



REPUBLIC OF ALBANIA

**BANK OF ALBANIA
SUPERVISORY COUNCIL**

DECISION

No. 16, dated 13.03.2012

ON

**APPROVAL OF THE REGULATION
“ON THE LIQUIDITY SUPPORTING LOAN”**

Pursuant to and implementing paragraph 1 of Article 16, and letter a and c of Article 43 of the Law “On the Bank of Albania”, No. 8269, dated 23.12.1997, as amended, with the proposal of the Monetary Operations Department and Supervision Department, the Bank of Albania Supervisory Council,

DECIDED

1. To approve the Regulation “On the liquidity supporting loan”, according to text attached herein.
2. The Monetary Operations Department and Supervision Department are responsible for the implementation of this decision.
3. The Foreign Relations, European Integration and Communication Department is responsible for the publication of this decision in the Official Bulletin of the Bank of Albania and in the Official Gazette of Republic of Albania.
4. Upon entry into force of this Decision, the Regulation “On the Lombard Loan”, approved by the Supervisory Council’s Decision, No. 57, dated 13.07.2005 shall be abrogated.

This decision shall enter into force upon its publication in the Official Gazette of the Republic of Albania.

SECRETARY

Ylli Memisha

CHAIRMAN

Ardian Fullani

REGULATION
“ON THE LIQUIDITY SUPPORTING LOAN”

Article 1
Purpose

The purpose of this Regulation is to determine the guidelines for the provision of the liquidity supporting loan to temporarily illiquid, but solvent banks.

Article 2
Definitions

For purposes of this Regulation, the following definitions apply:

- a) “liquidity supporting loan” is the facility that the Bank of Albania can use to satisfy short-term liquidity needs of the banks;
- b) “bank” is a legal person as specified in the Law “On Banks in the Republic of Albania”.
- c) “delivery versus payment” is a securities trading procedure, in which the buyer’s cash payment for the security is due at the time of delivery. Cash payment and security delivery are simultaneous;
- d) “loan” stands for “liquidity supporting loan”;
- e) “grant the loan” refers to the moment the loan is approved;
- f) “disbursement of the loan” refers to the moment the loan is disbursed to the bank account.
- g) “market rate” is the 3-month Euribor or Libor as of disbursement date. The interest is expressed to two decimal places and calculated assuming a 360-day year.
- h) “Average cost of funds” is the average interest rate of the new placed 3-month deposits in the banking system, according to the latest publication of the Bank of Albania on disbursement date. The interest is expressed to two decimal places and calculated assuming a 360-day year.

Article 3
Required documentation

1. The loan application/request must include the following documents:
 - a) Report on the liquidity situation and the causes of the liquidity shortfall;
 - b) Detailed list of actions undertaken to obtain liquidity from all possible sources
 - c) List of collaterals to be pledged to the Bank of Albania to guarantee the loan ;
 - d) The plan of action to overcome the liquidity shortfall;
 - e) The action plan of the loan usage; and
 - f) Any additional document that may be required by the Bank of Albania.

Article 4 Loan forms

The loan can be either in the form of a collateralized loan or as a repurchase agreement.

Article 5 Eligible collateral

The liquidity supporting loan is a fully-collateralized loan, guaranteed by the following eligible collaterals:

- a) Lek and/or foreign currency denominated securities, issued or guaranteed by the Government of the Republic of Albania and the Bank of Albania; Lek-denominated securities issued by local government fully guaranteed by the Government of the Republic of Albania;
- b) Foreign currency-denominated securities approved as investment instruments for the management of the foreign reserve as defined in the Regulation on "The policy and procedures of foreign reserve management";
- c) 80% of the required reserve in Lek and foreign currency held in Bank of Albania, , on disbursement date; and/or
- d) Other assets, as defined in Article 6, paragraph 4.

Article 6 Collateral evaluation

1. Risk evaluation measures for the instruments of Article 5, letters "a" and "b" are specified in the Annex.
2. Eligible collateral defined in Article 5, letter "c" shall carry the initial value throughout the loan duration and shall not be affected by the fluctuation of the bank's required reserve during this period.
3. If during the period of the loan duration, the collateral value falls below the threshold value, as defined in the Annex, the bank must, within 3 (three) business days following the Bank of Albania's notification, provide additional collateral by:
 - a) depositing cash; and/or
 - b) transferring a sufficient amount of eligible collateral defined in Article 5;
4. In the event of insufficient eligible collateral, the bank shall transfer a sufficient value of other assets , that will be accepted by the Bank of Albania as collateral after being approved by a special decision of the Supervisory Council. The bank shall transfer the additional collateral within 3 (three) business days following the communication of the Supervisory Council's Decision.

Article 7
Loan amount

1. The bank submits the loan application up to the amount covered by the eligible collateral that is willing to pledge to guarantee the loan.
2. In any case, the loan amount shall be determined by the Bank of Albania after the collateral evaluation, according to the risk control measures.

Article 8
Loan term

1. The liquidity supporting loan has a maximum term of 92 (ninety two) days .
2. The bank is entitled to request/apply for another loan, in accordance with the conditions stated in this regulation.

Article 9
Loan interest rate

The interest rate on the liquidity supporting loan shall be:

- a- For loans denominated in Lek: 4.0 (four) percent above the key interest rate of the Bank of Albania;
- b- For loans denominated in Euro and in Usd: 4.0 (four) percent above the highest rate of the market rate and the average cost of funds in the respective currencies.

Article 10
Decision-making structures

The decision on granting the liquidity supporting loan and its form shall be taken by the Monetary Policy Implementation Committee of Bank of Albania, based on:

- a) the proposal of the Supervision Department, which will be supported by an analysis and the assessment of the bank's financial condition as well as an assessment of the documentation submitted by the bank in accordance to the, Article 3, paragraph 2, of this Regulation;
- b) The opinion of the Financial Stability Committee on the rationality of granting the liquidity supporting loan; and
- c) The opinion of the Monetary Operations Department on the eligibility and value of the collateral.

Article 11
Disbursement and repayment

1. The Monetary Operations Department notifies the bank immediately on the loan approval and concludes the loan agreement with the bank through: Reuters, Swift, or official letter.
2. The disbursement of the loan guaranteed solely by the eligible collateral specified in Article 5, letters “a” and “c”, shall be done according to the principle “delivery versus payment”.
3. The disbursement of the loan guaranteed, inter alia, by the eligible collateral specified in Article 5, letter “b”, shall be done after the confirmation of the collateral transfer to the securities account of the Bank of Albania.
4. On maturity date, the bank shall repay to the Bank of Albania the loan amount along with interest and the Bank of Albania shall release the pledged collateral based on “delivery versus payment” principle.
5. The bank may repay the loan prior to the maturity date, by paying off interest accrued till the repayment date.

Article 11
Final provisions

1. The Bank of Albania is entitled to initiate the procedures for collateral execution in any of the following events:
 - a) Failure to repay the loan on maturity date;
 - b) Failure to pay the interest;
 - c) Failure to pose additional collateral as defined in Article 6, paragraphs 3 and 4. ,
2. If the value obtained from collateral execution is below the due amount of the loan, including interest, the Bank of Albania may ask the bank to compensate the shortage.
3. During the loan duration, the bank is not allowed to grant further collateral to third parties without the preliminary approval by the Monetary Policy Implementation Committee.

CHAIRMAN
OF THE SUPERVISORY COUNCIL

ARDIAN FULLANI

Annex

The risk control measures will apply only to securities pledged as collateral to guarantee the liquidity supporting loan. The securities evaluation shall be done at least once a week.

Risk control measures consist of :

- a- the initial margin;
- b- the haircut; and
- c- the margin call

a. Initial margin. The Bank of Albania requires the collateral pledged to amount to the loan plus a specified percentage. This percentage is the initial margin. The initial margin for the liquidity supporting loan shall be 10%.

b. The haircut refers to the percentage that is subtracted from the market value of the security. This percentage reflects the characteristics of the security such as; term to maturity, credit risk of the issuer, denomination currency, liquidity etc.

1. The haircut for the securities issued/guaranted by the central government and for the securitues issued by local government in the Republic of Albania.

Table 1: Securities issued by the central government and local government authorities, classified according to liquidity/currency

| Category I | Category II | Category III |
|---|--|--|
| Lek-denominated securities issued or guaranteed explicitly and unconditionally by the Government of the Republic of Albania | Foreign currency-denominated securities issued or guaranteed explicitly and unconditionally by the Government of the Republic of Albania | Lek-denominated securities issued by the Local Government Authorities in the Republic of Albania and guaranteed by the Government of the Republic of Albania |

Table 2: Haircut for the securities issued by the central government and local government authorities, classified according to liquidity.

| Time to maturity (in years) | Securities according to category | | | | | |
|-----------------------------|----------------------------------|-------------|--------------|-------------|--------------|-------------|
| | Category I | | Category II | | Category III | |
| | Fixed Coupon | Zero Coupon | Fixed Coupon | Zero Coupon | Fixed Coupon | Zero Coupon |
| 0-1 | 6.0 | 6.0 | 20.0 | 20.0 | 10.0 | 10.0 |
| 1-3 | 8.0 | 8.0 | 30.0 | 35.0 | 15.0 | 15.0 |
| 3-5 | 9.0 | 10.0 | 40.0 | 45.0 | 20.0 | 22.0 |
| 5-7 | 11.0 | 12.0 | 50.0 | 55.0 | 25.0 | 27.0 |
| 7-10 | 13.0 | 14.0 | 60.0 | 65.0 | 28.0 | 30.0 |
| >10 | 15.0 | 18.0 | 70.0 | 75.0 | 33.0 | 35.0 |

Floating rate securities are subject to the same haircut as the group of fixed coupon securities with remaining time to maturity from 0 (zero) to 1 (one) year.

The Zero coupon group includes zero coupon securities and discount securities (treasury bills).

In case the securities issued by the central government or local government authorities and pledged as collateral, make up more than 10% of the public debt issued by the central government or local government authorities, an additional haircut of 15% is added.

2. Haircut for foreign currency-denominated securities, eligible as investment instruments for the foreign reserve management, as defined in the Regulation "On the policy and manner of foreign reserve management".

Table 3: Securities classified according to liquidity/currency

| Category I | Category II | Category III |
|---|--|--|
| Securities issued or guaranteed explicitly and unconditionally by central governments | Securities issued or guaranteed explicitly and unconditionally by government agencies or other authorities of a sovereign. | Securities issued or guaranteed explicitly and unconditionally by banks |
| Securities issued or guaranteed explicitly and unconditionally by central banks | Securities issued or guaranteed explicitly and unconditionally by supranational organizations | Securities issued or guaranteed explicitly and unconditionally by financial institutions |
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| | Securities issued or guaranteed explicitly and unconditionally by public authorities (local government authorities or other authorities serving the government). | |
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Table 4: Haircut classified according to liquidity categories

| Credit rating | Time to maturity (in years) | Securities according to category | | | | | |
|--------------------|-----------------------------|----------------------------------|-------------|--------------|-------------|--------------|-------------|
| | | Category I | | Category II | | Category III | |
| | | Fixed Coupon | Zero Coupon | Fixed Coupon | Zero Coupon | Fixed Coupon | Zero Coupon |
| AAA To A- | 0-1 | 0.5 | 0.5 | 1.0 | 1.0 | 6.5 | 6.5 |
| | 1-3 | 1.5 | 1.5 | 2.5 | 2.5 | 8.5 | 9.0 |
| | 3-5 | 2.5 | 3.0 | 3.5 | 4.0 | 11.0 | 11.5 |
| | 5-7 | 3.0 | 3.5 | 4.5 | 5.0 | 12.5 | 13.5 |
| | 7-10 | 4.0 | 4.5 | 5.5 | 6.5 | 14.0 | 15.5 |
| | >10 | 5.5 | 8.5 | 7.5 | 12.0 | 17.0 | 22.5 |
| BBB+ to BBB- | 0-1 | 5.5 | 5.5 | 6.0 | 6.0 | 15.0 | 15.0 |
| | 1-3 | 6.5 | 6.5 | 10.5 | 11.5 | 27.5 | 29.5 |
| | 3-5 | 7.5 | 8.0 | 15.5 | 17.0 | 36.5 | 39.5 |
| | 5-7 | 8.0 | 8.5 | 18.0 | 20.5 | 38.5 | 43.0 |
| | 7-10 | 9.0 | 9.5 | 19.5 | 22.5 | 39.0 | 44.5 |
| | >10 | 10.5 | 13.5 | 20.0 | 29.0 | 39.5 | 46.0 |

Floating rate securities are subject to the same haircut as the group of fixed coupon securities with remaining time to maturity from 0 (zero) to 1 (one) year.

For inverse floating rate securities, besides the haircut specified in table 4, the following additional haircuts are added; 10 % for the groups 0 to 5 years, 15% for the groups 5 to 10 years and 20% for the group above 10 years.

c) Margin call. The Bank of Albania requires that the collateral market value, adjusted for the haircut, should be maintained during the loan duration. This implies that in case this value, calculated in the defined evaluation intervals during the loan duration, falls below “a certain level”, the Bank of Albania requires the bank to deposit additional assets, as specified in the regulation, to cover the shortfall in collateral value. The margin call is used to calculate this “certain level”. The margin call is symmetrically applied, meaning that in case the market value increases above the certain level, the bank has the right to ask the Bank of Albania to return the excess value of the securities pledged as collateral.

The margin call shall be 2% of the loan amount.