

**Bank of Albania
Supervisory Council**

**Regulation on the Supervision
of Savings & Credit Associations
and their Unions.
(Decision no. 67, dated 28.08.2002)**

General

Article 1

- 1.1 The legal bases of this rulebook are Law No. 8269, dated 23,12,1997 "For the Bank of Albania", Law No. 8365, dated 02.07.1998 "For Banks in the Republic of Albania", article 12, Law No. 8782 , dated 03.05.2001 "For Savings & Credit Associations" 46, 47, 48, 50.
- 1.2 The Bank of Albania is the supervisory authority of the subjects of this rulebook.
- 1.3 The subjects of this rulebook are Savings & Credit Associations and their Unions, licensed by the Bank of Albania. For simplicity's sake these subjects will be referred to as "associations" throughout this rulebook.
- 1.4 Terms used have the same meaning as those defined in Law No. 8782, date 8782, dated 03.05.2001 "For Savings & Credit Associations", article 3.

Accounting

Article 2

- 2.1 Accounting is carried out in accordance with the law "For Accounting" , according to international accounting standards and also with reference to "The Manual of Bank Accounting"
- 2.2 Associations specify in their internal rules the policies and procedures used. These are written and approved by the Board of Directors.

- 2.3 Associations, as an exception to Article 2.1, may account for interest on loans made when it is actually received (on a cash basis)

Loans and interest rates for Loans.

Article 3

- 3.1 Loans are made and repaid in national currency only.
- 3.2 Interest rates on loans are set a rate high enough to ensure that income from interest covers at least all 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 The classification of loans is made on the basis of the number of days for which repayment is overdue.
- 4.2.1 When the loan repayments are overdue (principle or interest) for 1 to 60 days, the full amount of the loan is classified as below standard.
- 4.2.2 When the loan repayments are overdue (principle or interest) for 61 to 365 days, the full amount of the loan is classified as doubtful.
- 4.2.3 When the loan repayments are overdue (principle or interest) for over 365 days, the full amount of the loan is classified as lost
- 4.2.4 Problem Loans are defined as all below standard, doubtful and lost loans.
- 4.2.5 Standard Loans are defined as all loans apart from problem loans
- 4.2.6 The delinquency of the loan is defined as that part of the loan principle for which repayment is overdue by more than one day.
- 4.2.7 Loans are written off the Balance Sheet when they have been defined as lost loans for more than 365 days. The calculation of further interest is then stopped.

Calculation of Provisions

Article 5

- 5.1 Provisions are calculated at least once every 3 months.
- 5.2 Provisions on the principal are calculated as follows :
- 5.2.1 From 2% to 5% on standard loans
- 5.2.2 no less than 30% on below standard loans
- 5.2.3 no less than 75% on doubtful loans

5.2.4 100% on lost loans

5.2.5 interest on problem loans is provided for at 100%

The rate of provision for below standard loans must not be higher than the rate of provision for doubtful loans. The rate of provision for doubtful loans must not be higher than the rate of provision for lost loans.

Soundness of Loan Portfolio

Article 6

- 6.1 The ratio of standard loans to total loan portfolio must be no less than 90%.
- 6.2 The ratio of problem loans, with arrears of over 30 days, with total loan portfolio must be no more than 8%.
- 6.3 The ratio of delinquency to total loan portfolio must be no more than 5%

Capital Adequacy

Article 7

- 7.1 The ratio of capital to the gross loan portfolio must be no less than 5% during the first year of activity following the receipt of the license, and no less than 8% after the first year.
- 7.2 The ratio of capital to net fixed assets must be no less than 100%
- 7.3 The ratio of capital to total balance of problem loans not guaranteed by deposits must be at all times no less than 100%

Liquidity

Article 8

- 8.1 The association must maintain at all times in cash, in the bank current account or in 1 month time deposit account of one month maturity, no less than 10% of the total of its deposits, which have a maturity of 6 months or less.
- 8.2 The association lends for term of over 2 years no more than 20% of its savings.
- 8.3 The SCA is obliged to keep on deposit with its Union , no less than 2% of the total of free deposits within the SCA.

Spreading of Risk

Article 9

- 9.1 For each loan given in the first 2 years of lending activity, the amount of the loan not guaranteed by deposits must be no more than 100% of capital.

- 9.2 For each loan given in the third year of lending activity, the amount of the loan not guaranteed by deposits must be no more than 50% of capital.
- 9.3 For each loan given after the third year of lending activity, the amount of the loan not guaranteed by deposits must be no more than 20% of capital.
- 9.4 The amount of one loan given cannot be any more than 15% of total assets.

Reporting

Article 10

- 10.1 Associations report the supervisory norms to the Bank of Albania every 3 months. Information is reported no later than 40 days after the close of the 3 month period (31.03, 30.06, 30.09, 31.12)
- 10.2 Reporting forms for supervision are accompanied by the reporting system approved by Decision No. 75 of the Supervisory Committee on 05.09.2001.
- 10.3 Unions of SCAs reports on its own financial situation and supervisory norms on an individual basis and on a collective basis for its network of member SCAs.
- 10.4 Unions are obliged to report to the Bank of Albania every 3 months, a list of SCAs which do not conform to any one of the supervisory norms. The norms in question shall accompany the list.

Supervision

Article 11

- 11.1 The Bank of Albania supervises and analyses the activity of associations through the reported information and through on site inspections.
- 11.2 Associations are at all times obliged to fulfill all the obligations of the rulebook and also further obligations set by the Bank of Albania.
- 11.3 In the case of non-fulfillment of the obligation of 11.2, associations are obliged to address their obligations within 3 months. Otherwise the Bank of Albania has the right to take measures in accordance with article 51 of the law 8782. Dated 03.05.2001 "For Savings & Credit Associations"

Final

Article 12

- 12.1 Associations specify in their internal regulations, in the form of a manual, written policies for lending which are approved by the Board of Directors.
- 12.2 Associations specify in their internal regulations, policies for the acceptance of deposits, the maturity, the method of remuneration, the use of guarantee of deposits for loans given.

12.3 Unions of SCAs may decide written internal rules for the supervision of member SCAs, in the form of a manual approved by the Board of Directors

12.4 The Association may carry out only the activity authorised by its statute and by the Bank of Albania as supervisory authority. The Association may carry out the following activities for the benefit of itself and of its members :

- Collect savings and time deposits from its members;
- Extend loans to its members in accordance with the procedures and standards specified in its by-laws and internal policies;
- Hold and own membership shares in a federation, union or similar institution, including a central liquidity facility or a deposit guarantee institution;
- Purchase the assets of another Association;
- Serve as a fiscal agent for and receive payments on deposits from a governmental body or agency. Such agency arrangement will be covered by a formal document of agreement between the Association or Union and the governmental body or agency;
- Serve as collecting agent and receive payments for loan and other obligations that borrowing persons, entities or groups may have from legally-constituted organizations in Albania. Such agency arrangement will be covered by a formal document of agreement between the Association or Union and the legally-constituted organization;
- Acquire, invest in and sell for its own account, bonds and securities issued by the Bank of Albania and or the Government of Albania;
- Acquire assets and equipment solely for use in the business operations of the Association;
- Take ownership interest and title to assets pledged as collateral by borrowers, and foreclosed by reason of default, and to dispose and sell such foreclosed assets in accordance with applicable laws;
- Collect, receive and disburse monies in connection with the provision of domestic negotiable checks, domestic money orders, domestic money transfers and similar domestic money instruments for the benefit or convenience of its members, and charge appropriate fees for such services.
- Receive payments as collecting agent for electricity, water, telephone and other services. Such agency arrangement will be covered by a formal document of agreement between the Association or Union and the entity providing the electricity, water, telephone or other service and appointing the Association or Union as collecting agent;
- Purchase or make available, as agent but not as underwriter, various forms of insurance for its members, either on an individual or group basis, subject to the applicable insurance code and regulations of Albania and related regulations of the Bank of Albania;
- Keep deposits with, and receive loans from the Union and from institutions licensed by the Bank of Albania

Any other business activities and operations that may be authorized from time to time by the Bank of Albania.

Table 1 Classification of Loans and Calculation of Provisions

No .	Classification of Loans	Amounts	Rates of Provision	Calculation of Porvision
1	Standard loans		2 – 5%	
2	Below standard loans		No less than 30%	
3	Doubtful loans		No less than 75%	
4	Lost loans		100%	
	TOTAL			
5	Problem Loans (2+3 + 4)			
7	Delinquency			

Table 2 Soundness of Loan Portfolio

No .	Classification of loans	Amounts	Supervisory Ratios	Norms allowed
1	Standard loans		(1/4) as a %	No less than 90%
2	Problem loans over 30 days overdue		(2/4) as a %	No more than 8%
3	Delinquency		(3/4) as a %	No more than 5%
4	Total loan portfolio			

Table 3 Liquidity

No .	Deposits	Amounts	Supervisor y Ratios	Norms Allowed	
1	Cash in hand				
2	Current Account				
3	Deposits less than 1 month term				
4	Total (1+2+3)				
5	Total deposits with term of maturity no greater than 6 months				
			(4/5)as a %	No less than 10%	
1.	Loans with terms greater than 2 years				

2	Total deposits				
			(1/2) as a %	No more than 20%	

Table No. 4 Capital Adequacy

No		Amounts	Supervisory Ratios	Norms Allowed
1	Capital			
2	Gross loan portfolio		(1/2) as a %	No less than 5%
3	Net fixed assets		(1/3) as a %	No less than 100%
4	Problem loans not covered by deposit guarantee		(1/4) as a %	No less than 100%

Table No. 5

		Table 5	
		Balance Sheet	Amount in Leke
		Assets	
1	Cash		
2	Current a/c in bank or union		
3	Time deposits in bank or union - time deposits in bank or union - deposit certificates		
4	Investments		
5	Loans		
5.1	Loans for less than 1 year		
5.2	Loans for 1- 2 years		
5.3	Loans for more than 2 years		
5.4	Minus – Provisions for loans		

6	Other Assets	
	Total Assets	
	Liabilities and Capital	
1	Loans from banks, union or other financial institution	
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	Surplus/Loss accumulated	
5	Surplus or Loss during the year	
	Total Capital	
	Total Liabilities and Capital	

Table No. 6

Table No. 6		
	Income and Expenditure Account	Amount in Leke
		N
	Income	
1	Interest on loans	
2	Interest on deposits	
3	Interest on letters of value	
4	Other income	
A	Total Income	
	Expenses	
1	Expenses on lending	
2	Expenses on interest on members deposits	
3	Expenses for loan provisions	
4	Administrative Expenses	
5	Other Expenses	
	Total Expenses	
B	Total Surplus/Deficit	
	Donations received	
	Surplus/Deficit after Donations	

Table No. 7

Table No. 7		
	Income and Expenditure Account	Amount in Leke
		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 on lending	
2	Expenses on 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	
	Personnel 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)	