

**REGULATION  
ON  
CAPITAL ADEQUACY**

**Approved by Supervisory Council Decision no. 58 date 05.05.1999 and  
changed by Supervisory Council decision no. 72 date 11.09.2002 and by  
decision no.30 date 16.04.2003.**

CHAPTER I

General Provisions

Article 1

This regulation is issued pursuant to Law No. 8269 date 23.12.1997 "On the Bank of Albania", and Law No. 8365 date 02.07.1998 "On Banks in the Republic of Albania".

Subject

Article 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".

Purpose

Article 3

The purpose of this regulation is establishing the proportion 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".

Definitions

Article 4

4.1 **Capital Adequacy Ratio** is the proportion 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 proportion of the base capital to risk-weighted assets and off balance-sheet items, expressed as a percentage.

**CHAPTER II**

Article 5

The minimum Capital Adequacy Ratio required is 12%. The inspectors of the Bank of Albania, when they think it's appropriate, can ask to every

bank in pre-defined or not defined terms, for an Adequacy Ratio bigger than the minimum of Capital Adequacy Ratio.

Components of Capital Adequacy Ratio:

- 5.1. The bank's regulatory capital, calculated according to the methodology described in the Instruction "On the 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 contracts related to interest and exchange rates;
  - 5.2.3. Other off balance-sheet items.

#### Items to be Subtracted

##### Article 6

The following items are subtracted from the assets, prior to their risk-weighting:

- 6.1. Assets that, are included in the Regulatory Capital as subtracting items.
- 6.2. Assets included in portfolio of trading securities that are analyzed in the light of market risks.
- 6.3. Specific reserve funds provided for standard loans, which include past due installments and watched 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 Added Capital but that are not included according to the paragraph 2.2.2.1 of the advisory "On bank's Regulatory Capital".

#### Methodology of Calculation

##### Article 7

- 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. In Form no. 5, the capital adequacy ratio is calculated and the result compared to the minimum ratio set by the Bank of Albania.

#### Calculation

##### Article 8

8.1. The risk-weighting of assets is done as follows:

8.1.1. Assets at no risk are weighted with a 0% weighting rate.

Such assets include the following:

- ã Cash and cash equivalents
- ã Claims on the Central Bank and the Government of Albania when such are denominated in the national currency;
- ã Claims on central banks and central governments of countries of Zone A (as defined in paragraph 12.1), explicitly guaranteed by them and by International Institutions (as defined in paragraph 12.3);
- ã Claims on central banks and central governments of countries of Zone B (as defined in paragraph 12.2), endorsed, guaranteed and funded in the national currency of the borrowing country;
- ã Claims on a debtor of Zone B explicitly backed by the central banks and the governments of countries of Zone B, endorsed, guaranteed and funded in their national currency;
- ã Claims on the European Community and explicitly guaranteed by it.
- ã Assets guaranteed through collateral or similar, as follows:
  - i) Securities issued by the central banks, by governments of countries of Zone A or the European Community;
  - ii) Deposits in the lending banks
  - iii) Certificates of deposit or similar instruments issued by, and deposited to, the lending banks.
- h) Claims on the Bank of Albania fully guaranteed by it in foreign currency.

8.1.2. Assets at low risk are weighted at a 20% weighting ratio

The following are included in this asset category:

- ã Short term claims (no longer than one year) on banks and financial institutions operating in the Republic of Albania.
- ã Claims on multilateral development banks (as defined in Article 12, paragraph 4).
- ã Claims on banks and financial institutions operating in countries of Zone A and explicitly guaranteed by them, except when such claims that are included in their Regulatory Capital according to the regulations in force.
- ã Claims on central, regional and local government bodies of countries of Zone A.
- ã Short term claims on banks and financial institutions of countries of Zone B or claims on central banks and central government of countries of Zone B, or explicitly guaranteed by them, except when such claims are included in their Regulatory Capital according to the regulations in force.
- ã 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 countries of Zone A;
  - iii) Deposits in banks in the countries of Zone A;

iv) Certificates of deposit or similar instruments issued by banks of countries of Zone A.

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 Real estate owned by the bank. Claims secured through first mortgage of the real estate when such is fully recoverable if sold in the market (mortgage loan)

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 Claims on the Government of Albania and the Bank of Albania, or fully guaranteed by them, 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 countries of Zone B which are not endorsed, guaranteed or funded in the country's currency.

d Claims on local government bodies of countries of Zone B.

e Claims of over-1-year maturities on other banks of countries of Zone B.

f Other 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 Additional Capital.

h All participations of a 100% extent that, 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;

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 received.
- h Other items at high risk assessed 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 custom 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, banker 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 evaluated 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, opened or confirmed, guaranteed by the respective goods and other similar operations.
- b Other items at moderated risk evaluated 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 pre-notification.
- b Other items at low risk assessed by the bank itself.

**Reporting Period**  
**Article 9**

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

**Control**  
**Article 10**

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

10.1. The bank should report to the Supervision Dept. in the BA, 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 Dept. in the BA, on a monthly basis, the modified capital adequacy ratio that is expressed as a percentage, and which is no less than 6%.

10.3. To accomplish the requirement of article 5 no later than the end of the succeeding month.

10.4. If the bank fails to meet the requirements established in the point 10.3 above, the Bank of Albania may act in accordance with the Law No. 8365, date 02.07.1998, "On Banks in the Republic of Albania", Article 44, Article 45 paragraph 3.

**Reporting Form**

Article 11

Each bank is obliged to report to the Banking Supervision Dept in the BA, according to the enclosed forms, which are an integral part of the reporting system.

**Definitions**

Article 12

12.1. The list of countries of Zone "A":

Australia, Austria, Saudi Arabia, Belgium, Denmark, Finland, France, Greece, Germany, Netherlands, Ireland, Iceland, Italy, Japan, Canada, Luxembourg, Norway, United Kingdom, Portugal, Spain, Sweden, USA, Turkey, New Zealand, Switzerland.

12.2. All the countries not listed above, pertain to the Zone "B".

12.3. The list of International Institutions:

- The Bank for International Settlements (BIS);
- The European Bank for Reconstruction and Development;
- The World Bank;

- International Monetary Fund;
- The European Community Commission;
- Other World Bank Institutions;

12.4. The list of Multilateral Banks for Development:

- The European Investments Bank;
- The International Bank for Reconstruction and Development (BIRD-WB);
- International Financial Associations;
- The Inter-American Bank for Development;
- The Asian Bank for Development;
- The African Bank for Development;
- The European Community Fund for Social Development;
- The Nordic Bank of Investments;
- The Caribbean Bank for Development;
- The European Fund for Investments;
- The Inter-American Investment Associations.

Article 13

The regulation No.2 date 16.08.1996 "On the Adequacy of the Bank's Own Funds (Capital)", approved by the Supervisory Board of the BA, is abrogated.

Article 14

This regulation enters into force on 01.06.1999

**REPORTING FORM No. 1**

**RISK-WEIGHTED ASSET ITEMS**

**(000 lek)**

Name of the Bank

Reporting Period

Date of the Report

Prepared By (Name, Surname, Signature)

Manager (Name, Surname, Signature)

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 countries of zone A (P 12.1) or explicitly guaranteed by them and by the International Institutions (P12.3).



0

- Claims on central banks and governments of countries of zone B (P 12.2) endorsed, guaranteed or funded in the national currency of the borrowing country

- Claims on a debtor of zone B explicitly backed by the central banks and the governments of countries of zone B, 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:

- Securities issued by the central banks, governments of countries of zone A 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 on P.12.4

0.2

- Claims on banks and financial institutions operating in countries of zone A 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 countries of zone A

0.2

- Claims of an up-to-1-year maturity on banks and financial institutions in countries of zone B or explicitly (continued from previous page) guaranteed by central banks and governments in countries of zone B, 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 countries of zone A
- Deposits in banks and financial institutions in countries of zone A, different from the lending bank or institution
- CD's or similar instruments issued by the banks and financial institutions in countries of zone A, 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 8.1.3.a).

0.5

- Leasing operations of fixed tangible assets (according 8.1.3.b)

0.5

- Settlement asset accounts (which are not offset by the liability ones) for which there is no specific counterparty

0.5

**4-Assets at high risk (100% risk weighting ratio):**

**1**

- Claims on the Gov. 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 Gov. in countries of zone B, which are not endorsed, guaranteed or funded in the currency of the borrowing country.

1

- Claims on local government bodies in countries of zone B

1

- Claims of over-1-year maturity on banks in countries of zone B.

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 participations 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**

(000 lek)

Name of the Bank

Reporting Period

Reporting Date

Prepared (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 additional 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 additional year

0.01

## TOTAL RISK-WEIGHTED OFF BALANCE-SHEET ITEMS

### REPORTING FORM No. 3

#### OTHER OFF BALANCE-SHEET ITEMS

(000 LEK)

Name of the Bank

Reporting Period

Reporting Date

Prepared (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 asset at a pre-fixed price

1

- Securities to be received within an operation where 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 custom and fiscal commitments if they do not constitute a replacement of the original lender

0.5

- Commitments to receive assets when 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 an over-1-year original maturity. Overdraft facilities for should be 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**

- Commitments for facilities such as overdrafts unused

These involve lending, purchase of securities, and banker's 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**

(000 LEK)

Name of the Bank

Reporting Period

Reporting Date

Prepared (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**

(000LEK)

Name of the Bank

Reporting Period

Reporting Date

Prepared (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 the Form no 4

**3**

Capital Adequacy Ratio  $[(1:2)*100]$  (expressed as a percentage)

**4**

**Minimum Capital Adequacy Ratio**

12%

**REPORTING FORM No. 6**

**MODIFIED CAPITAL ADEQUACY RATIO**

(000 LEK)

Name of the Bank

Reporting Period

Reporting Date

Prepared (Name, Surname, Signature)

Manager (Name, Surname, Signature)

**NR**

**Description**

**Amounts**

**1**

Bank's Regulatory Capital computed based on the advisory "On Bank Regulatory Capital"

**2**

Base Capital computed based on Chapter II of the advisory "On Bank's Regulatory Capital"

**3**

Amounts reported on Form No. 4

**4**

Capital Adequacy Ratio  $((1:3)*100)$  expressed as a percentage

**5**

Modified Capital Adequacy Ratio  $((2:3)*100)$  expressed as a percentage

**6**

Minimum Modified Ratio

**6%**

**7**

Minimum Capital Adequacy Ratio

**12%**