

## 5. FINANCIAL SYSTEM DEVELOPMENTS

The level of financial intermediation in Albania, measured as a ratio of financial sector assets to GDP, was 86.9% in 2011 H1, from 85.9% at end-2010 and 84.4% in the same period a year earlier. The volume of financial institutions' assets increased by 5.1% compared to end-2010. The banking sector remains the dominant segment of financial intermediation in Albania. Its assets account for about 94.5% of total financial system assets and about 82.2% of GDP.

Table 13 Financial system assets as a share of GDP through the years (in %)

Licensing and Supervisory Authority	Financial system	Years					
		2006	2007	2008	2009	2010	2011/Q2
Bank of Albania	Banking system	69.6	75.9	76.7	77.5	80.9	82.2
	Non-bank institutions	1.52	1.48	1.66	2.2	2.7	2.58
	SLAs and their Unions	0.52	0.63	0.7	0.77	0.78	0.76
Albanian Financial Supervisory Authority	Insurance companies	1.29	1.36	1.45	1.5	1.4	1.44
	Pension funds	-	-	-	0.01	0.01	0.01

Source: Bank of Albania, Albanian Financial Supervisory Authority.

### Box 3 Non-Bank Financial Sector

Non-bank financial sector includes financial institutions supervised by the Bank of Albania and the ones supervised by the Albanian Financial Supervisory Authority (AFSA). The institutions supervised by the Bank of Albania are a) non-bank financial institutions (credit and leasing associations), b) savings and loan associations and their unions, and c) other institutions providing payment and foreign exchange services. The institutions supervised by the AFSA are a) insurance companies, and b) private supplementary pension funds. Securities trading associations are also supervised by the AFSA but their share is negligible.

The non-bank financial sector continues to reflect a relatively small share in the entire financial system. Thus, the total non-bank financial sector assets account for about 5.5% of the financial system, downward from end-2010 (5.7%). The non-bank financial sector's activity represents about 4.78% of Albania's GDP, from 4.9% estimated at end-2010.

Based on the latest data, non-bank financial institutions' assets account for 2.97% of total financial system assets (from 3.1% at end-2010), accounting for about 2.58% of GDP, from 2.7% at end-2010. Assets of insurance companies account for 1.65% of the financial system, from 1.72% compared to end-2010. In the meantime, their share remains around 1.44% of GDP. Assets of savings and loan associations account for 0.87% of total financial system and 0.76% of GDP, without any significant changes compared with end-2010. Private pension funds continue to have a limited share in the total financial system assets and GDP (about 0.01%).

Chart 36 shows the structure of the financial system for each segment operating in Albania.

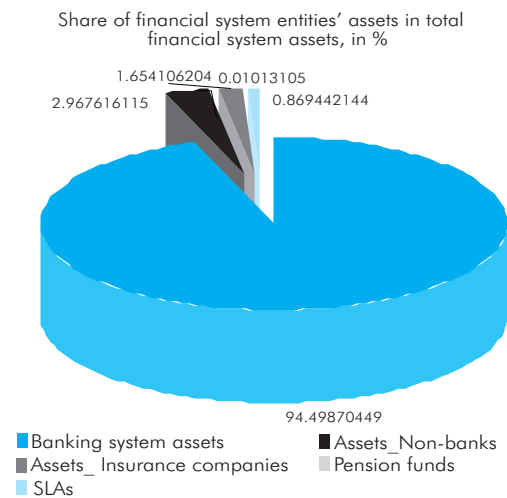
### FINANCIAL ANALYSIS OF THE ACTIVITY OF NON-BANK FINANCIAL INSTITUTIONS

The activity of non-bank financial institutions was relatively positive in 2011 Q2, registering loan portfolio growth, improved capitalization level and increased financial profit. However, the asset level slowed down and the loan portfolio quality fell constantly.

In 2011 Q2, assets of non-bank financial institutions amounted to around ALL 32.8 billion, about ALL 653 million less (or -1.95%) than at end-2010.

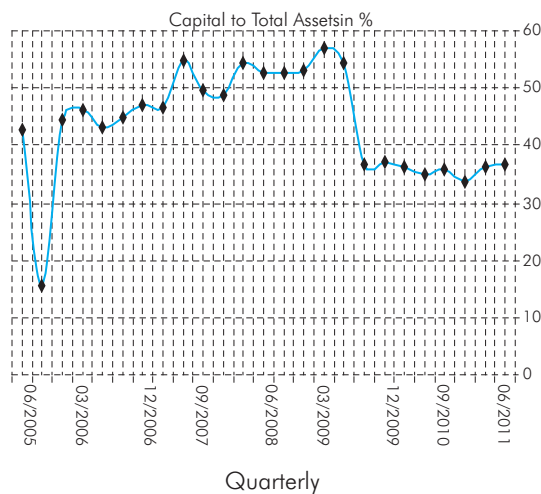
Cash, deposits and accounts made the largest contribution to the decline in the asset level by approximately 163.6%,

Chart 36 Share of financial system entities' assets in total financial system assets, in %



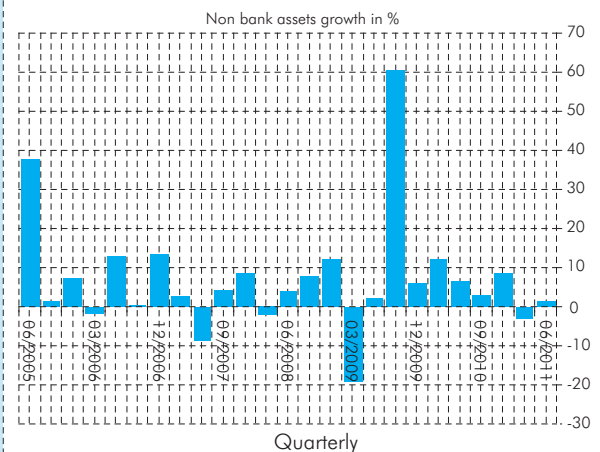
Source: Bank of Albania.

Chart 38 Capitalization of non-bank financial institutions



Source: Bank of Albania.

Chart 37 Growth of non-bank financial institutions' assets, quarterly



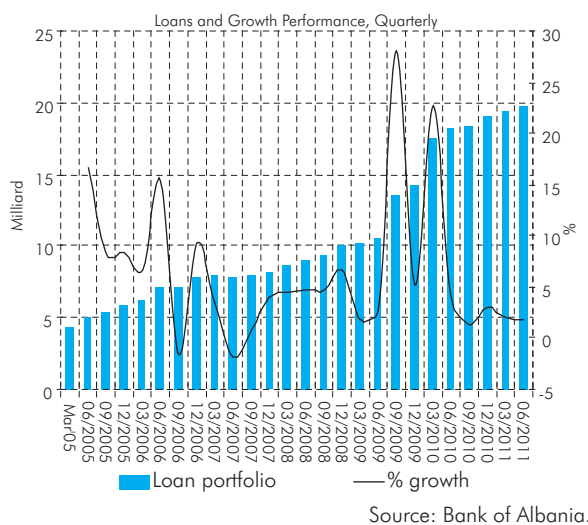
Source: Bank of Albania.

followed by variable-income securities by about 18.1%. "Operations with customers" is the only item that made a positive contribution to asset performance, by about 87.1%.

On the liability side, Other Payables and Loans Received are the items that have contributed negatively, by 73.8% and 131.8%, respectively. In the meantime, the Capital account item made a positive contribution by about 106.2%.

In 2011 Q2, capitalization level, measured as the ratio of capital account to total assets, rose to 36.6%, from 33.7% at end-2010, thus observing the regulatory requirement of over 10%.

Chart 39 Loan portfolio for non-bank financial institutions



The loan portfolio has the main share in total non-bank financial institutions' assets, estimated at about 60.4% for 2011 Q2. Total loans (gross) grew to ALL 19.8 billion, up ALL 3.9% from end-2010.

The loan portfolio quality for non-bank financial institutions worsened further in 2011 Q2. Quality indicator rose to 8.1%, from 5.9% at end-2010. Outstanding loans increased by 3.9%, while non-performing loans increased by about 43.5% for non-bank financial institutions.

Profitability of financial institutions increased in 2011 Q1, with a net profit estimated at ALL 663.9 million, from ALL 628.6 million in the same period a year earlier.

Income for the same period totalled ALL 3.6 billion, about ALL 257.8 million more than in the same period in 2010. Interest income and Commissions income continue to have the largest share in income, 46.4% and 13.9%, respectively. Concerning expenditure, Operating expenses have the largest share. In 2011 Q2, they accounted for 35.2% of total expenditure, less than the figure registered a year earlier (38.7%).

#### Savings and Loan Associations (SLAs)

Total assets of SLAs and their unions for 2011 Q2 decreased slightly by 0.6% compared with year-end 2010, to ALL 9.64 billion. Lending continues to have the main share in the financial activities of SLAs. In 2011 Q2, they reported that about 71.9% of total assets were invested in lending. Loan portfolio quality has improved for SLAs and their unions. Non-performing loans fell to 4.5%, from about 5.1% at end-2010. The net profit of SLAs and their unions was about ALL 9.6 million in 2011 Q2, from ALL 62 million a year earlier.

Chart 40 Non-performing loans to total loans

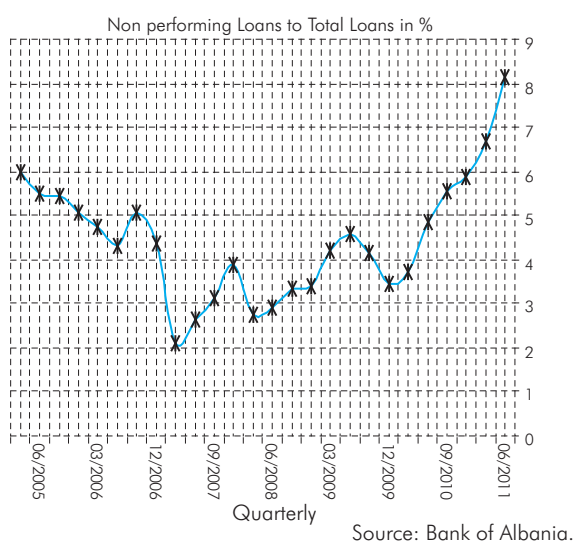


Table 14 shows the performance of several indicators on the activity of SLAs and their unions.

Table 14 Indicators of SLAs activity

	QI-09	QIV-09	QI-10	QII-10	QIII-10	QIV-10	QI-11
Total assets (in ALL million)	7,866	8,765	8,825	9,378	9,581	9,705	9,649
Outstanding loans (in ALL million)	6,419	6,893	7,003	7,125	7,124	7,072	6,946
Outstanding loans /total assets (in %)	81.6	78.6	79.4	75.9	74.4	72.8	71.9
Non-performing loans (in ALL million)	104	135.2	198.8	237.1	262.6	357.9	315.1
Non-performing loans / outstanding loans (in %)	1.62	1.96	2.84	3.3	3.69	5.06	4.5

Source: Bank of Albania.

The above analysis highlights that as at end-2011 Q2, the SLAs and their unions had an improved loan portfolio quality, a positive net profit and a slower expansion of activity.

## INSURANCE COMPANIES AND PRIVATE SUPPLEMENTARY PENSION FUNDS

Concerning insurance companies, income from insurance premiums from January to June 2011 totalled about ALL 4.3 billion, or 8.5% higher than in the same period last year. During January to June 2011, the number of insurance contracts reached 629.225, doubling the number of contracts compared with a year ago. The insurance market remains oriented towards non-life insurance, which accounts for 87.8% of total premiums. The rest is shared by life insurance (about 11.9%) and reinsurance (0.2%).

During 2011 H1, paid claims increased by 9.5% compared with the same period a year earlier. Subsequently, claim/premium ratio, which measures the insurance market penetration in the financial system, is 25.6% at national level.

In terms of the market share by type of insurance, gross written premiums from voluntary insurance account for 55.8% and gross written premiums from compulsory insurance account for 44.2% of the market.

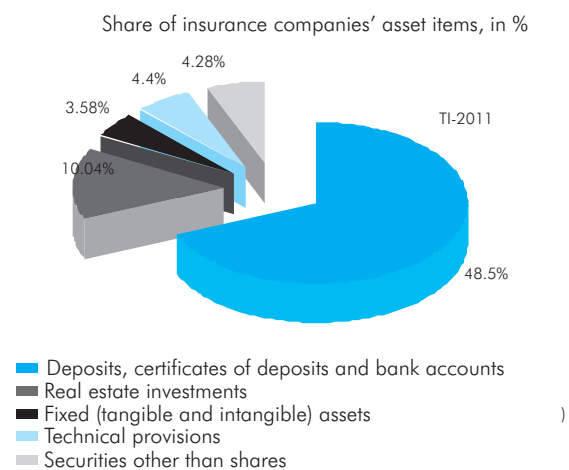
In 2011 Q1, the insurance sector's assets amounted to ALL 18.3 billion, slightly up by ALL 234.6 million (or 1.3%) relative to end-2010. Deposits, certificates of deposit and bank accounts have the largest share in total insurance companies' assets, by about 48.5%, followed by Real estate investments (10%) and Technical provisions (4.4%).

Capital to total assets ratio, which measures the insurance companies' capitalization, rose to 58.8% in 2011 Q1, from 57.7% a quarter earlier. Capital to technical provisions ratio is an indicator that measures the capacity to cover losses incurred from exposure to potential risks. As at 2011 Q1, it stood at 172%, from 168.7% at end-2010. The upward trend of the indicator signals higher absorption of losses arising from the insurance activity.

Insurance companies' profit for 2011 Q1 amounted to ALL 331.8 million, from ALL 362.4 million over the same period a year earlier. The slower profit was also reflected in both return indicators, RoA and RoE, which in 2011 Q1 stood at 1.9% and 3.4%, respectively, from 2.19% and 3.9% in the same period a year earlier.

Private supplementary pension market expanded in January to December 2010, compared with the same period a year earlier, with an increase in the number of contributors. At end-2010, the number of contributors reached 4,992 compared with 4,429 in the same period a year earlier. In terms of value, these contributions rose to ALL 111.9 million, up 53.4% from 2009

Chart 41 Share of insurance companies' asset items



Source: AFSA, Bank of Albania.

## 5.1 GENERAL DEVELOPMENTS IN THE BANKING SECTOR

### 5.1.1 ASSETS, LIABILITIES, AND THEIR COMPOSITION

In 2011 H1, the banking sector assets accounted for 82.2% of GDP, from 80.9% at end-2010 and 79.7% at end-2010 H1. The banking sector assets amounted to ALL 1043.9 billion, increasing by 5.4% from end-2010 and 11.7% from 2010 H1.

The composition of banking sector assets, according to their shares, has changed through the years, as follows:

Table 15 Share of assets (December 2004-June 2011)

Share in total assets (in %)	December 2005	December 2006	December 2007	December 2008	December 2009	December 2010	June 2011	In billions of ALL (June 2011)
1. Treasury and interbank transactions, of which:	58.8	50.6	39.5	30.1	28.7	29.9	29.3	306.0
Transactions with the Central Bank	9.3	8.9	9	8.3	7.8	8.3	7.95	82.9
Treasury	35.3	26.3	17.1	12.8	12	10.4	11.1	116.1
Transactions with other banks	12.2	13.2	11.2	6.6	6.5	9.28	8.49	88.6
2. Operations with customers (gross)	25.7	31.7	39.4	47.6	50.8	49.11	49.7	518.7
Provisions <sup>9</sup>	(0.36)	(5.45)	(6.24)	(1.51)	(2.83)	(3.77)	(4.58)	(47.8)
3. Securities transactions	12.2	14.7	18	20	20.1	21.27	22.0	230.2
4. Other assets	0.7	0.9	1.3	1	0.9	0.92	1.1	11.0
5. Fixed assets	1.5	1.5	1.5	1.8	1.7	1.4	1.3	13.5
Accrued interests (total)	1.60	1.27	1.32	1.30	1.18	1.19	1.17	12.3
Total assets	100	100	100	100	100	100	100	1043.9

Source: Bank of Albania.

In terms of the banking sector asset composition, we note:

- Loan portfolio (excluding accrued interests<sup>37</sup>) amounted to ALL 518.7 billion, up 6.6% from end-2010 and 11.5% from 2010 H1. The 2011 H1 has registered a higher growth rate of outstanding loans than in the same period a year earlier by 4.3%. Foreign-currency loans account for 68.7% of total loans, down 1.1 percentage points from end-2010;

- Treasury and interbank transactions (excluding accrued interests) amounted to ALL 306 billion, up 3.3% from December 2010 and 11.1% from the previous year. This item's growth rate was 8.3% in December 2009-June 2010, due to higher growth of Albanian Government investments in T-bills compared with 2011 H1;

- Banking sector investments in public and private debt securities, both

<sup>37</sup> Estimated at about ALL 4.7 billion.

domestic and foreign, reached ALL 230.2 billion, 9.3% higher than at year-end and 20.9% higher than a year earlier. Investments in debt securities of the Government of the Republic of Albania with an initial maturity of over 1 year account for 71.4% of the total value of these investments, down about 15 percentage points compared to end-2010.

Chart 42 shows the composition and performance of asset items.

The composition of banking sector liabilities, according to their shares, has changed through the years, as follows:

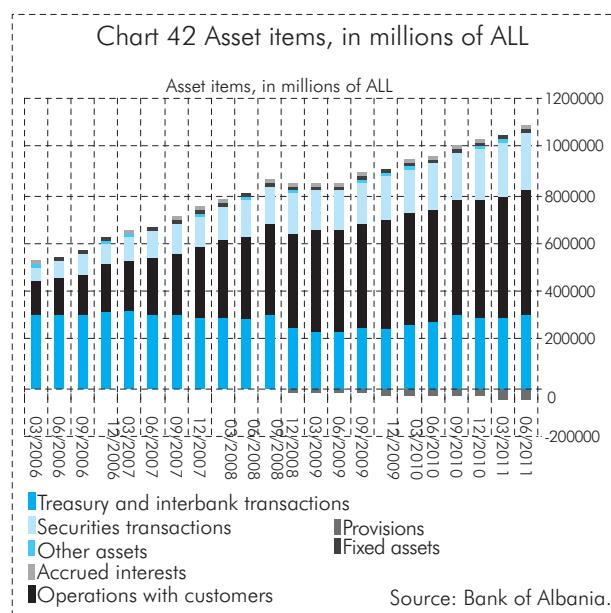


Table 16 Share of liabilities (December 2004-June 2011)

Share in total liabilities (in %)	December 2005	December 2006	December 2007	December 2008	December 2009	December 2010	June 2011	In billions of ALL (June 2011)
1. Treasury and interbank transactions, of which :	4.1	7.6	5.7	11.8	4.5	6.18	6.75	70.4
Transactions with the Central Bank	0.2	0.2	0	0.1	0.2	0.05	0.06	0.6
- Treasury	0	1.4	0.2	2.4	3.6	1.31	2.28	23.8
Transactions with other banks	4	4	5.3	9	4.3	4.7	4.3	44.7
2. Operations with customers (gross)	88.1	84.2	84.9	77.3	88.1	81.27	80.7	842.5
3. Other liabilities	0.6	0.8	1	1.1	1	0.76	1.0	10.9
4. Accrued interests	0.93	0.86	1.14	1.40	1.22	1.21	1.4	14.8
5. Permanent resources, of which:	7.2	7.4	8.4	9.6	10.8	10.58	10.1	105.3
- Shareholders' equity	6.6	6.8	7.5	8.6	9.6	9.4	8.6	90.2
Total liabilities	100	100	100	100	100	100	100	1043.9

Source: Bank of Albania.

In terms of banking sector liability composition, we note:

- Deposits (excluding accrued interests<sup>38</sup>) amounted to ALL 842.5 billion, up 4.6% from December 2010 and 15.4% from 2010 H1. Banks peer group 3 accounts for about 74.7% of the total deposit value;

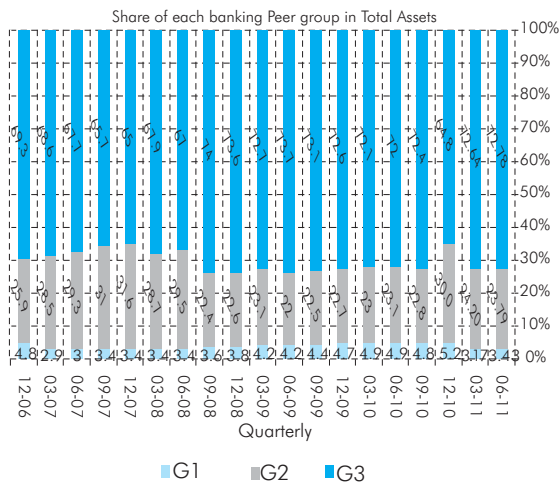
- Treasury and interbank transactions<sup>39</sup> amounted to ALL 70.4 billion. As at end of the period, their volume increased by ALL 9.2 billion or 15% from December 2010, however, it decreased by about 12.5% from a year earlier.

As at end-2011 H1, the share of banks peer groups (by size of activity)

<sup>38</sup> Estimated at ALL 14.4 billion.

<sup>39</sup> Treasury and interbank transactions include: transactions with the central bank, T-bills sold by repurchase agreements, and transactions (borrowings from) with foreign banks (mainly of the banking group they belong to).

Chart 43 Share of each banking peer group in total assets



Source: Bank of Albania.

in total banking sector assets was 72.8%, 23.8% and 3.4%, respectively, for G3, G2 and G1 banks (See Chart 43). The lower share of the small-sized banks peer group owes to the expansion of some of them, being included in big or medium-sized groups. Chart 43 shows the share of each banking peer group's assets.

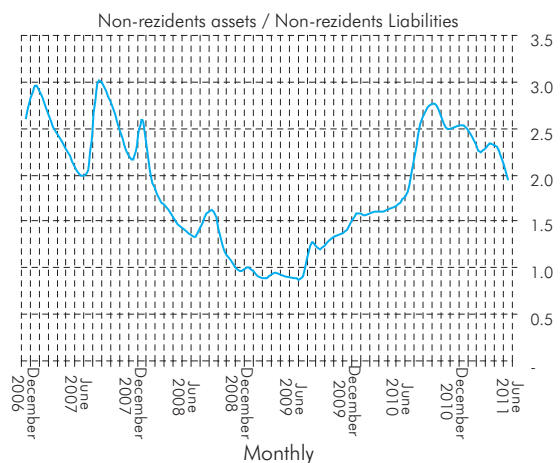
### 5.1.2 BANKING SECTOR'S POSITION TO NON-RESIDENTS

In order to assess the banking sector's position to non-residents, we need to analyze the performance of the banking sector assets and liabilities to non-residents.

The banking sector assets to non-residents, or banking sector investments in non-resident assets rose to ALL 129 billion, up 6% from end-2010 and 23.5% from a year earlier. G3 banks represent 81.7% of total investments in non-resident assets. In the meantime, banking sector placements with non-resident institutions amounted to ALL 69.4 billion, of which ALL 59 billion were in the form of deposit + current accounts and ALL 10.4 billion were in the form of loans. Compared with end-2010, placements with non-resident institutions have decreased by 1.8%.

The banking sector liabilities to non-residents are estimated at ALL 66.2 billion, increasing by 37% compared with December 2010 and 7.7% compared with a year earlier. Credit lines extended from bank-holding companies and the used proportion are estimated at around ALL 19.5 billion. The committed and unused proportion<sup>40</sup> of credit lines is estimated at around ALL 46.1 billion.

Chart 44 Non-resident assets to non-resident liabilities



Source: Bank of Albania.

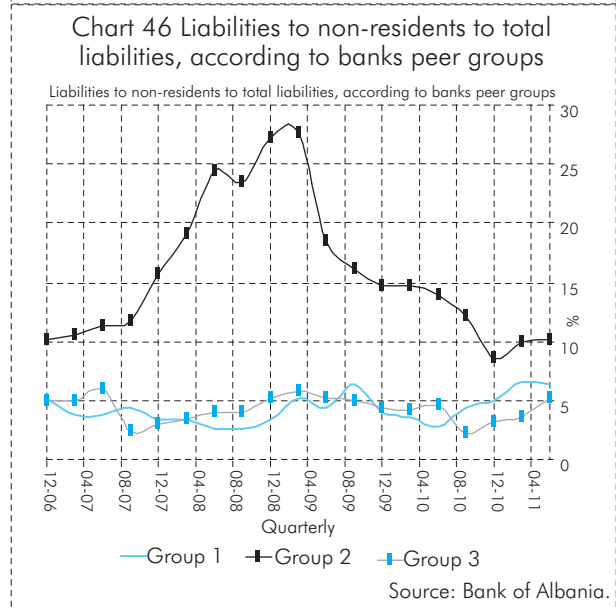
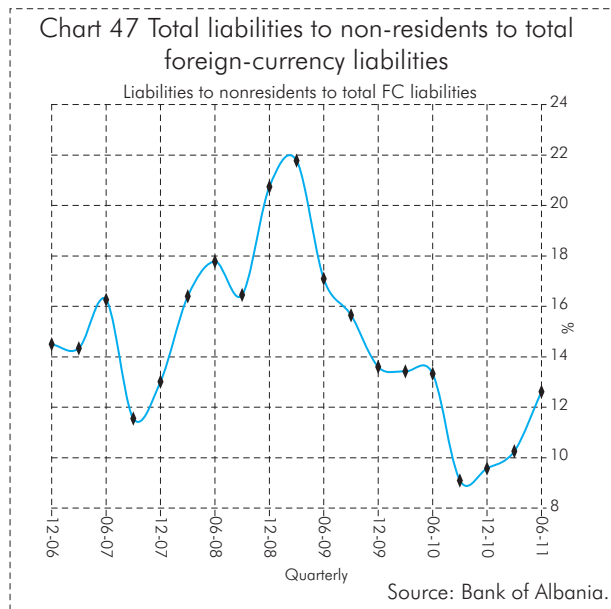
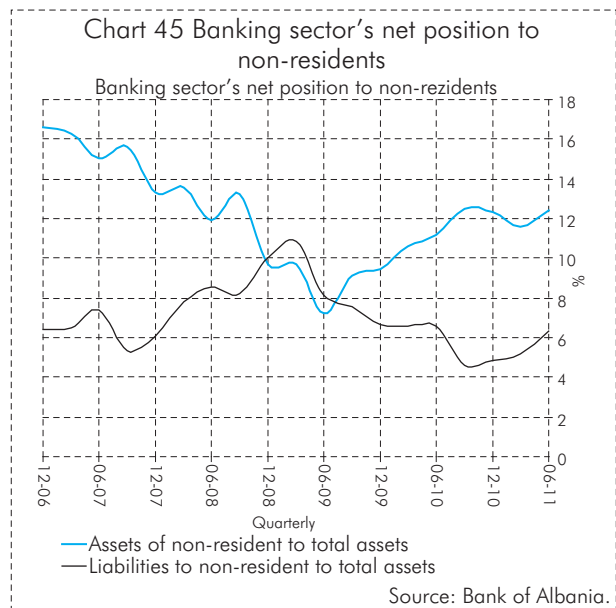
In 2011 H1, the ratio of liabilities to non-residents to total liabilities was 6.3%, from 4.9% at end-2010. In 2011 H1, the pronounced increase in liabilities to non-residents reflected the upward support by bank holding companies.

As at end-2011 H1, the ratio of non-resident assets to total assets fell marginally to 12.4%, from 12.3% at end-2010. Compared with the same period a year earlier, this ratio has risen by 1.2 percentage points.

<sup>40</sup> Registered as off-balance sheet item.

Peer group 2 banks, which appear more exposed to non-resident institutions, have provided the main impact on liabilities to non-residents to total liabilities. Though the ratio increased in 2011 H1, the situation appears normalized, reflecting the stable financial position.

Borrowing from bank holding companies is currently almost always in foreign currency. These funds compete with other banks' financing sources in foreign currency, mainly customer deposits in foreign currency. It is, therefore, of interest to know the share of liabilities to non-residents in total foreign-currency liabilities. As at end-2011 H1, this indicator stood at 12.6%, compared with 9.6% at end-2010 and 13.3% at the end of 2010 H1. This

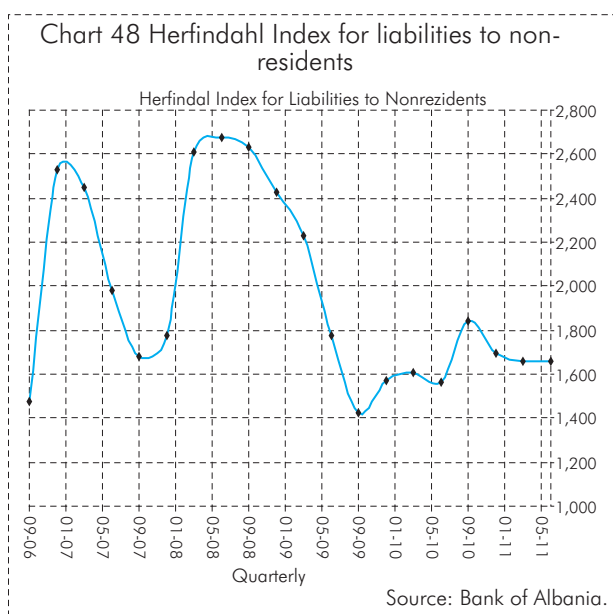


increase has reflected the need of individual banks to obtain foreign-currency funds from non-residents, when lacking the possibility to obtain them from residents, particularly through customer deposits in foreign currency.

Herfindahl Index in Chart 48 shows the concentration of exposure to non-residents<sup>41</sup>. The banking sector's concentration in 2011 H1 is assessed as moderate, at 1,661. The Herfindahl Index shows a slightly decreased concentration relative to end-2010 H2.

<sup>41</sup> A HHI index is interpreted as follows: 0.01 (or 100) indicates a highly competitive index; 0.1 (or 1,000) = an unconcentrated index; 0.1 – 0.18 (or 1,000 to 1,800) = moderate concentration; above 0.18 (or 1,800) = high concentration.

### 5.1.3 OUTSTANDING LOANS



As at end-2011 H1, banking sector's outstanding loans amounted to ALL 518.7 billion<sup>42</sup>, about ALL 32.5 billion or 6.6% higher than at end-2010. The lending growth rate over this six-month period is estimated as higher than in the same period a year earlier, up 2.2 percentage points. It is estimated that outstanding loans account for about 41.2% of Albania's GDP.

The growth of outstanding loans was mainly due to the increase in Lek-denominated loans by about ALL 14 billion or 9.4%, and in euro-denominated loans by about EUR 72 million or 3.5%. USD-denominated loans have declined by about USD 12.2 million or 3.8%. Loans denominated in other foreign currencies have also declined by about ALL 47 million or 5.6% relative to end-2010.

As at end-2011 H1, outstanding loans in foreign currency and in Lek had a respective share of 68.7% and 31.3%, undergoing slight changes compared with end-2010.

In terms of outstanding loans composition at end-2011 H1, the short-term loans amounted to about ALL 171.9 billion or 32.8%; medium-term loans amounted to about ALL 106.8 billion or 20.4%; and, long-term loans amounted to about ALL 244.1 billion or 46.6%. This loan distribution by maturity shows levels close to those seen at end-2010.

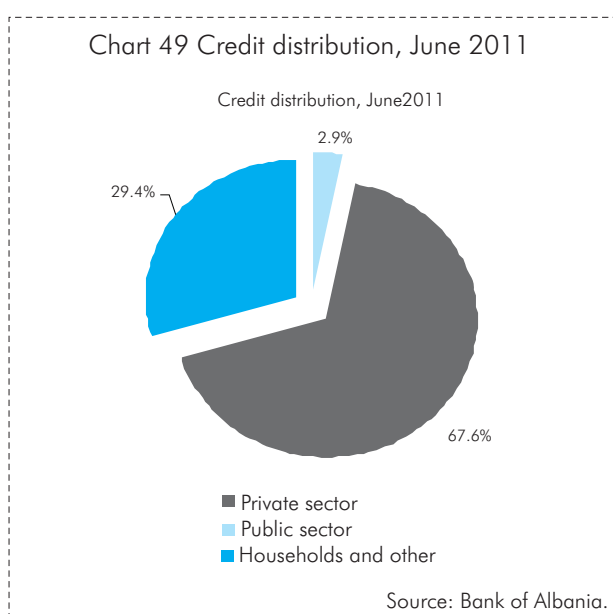
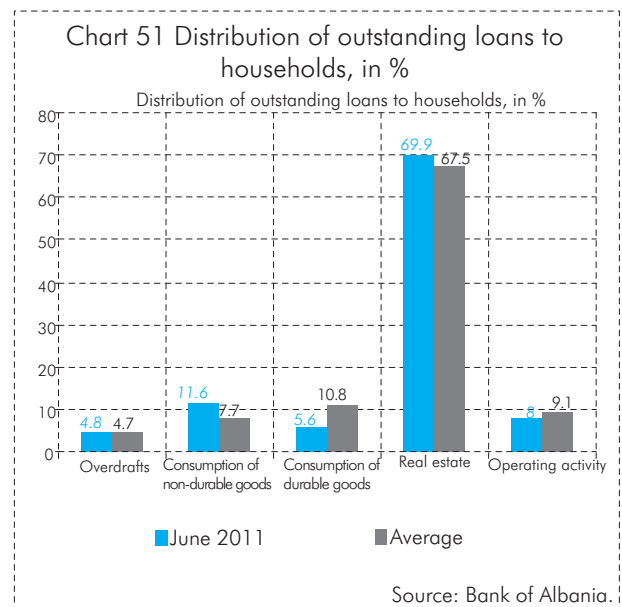
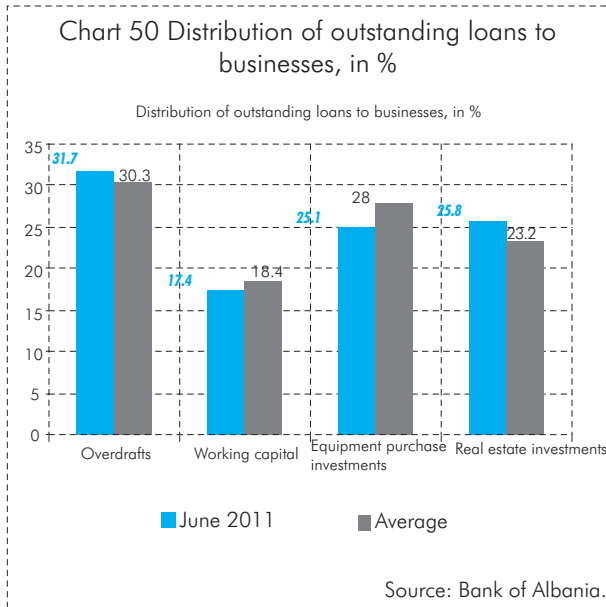


Chart 49 shows the outstanding loans distribution by public sector, private sector and households.

As at end-2011 H1, outstanding loans to the private sector reached ALL 353.8 billion, up ALL 23.6 billion or 7.2% from end-2010. Outstanding loans to households reached ALL 154.1 billion, up ALL 6.4 billion or 4.3% from December 2010. Despite the greater financial support by the banking sector to the private sector than to households, the figures for the same period a year earlier show an improved growth rate of outstanding loans to households, while outstanding loans to the private sector have been characterized by a constant growth rate<sup>43</sup>.

<sup>42</sup> Including accrued interests, the loan portfolio amounted to ALL 523.4 billion.

<sup>43</sup> As at June 2011, outstanding loans to households increased by about 4 percentage points versus the current growth rate of 4.3% (December 2010-June 2011). Outstanding loans to the private sector have maintained the same growth rate as in the previous year (0 pp spread).



Charts 50, 51 and 52 show the distribution of lending to businesses and households by form and purpose of use and a comparison with the average for 2007-2011.

With respect to the distribution of loans to the two major sectors, businesses and households, over the course of the last 4 years, outstanding loans to businesses in the form of overdrafts have had the largest share. Loans for purchase of equipment have decreased, shifting to loans for investments in real estate. Outstanding loans to households present a shift to loans for the consumption of non-durable goods and real estate purchases.

As at end-2011 H1, pure consumption loans, identified as household loans in the form of overdrafts for the consumption of durable and non-durable goods, are estimated at ALL 32.5 billion or 6.5% of the total loan portfolio, 22% of the household loan portfolio and 2.6% of Albania's GDP. Loans for investment purposes, in the form of purchase of equipment and operating activity, are estimated at ALL 99.9 billion or 20% of total loan portfolio and 7.8% of GDP. Loans for investment in real estate to businesses and households are estimated at ALL 193.8 billion or 15.3% of Albania's GDP.

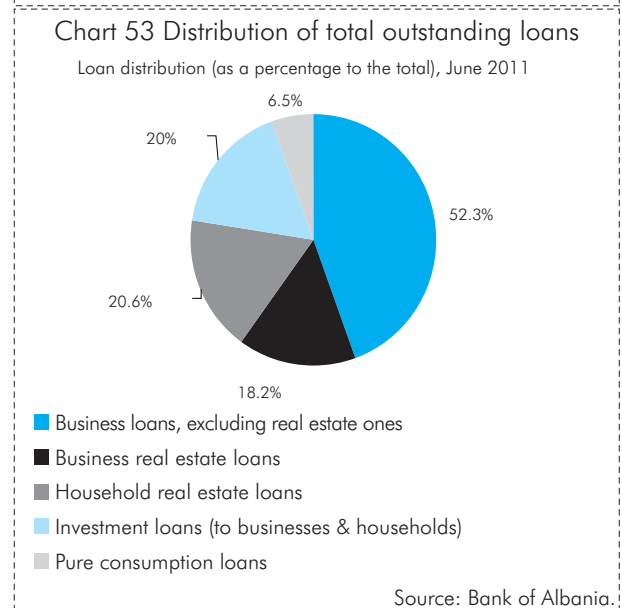
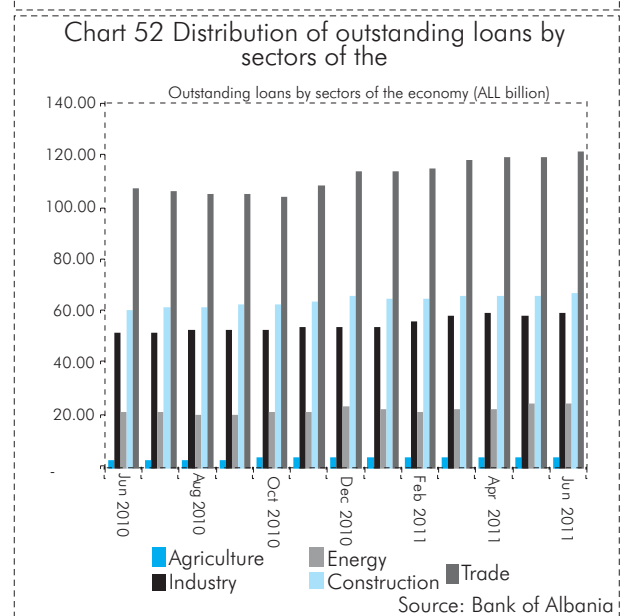
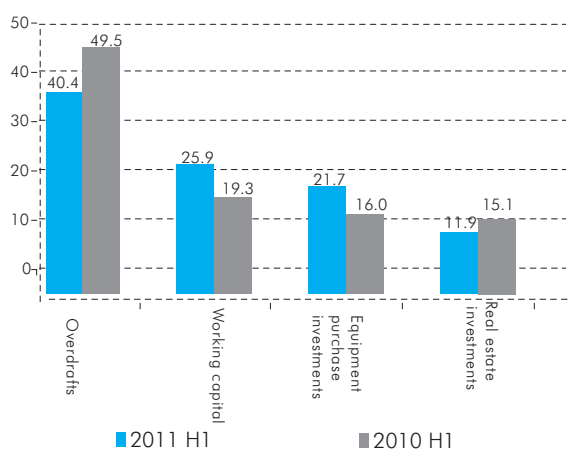
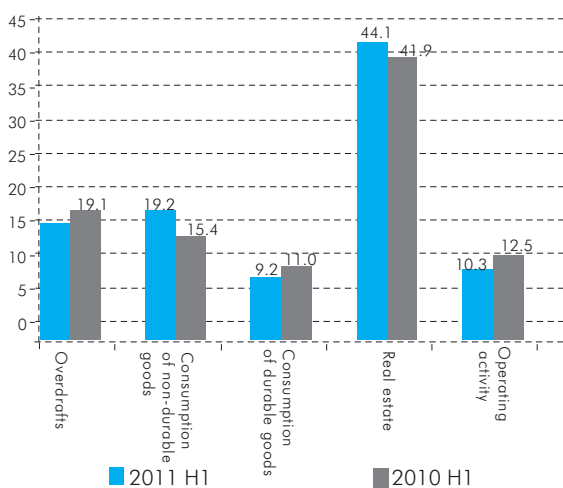


Chart 54 Distribution of new business loans by purpose of use (in %)



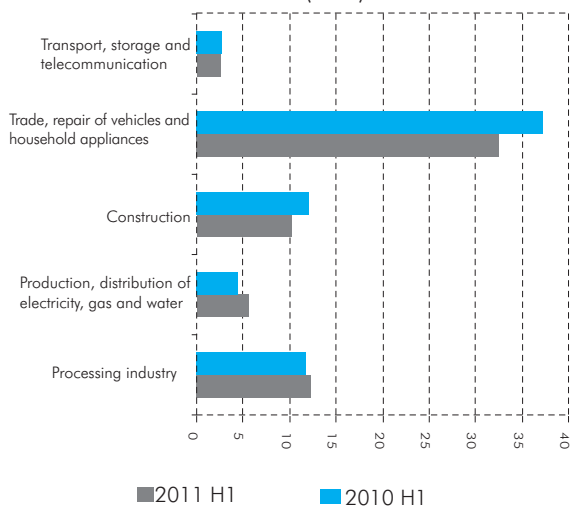
Source: Bank of Albania.

Chart 55 Distribution of new household loans by purpose of use (in %)



Source: Bank of Albania.

Chart 56 Distribution of new loans by economy sectors (in %)



Source: Bank of Albania.

Box 4 New loans

In 2011 H1, the banking sector's new loans amounted to ALL 129.8 billion, down slightly by 0.4% from the same period a year earlier. Over the same period, the banking sector collected around ALL 103 billion, from ALL 113.7 billion in the same period in 2010. The ratio of collected loans to extended loans represents the loan use indicator. As at 2011 H1, this ratio stood at 79.5%, from 87.3% in the same period a year earlier.

In terms of users, in 2011 H1, businesses were extended about ALL 106.9 billion, or about 82% of total new loans, while households were extended about ALL 22.8 billion or about 18% of total new loans.

In 2011 H1, new business loans by purpose of use were distributed as follows: overdrafts account for about 40.4% (from 49.5% a year earlier); working capital loans account for about 25.9% (from 19.3% a year earlier); equipment purchase investment loans account for about 21.7% (from 16% a year earlier); and real estate investment loans account for about 11.9% (from 15.1% a year earlier). In 2011 H1, new business loans for overdraft and real estate investments seem to have shifted to new loans for working capital and equipment purchases.

In terms of the households sector, new loan distribution by purpose of use presents the following highlights: an increased share of new loans for non-durable consumer goods and for real estate purchases; decreased share of new loans for the three other items by purpose of use, concretely for overdraft, durable consumer goods and operating activity.

In terms of composition by currency, 2011 H1 highlighted the increase in new ALL-denominated loans by about 11.7% to ALL 51 billion, and decline in new foreign currency-denominated loans, by 23% for new loans in USD and 3% for those in euro, to ALL 12.8 billion and ALL 66 billion, respectively.

In terms of new loan distribution by maturity, 2011 H1 highlighted a shift towards longer maturities, whose share rose to 21.6%, from 17% in the same period last year.

As regards loan distribution by economy sectors, 2011 H1 highlighted a downward share of new loans to the sector of trade, repair of vehicles and household appliances, as well as to construction, to 32.5% and 10.2%, from 37.2% and 12.1% for the same period last year.

## 5.1.4 DEPOSITS

In 2011 H1, the level and performance of banking sector deposits registered growth. They remained concentrated in the largest banks of the banking sector<sup>44</sup> and the degree of their concentration increased as compared to end-2010.

In 2011 H1, total deposits increased by 4.9%<sup>45</sup> compared with December 2010 and 15.3% compared with the previous year.

Table 17 Annual growth of total deposits of the banking sector through 2004-2011

Period	2004	2005	2006	2007	2008	2009	2010 H1	2010	2011 H1
Total deposit growth, (in %)	13.4	16.4	20.1	19.9	2.4	7.6	7.04	17.7	4.9

Source: Bank of Albania.

Chart 57 Banking sector deposits by maturity, as at end of 2011 H1

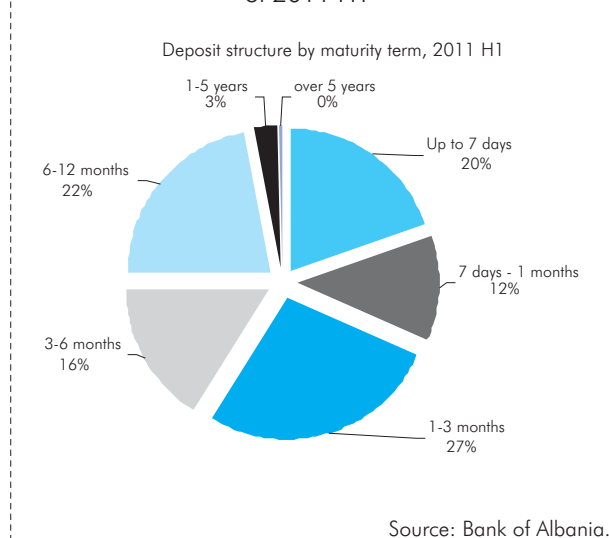
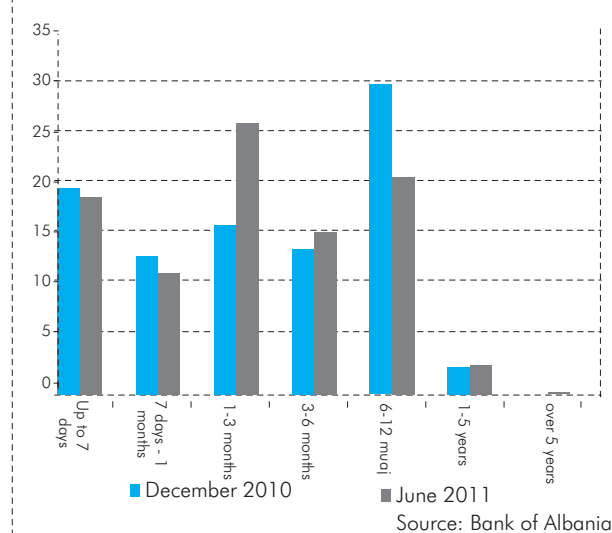


Chart 58 Banking sector deposits by maturity (compared with the previous period)



Charts 57 and 58 show the composition of deposits by remaining maturity and the change between 2011 H1 and end-2010. There is noted a change in the deposit structure, which is an outcome of increase in the share of 1-3 month deposits by 10 percentage points and decline in the share of 6-12 month deposits by 8 percentage points. The share of deposits of 1-5 years, albeit small, has increased about 82% over the period.

Deposit structure by currency highlights that in June 2011, ALL-denominated deposits accounted for 52% of total deposits, amounting to ALL 445 billion, whereas those in foreign currency accounted for ALL 411,6 billion. The share of ALL-denominated deposits increased by 0.8 percentage points relative to end-2010, however, they have declined by 1.6 percentage points relative to June 2010.

<sup>44</sup> The concentration of deposits in the banking system is measured by using the Herfindahl Index. As at June 2011, it was 1524, from 1502 at the end of 2010. In general, the regulatory agencies in America use this index to take preliminary measures for preventing the concentrated markets, at the moment of approving mergers or acquisitions of companies. The index value above 1800 indicates a high concentration.

<sup>45</sup> Including accrued interests.

## Box 5 New deposits

New ALL-denominated deposits increased during 2011 H1. Hence, as at June 2011, new ALL-denominated time deposits accepted amounted to ALL 326 billion or about 7% higher than in 2010 H1. Worth noting is that this increase has occurred at a time when interest rates on new ALL-denominated deposits have declined. Hence, the average interest rate on new ALL-denominated deposits was 4.8% in 2011 H1, compared to 5.3% in the same period last year.

Regarding the maturity structure of new ALL-denominated deposits, the first half of 2011 highlights that the share of new ALL-denominated deposits of 3-month maturity dropped about 2.5 percentage points, to 15.5% compared with the same period in 2010, whereas the share of new ALL-denominated deposits of 1-year maturity increased by about 2 percentage points, to 26%.

New USD-denominated time deposits accepted by the banking sector over 2011 H1 were USD 476.1 million, down 9.6% from 2010 H1. Time-deposit structure has changed, mainly in those with a maturity of 1 year being increased by 4.1 percentage points, and in those with a maturity of 1 month being decreased by 5.8 percentage points.

New EUR-denominated time deposits accepted by the banking sector over 2011 H1 amounted to EUR 2.45 billion, falling by 21% compared with 2010 H1. Their maturity structure highlights that the share of 1-month EUR-denominated deposits fell by 14.2 percentage points, to 56.2%, whereas the share of 3- and 12-month EUR-denominated deposits increased by 6.2 and 4.6 percentage points, to 18.8% and 13%, respectively, compared with the same period last year.

Average interest rate on new EUR-denominated deposits was 2.2% in 2011 H1, compared with 2.3% in the same period last year.

Average monthly interest rate on new USD-denominated deposits was 1.2% in 2011 H1, compared with 1.35% in the same period last year.

Chart 59 Total volume of new ALL-denominated deposits against average interest rates on current accounts and ALL-denominated time and demand deposits

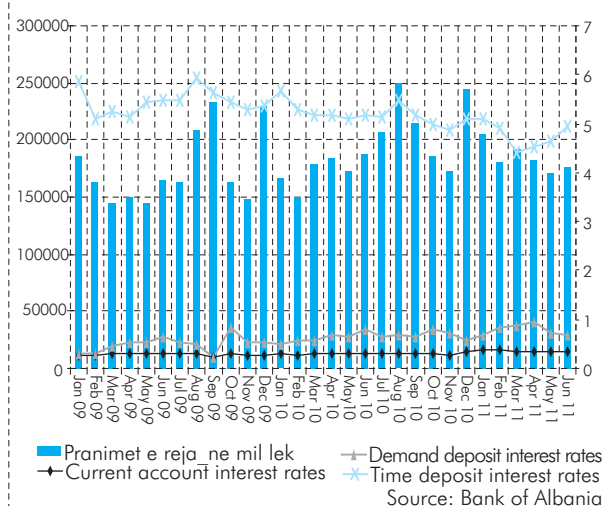


Table 18 Share of maturities of new deposits, by currency

Share of maturities (%)	ALL		USD		EUR	
	2010 H1	2011 H1	2010 H1	2011 H1	2010 H1	2011 H1
2-year	0.98	1.51	0.58	0.48	0.33	0.80
1-year	24.02	26.03	13.77	17.86	8.71	13.36
6-month	12.72	13.51	15.23	15.64	7.79	10.54
3-month	18.00	15.52	25.54	25.79	12.60	18.83
1-month	44.06	43.44	44.83	38.98	70.44	56.24

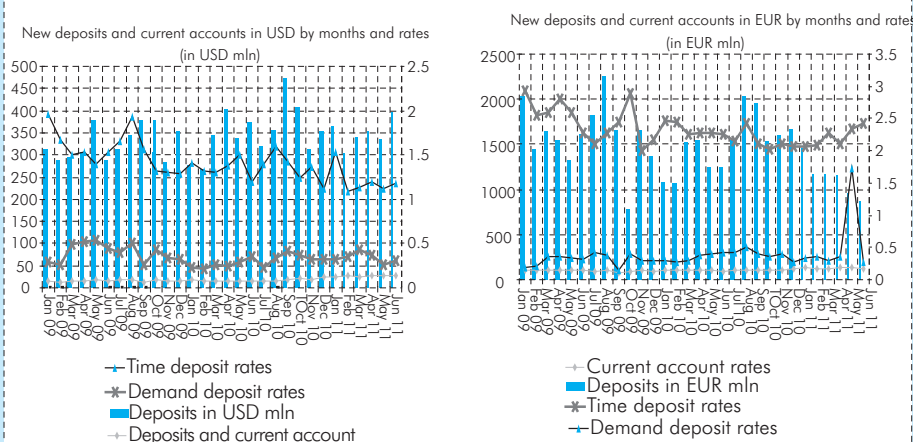
Source: Bank of Albania.

New ALL-denominated deposits and current accounts in 2011 H1 generally reflected the performance of interest rates. The largest value of new deposits corresponds to the highest interest rate for the period. However, the fluctuations have not been substantial over the course of months and have reflected stability and an ongoing improvement.

New EUR-denominated deposits and current accounts showed volatility and decline in 2011 H1. However, due to seasonal effect, they are expected to increase over the second half, similarly as over the same period in 2009 and 2010. The same

developments are observed even with regard to new USD-denominated inflows.

Chart 60 Total volume of new foreign-currency deposits against average interest rates on current accounts, EUR and USD demand and time deposits



Source: Bank of Albania

The performance of new deposits over 2011 H2 has generally confirmed the stable growth of public deposits in the banking sector. This element helps improve the structure of financial resources in the banking system and enhances the efficiency of financial intermediation.

### 5.1.5 CAPITAL

As at year-end 2010, Permanent Resources<sup>46</sup> totalled ALL 105.3 billion, thus maintaining their upward trend. Their main item, Shareholders' Equity amounted to ALL 90.2 billion at end-period, down by ALL 2.9 billion or 3.1% from end-2010 and up by only 0.5% on a year earlier. Shareholders' equity accounted for 8.6% of total assets, compared with 9.4% at end-December 2010 and 9.6% on a year earlier. Banks peer group 3 accounted for 69.6% of total banking sector's shareholders' equity, from 64.4% at end-2010.

Paid-in capital totalled ALL 73.1 billion, up ALL 2.4 billion or 3.4% from end-2010, due to injection of capital in several banks of the system. It accounted for 7% of total assets, almost at the same level as at December 2010, but upward on a year earlier.

### 5.1.6 PROFITABILITY AND EFFICIENCY IN USING RESOURCES

As at 2010 H1, average earning assets rose to ALL 919.1 billion, accounting for about 90.7% of banking sector's total average assets. This indicator pointed to increase by ALL 63.8 billion or 7.5% compared to end-2010, almost at the same growth rate as in the same period last year (by 7.3%). Average paying

<sup>46</sup> It includes the capital account (shareholders' equity, retained earnings/loss, the year's profit/loss), reserves (general, specific), revaluation, etc.

liabilities to average earning assets stood at 93.3%, about 0.4 percentage points higher than at end- 2010, but almost unchanged on a year earlier.

Banking sector’s operating income<sup>47</sup> amounted to ALL 22 billion or 2.7% higher than in the same period last year. Operating costs<sup>48</sup> were ALL 11.7 billion or 1.7% higher than a year earlier. As a result, the ratio of operating costs to income was 52.9%, from 53.4% in the same period a year earlier. General operating expenses<sup>49</sup> to income accounted for 93%, compared to 80.9% in June 2010, a consequence of increase in provisioning expenses relative to the same period a year earlier.

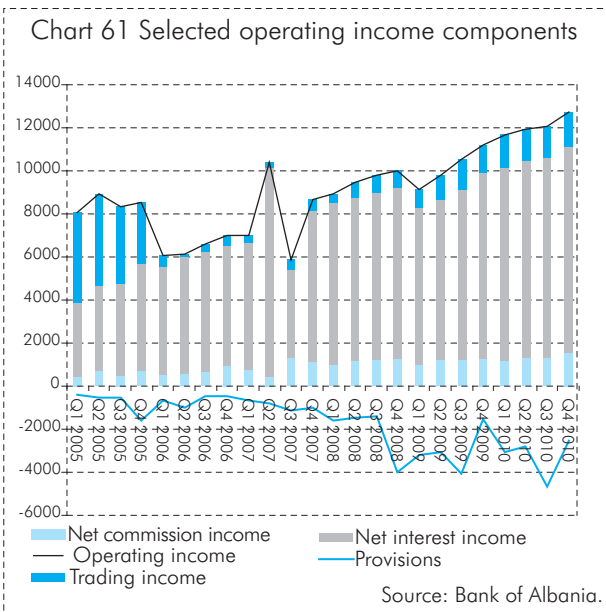
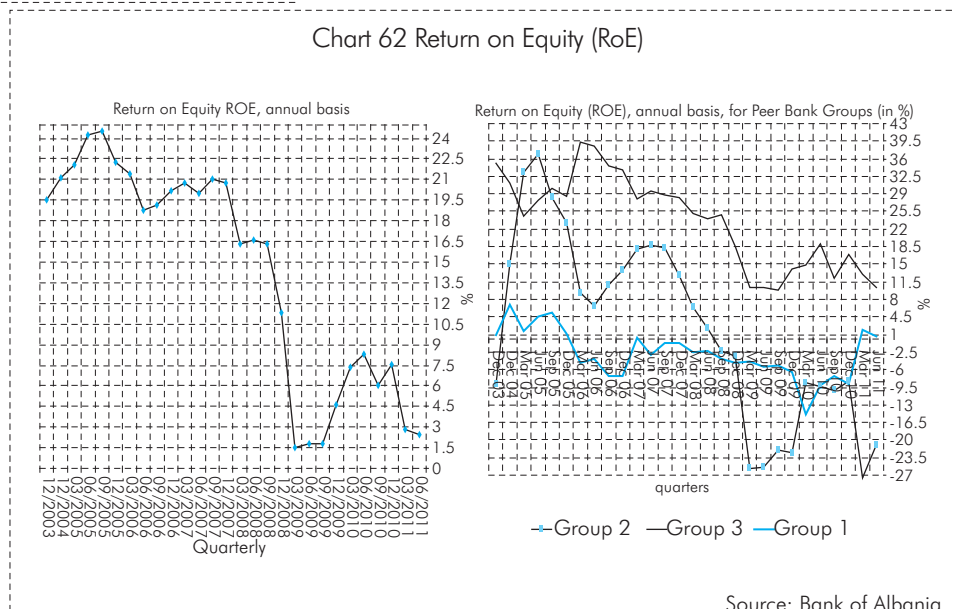


Chart 61 shows the composition of the banking sector’s operating income, which is expressed as the sum of net interest income, net commission income and net trading income.

As at 2011 H1, the net profit was positive, at ALL 1.1 billion, being 69% lower than in the same period a year earlier. Despite the increase in the net interest income by ALL 1.3 billion compared with the same period a year earlier, the decline in net profit from other activities (by ALL 672 million or 20%) and mainly the increase in provisions by about ALL 3 billion or 50% compared with 2010 H1, explains the significant decline in the net profit.



<sup>47</sup> Net interest income plus other net income.

<sup>48</sup> Excluding provisioning expenses.

<sup>49</sup> Operational costs plus provisioning expenses and other reserves.

Also, the banking sector's profit remains concentrated in the largest banks. Annualized Return on Assets (RoA) is estimated at 0.22%, from 0.79% in the same period a year earlier. Annualized Return on Equity (ROE) is estimated at 2.4% from 8.31% as at 2010 H1.

