligations through sudden payments of big amounts, without evident justification and without identifying the origin of the funds.
 - 7.4 Customers, who avoid direct contacts with the bank's personnel, by issuing power of attorney to third parties, frequently and unjustifiably.
 - 7.5 Customers, who without any justification, have numerous accounts and carry out transactions of huge amounts in cash through each of them or are found to have, without acceptable reasons, accounts opened with many financial institutions in the same area.
 - 7.6 Customers, who, without reasonable justification, go to a bank office, which is far away from the area in which they live or conduct their business activity.
 - 7.7 Customers, who insist to keep accounts, which appear to be administrated by third parties, (for instance, accounts which disclose transactions that are not related to

- the activity of the account holder or at an amount, which does not correspond to the volume of his business, or accounts nominated in favor of administrators, subordinates, or customers, used by companies or entities to perform payments or withdrawals in cash, or through other financial instruments).
- 7.8 Customers or their representatives, who submit identity documents of suspicious origin.
 - 7.9 Customers, who are publicly known to have a criminal record.
 - 7.10 Customers, who give the address of a third person as their own address.
 - 7.11 Customers, who carry out transactions with unusual partners.
 - 7.12 Failure of the non-residents to justify their transactions with bank accounts by submitting the relevant documentation.
8. Anomalies in operations of physical persons with government securities
- 8.1 Frequent purchases of considerable amounts of government securities.
 - 8.2 Transfers of higher value than usually, more frequent or not typical of government securities obtained through the Bank of Albania and made by one or more physical persons.
 - 8.3 Purchase and immediate offer for sale before maturity of government securities, obtained through the Bank of Albania, in big amounts and under circumstances which do not appear to be usual compared to the normal way this activity takes place.
 - 8.4 Abnormal trading of government securities in big amounts and repetitively on behalf and with the expenditure of a third party, by submitting a power of attorney, or on behalf of the persons under 18.
9. Money laundering through involvement of bank's employees
- 9.1 A big, unmotivated change in the living conditions of a bank employee: a sudden change to a luxury lifestyle.
 - 9.2 A change in performing the duties, such as the immediate increase of the size of cash transactions.
10. Transactions of foreign exchange bureaus
- 10.1 In the international practice, the foreign exchange bureaus are being increasingly used for money laundering, as it is difficult to identify on basis of the transactions these bureaus perform the source and the origin of the exchanged money.
 - 10.2 The existence of the informal market facilitates irregular transactions.

ANNEX 2

List of transactions

- a) Transactions of capital account:
 - i) direct investments
 - ii) securities operations
 - iii) credit transactions
 - iv) interbank deposits transactions
 - v) security transactions abroad and out of the jurisdiction of the Republic of Albania, when these operations are allowed from the Albanian legislation.

- b) Capital transfer from abroad into the territory of the Republic of Albania.
- c) Capital transfer from the territory of the Republic of Albania abroad.
- d) Current transactions.
- e) One side capital transfers:
 - i) personal assets transfers
 - ii) physical assets transfers

- f) Non-residents securities investments.
- g) Residents accounts abroad.
- h) Non-residents accounts.
- i) Transactions of payments abroad.

GUIDELINE ON CONSERVATORSHIP AND RECEIVERSHIP

Approved by Supervisory Council Decision of the Bank of Albania No. 45, dated
12.06.2002

GENERAL PROVISIONS

1. This guideline is issued pursuant to the Law no.8269 dated 23.12.1997, article 12, paragraph a, and the Law no. 8365, dated 02.07.1998, article 1 and Chapter VIII.
2. The purpose of this guideline is to establish rules, procedures and obligations for the parties when a bank is on temporary administration, conservatorship or receivership.
3. The following terms shall have the following meanings:
 - **"Bank"** – juridical person licensed by the Bank of Albania to engage in banking business.
 - **"Conservatorship"** – taking possession and control of the bank because of evidenced circumstances defined in Article 48 of the Law "On banks in the Republic of Albania".
 - **"Conservator"**- a person appointed by Bank of Albania to take possession and control of the bank because of evidenced circumstances defined in Article 48 of the Law "On banks in the Republic of Albania".
 - **"Receivership"** – forced liquidation decided by Bank of Albania pursuant to respective provisions of the Law "On banks in the Republic of Albania"
 - **"Receiver"**- the person appointed by Bank of Albania to take possession and control of the bank and to carry out the process of liquidation decided by Bank of Albania pursuant to respective provisions of the Law "On banks in the Republic of Albania"

CONSERVATORSHIP

4. The Governor of the Bank of Albania takes the decision to put the bank under conservatorship when:
 - The ratio of bank's regulatory capital to its risk - weighted assets and off - balance sheet items is less than 50 percent of the required minimum ratio of capital adequacy and no improvements occur after the expiration of the term determined by Bank of Albania.
5. The aim of the conservatorship is to return the bank in normal conditions and the capital adequacy ratio not to be inferior to the required minimum determined by Bank of Albania.
6. The conservator appointed by the Governor have all the powers of the administrators, executive directors and officers of the bank, pursuant to the authority given by Bank of Albania.
7. The conservator is subject to rules and regulations issued by Bank of Albania.
8. The conservator, within 30 days from his appointment, takes possession of all the assets, properties and archive documents of the bank. Responsible people, managers and suspended officers of the bank and the conservator sign the report of delivery.
9. After the appointment, the conservator promptly takes all the necessary actions for the safety of bank assets, which at least should be the follows:
 - Change the rules of entering the building of the bank and the areas where the valuables, documentation, information, furniture, etc, are stored via changing locking devices and limiting the number of the persons that have access in those areas;

- Change passwords or create new ones for the computers of the bank allowing the access only for a limited number of trusted people;
 - Issue new access cards for authorized officers on some areas of the bank and control the movements of other officers on those areas;
 - Suspend the competence of the individuals that can act on the behalf of the bank and authorize a limited number of officers for this purpose; notify third parties of these changes;
 - Inform correspondent banks, registers, securities agents and persons that manage assets on the behalf of the bank under conservatorship that all the authorizations given by the bank until his appointment are suspended and the new authorizations will be given to a limited number of persons, whose identity will be made known;
 - Stop the payments of dividends or other forms of capital distribution for the shareholders and the payments for the administrators, except the payments for their services at the bank.
10. The conservator has the following tasks:
- a) organize the work and return the bank to normal conditions. For this purpose he:
 - makes the reclassification of asset quality,
 - concentrate the bank's activity in low risk transactions (treasury bills purchase or other securities with 0 risk), placements on banks with excellent or very good evaluation from international rating agencies and other activities similar to these,
 - evidence non-performing assets, among those evidences non-performing loans and takes actions for their legal reimbursement;
 - b) design a plan for bank's recapitalization after separating non-performing assets and present the plan to the supervisory authority;
 - c) negotiate together with the shareholders the possibility of merging with another bank or sell the recapitalized bank;
 - d) If the application of a) and c) items is not possible, the conservator proposes to the Bank of Albania to commence receivership procedures.
11. During the period of conservatorship, all the transactions that do not have the authorization of the conservator shall be void and of no effect.
12. The conservatorship shall cease at the expiration of 12-month term from the date specified in the decision ordering the conservatorship, and when the Governor of Bank of Albania decides so:
- upon the recommendation of the supervisory group that the bank can operate normally;
 - upon the decision of Supervisory Council to liquidate the bank revoking its license.

RECEIVERSHIP

13. Supervisory Council decides to put under receivership and to revoke the license of the bank when one or more of the following circumstances exists:
- The court has decided for the liquidation of the bank after a lawsuit of bank creditors was presented, pursuant to Article 51 (c) of "On banks in the Republic of Albania" (forced liquidation).
 - The Supervisory Council of the Bank of Albania decides so based on "On banks in the Republic of Albania", Articles 44, paragraph 2/g and Article 51, paragraph 1 (forced liquidation).
14. The appointed receiver follows these steps:
- a) Make the evaluation of the bank by a certified public accountant, approved also by Bank of Albania;
 - b) Design the program for the implementation of the receivership process.
15. The receiver, within 30 days from his appointment, takes possession of all assets, properties

- and archive documents of the bank and sends a copy to the Bank of Albania. Responsible people, administrators and suspended officers of the bank and the receiver sign the report of delivery.
16. After the appointment, the receiver promptly takes all the necessary actions for the safety of bank assets, which at least should be as follows:
 - Change the rules of entering the building of the bank and the areas where the valuables, documentation, information, furniture, etc, are stored via changing locking devices and limiting the number of the persons that have access in those areas;
 - Change passwords or creates new ones for the computers of the bank allowing the access only for a limited number of trusted people;
 - Issue new access cards for authorized officers on some of the bank areas and control the movements of other officers on those areas;
 - Suspend the competence of the individuals that can act on the behalf of the bank and authorize a limited number of officers for this purpose; notify third parties of these changes;
 - Inform correspondent banks, registers, securities agents and the persons that manage the assets on the behalf of the bank under receivership that all the authorizations given by the bank until his appointment are suspended and the new authorizations will be given to a limited number of persons, whose identity will be made known;
 - Stop the payments of dividends or other forms of capital distribution for the shareholders, payments for the administrators, except the payments for their services at the bank.
 - Put in the bank the notification "On receivership".
 17. The receiver on the process of receivership has the following tasks:
 - Provide the sale of bank assets with the best price possible through auction or tender procedures;
 - Provide that resident and non-resident creditors which are similarly situated are treated in the same manner;
 - Prevent the untimely payment of creditors;
 - Provide transparent procedures while collecting and distributing information;
 - Acknowledge the rights of the creditors and to respect the priorities;
 - Design procedures for insolvency abroad and to acknowledge the procedures of that country;
 - Provide quick and efficient liquidation of the bank, covering the maximum of claims.
 18. The receiver is vested with full power of administration, management and control of the bank.
 19. The Governor of Bank of Albania, pursuant to the provisions of article 55, paragraph 1 of "On banks in the Republic of Albania" approves or refuses the request of the receiver for:
 - 19.1. the sale of any asset of the bank having a value that exceeds 1 percent of total assets;
 - 19.2. the creation of a security interest in any asset of the bank in favor of a creditor who extends new credit to the institution in an amount that exceeds 50 million lek;
 - 19.3. the compromise of any claim if its amount exceeds 50 million lek;
 - 19.4. the release of any claim if its amount exceeds 5 million lek, according to the criterions determined by the Governor of Bank of Albania;
 - 19.5. the payment of any claim in which case all depositors and creditors who are similarly situated shall be treated in the same manner.
 20. The receiver, after 1 month from the date of the decision of receivership presents a program of steps for the process of receivership and reports at least every month in Bank of Albania, Supervision Department, about the implementation of the program or presents reasoned propositions for changes.
 21. The receiver shall report each month in Bank of Albania, Supervision Department, the asset

and liability statement and the income and expenditure statement, within 10 days from the end of the month. Such reports shall include information concerning the actions taken by the receiver, the aggregate amount of claims against the bank, the aggregate amount of assets of the bank that have been sold, and projections of future selling of assets.

TEMPORARY ADMINISTRATION

22. Pursuant to article 44, paragraph 2/f of "On banks in the Republic of Albania", the Governor of Bank of Albania can choose one of the managers of Bank of Albania to temporary take possession and control of the bank according to the modalities of conservatorship on this guideline. Temporary administration, according to this article, cannot have a longer term than 12 months. When the temporary administration terminates, new managers will take over the bank.

SUPERVISORY GROUP

23. In cases when are evidenced one or more circumstances defined in article 48 and/or 51, paragraph 1 of "On banks in the Republic of Albania", with the order of the Governor will be composed a supervisory group which will act according to Annex 1 attached to this guideline.
24. The task of the supervisory group is the supervision of the process of conservatorship of the bank and/or the procedures of receivership of the bank. The supervisory group consists of at least 5 employees of Bank of Albania, supervisors, lawyers, and officers from other departments of Bank of Albania. This group is not permanent. It will be composed case - by - case and the head of this group will be the Vice-Director of Supervisory Department.
25. The supervisory group, in cooperation with Public Relations Department of Bank of Albania, prepares an announcement for the media about the decision of Supervisory Council of Bank of Albania to revoke the license of the bank and to commence the receivership procedures. This announcement aims to:
- Assure the depositors that their deposits will be properly administrated;
 - Safeguard the credibility of all banking system;
 - Assure the public that the receivership process will be continuously supervised by Bank of Albania.
26. The supervisory group will work until the process is over (conservatorship or receivership).
27. The supervisory group, based on the information collected, prepares a material concerning the situation of the bank and presents it to the Supervisory Council of Bank of Albania with respective recommendations. The supervisory group informs every month the managers of Bank of Albania about the progress of the bank under administration or the progress of receivership process. On special cases, when deemed necessary, the supervisory group reports on shorter term to the managers of Bank of Albania.

GENERAL INFORMATION

28. The Governor of Bank of Albania chooses and appoints the conservator and the receiver. The candidate should meet the following criterions:
- a) Have a good reputation;
 - b) Have experience for a period not inferior to 5 years in one of the following sectors: banking, credit, financial, real estate and insurance financial institutions;
 - c) Have a university diploma, preferably on economics or law;
 - d) Declare that he is not subject of any of exceptions defined in Article 62, paragraph 2 of "On banks in the Republic of Albania"
 - e) Declare that he does not have a conflict of interests with the bank as Article 62,

paragraphs 4 and 5 provide.

29. Documentation required for the approval of a conservator or receiver:
- a) a notarized copy of the university diploma;
 - b) a signed CV that includes general information, permanent and temporary addresses, education, qualifications, professional experience and a detailed description of positions held by the proposed conservator, foreign languages and their proficiency;
 - c) permission document of permanent residence for foreigners;
 - d) two letters of recommendations from administrators of banks or other entities where the candidate was employed, which include assessment of the professional expertise, correctness and determination in complying with laws;
 - e) clearance certificate from the Justice Department of the Republic of Albania and good conduct certificates from the court and prosecution office, or a certificate that no legal case is opened according to Law 7905 dated 21.03.1995 "On Code of Penal Procedures of the Republic of Albania" and Law 7895, dated 27.01.1995 "On the Penal Code of the Republic of Albania"; for foreigners the clearance certificate should be issued from the country of origin;
 - f) statements of payment of personal taxes and business taxes for the business where he/she has an influencing participation for three-year period (if applicable);
 - g) personal statement that certifies that during his/her employment activities, he/she had not committed any activity that violates cases provided in "On banks in the Republic of Albania" NJo. 8365, dated 2.7.1998, Article 21, paragraph 2 and Article 6 paragraph 1/a, b and c.
30. The conservator or the receiver can be revoked or substituted by the Bank of Albania, with Governor's decision.
31. Bank of Albania, with Governor's decision may appoint as a temporary conservator one of its employees, with same competences and duties as those provided in law and guideline, as long as it choose and appoint a conservator.
32. Temporary administrator, conservator or receiver payment shall be in charge of the bank that is under temporary administration, conservatorship and receivership. Their payments will be equal with that of the general manager, based on the payment structure of the banks which is under temporary administration, conservatorship and receivership.

RECEIVERSHIP ACCOUNTING

33. In order to insure protection of interests of third persons, depositors and creditors and of shareholders, the receiver is obliged to organize documentation and registration of the actions of receivership and to prepare the balance sheet, the loss/profit account, financial statements, etc. These documents will be under the control of a certified public accountant.
34. The accounting obligations noted in different phases of receivership are:
- 1. The opening of receivership**
- Inventory.** With his appointment, receiver is obliged to make an inventory of bank assets and liabilities values. In this case he takes possession of bank's books and documents. Inventory process is an ordinary one starting from balance sheet of the bank. After finishing the inventory and registration that result from it, the receiver prepares the balance sheet of receivership that will help as a starting point for the receivership operations.
- Report of receivership.** Receiver is obliged to convene the assembly of shareholders within 6 months from his nomination. He presents to the assembly a report about the situation of the balance sheet values of bank; about the progress of the operations of receivership and a detailed plan about the process of receivership. It is not required the approval of the receivership balance by the Assembly of Shareholders.

2. Operations of receivership and annual accounts.

Within three months from the end of the fiscal period, receiver must prepare the annual accounts based on the inventory that he did for different elements of balance sheet. He prepares, as well, a written report with explanations about the operations of receivership.

Annual accounts are deposits in the ordinary form and within the deadlines defined in "Accounting Law" No. 7661, dated 19.01.1993. Annual accounts are audited and certified from the certified public accountant.

3. Closing of receivership.

When the operations of receivership have finished, the receiver prepares a final account that is audited from a certified public accountant, as well a written report.

35. The accounting registrations of receivership are mostly connected with the operations that follow:

- collections from bank's debtors;
- the sale of assets;
- payment of bank's creditors;
- receivership expenses;
- determination of receivership result;
- preparation of final receivership account

All the receivership operations are documented based on general rules. The bank in accordance with "Bank Accounting Manual" makes their registration. Characteristic of this process consists in the opening of some special accounts that will help to define the result of receivership, according to Annex 2.

LAST PROVISIONS

31. This guideline shall enter into force 15 days following the publication in Official Bulletin of the Bank of Albania.

CHAIRMAN OF THE SUPERVISORY COUNCIL

Shkëlqim CANI

ANNEX 1

ACTIONS TAKEN FOR CONSERVATORSHIP AND RECEIVERSHIP

1. A meeting is organized by the Deputy Governor responsible for Supervision Department, with the Director of Supervision Department, Head of the Inspection Section, inspector and analyst who are responsible for the bank, the examiner in-charge of the last inspection group and with representatives of Legal Section, to discuss about situation in the bank.
2. Based on the conclusions of the meeting, a memorandum is prepared where is summarized the bank's situation and reasons why conservatorship or receivership is needed.
3. Lawyers must give their opinion if the situation of the bank is one of the cases defined by "On banks in the Republic of Albania".
4. The supervisory group prepares the definitive material of the financial situation of the second-tier bank and presents it to the Supervisory Council to take a decision of conservatorship or receivership.
5. Supervisory Group proposes to the Governor of the Bank of Albania at least three candidates as conservator or receiver and his/her salary.
6. In case of bank receivership, after the Supervisory Council takes the respective decision, Bank of Albania (Legal Section) prepares a request for the Court to erase the bank from the Trade Associations Register.
7. After taking the decision by the Supervisory Council on revoking the license, Head of Inspections informs shareholders of the bank and goes in bank and takes the document of license.

ANNEX 2

Loss/Profit accounts of the receivership are analyzed as follow:

664	Expenses and losses by receivership.
6641	Losses from unsaleable assets.
6642	Book value of sold fixed assets (class5).
6643	Book value of other sold assets (class 1,2,3).
6644	Losses from differences in accounts with third parties (class 4).
6645	Asset disposal.
6646	Other receivership expenses and losses.
764	Income and profit by receivership.
7640	Income from the sale of assets.
7641	Income from fixed assets sold (class 5).
7642	Income from other assets sold (class 1,2,3).
7643	Profit from differences in accounts with third parties.
7644	Other income and profit.
7645	Reversal of anticipated amounts.

Registrations

6641 "Losses from unsaleable assets". These are assets that have an expense nature like start up expenses, development and research expenses, prepaid expenses, expenses to be amortized over years. In the case of receivership, the balances of these accounts that are not amortized must be recorded immediately in loss/profit account;

6641 Losses from unsold assets

to
5313 Start up expenses
5311 Research and development expenses
4193 Expenses to be amortized over years

Assets of the bank could be sold element per element, in groups or together. Values at prices will be registered:

111 Cash
13 (current accounts in banks, credit's institutions and other financial institutions, resident or non-resident)
to
7641 Income from fixed assets sold
7642 Income from other assets sold

In case of impossibility or other difficulties to separate the income of fixed assets from those of other assets, they could be recorded together in account 7640. "Income from assets sold".

The writing-off of book values of sold assets will be registered:

6642 Book value of fixed assets sold
to
Respective accounts of class 5

In registration of writing-offs from the accounts of book values will take into consideration the depreciation amounts of fixed assets that are recorded on account 537.

Receivership expenses of the bank will be recorded in debit of account 6646 "Other expenses and losses from receivership" and in credit of respective account depending on the nature of expense.

Asset disposals are connected with those elements of assets that don't have any use value or even with the efforts done are unsaleable. The book value of these elements will be register in debit of account 6645 "Asset disposal" and in credit of respective accounts of the 5th class. To write-off the book value of these elements from the account see the explanations given above for the sold assets. Reversal of anticipated amounts for depreciation, risks and expenses have to do with their inclusion in result. These amounts are recorded in debit of respective accounts of class 5 and in credit of account 7645. "Reversal of anticipated amounts".

Collections from debtors and creditor pay-off are based in ordinary rule. Any difference from the account with the third parties will be posted in debit of account 6644 "Losses from differences in accounts with the thirds" and in credit of account 7643 "Profit from differences of accounts with the thirds".

The final account of receivership has a balance sheet form. In assets side of the balance sheet are stated the amounts in cash and bank accounts and on the liabilities side are stated the capital, bank's reserves and the loss/profit from receivership.

Receivership result will be determined as a difference between the total amounts recorded on the credit of the accounts 7641-7645 and the total amount recorded on the debit of the accounts 6641-6646.

If the bank can not pay off all the liabilities to creditors with the income from the sale of the assets, then there is a negative receivership situation. Under this circumstances, there are no values on the assets side of the balance-sheet. Normally, the receivership result (loss) is equal to the capital amount plus the reserves so the total own funds is zero.

All the accounting assessments connected with the final result of receivership will base on the guideline No.9, Chapter IV, dated 6.05.1994 of Ministry of Finance "On Enterprise Receivership".

DECISION
NO. 58 DATED 24.07.2002
ON
APPROVING AN ADDITIONAL ACTIVITIES IN BANKING
ACTIVITIES

The Supervisory Council of the Bank of Albania, following a proposal by the Banking Supervision Department of the Bank of Albania, and pursuant to Article 43, paragraph "e" of the Law No. 8269, dated 23.12.1997 "On the Bank of Albania", as well as pursuant to Article 26, paragraph 3, letter "gj" of the Law No. 8365, dated 02.07.1998 "On banks in the Republic of Albania".

D E C I D E D :

1. The banks licensed from Bank of Albania have the right to conduct banking activity linked with precious metals.
2. The Department of Banking Supervision is in charge to implement and notify commercial banks on this Decision.
3. The Department of Research and Monetary Policy is in charge to publish this Decision.
4. This Decision shall enter into force 15 days following its publication in the Official Bulletin of the Bank of Albania.

SECRETARY
Ylli MEMISHA

CHAIRMAN OF THE SUPERVISORY COUNCIL
Shkëlqim CANI

INSTRUCTION ON REPORTING OF FOREIGN EXCHANGE TRANSACTIONS

Pursuant to Article 10 of the Regulation "On Foreign Exchange Activities" approved by Supervisory Council of the Bank of Albania with decision No. 64, dated 30.07.2003, banks, branches of foreign banks, and foreign exchange bureaus shall report on their foreign exchange activity to the Monetary Operation Department in the Bank of Albania, as follows:

1. Daily Reporting

Daily reporting shall be done every day before 3.00 p.m.

It shall include all transactions performed within the last 24 hours.

Banks shall include all transactions performed in the head office and in their branches in Tirana in this reporting.

Reporting shall be sent to the following address:

Bank of Albania
Monetary Operations Department
Sheshi "Skenderbej" No.1
Tirana

2. This Instruction was approved by the Supervisory Council of the Bank of Albania with its decision No. 69, dated 30.07.2003 and shall enter into force 15 days following its publication in the Bank of Albania Official Bulletin.

CHAIRMAN OF THE SUPERVISORY COUNCIL

Shkëlqim CANI

FORM NO. 2

DAILY REPORTING OF FOREIGN EXCHANGE TRANSACTIONS

BANK/FOREIGN EXCHANGE BUREAU.....

Date.....

Foreign Currency Exchange against foreign currency

No. (1)	Currency (2)	Foreign currency purchase (3)	Foreign currency sale (4)	Foreign currency net balance (3-4)
1.	EUR			
2.	USD			
3.	Precious metals etc.			
TOTAL: USD or EUR (choose)				

Compulsory clarifications: Transactions with: Foreign currency purchase Foreign currency sale
Banks (USD or EUR) (USD or EUR)
Foreign Exchange Bureaus
Other
TOTAL

Signature.....

REGULATION ON LICENSING OF SAVING & LOAN ASSOCIATIONS AND THEIR UNIONS

Approved by the decision of the Supervisory Council, No. 11, dated 27.02.2002,
and amended by the decision No. 09, dated 12.02.2003.

GENERAL PROVISIONS

ARTICLE 1

- 1.1. Subject to this regulation are Savings & Loans Associations and their Unions.
- 1.2.¹ This regulation establishes the terms, procedures and conditions on the approval or refusal of granting, suspending or revoking license, to carry out the operations determined in the Law No. 8782, dated 03.05.2001 "On Savings & Loans Associations", Chapter 2 "Operations", Articles 9,10,11 and 20.
- 1.3.² The legal basis of this regulation are Law No. 8269, dated 23,12,1997 "On the Bank of Albania", Law No. 8365, dated 02.07.1998 "On banks in the Republic of Albania", Article 12, Law No. 8782 , dated 03.05.2001 "On Savings & Loans Associations", Articles 20, 45, 46, 47.
- 1.4. Savings & Loans associations and their unions will be referred to as "associations" in compliance of this regulation. Terms used have the same meaning as those established in Law No. 8782, dated 03.05.2001 "On Savings & Loans Associations", Article 3 and in Law No. 8365, dated 02.07.1998, "On banks in the Republic of Albania", Article 2.

LICENSING

ARTICLE 2

Application for obtaining a license

The application from an association to obtain a license is presented to the Bank of Albania. The Head of the Board of Directors fills in the respective application according to form No. 1, table No.1/1 which is accompanied by the due following documentation:

- 2.1. A declaration of commitment to respect, throughout the operational activity, the Albanian legislation and bylaws issued by the Bank of Albania throughout the period of activity. This declaration is signed by the Head of the Board of Directors, as in form No. 1, table 1/2.
- 2.2. Decision of Registration issued by the Court of Tirana District.
- 2.3. The full documentation presented to the court, for registration purpose.
- 2.4. Information on the members of the Board of Directors as well as of the Supervisory Committee, form No.1, table 1/6.
- 2.5. An official certificate for the Head of the Board of Directors and the Head of the Supervisory Committee, which certifies that they have not been convicted of any crime by the courts.
- 2.6. The names of members who are legal persons.
- 2.7. An outlook on the performance of members' number, their respective contributions, deposits, credits for the two next years, a balance sheet, income and expenditure statement, according to form No. 1, tables (1/3), (1/4), (1/5).
- 2.8. Documentation is to be in the Albanian language, in 2 copies, in the original or by certified

¹ Amended by the decision No. 09, dated 12.02.2003 of the Supervisory Council.

² Amended by the decision No. 09, dated 12.02.2003 of the Supervisory Council.

photocopy.

ARTICLE 3

The Approval or Refusal of the operational license request

- 3.1. The Supervision Department of the Bank of Albania certifies that the documentation is completed and presented in compliance with the requests of this regulation.
- 3.2. If the submitted documentation is not complete and does not fulfill the requirements of this regulation, the Supervision Department issues a notice to the association in which details the material omitted, the inconsistency with the law or the extra information needed.
- 3.3. The omissions noted and the objections made in relation to the documentation presented, according to the requirements of the regulation, are addressed within 1 month of the day on which notice is received. If they are not addressed, all documentation is returned to the applicant.
- 3.4. The date of acceptance of the request for a license is considered to be the date when the applicant has fulfilled the requirements of the regulation. The applicant is notified in writing of this date from the Supervision Department.
- 3.5. The Bank of Albania approves or refuses the request for a license within 30 days of the day on which the applicant is notified in writing by the Supervision Department. The decision is taken by the administrators of the Bank of Albania. Supervision Department notifies the applicant in writing on the decision within 10 days of the decision being made. In the case of refusal, information for the reason of refusal is given.
- 3.6. The Bank of Albania may verify on-site the documentation presented.
- 3.7. The Bank of Albania reserves the right to make extra requests.
- 3.8. The Association, once it has received the license, respects at all times the acts of the Bank of Albania for supervision and reporting on its activity.

ARTICLE 4

Publication and Registration

- 4.1. The issuance of a license to the entities subject to this regulation is published in the Official Bulletin of the Bank of Albania and in one newspaper with high circulation.
- 4.2. The Supervision Department of the Bank of Albania maintains a register for public view where it enters all licenses granted. The pages of this register are numbered and sealed.
- 4.3. This register maintains the name of the association, the address of its head office, the addresses of the members of the Management Board and the Supervision Committee.
- 4.4. A copy of this register is held for public view in the local representative offices of the Bank of Albania.

ARTICLE 5

Suspension, revocation of License

The administrators of the Bank of Albania decide to suspend or revoke the license when they observe that :

- 5.1. The license has been obtained on the basis of false information, regardless of whether the information has been given by the applicant or for the applicant (by another party), with regard to the fulfillment of requirements of Art.2 and also Art. 3, point 3.7.
- 5.2. The association has not started its activity or has interrupted its activity for more than 6 months.
- 5.3. The General Assembly of the association decides to dissolve or liquidate the association.
- 5.4. The association carries out the activity in opposition to the Albanian legislation.
- 5.5. The association does not consistently observe the regulations of the Bank of Albania.
- 5.6. The financial situation of the association is worsening, according to the indicators used.

The decision on the suspension or revocation of the license is communicated immediately to the association alongside with the reasons for the decision.

The decision for suspension or revocation of the license is published in the Official Bulletin of the Bank of Albania and in one newspaper with high circulation. The decision comes into effect when the Bank of Albania determines it and for a time period (in the event of suspension) established by the Bank of Albania.

The association, once has received official notice of the Bank of Albania decision to revoke its license, is immediately forbidden to create the activities provided in Articles 9,10,11 of the Law No. 8782, dated 03.05.2001 "On Saving & Loan Associations" during the period of suspension or revocation of its license.

ARTICLE 6

Final Dispositions

- 6.1. Saving and Loan Associations being created and members of a licensed union, are represented by the Union in the process of presenting and completing the necessary documentation for the issuance of a license from the Bank of Albania. In this case the documentation consists of :
- a) the list of savings and loan associations, members of the union;
 - b) a request for an operational license, signed by the Head of the Board of Directors of the association and the Head of the Board of Directors of Union Management , form No. 2, table (2/1);
 - c) a declaration of commitment signed by the chairman of the Board of Directors of the savings and loans association, form No. 2, table (2/2);
 - d) the information on the registration of the savings and loan association in the Court of Tirana (date of decision, number of the respective decision registration);
 - e) form No. 2, table (2/3) for every member of the union, signed by the Head of the Board of Directors of the savings and loans association and the Head of the Board of Directors of the Union;
 - f) information for members of the Board of Directors and the Supervisory Committee, form No.2, table 2/4.
- 6.2. The Union is obliged to inform the Bank of Albania if one of more members leaves the union.

ARTICLE 7

Contemporary Dispositions

- 7.1. All associations that have been established and have been active before the approval of the regulation for licensing are obliged to make requests and to complete the documentation no later than 90 days after this regulation enters into force.
- 7.2. Until the decision is taken by the Bank of Albania for the approval or the refusal of the request for a license the savings and loan association continues its activity. If, 6 months after the date of the request for the license, the decision for approval or refusal is not taken, the Supervision Department explains in writing to the administrators of the Bank of Albania the reason for the delay. On the basis of this explanation the administrators decide on whether to allow the association to continue its activity, and also decide a time period for the implementation of this decision.
- 7.3. The association is liquidated in the event of the refusal of the request for the granting of a license, in the event of the termination of the time period established in point 7.1 and in the event the association has lost its right to continue, according to point 7.2.
- 7.4. For Article 2 of the regulation, the documentation presented, in compliance with form 1, tables (1/2) (1/3) (1/4) (1/5) (1/6), contains the most recent information.

- 7.5.1. All unions that have been established and have been active before the approval of the regulation on license issuance, after fulfilling the requirements of point 7.2:
- 7.5.2. represent the savings and loan associations that are members of the union in the process of completing the request for obtaining a license from the Bank of Albania, according to point 6.1. The union commits to inform the Bank of Albania when one or more members leave the union;
- 7.5.3. the savings and loan associations, which are members of a licensed union, entrust in the union the right to give all information for the completion of requests for granting of a license.

TRANSFORMING³

ARTICLE 8

Merging of the licensed savings & loan associations

- 8.1. In case of the licensed savings and loan associations merging is performed through establishing a new savings and loan association, then the new established association renews the request to obtain a license by submitting the following documents:
 - 8.1.1. In case the new merged association is not a member of the union, the respective documentation is completed in compliance with Article 2 of the regulation by amending:
 - the decisions of the respective assemblies;
 - tables (3/1) of form No. 3.
 - 8.1.2. In case the new merged established association becomes a member of the union, the documentation is completed in compliance with Article 6 of the regulation by adding:
 - the decision of the respective individual assemblies for the membership of the new association;
 - the decision of the respective Board of Directors of the Union on the membership of the new association;
 - tables (3/1), (3/2) of the form No.3 signed even from the Head of the Board of Directors of the Union.
 - 8.1.3. In case the request on obtaining a license is approved, then in the respective license it is enclosed the due date the new savings and loan association starts its activity. This date is also the date when the individual licenses of the merged loan and savings associations are revoked.
- 8.2. In case the merging of the savings & loan associations has not taken place through establishing a new savings and loan association, but on the basis of an existing licensed savings & loan association, the documentation of the respective association licensing based on which has taken place the merging is filled in with:
 - the decisions of the individual assemblies of the associations for their merge;
 - tables of form 3;
 - penalty certificates for the Head of the Board of Directors as well as for the Head of the Supervisory Committee.

Bank of Albania, after the completion of the documentation, notifies in writing the respective savings & loan association, establishing the date of activity starting for the new merged association. This date is the one of the individual licenses revocation for the merged savings & loan associations, excluding the one based on which the merging has taken place.

³ Amended by the decision No.09, dated 12.02.2003 of the Supervisory Council.

ARTICLE 9

- 9.1. This regulation shall enter into force on the fifteenth day from its publication in the Official Bulletin of the Bank of Albania.

CHAIRMAN OF THE SUPERVISORY COUNCIL
Shkëlqim CANI

FORM 1

Table 1/1 Request for License	
1.	Full name of association
2.	Shortened name of association
3.	Address and telephone No. of the head office of the association
4.	Date of establishment
5.	Duration term of activity, established in the bylaws
6.	Date of registration in Tirana Court
7.	Registration number in Court
8.	a) Management Board head : members: b) Supervisory Committee head members
9.	Number of members
10.	Amount of the paid-in capital
11.	Date of request for license Request made by : Head of the Board of Directors of the Association Name, surname Signature
1.1	Registration date of the license request

TABLE 1/ 2

DECLARATION OF COMMITMENT
FOR
THE BANK OF ALBANIA

ON ITS AUTHORITY TO GRANT A LICENSE TO ASSOCIATIONS

Name of Association _____

Address _____

With this declaration of commitment we request the Bank of Albania to provide us with a license to engage in activity as a savings and loan association (union) in the Republic of Albania, in accordance with Law No. 8782, dated 03.05.2001 "On Savings and Loan Associations". We present all the required documentation and information for this request.

We make a commitment to observe the Albanian legislation and regulations issued by the Bank of Albania in all our activities.

Declared by

Head of the Board of Directors

Name, surname

Signature

PS. The request followed by the documents and forms in compliance with this regulation are submitted to the following address:

Supervision Department
Bank of Albania
Sheshi "Skenderbej", No.1
Tirana, Albania

Table 1/3		
Expected Balance Sheet	Amount in Lek	
Assets	N + 1 year	N + 2 years
1 Cash		
2 Current a/c in bank or union		
3 Time deposits in bank or union		
4 Investments in securities		
5 Loans		
5.1 Loans of up to 12 months term		
5.2 Loans of up to 2 years		
5.3 Loans for more than 2 years		
6 Other Assets		
Total Assets		
Liabilities and Capital		
1 Loans from banks or union or other financial institutions		
2 Time Deposits of members – without interest		
3 Time Deposits of members – with interest		
4 Deposits blocked as guarantee for loans		
5 Other liabilities		
Total Liabilities		
1 Paid in capital		
2 Donations		
3 Reserves created from surplus		
4 Retained earnings / losses		
5 Surplus or Deficit during the year		
Total Capital		
Total Liabilities and Capital		

Table No. 1/A		
Forecast Income and Expenditure Statement	Amount in Lek	
Income and Expenditure	N+ 1 year	N+ 2 years
Income		
1 Interest on loans		
2 Interest on deposits		
3 Interest on securities		
4 Other income		
A Total Income		
Expenses		
1 Expenses from loans		
2 Expenses from deposits		
3 Expenses for loan provisions, net		
4 Administrative expenses		
5 Other expenses		
Total Expenses		
B Total Surplus/Deficit (A- B)		
Donations received		
Surplus/Deficit after Donations		

		Table No. 1/5	
Expectation on:		N+1 year	N + 2 years
1	Total number of members		
2	Total number of depositors		
3	Total number of borrowers		
4	Gross amount of the given loans		
5	Average amount of loans		

Table No. 1/6							
Nr.	Name, father's name, surname Board of Directors	Date of birth	Place of birth	Nationality	Civil status	Education	Work Experience (in years)
1.							
2.							
3.							
	Supervisory Committee						
1.							
2.							
3.							

FORM 2

Table 2/1 Request for License	
1.	Full name of savings and loan association
2.	Shortened name of savings and loan association
3.	Address and telephone number of the head office
4.	Date of establishment
5.	Period of activity, established in internal regulations
6.	Date of registration in Tirana Court
7.	Registration number in Court
8.	a) Board of Directors: Head: Members: b)Supervisory Committee Head: Members:
9.	Number of members
10.	Amount of paid-in capital
11.	Date of request for license
	Request made by : Head of the Board of Directors of the Association Name. Sumame _____ Signature _____ Head of the Board of Directors of the Union Name. Sumame _____ Signature _____
1.	Registration date of the license request

TABLE 2/2

DECLARATION OF COMMITMENT
FOR
THE BANK OF ALBANIA
ON ITS AUTHORITY TO GRANT A LICENSE TO ASSOCIATIONS

Name of Association _____

Address _____

With this declaration of commitment we request the Bank of Albania to provide us with a license to engage in activity as a savings and loans association (union) in the Republic of Albania, in accordance with Law No. 8782, dated 03.05.2001 "On Savings and Loans Associations". We present all the information and documentation required for this request.

We make a commitment to observe the Albanian legislation and regulations issued by the Bank of Albania in all our activities.

Declared by

Head of the Board of Directors
of the SLA of the Union

Head of the Board of Directors

Name, surname

Name, surname

Signature

Signature

PS. The request followed by the documents and forms in compliance with this regulation are submitted to the following address:

SUPERVISION DEPARTMENT
Bank of Albania
Sheshi "Skenderbej", No.1
Tirana, Albania

Table No. 2/3		
	Expectation on the:	N + 2 years
	N+1 year	
1	Total number of members	
2	Total number of depositors	
3	Total number of borrowers	
4	Total of loans (gross)	
5	Average size of loans (4 divided by 3)	
<p>Head of the Board of Directors of the SLA</p> <p>_____</p> <p>Name , surname</p> <p>_____</p> <p>Signature</p> <p>Head of the Board of Directors of the Union</p> <p>_____</p> <p>Name, surname</p> <p>_____</p> <p>Signature</p>		

Table no. 2/A							
Nr.	Name, father's name, surname	Date of birth	Place of birth	Nationality	Civil status	Education	Work Experience (in years)
	Board of Directors						
1.						
2.						
3.						
.....						
	Supervisory Committee						
1.						
2.						
3.						

FORM NO. 3⁴

Table No. 3/1			
DATE : day/month/year			
GENERAL BALANCE SHEET	SLA X	SLA Y Merged Association (X+Y+.....)
1. Cash+curr.acc+deposits			
2. Securities			
3. Credits surplus (gross)			
4. Total of provisions (-)			
5. Fixed assets (net)			
6. Other assets			
TOTAL ASSETS			
1. Free deposits of members			
2. Stocked deposits of members			
3. Associations' loans			
4. Other liabilities			
TOTAL LIABILITIES			
1. Paid in capital			
2. Donators' funds			
3. Surplus reserves			
4. Retained earnings / losses			
5. Surplus/ deficit of the current year			
CAPITAL			
TOTAL OF LIABILITIES + CAPITAL			
Head of the Board of Directors of the SLA ----- (Name, surname) ----- (Signature)			

⁴ Amended by the decision No. 09, dated 12.02.2003 of the Supervisory Council.

REGULATION ON SUPERVISION OF SAVINGS AND CREDIT ASSOCIATIONS AND THEIR UNIONS

The legal bases of this regulation are law no. 8269, date 23.12.1997 "On the Bank of Albania", law no. 8365, date 02.07.1998 "On the banks in the Republic of Albania", article 1, section 3 and law no. 8782, date 03.05.2001 "On savings and credit associations", articles 46, 47, 48 and 50.

The terms used in this regulation have the same meaning as those defined in article 3 of the law no.8782, date 03.05.2001 "On savings and credit associations and their unions".

Subjects

Article 1

- 1.1. The subjects of this regulation are savings and credit associations and their unions, licensed by the Bank of Albania. For simplicity, these subjects will be referred to as "associations" throughout this regulation.
- 1.2. The Bank of Albania is the supervisory authority of the subjects of this regulation.

Accounting

Article 2

- 2.1. Accounting is carried out in accordance with the law "On accounting", according to international accounting standards as well as legal acts to the implementation of the law.
- 2.2. Associations stipulate in their internal rules the accounting policies and procedures written and approved by the board of directors.
- 2.3. Associations, as an exception to section 2.1., may account for interest on loans made when it is actually received.

Loans and interest rates for loans

Article 3

Interest rates on loans are set a rate, high enough to insure that income from interest, covers at least, all financial expenses of the association.

Classification of loans

Article 4

- 4.1. Credit and guarantee policies are stipulated by internal rules and are written in the form of a manual approved by the board of directors.
- 4.2. Classification of loans is made on the basis of the number of days for which the repayment is overdue:
 - 4.2.1. When the loan repayments are overdue (principal or interest), from 31 to 90 days, the (principal and interest) amount of loans, granted to this member of the association, is classified as "below standard";
 - 4.2.2. when the loan repayments are overdue (principal or interest), from 91 to 365 days, the (principal and interest) amount of loans, granted to this member of the association, is classified as "doubtful";
 - 4.2.3. When the loan repayments are overdue (principal or interest), for over 365 days, the (principal and interest) amount of loans, granted to this member of the association, is classified as "lost".
- 4.3. The amount of loans classified as "below standard", "doubtful", "lost" and restructured, shall be considered as bad loans.

- 4.4. All loans, other than bad loans, shall be considered as "standard" loans.
- 4.5. The calculation of credit interest is interrupted when the loan is classified as "doubtful".
- 4.6. Loans are written off the balance sheet of the association when they have been classified as "lost" loans for more than 365 days and/or when they meet the following requirements:
 - the borrower is dead;
 - the borrower is under trial by the association for the return of the loan;
 - the loan amount is considered too small for the association.
- 4.7. Loans may be restructured; when a restructured loan is with 30 days overdue, it is classified as "lost".
- 4.8. The union of savings and credit associations may grant loans to savings and credit associations according to an agreement (line of credit), which permits the savings and credit associations to be granted loans within certain limits and during certain periods of time. For this line of credit:
 - the agreement between the union and savings and credit associations is renewed at least once a year,
 - the union calculates a reserve fund (provision) of 2 percent of the amount of loan being under process,
 - when the savings and credit association is in violation of article 6 of this regulation, the union calculates a provision, not less than 30 percent of the loan granted to the savings and credit association.

Calculation of provisions Article 5

- 5.1. Provisions are calculated at least once every three months.
- 5.2. Provisions on the principal are calculated as follows:
 - 5.2.1. from 2 percent to 5 percent on "standard" loans;
 - 5.2.2. not less than 30 percent on "below standard" loans;
 - 5.2.3. not less than 75 percent on "doubtful" loans;
 - 5.2.4. 100 percent on lost loans.
- 5.3. Calculated interests on bad loans are provisioned 100 percent.
- 5.4. Restructured loans are provisioned similarly to bad loans.
- 5.5. The rate of provision for "below standard" loans, is not higher than the rate of provision for "doubtful" loans". The rate of provision for "doubtful" loans is not higher than the rate of provision for "lost" loans. The provision is calculated on the part of loan not guaranteed with deposit blocking.
- 5.6. As an exception to section 2.1, associations may have higher factual provisions than the provisions required according to the classification of loans.

Soundness of loan portfolio Article 6

The ratio of "standard" loans to total loan portfolio must not be less than 90 percent.

Capital adequacy Article 7

- 7.1. The ratio of capital to gross excess loan portfolio must not be less than 5 percent during the first two years of the loan granting activity after the licence and not less than 8 percent after the first two years.
- 7.2. The ratio of capital to (net) fixed assets must not be less than 100 percent;
- 7.3. The ratio of capital to total amount of bad loans excess not guaranteed by deposit blocking, is at all times not less than 100 percent.

Liquidity Article 8

- 8.1. The association must maintain at all times in cash, current account or 1 month time deposit account, an amount not less than 10 percent of the total deposits which have a maturity of 6 months or less;
- 8.2. The association may grant a loan with over 3 year maturity and an amount not more than:
 - 100 percent of the capital, after the fixed assets have been subtracted; or
 - 10 percent of the total deposits; or
 - 100 percent of the liabilities with maturity over 3 years.
- 8.3. The association cannot grant a loan with a maturity over 5 years.

Spreading of risk Article 9

- 9.1. For each loan granted during the first two years of the lending activity, the the part of loan not guaranteed of deposit blocking, must not be more than 100 percent of the association capital.
- 9.2. For each granted loan during the third year of the lending activity, the part of loan, not guaranteed of deposit blocking, must not be more than 50 percent of the association capital.
- 9.3. For each granted loan after the third year of the lending activity, the part of loan, not guaranteed of deposit blocking, must not be more than:
 - 20 percent of the association capital; or
 - the maximal allowed amount during the third year of the lending activity.
- 9.4. The amount of each granted loan must not be more than 15 percent of total assets at the time it was granted.

Currency operations Article 10

- 10.1. The associations may also grant a loan in the following currencies: "Euro, usd, sfr, gbp", but with a maturity term not more than 3 years.
- 10.2. Only the union is allowed to maintain a currency open position, according to the following rates:
 - a maximal ratio not more than 30 percent of the total net open position for all currencies to union capital,
 - a maximal ratio not more than 20 percent of the net open position for each currency to union capital.

Reporting Article 11

- 11.1. The associations report the supervision norms to the Bank of Albania every six months. The data are reported not later than 50 days after the end of six months and the end of the year.
- 11.2. The reporting of the associations to the Bank of Albania is made in accordance with the reporting system "On savings and credit associations and their unions" approved by the Bank of Albania Supervisory Council.
- 11.3. Unions of savings and credit associations report the financial situation and the supervision norms on individual basis and on collective basis for all network of savings and credit associations members in the union.
- 11.4. Unions are obliged to send to the Bank of Albania, on quarterly basis, full reports on supervision norms of all savings and credit associations, which do not conform to any of the supervision norms.
- 11.5. In case a savings and credit association is not a member of the union and it violates any of the supervision norms, it must report all the supervision norms to the Bank of Albania, on quarterly basis.

11.6. The Bank of Albania may, at any time, require more frequent reports.

Supervision Article 12

- 12.1. The Bank of Albania supervises and analyses the activity of the associations through the reported data analysis by the associations, and through on-site inspections.
- 12.2. The associations are at all times, obliged to observe all the requirements of the regulation and the additional requirements set by the Bank of Albania.
- 12.3. In case of non-observance of the requirements in 12.2., the associations are obliged to make the necessary adjustments within 3 months, from the day this regulation is effective. The Board of Directors of the savings and credit association must introduce a detailed plan of the actions the association shall take, in order to observe the requirements of this regulation. Otherwise, the Bank of Albania has the right to take measures in accordance with article 51, law 8782, date 03.05.01 "On savings and credit associations".

Final provision Article 13

- 13.1. The associations stipulate in their internal regulations, in the form of a manual, the written policies on granting a loan, approved by the Board of Directors.
- 13.2. The associations stipulate in their internal policies, the policies on deposit acceptance, their maturity, method of remuneration, as well as loan guarantee policies through deposit blocking.
- 13.3. Unions of savings and credit associations set written internal rules for the supervision of savings and credit associations, members of the union, in the form of a manual, approved by the union Board of Directors.
- 13.4. The associations should submit to the Bank of Albania the updates made in their statutes, within a month after the decision on these updates by the General Assembly. The association shall notify the Bank of Albania on the updates in the members of the Board of Directors and the Supervisory Council.
- 13.5. The regulation "On supervision of the savings and credit associations and their unions", approved upon the decision no. 67, date 28.08.2002 of the Bank of Albania Supervisory Council, will no longer be effective.
- 13.6. This regulation is effective 15 days after its publication in the Official Gazette of the Republic of Albania.

CHAIRMAN OF SUPERVISORY COUNCIL

Ardian FULLANI

FORM 1. CLASSIFICATION OF LOANS AND CALCULATION OF PROVISIONS

No.	Classification of Loans	Amounts	Rates of Provision	Calculation of Provisions
1	Standard loans		2 – 5%	
2	Sub-standard loans		No less than 30%	
3	Doubtful loans		No less than 75%	
4	Loss loans		100%	
5	TOTAL Bad Loans (2+3 + 4)			

FORM 2. SOUNDNESS OF LOAN PORTFOLIO

No.	Classification of loans	Amounts	Supervisory Ratios	Norms allowed
1	Standard loans		(1/3) as a %	No less than 90%
2	Bad loans over 30 days overdue		(2/3) as a %	No more than 8%
3	Total loan portfolio			

FORM 3. LIQUIDITY

No.	Deposits	Amounts	Supervisory Ratios	Norms Allowed
1	Cash			
2	Current Account			
3	1 month term deposits			
4	Total (1+2+3)			
5	Total free deposits with term of maturity no longer than 6 months		(4/5) as a %	No less than 10%
1.	Over 2-year term loans			
2	Total deposits		(1,2) as a %	No more than 20%

FORM 4. CAPITAL ADEQUACY

No.	Amounts	Supervisory Ratios	Norms Allowed
1	Capital	(1/2) in %	No less than 5% (first year)
2	Gross loan portfolio	(1/2) in %	No less than 8% (after the first year)
3	Net fixed assets	(1/3) in %	No less than 100%
4	Bad loans not covered by deposit guarantee	(1/4) in %	No less than 100%

FORM NO. 5/1¹

	Balance Sheet	Amount in Lek	Amount in foreign currency	Total
	Assets			
1	Cash			
2	Current account in bank or union			
2.1	Current account in bank			
2.2	Accrued interest			
2.3	Current account in union			
2.4	Accrued interest			
3	- Time deposits in bank or union			
3.1	Time deposits in bank			
3.2	Accrued interest			
3.3	Time deposits in union			
3.4	Accrued interest			
3.5	Certificates of deposits			
3.6	Accrued interest			
4	Frozen account in union (2%)			
5	Investments			
5.1	Investments			
5.2	Accrued interest			
6	Loans (net)			
6.1	Up-1 year Loans			
6.2	Up-2 years Loans			
6.3	Loans for more than 2 years			
6.4	Minus – Provisions for loans			
7	Fixed Assets (net)			
8	Other Assets			
	Total Assets			
	Liabilities and Capital			
1	Loans from banks, union or other financial institutions			
1.1	Loans from banks			
1.2	Accrued interest			
1.3	Loans from union or other financial institutions			
1.4	Accrued interest			
2	Government borrowing			
2.1	Government borrowing			
2.2	Accrued interest			
3	Time Deposits of members – without interest			
4	Time Deposits of members – with interest			
4.1	Time Deposits of members – with interest			
4.2	Accrued interest			
5	Frozen deposits as guarantee for loans			
6	Public funds and grants			
7	Other liabilities			

¹ Amended on the Supervisory Council decision No. 83, dated 13.11.2002. "On approval of some amendments in the regulation "On supervision of savings and loan associations and their unions".

	Total Liabilities			
8	Paid in capital			
9	Donations			
10	Reserves created from surplus			
11	Retained earnings / losses			
12	Surplus or Deficit during the year			
	Total Capital			
	Total Liabilities and Capital			

FORM NO. 5/2¹

	Balance Sheet	Amount in Lek	Amount in foreign currency	Total
	Assets			
1	Cash			
2	Current account in bank or union			
2.1	Current account in bank			
2.2	Accrued interest			
2.3	Current account in union			
2.4	Accrued interest			
3	- Time deposits in bank or union			
3.1	Time deposits in bank			
3.2	Accrued interest			
3.3	Time deposits in union			
3.4	Accrued interest			
3.5	Certificates of deposits			
3.6	Accrued interest			
4	Frozen account in union (2%)			
5	Investments			
5.1	Investments			
5.2	Accrued interest			
6	Loans (net)			
6.1	Up-1 year Loans			
6.2	Up-2 years Loans			
6.3	Loans for more than 2 years			
64	Minus - Provisions for loans			
7	Fixed Assets (net)			
8	Other Assets			
	Total Assets			
	Liabilities and Capital			
1	Loans from banks, union or other financial institutions			
1.1	Loans from banks			
1.2	Accrued interest			
1.3	Loans from union or other financial institutions			
1.4	Accrued interest			
2	Government borrowing			
2.1	Government borrowing			
2.2	Accrued interest			
3	Time Deposits of members - without interest			
4	Time Deposits of members - with interest			
4.1	Time Deposits of members - with interest			
4.2	Accrued interest			
5	Frozen deposits as guarantee for loans			

¹ Amended on the Supervisory Council decision No. 83, dated 13.11.2002.

6	Public funds and grants			
7	Other liabilities			
	<u>Total Liabilities</u>			
8	Paid in capital			
9	Donations			
10	Reserves created from surplus			
11	Retained earnings / losses			
12	Surplus or Deficit during the year			
	Total Capital			
	Total Liabilities and Capital			

FORM NO. 6
INCOME STATEMENT

		Amount in Leka
Income		
1	Interest on loans	
2	Interest on deposits	
3	Interest on securities	
4	Other income	
A	<u>Total Income</u>	
Expenses		
1	Expenses from loans	
2	Expenses from members' deposits	
3	Expenses for loan provisions	
4	Administrative expenses	
5	Other Expenses	
TOTAL EXPENSES		
B	Total Surplus/Deficit (A-B)	
Donations received		
SURPLUS/DEFICIT AFTER DONATIONS		

FORM NO. 7
INCOME STATEMENT

Form No. 7		Amount in Loke
Income and Expenditure Account		
		N
A	Financial Income	
1	Interest on loans	
2	Interest on deposits	
3	Interest on letters of value	
4	Other financial income	
B	Financial Expenses	
1	Expenses from loans	
2	Expenses from deposits	
3	Other Financial Expenses	
C	Gross Financial Result (C= A-B)	
D	Expenses	
	Provisions for loans (net)	
	Losses from written off loans	
E	Gross Operational Result (E = C-D)	
F	Administration expenses	
	Staff expenses	
	Other administration expenses	
G	Net Operational Result (G = E -F)	
H	Non operational Result:	
	Non operational income	
	Non operational expenses	
	Total Surplus or Deficit (G-H)	

REPORTING SYSTEM OF THE SAVINGS AND CREDIT ASSOCIATIONS

Approved by the decision No.75, dated 05.09.2001

REPORTING FORMS

NAME

REPORTING PERIOD

FORM NO. 1	
NUMBER OF SAVINGS AND LOAN ASSOCIATIONS	
ANNUAL INFORMATION	
Number of SLA at the beginning of the year:	
Foundation of new SLA during the year(+):	
Closure of SLA during the year(-):	
Number of SLA at the end of the year:	

QUARTERLY INFORMATION	
Number of SLA at the beginning of the quarter:	
Foundation of new SLA during the quarter(+):	
Closure of SLA during the quarter(-):	
Number of SLA at the end of the quarter:	

FORM NO. 2 TOTAL NUMBER OF THE MEMBERS OF SAVINGS AND LOAN ASSOCIATIONS	
ANNUAL INFORMATION	
Number of members at the beginning of the year:	
New membership during the year(+):	
Removals of members during the year(-):	
Number of members at the end of the year:	

QUARTERLY INFORMATION	
Number of members at the beginning of the quarter:	
New membership during the quarter(+):	
Removals of members during the quarter(-):	
Number of members at the end of the quarter:	

FORM NO. 3 TOTAL CAPITAL OF SAVINGS AND LOAN ASSOCIATIONS	
ANNUAL INFORMATION	
Total capital at the beginning of the year:	
Increase of capital during the year(+):	
Reduction of capital during the year(-):	
Total capital at the end of the year:	

QUARTERLY INFORMATION	
Total capital at the beginning of the quarter:	
Augmentation of capital during the quarter(+):	
Reduction of capital during the quarter(-):	
Total capital at the end of the quarter:	

FORM NO. 4	
DEPOSITS COLLECTED BY SAVINGS AND CREDIT ASSOCIATIONS	
ANNUAL INFORMATION	
Deposits situation at the beginning of the year:	
Augmentation of deposits during the year(+):	
Reduction of deposits during the year(-):	
Deposits situation at the end of the year:	
- for individual:	
- for non-individual:	

QUARTERLY INFORMATION	
Deposits situation at the beginning of the quarter:	
Augmentation of deposits during the quarter(+):	
Reduction of deposits during the quarter(-):	
Deposits situation at the end of the quarter:	
- for individual:	
- for non-individual:	

FORM NO. 5	
CREDITS GRANTED BY SAVINGS AND LOAN ASSOCIATIONS	
ANNUAL INFORMATION	
Credits situation at the beginning of the year:	
Credits granted during the year(+):	
Repayment of credits during the year(-):	
Credits situation at the end of the year:	
- for individual:	
- for non-individual:	

QUARTERLY INFORMATION	
Credits situation at the beginning of the quarter:	
Credits granted during the quarter(+):	
Repayment of credits during the quarter(-):	
Credits situation at the end of the quarter:	
- for individual:	
- for non-individual:	

RECEIPTS AND INTERESTS	
Receipts from interests during the first quarter:	
Receipts from interests during the second quarter:	
Receipts from interests during the third quarter:	
Receipts from interests during the fourth quarter:	
Receipts from interests during the year:	

FORM NO. 6 CATEGORIES OF THE CREDITS GRANTED BY SAVINGS AND LOAN ASSOCIATIONS								
Categories (in Lek)	Situation at the beginning		Granted		Repaid		Situation at the end	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	Up to 5,000							
5,001 – 10,000								
10,001 – 50,000								
50,001 – 100,000								
100,001 – 200,000								
200,001 – 500,000								
500,001 – 1,000,000								
Over 1,000,000								

QUARTERLY INFORMATION								
Categories (in Lek)	Situation at the beginning		Granted		Repaid		Situation at the end	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Up to 5,000								
5,001 – 10,000								
10,001 – 50,000								
50,001 – 100,000								
100,001 – 200,000								
200,001 – 500,000								
500,001 – 1,000,000								
Over 1,000,000								

FORM NO. 7					
PAST DUE CREDITS OF SAVINGS AND LOAN ASSOCIATIONS					
Past due period (in days):	Up to 90	91 - 120	121 - 180	181 - 365	Over 365
Situation at the beginning of the period:					
Augmentation during the period :					
Reduction during the period:					
Situation at the end of the period:					

FORM NO. 8	
Credit extended during the quarter as per branches of the economy	
Number of the economy branches	In thousands of Lek
1.	Agriculture, hunting and silviculture
2.	Fishing
3.	Extracting industry
4.	Processing industry
5.	Production, distribution of electric power, gas and water
6.	Construction
7.	Trade, Repairing of vehicles and home appliances
8.	Hotels and restaurants
9.	Transport and telecommunication
10.	Financial activities
11.	Real estate
12.	Health and social activities
13.	Collective, social and personal services

REGULATION ON SUPERVISION NORMS OF NON BANK FINANCIAL ENTITIES

Approved upon the decision No. 60, dated 05.07.2000, and amended upon the decision No. 31, dated 27.04.2005 of the Supervisory Council of the Bank of Albania.

ARTICLE 1

GENERAL PROVISIONS

- 1.1. This regulation is issued pursuant to the Law No. 8269, dated 23.12.1997 "On the Bank of Albania", Law No. 8365, dated 02.07.1998 "On banks in the Republic of Albania", Law No. 8080, dated 01.03.1996 "On commercial companies" and Regulation "On granting a license to non-bank entities for conducting financial activity in the Republic of Albania" approved upon the Decision No.26, dated 18.03.1999 of the Bank of Albania Supervisory Council.
- 1.2. Subject to this regulation shall be all non-bank entities that conduct financial activities, licensed by the Bank of Albania according to Regulation "On granting a license to non-bank entities for conducting financial activity in the Republic of Albania", approved upon the Decision No.26, dated 18.03.1999 of the Supervisory Council of the Bank of Albania. Hereinafter, these subjects shall be referred to as "non-bank entities".
- 1.3. The purpose of this regulation is to establish supervision norms for all "non-bank entities" that conduct the activities provided in paragraph 1.4 of the Regulation "On granting a license to non-bank entities for conducting financial activity in the Republic of Albania".
- 1.4. For purpose of this regulation:

"**Capital**" shall mean the algebraic summation of the following components:

- a) paid in capital and any other capital donation;
- b) all reserves created from the profit distribution;
- c) retained earnings (loss);
- d) profit/loss of current year;
- e) revaluation differences (either debtor or creditor) of the paid capital or donations in foreign currencies.

"**Problem loans**" shall mean the gross amount (principal + interest) of the total amount of substandard, doubtful and lost loans.

"**Beneficiary**" shall mean one or more related legal persons involved in such relationships that the financial difficulties for one or more of them might cause insolvency for the rest of the group.

Supervision norms for non bank entities

ARTICLE 2

ALLOWED ACTIVITIES

All the financial activities provided in article 1.4 of the Regulation "On granting a license to non-bank entities for conducting financial activity in the Republic of Albania", approved upon the Decision No. 26, dated 18.03.1999 of the Supervisory Council of the Bank of Albania, are allowed activities for

"non-bank entities".

ARTICLE 3

LOANS, THEIR CLASSIFICATION AND PROVISIONING

- 3.1. "Non-bank entities" shall develop a special credit manual, approved by their management authorities.
- 3.2. Generally, loan and other assets classification shall be made in compliance with the rules provided in Regulation "On loan classification and the foundation of provisions to cover loan losses", approved upon the Decision No. 50, dated 18.03.1999 of the Supervisory Council of the Bank of Albania and all the amendments made to this regulation.

ARTICLE 4

CAPITAL ADEQUACY

- 4.1. The ratio of capital to total assets shall not be below 10%.
- 4.2. The ratio capital to net fixed tangible and intangible assets shall be no lower than 100%.
- 4.3. The ratio capital to total problem loans shall be no lower than 100%.
- 4.4. The ratio capital paid in kind to capital shall not exceed 50%.

ARTICLE 5

ASSETS QUALITY

- 5.1. The ratio of problem loans (principal + interest) to total loans (principal + interest) shall not exceed 8%.
- 5.2. The ratio of actual loan repayment (principal + interest) to loan repayment schedule (principal + interest) based on loan agreement shall not be below 90%.
- 5.3. After 12 months from receiving a license from the Bank of Albania, the ratio of net fixed tangible and intangible assets to total assets shall not exceed 10%.
- 5.4. The ratio of interest earning assets to interest bearing liabilities shall not be lower than 100%.

ARTICLE 6

RISK SPREADING NORMS

- 6.1. The maximal amount of the loan granted to a beneficiary during the first year of the activity of a "non-bank entity" shall not exceed 100% of the capital of the "non-bank entity".
- 6.2. After 12 months from receiving a license, any loans granted to a beneficiary shall not exceed 10% of the total loans granted by the "non-bank entity".
- 6.3. Any investments in securities, except for the T-bills investments of the Albanian government and countries of zone A, shall not exceed 5% of the capital of the "non-bank entity". (The definition of zones is provided in Regulation "On capital adequacy".)
- 6.4. Total investment in securities, except for the T-bills investments of the Albanian government and countries of zone A, shall not exceed 40% of the capital of the "non-bank entity". (The definition of zones is provided in Regulation "On capital adequacy".)

ARTICLE 7

LIQUIDITY

- 7.1. The ratio of assets with one-month remaining maturity to liabilities with one-month remaining maturity shall not be lower than 100%.
- 7.2. The ratio of assets with three-month remaining maturity to liabilities with three-month remaining maturity shall not be lower than 100%.
- 7.3. 80% of loans maturing after two years shall be funded from sources maturing after two years.

ARTICLE 8

REPORTING

- 8.1. "Non-bank entities" shall report to the Bank of Albania on quarterly basis.
- 8.2. ¹The report of non-bank entities to the Bank of Albania is made according to the non-bank entities reporting system as defined by the Bank of Albania.

The reporting due date is not later than 40 days after the end of the three-month period.

ARTICLE 9

MISCELLANEOUS

- 9.1. After 3 months from receiving the license from the Bank of Albania, "non-bank entities" are required to comply with the requirements of this regulation.
- 9.2. In case of non-compliance with the requirements of this regulation, the Bank of Albania extends the deadline up to three months.
- 9.3. When a "non-bank entity" does not comply with the requirements of this regulation even after the three-month period, the Bank of Albania imposes provisions of Chapter VII "On violations and sanctions" of Law No. 8365, dated 02.07.1998 "On banks in the Republic of Albania".
- 9.4. This regulation enters into force 15 days after its publication in the Official Bulletin of the Bank of Albania.

CHAIRMAN OF THE SUPERVISORY COUNCIL

Ardian FULLANI

¹Amended upon the Supervisory Council decision no. 31, dated 27.04.2005.

REGULATION ON COOPERATIVE BANKS

Approved by the decision No.25, dated 29/03/2000 of the Supervisory Council of the Bank of Albania

CHAPTER I

FOUNDATION AND ACTIVITIES

ARTICLE 1

General Provisions

- 1.1. The purpose of this regulation is to establish the conditions for the foundation, the exercising of banking activities, licensing and supervision of cooperative banks by the Bank of Albania, as well as the characteristics of these banks.
- 1.2. The legal basis for this regulation is composed by the Law No. 8269 dated 23.12.1997, "On the Bank of Albania", and Law No. 8365, dated 02.07.1998, "On banks in the Republic of Albania".
- 1.3. For the purpose of this regulation, the following terms shall mean:
 - **"Cooperative bank"** is the legal person, which is created as a voluntary union of its members with the purpose of using their financial resources mainly in the interest of the company itself and that operates within the administrative area where it resides.
 - **"Initial membership fee"** is the fee paid by each member of the cooperative bank at the moment of joining the bank, as established by the bank's internal regulations.
 - **"Surplus"**, according to Point 6 of Article 64 of the Law "On banks in the Republic of Albania", represents the cooperative bank's net profit. This is the difference between the bank's income and its expenses, after deduction of taxes.
 - **"The initial surplus account balance"** defined in Point 4 of Article 64 of the Law "On banks in the Republic of Albania", is the level of subscribed capital that the cooperative bank shall achieve within the next 5 years after commencement of banking activities.
 - The amount of 1/3 of the minimum capital, which is required from time to time by the Bank of Albania to licence new banks, represents the 1/3 of the minimum amount of the initial paid-in capital. Such is required as a cash contribution for the bank, as defined in the regulation "On granting a license to conduct banking activities in the Republic of Albania"
 - **"The trading area of the bank"** is the extent of a 25-km radius from the head office, within which the cooperative bank may exercise banking activities.
 - **"Annual turnover"** is the amount of money that the members of the cooperative bank generate from sales of products, goods and services within one financial year.
 - **"Members of the cooperative bank"** are entities defined in Article 64, Point 2.b of the law "On banks in the Republic of Albania".
 - **"Initial minimum capital"** represents the minimum amount of paid-in capital, required to get a license from the Bank of Albania to act as a cooperative bank in the Republic of Albania.

Other terms that are not explained above will have the same meaning as the terms described in Article 2 of the Law "On banks in the Republic of Albania".

ARTICLE 2

Membership

- 2.1. Members of the cooperative bank shall assume the obligations as established in the bank's internal regulations. At least two members of the Board of Directors, including the chairman, should possess professional skills that meet the requirements concerning the managers of banks that operate in the Republic of Albania, as determined by the regulations of the Bank of Albania.
- 2.2. The annual turnover realized by the members of the cooperative bank, craftsmen and small traders, should be up to 1000 times the last month average salary in the administrative area of the region where the bank operates.

ARTICLE 3

Specifics of cooperative banks

- 3.1. The cooperative bank should bear its distinctive name accompanied by the term "cooperative bank" and the denomination of the area where the bank resides.
- 3.2. The cooperative bank is created and operates based on the principles of voluntarism and reciprocity that is a unique feature for this bank. This characteristic is reflected in the reciprocal relations between the bank and its members in one side, and the clientele and the bank's trade area on the other.
- 3.3. The opportunity to use banking products and services is the advantage that represents the major benefit for the members of the cooperative bank.
- 3.4. The bank should abide by the principle of localization, which means its banking activities should be carried out within its trading area.
- 3.5. The bank is entitled to open branches and agencies only within its trading area upon the preliminary approval by the Bank of Albania.
- 3.6. The cooperative bank's internal regulations serve as a regulating tool over its activities, credit operations and collection of deposits, in compliance with the supervisory rules established by the Bank of Albania. These internal regulations establish the instruments that govern the relations between the members, including determination of the liability limitation that the members may assume regarding the cooperative bank.
- 3.7. Membership to cooperative banks, in addition to specific requirements established in each individual bank's by-laws, may have the following general characteristics:
 - Priority is given to members on services offered by the cooperative banks
 - Each member has equal rights, based on the principle "one person, one vote"
 - The nominative quality of membership which is carried out through the decision by the bank's general assembly.
- 3.8. The cooperative bank should have its "Credit Committee". The Board of Directors shall establish the composition and operating rules for such committee.
- 3.9. The bank's statute establishes the requirements to be followed by the Board of Directors when approving the requests for membership and resignation.

ARTICLE 4

Activities exercised by the cooperative banks

- 4.1. The cooperative bank's primary objective is to grant loans mainly in favor of its members.
- 4.2. In addition to Point 4.1 above, the bank may exercise the following banking activities:
 - a) Maintaining bank accounts and handling settlement of short-term transactions;
 - b) Receiving and offering services for deposits for which it may or may not pay interests;
 - c) Extension of credits to third parties;
 - d) Participation in the interbank market;
 - e) Offering of guarantees;
 - f) Safekeeping of precious metals and providing safe-deposit-box services;
 - g) Issuing, acceptance and administration of payment means;
 - h) Intermediation of monetary transactions (including foreign currencies).

- 4.3. Loans that the cooperative bank grants might be of short-term, medium-term and long-term, and the amount of loans for each individual borrower should not exceed the limit of 500 times the last month average salary in the administrative area of the region where the cooperative bank resides.
- 4.4. The bank may purchase or sell securities on behalf of the members.

ARTICLE 5

Internal regulatory acts of the cooperative banks

The internal regulatory acts of the cooperative bank shall contain:

The name and the headoffice address of the cooperative bank; the purpose for the creation of the bank; the duration of the bank's activity; the amount of membership fees paid by each member and the means of payment; the composition, the ownership and the structure of the bank's capital; the names, surnames and addresses of the members of the bank; the criteria for membership, the members' rights and obligations and their predisposition to undertake liabilities that may emerge; the procedures for becoming a member and resignation from the cooperative bank; the procedures for electing the Board of Directors and the Audit Committee along with their rights and obligations; the procedures for the distribution of earnings and the covering of losses, as determined in the resolution of the meeting of Board of Directors; and, the ways for implementing the supervisory regulations set by the Bank of Albania.

ARTICLE 6

Supervision of cooperative banks

- 6.1. Supervision of cooperative banks is carried out through controlling the implementation of regulations issued by the Bank of Albania regarding banks and branches of foreign banks operating in the Republic of Albania.
- 6.2. The cooperative banks shall report to the Bank of Albania according to an approved reporting system.
- 6.3. The cooperative banks shall keep their accounting records according to the Banking Accounting Manual approved by Decision No. 820, dated 30.12.1998 of the Council of Ministers.
- 6.4. The cooperative banks, when exercising their activities, should make sure the average maturity of the credits does not exceed the average maturity of the respective funding sources.
- 6.5. The cooperative bank should submit to the Bank of Albania any changes concerning its internal regulations.

CHAPTER II

ARTICLE 7

Licensing

- 7.1. The Bank of Albania is the sole authority that may grant the license, as an administrative act, for authorizing the cooperative banks to exercise banking activities, pursuant to the Law No.8365 dated 02.07.1997 "On banks in the Republic of Albania".
- 7.2. The minimum initial paid-in capital that is required for a cooperative bank, should be no less than 100 million LEK. When the subscribed capital of the proposed bank exceeds the initial minimum required capital amount, members should pay first only the minimum initial capital required by the Bank of Albania . The remainder may be paid according to definitions set in the cooperative bank's statute, within the legal term of 5 years.
- 7.3. In order to prove the payment of the initial required capital and its source, the proposed cooperative bank should submit to the Bank of Albania the documentation confirming the payment of such capital, coming from membership fees, in an escrow account in the Bank of

Albania. Payment should be done in a bank account and not in cash.

ARTICLE 8

Documentation

Documentation required by the BoA includes the following:

- 8.1. For members of the proposed cooperative bank, documentation to be submitted to the Bank of Albania shall include:
 - 8.1.1 If members are judicial persons:
 - The list of all members of cooperative bank, their residence or the actual headoffice, and the distance between their work or domicile and the headoffice of the proposed cooperative bank;
 - Their statute, the act of foundation and the act of registration in the court;
 - Information on the economic, commercial or industrial activity during the last financial year for each member. The above documentation should be certified by a certified public accountant;
 - For each member of the cooperative bank, a certification of tax clearance from tax authorities for activities of the last year.
 - 8.1.2. If members are physical persons or individuals:
 - The list of members, their address and nationality;
 - The list of the businesses where they have significant participations;
 - Certificate of registration to tax authorities for physical persons;
 - Certification from the respective authorities for not having any litigation in process;
 - Penal certification
- 8.2. For the managers
For the manager and a member of the Board of Directors of the cooperative bank, documents are to be submitted to the Bank of Albania according to definitions made in the regulation "On the Requirements to be Fulfilled by the Managers of Banks and Branches of Foreign Banks";
- 8.3. The business-plan submitted to the Bank of Albania should include the following:
 - The strategy, objectives and position in the market of the proposed cooperative bank;
 - The location of the proposed bank describing the area limit that may include one or several regions;
 - The banking and financial activities that the bank supposes to carry out and its objectives for a 1-year period;
 - Organizational chart of the proposed cooperative bank. This should be structured in such a way as to not impede cooperative bank's supervision by the BoA, as defined in the Law "On banks in the Republic of Albania".

ARTICLE 9

Verification of documentation and granting of the license

- 9.1. The Bank of Albania will review the documentation submitted for completeness according to requirements established in this regulation. According to this regulation, the date of reception of the request for license is considered the date when the applicant has completed all the requirements. Starting this date, which is notified to the applicant, a period of three months is granted to BoA to accept or reject the preliminary approval for license and the Bank of Albania should notify the applicant in a written form within 10 days after the decision is made.
- 9.2. The granting of the license to exercise banking activities is published in the Official Bulletin of the Bank of Albania.
- 9.3. The chartered cooperative bank is registered in the Register of Banks, which is kept in the Bank of Albania for purposes of public reference.
- 9.4. The Bank of Albania may revoke the license to the cooperative bank in presence of the circumstances provided in the Law "On banks in the Republic of Albania".

ARTICLE 10

Commissions

- 1.1. The Bank of Albania, pursuant to Article 11, Point 4 of the Law No. 8365, dated 02.07.1998 "On banks in the Republic of Albania", applies the below commissions for procedures of cooperative bank licensing:
- When submitting the complete documentation, the applicant should pay the Bank of Albania a commission of 15.000 LEK;
 - When the license is granted, the applicant should pay the Bank of Albania a commission of 10.000 LEK.

The above fees are not reimbursable, regardless whether the request for license is approved or not.

ARTICLE 11

Solicitation for expanding or curtailing the bank's network

- 11.1. The cooperative bank may open branches and agencies outside its trading area only upon the approval by the Bank of Albania. In order to accomplish this, the bank should submit to Bank of Albania a written request along with the following:
- a) The location and the area of the activity for the proposed branch or agency;
 - b) A copy of the internal regulation for the branch or agency;
 - c) A brief description about the competence of the senior manager;
 - d) The operational plan for the branch or the agency for one year.

ARTICLE 12

Liquidation

The liquidation procedures established in Article 64, Point 7 of the Law No. 8365 dated 02.07.1998 "On banks in the Republic of Albania", are applied in case of liquidation of cooperative banks.

ARTICLE 13

Entrance into force

This regulation shall enter into force 15 days following its publication in the Official Bulletin of the Bank of Albania.

CHAIRMAN OF THE SUPERVISORY COUNCIL
Shkëlqim CANI

REGULATION ON BANK RELATIONS WITH PERSONS RELATED TO BANK

Approved by the Decision no. 100, dated 10.12.2003 of the Supervisory Council
of the Bank of Albania

LEGAL BASIS AND PURPOSE

ARTICLE 1

- 1.1. Legal basis of this regulation is: Law No. 8269, dated 23.12.1997 "On the Bank of Albania" and Law No. 8365, dated 02.07.1998 "On banks in the Republic of Albania".
- 1.2. The purpose of this regulation is to adjust the relationships between the bank and the foreign bank branch with the related persons.
- 1.3. Subject to this regulation are banks and foreign bank branches licensed by the Bank of Albania, which for simplicity will be called "bank".

DEFINITIONS

ARTICLE 2

- 2.1. "Related persons," means two or more persons and/or physical or juridical persons resident or non-resident in the Republic of Albania, who for the purpose of this regulation:
 - 2.1.1. Fulfil the meaning of terms of the Article 2, letter f and (k) in the Law No. 8365, dated 02.07.98 "On banks in Republic of Albania", when the person:
 - have interest in bank's capital or have interest in the capital of an other company, that is a joint-stock company,
 - influences in the decision-making of the bank or of the other joint - stock company,
 - possess either directly or indirectly in the bank capital the percentage that gives to him 25 per cent or more of the votes in the highest decision making body of the bank or the other legal person,
 - has the majority of the votes in the bank or the other legal person, according to the concluded agreement between shareholders,
 - Define *de facto* through the voting right the decision made in the meetings of the highest decision-making body of the bank or other legal person, including the appointment of the administrators of the banks.
 - 2.1.2. Are administrators of the bank pursuant to the definitions established in the Regulation "On the administrators of the bank and foreign bank branches" and their family members. In compliance with article 35 of the Law "On banks in the Republic of Albania", the term "family members" implies:
 - husband (wife) and children,
 - fore-born, post-natal, brothers, sisters, uncles, aunts, nephews, nieces, children of brothers or sisters.
 - 2.1.3. According to the written assessment of supervision examiners, are also those persons whose financial difficulties originate the financial difficulties of the other.
 - 2.1.4. In respect of the regulatory framework of supervision, related persons may be considered as one counterparty. The weighted coefficient for the related persons shall be considered the highest weighted coefficient, when at least two of the components of the related persons

- have each different weighted coefficient.
- 2.2. **Transaction with related persons** means all the allowed operations of the bank performed with the related persons, as stipulated in Point 2.1 of this article.
Transaction with related persons would be treated by the bank in the same terms and conditions as transactions with other clients.
- 2.3. **Claims to related persons** are part of the bank's operations with the related persons in the balance accounts (principal and interest) and/or off-balance accounts taken together.
- 2.4. **Net claims** are the difference between the claims to related persons and :
i) Provisions for non performing assets and doubtful commitments,
ii) Guarantees and/or collaterals received, when the guarantees and the collaterals are in compliance with the Regulation on "Significant risk".
- 2.5. **Net exposures** are net claims weighted according to the Regulation on "Capital adequacy" and Point 2.1.4 of this article.

SUPERVISORY REQUIREMENTS

ARTICLE 3

- 3.1. Bank of Albania pursuant to article 37 of the Law "On banks in the Republic of Albania" establishes the restrictions on the bank's operations with the related persons.
- 3.2. For the related persons of the bank who own, directly or indirectly, not less than 5 percent of the bank capital, and/or persons as defined in 2.1.2. and/or 2.1.3. in the article 2 of this regulation:
i) claims on risk must be not higher than 20 percent of regulatory capital;
ii) claims in risk must be not higher than 30 percent of the regulatory capital, when the related person is a bank;
iii) total claims in risk must be not higher than 300 per cent of the regulatory capital.

CONTROL

ARTICLE 4

- 4.1. Decision-making bodies of the bank approve internal rules on:
i) the management risk of operations with related persons,
ii) the policies and procedures for extending credits which must emphasize that the conditions for credits to the related persons are equal with those for all clients.
- 4.2. Entities that are subjects to this regulation must ensure a monitoring system and ongoing information on the operations with the related persons. Bank of Albania has the right to supervise continuously the monitoring and information system on the operations with the related persons.

REPORTING

ARTICLE 5

- 5.1. Entities that are subject of this regulation report to the Bank of Albania on the operations with the related persons in compliance with the reporting forms attached to this regulation.
- 5.2. Reporting forms are filled in monthly by the entities. Reporting to the Bank of Albania, Supervision Department, On-Site Inspection, must be done no later than 10 days after the close of the quarter. Examiners of the Supervision Department, when they deem reasonable, have the right to define more frequent terms for reporting.

FINAL PROVISIONS

ARTICLE 6

This regulation is approved by the decision No. 100, dated 10.12.2003 of the Supervision Council of the Bank of Albania and shall enter into force 15 days following its publication in the Official Gazette of the Republic of Albania.

CHAIRMAN OF THE SUPERVISORY COUNCIL

Shkëlqim CANI

FORM NO. 1
BANK'S RELATIONSHIPS WITH THE RELATED PERSONS

Name of the bank
Reporting period
Reporting date
Prepared by (First name, last name, signature)
Manager (First name, last name, signature)

Composition	Claims (1)	Obligations (2)	Off-balance sheet operations (submitted) (3)	Off- balance sheet – operations (received) (4)
a. Individual : -----				
b. Physical person : -----				
c. Legal person : -----				
1. Operations with the related person (a+b+c)	<i>XXXXXXXXXX</i>	<i>XXXXXXXXXX</i>		
a. Individual : -----				
b. Physical person : -----				
c. Legal person : -----				
2. Operations with the related person (a+b+c)	<i>XXXXXXXXXX</i>	<i>XXXXXXXXXX</i>		
a. Individual : -----				
b. Physical person : -----				
c. Legal person : -----				
n. Operations with the related person (a+b+c)	<i>XXXXXXXXXX</i>	<i>XXXXXXXXXX</i>		
Total operations with the related persons (1+2+...+n)	<i>XXXXXXXXXX</i>	<i>XXXXXXXXXX</i>		

FORM NO. 2
SUPERVISION REQUIRMENTS OF THE BANK'S OPERATIONS WITH THE
RELATED PERSONS

Name of the bank
Reporting period
Reporting date
Prepared by (First name, last name, signature)
Manager (First name, last name, signature)

REGULATORY CAPITAL	AMOUNTS
(20%) OF THE REGULATORY CAPITAL :	/ / / / /
(30%) OF THE REGULATORY CAPITAL :	/ / / / /
(300%) OF THE REGULATORY CAPITAL :	/ / / / /

Operations with the related persons	Claims (1) ¹	Reserve funds (2)	The received guaranties and/or colateral (3)	Net claims (4)=(1)- {(2)+(3)}	Weighting (5)	Claims in risk (6)=(4)*(5)
<i>1. Operations with the related person (form No. 1)</i>						
<i>2. Operations with the related person (form No. 1)</i>						
<i>..... n. Operations with the related person (form No. 1)</i>						
Total operations with the related persons (1+2+...+n)						

¹ In this column are entered the sum of the data of column 1 data and those of column 3 (off-balance sheet items), issued from form No. 1.

REGULATION

ON CONSOLIDATED SUPERVISION

(Approved upon the decision no. 68, date 28.07.2005 of the Bank of Albania Supervisory Council).

Article 1 Legal basis

The legal basis to this regulation is law no.8365, date 02.07.1998 "On banks in the Republic of Albania".

Article 2 Entities

Subject to this regulation, are all entities licensed by the Bank of Albania, hereafter referred to as "company", having under ownership subsidiaries and/or significant interest in other licensed companies by the Bank of Albania or not, within and/or out of the territory of the Bank of Albania.

Article 3 Purpose of the consolidated supervision

Consolidated supervision assesses the position to risk/risks not only of the activities of the company, but the activity of its subsidiaries and significant interests, as well.

Article 4 Definitions

To the accomplishment of the requirements in this regulation, the following terms shall be interpreted as follows:

1. **Consolidating company and/or parent company** shall be the subject having subsidiaries under ownership and shares in other companies.
2. **Consolidated companies** shall be the subsidiaries and significant interests of the consolidating company.
3. **Consolidated group** consists of the consolidating company and the consolidated companies.
4. **Subsidiary** has the same meaning as in article 2, section 1, paragraph g, law no. 8365, date 02.07.1998 "On banks in the Republic of Albania", according to which this term means "any juridical person in which another person or affiliate juridical persons holds more than fifty percent of the capital or voting shares, permitting this subject or affiliate juridical persons exercise control over it".
5. **Significant interest** has the same meaning as in article 2, section 1, paragraph ë, law no. 8365, date 02.07.1998 "On banks in the Republic of Albania", according to which this term means "a direct or indirect holding of an interest of a juridical person that represents ten percent or more of the equity or of the voting rights, or that makes it possible to exercise a significant influence over the management and policies of the juridical person".

Article 5 Structure of the consolidated supervision

Consolidated supervision consists of:

1. Consolidated accounting.

2. Quantity supervision.
3. Quality supervision.

Article 6 Consolidated accounting

1. The purpose of consolidated account is the survey of the financial statements of the consolidated group.
2. Organization of the consolidated accounting is in accordance with the International Accounting Standards (IAS 27, 28, 30, 31, 32, 39) and Banking Accounting Manual.

Article 7 Quantity supervision

Quantity supervision is the observance of the regulative framework of the consolidated supervision, which is comprised of:

1. Regulatory capital is in accordance with the instruction "On regulatory capital", the form of which, for consolidated supervision purposes, is replaced with the appended form.
2. Capital adequacy pursuant to the regulation "On capital adequacy".
3. Spreading of risk pursuant to the regulation "On significant risks".
4. Bank related persons in accordance with the regulation "On bank related persons".
5. Coverage of the market risks in accordance with the "On market risks".

Article 8 Quality Supervision

Quality supervision focuses on the quality analysis on consolidated basis, mainly regarding:

1. Organization of internal audit and direction of risk/risks.
2. Leading structure and organizational structure.
3. Assessment of the operational, strategic, reputation and legal risk.
4. Assessment of systematic risk in perspective.
5. Strategy of internal activities through consolidating company or consolidated companies.
6. Information adequacy.
7. Conduction assessment pursuant to internal policies and their application in practice.

Article 9 Cooperation in context of consolidated supervision

1. Augmentation of consolidated supervision quality is achieved by reaching reciprocal cooperation agreements between the Bank of Albania and supervisory and regulatory authorities of the constituent entities of the consolidated group, within and out of the country.
2. The Bank of Albania is entitled to request and send reports, data and information, to the supervisory authorities of other countries, if they are necessary for the consolidated supervision on the basis of the agreement of cooperation and understanding, signed by the respective parties.
3. The Bank of Albania is entitled to perform on-site inspections and/or receive information in the context of cooperation on the consolidated supervision, to check the authenticity of the reports and data on the consolidated supervision.

Article 10 Report

1. The consolidated financial statements are prepared by the consolidating companies and verified by the external auditors. These statements are reported to the Bank of Albania within the legal time limits, at the end of each financial year.

2. Companies prepare publishable annual reports on consolidated basis (consolidated group).
3. In the publishable annual reports, companies publish the list of subsidiaries and significant interests, incorporated into the consolidated statements. Moreover, in the annual reports, it is incorporated the list of non-consolidated significant interests, along with the respective notes.
4. Pursuant to article 7 of this regulation, reports are prepared according to the specifications in the respective regulatory acts.
5. The Bank of Albania is entitled to ask for additional information on the consolidating and/or consolidated companies.

Article 11
Final provision

This regulation is approved upon the decision no.68, date 28.07.2005 of the Bank of Albania Supervisory Council and shall be effective 15 days after being published in the Official Gazette of the Republic of Albania.

Chairman of Supervisory Council

Ardian Fullani

REPORTING FORM
(regulatory capital for covering credit risks)

Name of consolidated bank group
 Reporting period
 Reporting date
 Prepared by (Name, last name, signature)
 Director (Name, last name, signature)

	CORE CAPITAL	Acc. No.		Amount
	I . Component elements added to (A) :			
1	Subscribed capital	5711		
2	Reserves (other than revaluation reserves)	5731,5733,5734		
3	Primes of emissions and mergers	572		
4	Retained earnings (carried over)	577(P)		
5	Fiscal year end earnings	578(P)		
6	Earnings during the fiscal period	578(P)		
7	Credit revaluation differences (positive)	574(P)		
8	Credit consolidation differences (positive)			
9	Significant interest of minority			
	Subtotal A= (1+2+3+4+5+6+7+8+9)		A	
	II . Component elements subtracted (B) :			
1	Unpaid subscribed capital	5712		
2	Nominal value of bank shares (redeemed, unissued)			
3	Undistributed losses (carried over)	577(-P)		
4	Losses during fiscal year	578(-P)		
5	Debt revaluation differences (negative)	574(-P)		
6	Intangible fixed assets ¹	531		
7	Debt consolidation differences (negative)			
	Subtotal B= (1+2+3+4+5+6+7)		B	
	Total of base capital C= (A-B)		C	
	Additional capital			
	III . Component elements (J) :			
1	Revaluation reserves	5732	EA	
2	General reserves		EB	
3	Hybrid instruments	58	EC	
4	Time subordinated liabilities	58	F	
	If $F \leq C/2$ then $G = F$		G	
	If $F > C/2$ then $G = C/2$		G	

¹According to Banking Account Manual, it should be replaced with "assets".

	Limited subtotal H = (EA + EB + EC + G) :		H	
	First limitation: if $H \leq C$ then $J = H$		J	
	Second limitation: if $H > C$ then $J = C$		J	
	Total of additional capital prior to deduction (J)		J	
	IV . Component elements subtract (P +Q+V) :			
1	Significant interest (P):			
--	In consolidated non-financial companies according to capital method.		K	
--	In financial and non-financial companies excluded from the consolidation perimeter. Subtotal P = (K+N)		L P	
2	Guarantees given to mutual guarantee fund according to the conditions set by the central bank.		Q	
3	Regulation acts of the Bank of Albania (V) :			
--	Regulation "On credit risk management", approved upon decision no.13, date 21.02.01 of the Bank of Albania Supervisory Council;		V1	
--	Regulation "On the amount and complement of the minimum initial capital on licensed bank activities and licensed foreign bank branches", approved on the decision no.51, date 22.04.99 of the Bank of Albania Supervisory Council;		V2	
--	Other regulatory acts.		Vn	
	Total of regulatory acts : $V = (V1+V2+Vn)$		V	
	Subtotal of the subtracted amount (P+Q+V)		P+Q+V	
	Summarized calculation of the base capital and additional capital after deduction IV :			
1	If $J \leq (P+Q+V)$ then :			
--	Additional capital after the subtraction $JA = 0$		JA	
--	Base capital $CA = C + J - (P+Q+V)$		CA	
2	If $J > (P+Q)$ then:			
--	Additional capital after the subtraction $JA = J - (P+Q+V)$		JA	
--	Base capital $CA = C$		CA	
	Total of base capital and additional capital: E= (JA+CA)		E	

REGULATION

“ON SUPERVISION OF ELECTRONIC BANKING TRANSACTIONS”

Article 1 Legal basis

This Regulation is issued pursuant to the Law No. 8269, dated 23.12.1997 “On Bank of Albania” and the Law No. 8365, dated 02.07.1998 “On Banking Law in the Republic of Albania”.

Article 2 Purpose

The purpose of this Regulation is to establish:

- a) organizational conditions, conditions on the personnel as well as technical conditions for conducting electronic banking transactions (e-banking);
- b) requirements related to the verifications conducted by the Bank of Albania on e-banking service;
- c) principles on e-banking risk management.

Article 3 Subject

Subject to this Regulation shall be all banks and branches of foreign banks (hereinafter, banks) that conduct banking business in the Republic of Albania and intend to perform electronic banking transactions.

Article 4 Definition

E-banking is a distance service, through electronic channels of distribution and communication, of traditional and new banking products and services, within the framework of the allowed activities for commercial banks.

Article 5 Prohibitions

- a) Banks are not allowed to open e-banking account without the physical presence of the client at the bank and without making his identification or that of his legally authorized representative, pursuant to the approved internal regulations. The bank keeps the documentation that proves the client's identification, for at least a five-year period.
- b) Banks are not allowed to perform e-banking service without a prior verification on the conditions this service is performed from the Bank of Albania.

Article 6 The right of performing e-banking transactions

Banks can perform e-banking services only once they make the verifications on the requirements provided by the Bank of Albania. After the preparations, the bank shall notify the Bank of Albania on the verifications conducted. The notification shall be accompanied by:

- a) decision of the board of directors on the use of e-banking when performing bank transactions;

- b) curriculum vitae of the immediate responsible and technical personnel that will support the bank in conducting e-banking activity, which must include their qualifications and working experience;
- c) data that show the necessary technical requirements for the conduct and control of e-banking activity;
- d) assessment of the effects of e-banking use on the bank outcome through financial statements for the next three years;
- e) procedures of e-banking operation and internal auditing program for this purpose;
- f) the agreement signed upon with the company on information technology support to the bank, if there is any or if signed after receipt of the authorization;
- g) the list of banking transactions they will perform along with the communication channels they will use.

Article 7

The right of performing the service and suspension of the service

- a) After notifying Bank of Albania according to article 6, and after the verifications by the Bank of Albania inspectors are conducted on the assessment of technical conditions, the bank is entitled to perform e-banking service.
- b) Bank of Albania may order the bank to suspend partially or completely the e-banking service, if during the supervision process conducted by the Bank of Albania it results that the bank has not meet the requirements of this regulation.
- c) In case of partial suspension, the bank interrupts within 60 days the suspended e-banking service and notifies the Bank of Albania on this matter. The bank cannot resume this service before a period of six months from suspension is passed. The conditions of resumption are the same as in article 6.
- d) In case of complete suspension, the bank interrupts within 60 days the e-banking service and notifies the Bank of Albania on this matter. The Bank cannot resume this service before a period of 18 months from suspension is passed. The conditions of resumption are the same as in article 6.

Article 8

The request after the opening of the service

- a) The bank shall notify in advance Bank of Albania on all the additions to the list of channels of communication and to the electronic banking transactions that are performed after the opening of e-banking service.
- b) Bank of Albania has the right to request that the documents prescribed in article 6 are properly filled in for all the changes and to conduct verifications on the technical conditions when it deems appropriate.

Article 9

Accounting

Banks shall conduct accounting records on the transactions performed even for e-banking, pursuant to the law "On Accounting and Financial Statements" and "Banking Accounting Manual".

PRINCIPLES ON E-BANKING RISK MANAGEMENT

Article 10

Effective supervision

The Leading Council and the senior executive administrators should establish an effective supervision of e-banking risk management on the e-banking operations, including the establishment of specific responsibilities, politics and controls on the

management of these risks. For this purpose they should in a documented way:

- a) clearly define the bank risks in terms of e-banking;
- b) define the authorities, their competencies and the reporting mechanisms, including the necessary procedures of acting according to the degrees of responsibility in case of violation of the security (such as penetration through the net, violation of security requirements from the employed persons, any serious misuse of computers, etc.) that have an important impact on the service security, on the situation and reputation of the bank;
- c) evaluate the unique risk factors for guaranteeing the security, the integrity and availability of e-banking products and services and apply the request that the thirds, with whom the bank shares/uses the main systems or applications, take similar measures;
- d) ensure that due diligence and risk analysis are carried out before cross-border operations are performed;
- e) define the resources that are required to supervise the e-banking services in proportion with the operational functioning and system riskiness, network deficiencies and nature of the information transmitted.

Article 11 Quality control infrastructure

The Leading Council and senior executive administrators should review and adopt the main orientations of security control process of the bank.

- a) The Leading Council and senior executive administrators should supervise the ongoing development and maintenance of quality control infrastructure, that protects on an adequate basis the systems and e-banking data from the external and internal threats. This process includes the granting of authorized rights, of rights on logical and physical controls and the definition of the adequate infrastructure security to maintain the required limits and restrictions in the internal and external activities.

The Leading Council and senior executive administrators should:

- b) define the explicit responsibilities of the personnel for the application and control on the application of the bank's security policies;
- c) enable adequate physical controls for protection from the unauthorized physical inflows in the computerized environment;
- d) enable adequate logical controls and monitoring processes for protection from the unauthorized external and internal inflows in the applications and e-banking database;
- e) enable regular reviewing and testing of measures and security controls, including the ongoing follow-up of the current developments of security industry and the setting-up of an advanced software, of service packets and other measures.

Article 12 External resources supervision

The Leading Council and senior executive administrators should establish a supervision process and demonstrate full and continuous diligence for the administering of the bank's relations with other external parties that support e-banking and for the use of other external resources in this field.

The Leading Council and senior executive administrators must ensure that:

- a) the bank understands to a full extent the risks that are associated with involvements in a partnership agreement or external resource (for example, with an independent company that offers Internet service, etc.) for the systems and e-banking applications;
- b) a careful and adequate reviewing of professional skills and financial condition of the service provider as a third party, before the contract on e-banking services is signed, is conducted;

- c) the contractual responsibility of all the parties in a partnership relation, including an external party is defined. Particularly, the responsibilities on providing and receiving information to and from the service provider, responsibilities on the backups keeping and copies of transactions performed through e-banking, should clearly be defined;
- d) all the e-banking systems and operations provided by external resources are subject of risk management, of security policies and the keeping of confidentiality that are in line with the standards of the bank itself;
- e) periodical internal/and or external controls on external resources operations are conducted, at least to the same extent as required when they are conducted by internal resources;
- f) there are plans for reserve resources in case of incidents for e-banking activities from external resources.

Article 13 Identity and authorization of clients

Banks should take the necessary measures to verify the identity and authorization of clients with whom they conduct business through Internet.

- a) Banks should employ safe methods for the verification of identity and authorization of new clients as well as the verification of the existing clients that seek to undertake electronic transactions.
- b) Banks may employ various methods, separate or combined ones, to proceed on the identification, including PIN-s, passwords, smart cards, biometrics and digital certificates. Banks should monitor and adopt sound practices of industry in this field to ensure that:
 - i) Verification database that ensures the access to the e-banking account of clients or the access to the sensitive systems, is protected from the manipulations and corruptions. These manipulations must be detected and investigation controls must be in place to document such attempts.
 - ii) Additions, deletions or changes on individuals, agents or on the system based on the verification data are authorized only from a verified source.
 - iii) Necessary measures to control the e-banking system links are established in order that third parties are not able to move or replace the identified clients.
 - iv) The verified e-banking sessions should remain safe during all the session process, or in the event of a security error the system requires a new verification.

Article 14 Verification of the transactions

Banks shall employ methods on the verification of transactions, which lead to the real acknowledgement of facts and establish the responsibilities on e-banking transactions.

Banks shall make reasonable efforts pursuant to the type of e-banking transaction and the proper value this transaction has or might have for the bank, to ensure that:

- a) E-banking systems are projected to reduce the possibility that the authorized users get involved in ill-considered transactions and the clients fully understand the risks related to the transactions they perform.
- b) All the parties involved in transactions are positively verified and the control on verification channels is made.
- c) Financial transactions data are protected from modifications and, if occurred, these modifications must be observed.

Article 15

Distribution of tasks

Banks shall ensure that the appropriate measures for the proper distribution of tasks within the systems, databases and e-banking applications are made.

Practices on establishing and maintaining the distribution of tasks within the e-banking environment shall include:

- a) processes and systems, which ensure that none of employees/service providers from outside might gain access to, authorize and complete a transaction;
- b) distribution of tasks among the staff who organizes statistical data (including website contents) and those who are responsible for the verification of their integrity;
- c) e-banking system testing, ensuring that the distribution of tasks might be neither avoided nor left out;
- d) distribution of tasks among the staff who develops and those who manage the e-banking systems.

Article 16

Control and right of access to the system

Banks shall ensure that controls for the authorizations and privileges on the rights of access to the systems, in e-banking database and applications, are established.

Banks shall strictly control the privileges of access and authorization in order to preserve the allocation of duties. In e-banking system, authorizations and rights of access may be established in a centralized or allocated way within one bank, and are generally saved in databases. The protection of these databases from external intervention or corruption is fundamental for an authorized and efficient control.

Article 17

Integrity protection

Banks shall ensure that the appropriate measures to protect the integrity of data on transactions, records and e-banking information are established.

- a) Banks shall ensure that the appropriate measures to define the accuracy, completeness and security of transactions, records, and e-banking information that is transmitted via Internet, resident within the internal database of the bank, or that is transmitted/protected from a third service provider on behalf of the bank, are established.
- b) Practices on integrity protection of the data within the e-banking environment shall include:
 - i) performing e-banking transactions in a way that makes them too resistant against any intervention throughout the process;
 - ii) saving, accessing and modifying e-banking records in a way that makes them too resistant against interventions;
 - iii) projecting e-banking transactions and processes to keep the records in a way that makes impossible the avoidance of discovering unauthorized modifications;
 - iv) establishing adequate policies on modifications control, including the monitoring and testing procedures, that are established to be protected against the e-banking system modifications, and which might wrongly compromise the controls or data security;
 - v) discovering interventions in the e-banking transactions or records through transaction processing, monitoring functions and records maintenance.

Article 18

E-banking transactions control

Banks shall ensure that safe controls for all e-banking transactions exist.

The distribution of financial services via Internet can render more difficult for banks to apply and implement the internal controls and maintain the safe tracing of control, if these measures are not adapted for an e-banking environment. In the process of determining where control tracing should be carried out, the following elements of e-banking transactions are to be taken into consideration:

- a) opening, modification or closing of client's account;
- b) financial consequences of transaction;
- c) an authorization issued to a client who exceeds the allowed limit;
- d) a granting, modification or revocation of rights and privileges to have access to the systems.

Article 19

Keeping the information confidentiality

Banks shall take the necessary measures to keep the confidentiality of basic e-banking information. The measures on keeping confidentiality must be in proportion with the sensitivity of information being transmitted and/or saved in the database.

Thus, banks shall ensure that:

- a) all the confidential data and records of the bank be accessible only from individuals, agents and from authorized and certified systems;
- b) all confidential data of the bank be safely kept and be protected from the viewing or modification during the transmission via public, private or internal networks;
- c) bank standards and controls for the use and protection of data be implemented even when the third parties have access to the data through the relationships with external sources;
- d) all entries to the limited data be traceable and require the confirmation (be logged-in), even following a certain number of unsuccessful efforts to log-in.

Article 20

Informing the clients

Banks shall ensure that the adequate information is provided in the website, to allow the clients to get an informed conclusion on the bank's identity and its regulatory status, before they have access to the e-banking transactions.

The information the bank shall provide in its *website* is as follows;

- a) name of the bank and location of its Head Office (and other local offices if applicable);
- b) identity of the principal supervisory banking authority responsible for the supervision of the bank's Head Office;
- c) the way the clients can contact the client service center regarding the service problems, complaints, suspected misuse of accounts, etc.;
- d) how the clients can have access to the information on the applicable compensation, coverage of secured deposits and protection level they afford (or the website links that provide such an information);
- e) other information that might be adequate or that are required under particular circumstances.

Article 21

Requirements on the client's confidentiality

Banks shall take the necessary measures to ensure the loyalty to the requirements on the client's confidentiality, applicable within the jurisdictions based on which the bank provides the e-banking services and products.

Banks shall make reasonable efforts to ensure that:

- a) policies and standards of the client's confidentiality consider the consistency with all the laws and regulations on confidentiality, within the jurisdiction based on which it provides the e-banking services and products;
- b) clients are acquainted with the policies and issues related to confidentiality on the use of e-banking services and products;
- c) clients may give up allowing the bank to share with third parties for cross-marketing purposes the information on the requirements, interests, financial position or personal banking business of the client;
- d) data on the client are not used for purposes other than those allowed specifically or allowed by the client;
- e) bank standards on the use of client's data must be implemented even when the third parties have access to client's data through the relationships with external sources.

Article 22

Ensuring the e-banking operations continuity

Banks shall possess effective capacities to ensure business continuity and efficient process of reserves planning, to help ensure the availability of the e-banking systems and services.

- a) To protect banks from business risks, legal and reputation risks, the e-banking services must be performed continuously and respond in due time to clients' expectations.
- b) To achieve this goal, the bank must be able to provide e-banking services to the last users, either from the primary sources (such as internal systems and applications of the bank) or from the secondary ones (such as systems and applications of service providers).

To provide the clients the continuity of the e-banking services they seek for, banks shall ensure that:

- a) current capacities and future development of e-banking systems are analysed in the context of the development of all the markets on electronic trade and of the expected degree of acceptance of the e-banking services and products from the client;
- d) calculations of the e-banking transactions processing capacity are certified, stress tested and reviewed periodically;
- e) plans on the regular business continuity for the systems and e-banking critical processing are applicable and duly tested.

Article 23

Contingent events management

Banks shall have adequate plans to react to incidents, to manage, maintain and minimize the problems arising from contingent events (including both internal and external shocks), that might make difficult the e-banking systems and services provision.

To ensure an effective reaction to contingent events, banks shall prepare:

- a) reaction plans to contingent events, to address the process of putting again into functioning e-banking systems and services. Scenarios analysis must take into consideration the possibility of exposure to risks and their impact on the bank. E-banking systems provided from external providers must be integral part of these plans;
- b) mechanisms to identify an imminent incident or crisis, to assess their material and control reputation risk related to any service interruption;
- c) a communication strategy to sufficiently address the concerns of foreign markets and communications means that might emerge in case of failure of e-banking systems;
- d) a clear process to notify the supervisory authorities, in case security materials are broken or interruption incidents occur;

- e) reaction teams to incidents that must be adequately trained and have the authority to act in emergency cases to analyse the reaction/detection systems of incidents and construe the significance of results;
- f) a clear chain of commands, including either the internal operations or those of external sources, to ensure that the immediate actions according to the gravity of incident are taken. Escalation and procedures of the internal communication must be defined and include the notification from the executive board when necessary;
- g) a process to ensure that all the relevant external parties, including the bank's clients, correspondents and communications means, are informed properly and in due time on the e-banking interruptions and the activity resumption developments;
- h) a process for the gathering and preservation of legal evidence to ease the necessary reviews following an e-banking incident, as well as to assist in bringing a charge against illegal meddlers.

Article 24 Penalties

Any infringement of the requirements of this regulation is a violation of the terms on conducting banking business in a sound and safe way, and is treated according to the provisions of article 44, Law No. 8365, dated 02.07.1998 "On Banking Law in the Republic of Albania".

Article 25 Transitional provisions

The banks that have started to perform e-banking transactions before this regulation enters into force must meet, within a six-month period from the time this regulation enters into force, the terms and conditions provided in this regulation.

Article 26 Entering into force

This Regulation shall enter into force fifteenth days following its publication in the Official Gazette of the Republic of Albania.

