

SUPERVISORY COUNCIL OF THE BANK OF ALBANIA



Mr. Gent Sejko, Chair



Ms. Natasha Ahmetaj, Member



Mr. Tonin Kola, Member



Mr. Ridvan Bode, Member



Ms. Luljeta Minxhozi, Deputy Chair



Ms. Suela Popa, Member



Ms. Edlira Luçi, Member



Ms. Violeta Staka, Member



Mr. Artan Hoxha, Member

1. SUPERVISORY COUNCIL OF THE BANK OF ALBANIA

The Supervisory Council is the highest decision-making and supervisory body of the Bank of Albania. As such, it is responsible for formulating monetary policy and approving guidelines for its implementation. The Supervisory Council has the ultimate responsibility for deciding on the strategy of the Bank of Albania, the appointment of heads of departments, approval of organizational structure, as well as the fulfilment of obligations related to risk management and compliance. The Supervisory Council performs its activity in line with the provisions of the organic law and the procedures established in the Regulation on the organisation and functioning of this body.

The internal audit functions are delegated to the Audit Committee, which is responsible for the financial reporting process and the internal audit system.

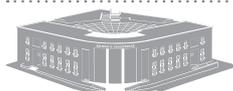
The decision-making process at the Bank of Albania is guided by the principles of lawfulness, professionalism, independence, and transparency.

Covid-19 was the “subject” throughout 2020. The announcement of a national state of emergency, in response to the pandemic, considerably affected the activity and functioning of the Council.

To mitigate its impact on the economy, the Council undertook a set of banking supervision and monetary policy measures. These measures proved crucial in supporting Albanian citizens, urging households and enterprises to access credit, reducing risks to banks, and sustaining banks to finance the economy.

The Council, to address liquidity problems to enterprises and households, temporarily suspended requirements on the classification and provisioning of loans. These enabled clients to apply to banks for extension of credit payments, with no penalties. In addition, the Council enabled banks to restructure loans within this year, with neither additional provisioning nor worsening of borrower’s status. The entry into force of more severe measures on the classification and provisioning of reclassified of loans was extended by one year. Groundwork has been laid for out-of-court restructuring of borrowers with problems, which will become possible in 2022.

On the other hand, the Council cut the policy rate to a new historical minimum of 0.5%, by further reducing borrowing costs to both households and enterprises, aiming at bolstering consumption and investments. To strengthen banks’ capacities to absorb losses and support lending to households and enterprises, the distribution of profit from banks was suspended until the end of the year.



In parallel, to urge internet banking, which contributes to a reduction of the number of people requesting services at bank branches, the Council removed commissions on transactions of money in lek.

The Council held 15 meetings, as scheduled in the annual schedule of meetings. Eight of these meetings focused on review and approval of monetary policy. Four meetings were dedicated to financial stability, while three meetings addressed the annual programme of the Supervisory Council; the Annual Report of the Bank of Albania; and, the medium-term strategy, and the annual and medium-term budget.

The Council has regularly received information about the institution's management policies and methods and procedures related to the use of financial assets for the operational activity of the Bank of Albania. Regular information was presented on the financial position and achievements of the Bank of Albania. Information was also provided by the Investment Committee on foreign currency reserve management. The Council has received regular reports on the findings and recommendations from audits of the Audit Department, on the effectiveness and quality of internal control systems, risk management and Bank of Albania management.

Nevertheless, the emergency situation required decisions to be made via electronic means of communication. For this reason, in 2020 a record number of circulating decisions were registered - 19 decisions in total. Due to observance of social distancing measures, meetings of the Council, starting from August, were held virtually, through the Webex platform.

In December 2020, Parliament elected a new member to the Council, Ms Violeta Staka, complementing the composition of the Council's 9 members, who are elected and appointed by this institution.

THE SUPERVISORY COUNCIL - THE HIGHEST DECISION-MAKING BODY OF THE BANK OF ALBANIA

The Supervisory Council has the power to approve all decisions, regulations and guidelines of general application, issued by the Bank of Albania.

During its activity throughout 2020, the Council approved 81 decisions, of which 60 were acts approved for the first time and 21 were amendments to existing acts.

These acts were issued in accordance with the duties of the Supervisory Council, as stipulated in the Law on the Bank of Albania, such as: (i) monetary stability; (ii) licencing, regulation and supervision of banks and other financial institutions; and (iii) provision of financial infrastructure (currency issue; payment settlement; clearing of payments and securities; and oversight of payment systems).



- **Management and internal organisation**

The organic law defines the Supervisory Council as the body responsible for: (i) approving the Statutes and internal regulations of the Bank of Albania, (ii) determining organisational structure, and (iii) approving appointments of the heads of departments and defining employment conditions at the Bank of Albania.

In November, the Council reviewed the Medium-term Development Strategy of the Bank of Albania for the period of 2021-2023, keeping the Bank of Albania's mission, vision and values unchanged. This Document updates the existing strategy for the period 2020-2022.

In fulfilment of its responsibilities with regard to the internal organization of the institution, in December the Council adopted some amendments to the organisational structure of the Bank of Albania, aimed at meeting the needs of some departments for fulfilling the strategic objectives, improving work processes, by increasing the number of employees or reclassifying the existing job positions.

- **Budget**

The Supervisory Council decides on the budget of the Bank of Albania, the management policies and the procedures on using financial assets to carry out the operational activity of the institution, pursuant to the Law on the Bank of Albania.

In November, the Council approved the budget of the Bank of Albania for 2021-2023. The budget was drafted in accordance with the Medium-term Development Strategy of the Bank of Albania and departmental projections on medium-term incomes and expenses.

The budget of the Bank of Albania for 2021-2023 aims at: (i) further improving the monetary policy and operations framework; (ii) further developing professional capacities; (iii) supplying the economy with qualitative banknotes and its prudential processing; (iv) enhancing communication and transparency with the public; and (v) improving information technology; security and premises infrastructure where the activity of the Bank of Albania is conducted.

The capital expenditures and the projections included in the budget were preliminarily approved by the Capital Expenditures Committee

THE SUPERVISORY COUNCIL - THE HIGHEST SUPERVISORY BODY OF THE BANK OF ALBANIA

The Supervisory Council is regularly informed by the internal and external auditors on the compliance with the law and other acts regulating the daily activity of the Bank of Albania.



- **Internal audit**

The internal audit is an activity independent of management. It includes the functions of compliance, internal auditing and risk management, carried out by providing evaluation, reporting and objective certainty.

1. Control over management

The administrators (the Governor and the two Deputy Governors) inform the Supervisory Council on a monthly basis about economic, financial and monetary developments in accordance with the legal obligations

The Supervisory Council has been also informed about the institution's management policies and the use of financial assets for realisation of the operational activity of the Bank of Albania. In accordance with the organic law, the Governor is accountable to the Supervisory Council for the implementation of the approved decisions, as well as for guidance, audit and oversight of management and operations of the Bank of Albania.

The Inspector General and the Audit Department control and present the Council reports and recommendations on the accounts and books, as well as on budget, accounting and audit procedures at the Bank of Albania.

2. Activity of the Audit Committee

In order to increase efficiency and depth in specific areas, the functions of internal audit are delegated to the Audit Committee, which exercises its duties to support the strengthening of internal and external control lines. The Audit Committee is responsible for: (i) the financial reporting process; (ii) the internal control system; (iii) the internal and external audit; and, (iv) compliance with the legal and sub-legal acts which are in force.

The Committee is composed of three members, namely: Ms Suela Popa (Chair), Mr Ridvan Bode and Ms Edlira Luçi. Members are elected for a three-year term, with the right to be re-elected only once. Administrators may not be members of the Committee.

In 2020, the Audit Committee held seven meetings, which included review of the following: (i) the annual work plan and internal audit commitments for the year; (ii) the regular report of the Inspector General on the audit activity; (iii) the audit of financial statements for the Bank of Albania and the Pension Fund, along with the letter on management and the opinion of the external auditor; (iv) the annual budget and the planned medium-term budget; and (v) the Code of Conduct for the Bank of Albania, a recommendation of the Parliament's resolution.

The Council approved some amendments to the Regulation "On the functioning of Audit Committee" which aim at improving the functioning of the Committee in



line with the best international standards and in accordance with the Regulation of the European Central Bank.

The Committee has informed the Council regularly of its activity and the implementation of its responsibilities, through specific information, presented to the Council by the Chair and the members.

3. Internal audit

The Inspector General and the Control Department, periodically and independently (i) assess the accounts and the accounting records as well as the management and operational procedures of the Bank of Albania, in order to ensure implementation of legal and sub-legal acts; and (ii) offer reasonable insurance of the efficiency of the audit system as well as risk and processes management, in order to fulfil institutional objectives.

The Inspector General has reported regularly to the Council on the realisation of the annual plan of Control department and the result of the auditing commitments. The plan is based on international internal audit standards and the updated risk assessment of the identified functions in the revised audit universe.

4. Business continuity

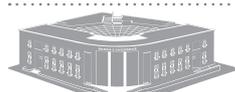
For the implementation of business continuity of the Bank of Albania's activity, the Inspector General has informed the Council regarding the measures undertaken by the Bank of Albania for handling the emergency situation created by the Covid-19 pandemic. The presented information shows the chronological implementation of the undertaken measures at preventive level and their evolution to all employees and Departments at the Bank of Albania.

- **External audit**

The organic law provides that the Bank of Albania's accounts and records may be checked by external auditors of internationally-recognised auditing institutions appointed by the Council. The external auditor expresses his opinion if the reports prepared by the Bank of Albania represent fully and fairly the financial situation of the institution, in accordance with generally-accepted international accounting standards.

The financial statements of the Bank of Albania are audited so as to offer a reasonable reassurance that they are not inaccurate, as a result of errors or fraud. This provides the external auditor with a key role in maintaining the trust of financial markets and of the public in the financial statements of the Bank of Albania.

The Audit Committee reviews the effectiveness and appropriateness of the external audit function. Prior to submitting an opinion on the financial statements, the Committee meets with the external auditor, without the presence of the administrators, during which time the performance of the audit process is discussed.



ACCOUNTABILITY AND TRANSPARENCY

In accordance with the organic law, the Supervisory Council approves all reports and recommendations that the Bank of Albania presents to the Assembly or the Council of Ministers, as well as the annual and financial reports of the Bank of Albania. Upon approval by the Council, these reports are published.

- **Approval of the Annual Report**

In March, the Supervisory Council approved the Annual Report 2019 and sent it to the Assembly and the Council of Ministers. The report describes the economy and financial situation in Albania and the activity of the Bank of Albania over the reporting period.

The financial statements audited and certified by the external auditor and its opinion are an integral part of the Annual Report. The financial statements for 2019 were audited by Ernst & Young – Authorized Chartered Auditors. In the opinion of Ernst & Young, the financial statements give a fair view of the Bank of Albania's financial position as of 31 December 2019, and of its financial performance and cash flows in accordance with International Financial Reporting Standards.

This year's Report was accompanied, by information on implementation of the Assembly's requirements for the annual reporting of the Bank of Albania, in accordance with the provisions of the Annual and Periodic Monitoring Manual of independent constitutional institutions.

- **Other reporting to the Assembly and the Council of Ministers**

In accordance with the organic law, the Bank of Albania has to publish: (i) a detailed opinion on the situation of the economy, quarterly; and (ii) a statement of threats to the stability of the financial system, half yearly.

Through compilation and publication of quarterly and half-yearly reports, the Supervisory Council has regularly fulfilled the accountability obligations of the Bank of Albania to the Parliament and the transparency obligations to the public, financial system and media.

In accordance with these obligations The Supervisory Council, in February, May, August and November, approved the quarterly monetary policy reports, which constitute the main instrument of accountability and transparency in this regard. These reports present a comprehensive description of the latest macroeconomic developments and factors that affect the performance of consumer prices in Albania

In April and September, the Supervisory Council approved the half-yearly financial stability reports. These reports present Bank of Albania's assessment on financial system developments in Albania, underline potential risks to



financial stability and make recommendations in relation to necessary measures for reducing risks.

The reports have been sent to the Assembly of the Republic of Albania, the Council of Ministers and other central institutions.

- *Distribution of profit*

In March, the Council approved the distribution of profit of the Bank of Albania for 2019. The value of net profit realized during 2019 was ALL 1,345,785,333. This profit was around 158% higher than net profit realised by BoA at the end of 2018. The main share in this growth is attributable to income from securities sale. The net profit is calculated as the result of the difference between net income from activity of BoA (ALL 1,338,914,278) and net provisions (ALL 6,871,055).

The distribution of profit is approved by a separate decision, prior to the approval of financial statements, which represent the value of the profit to be distributed. The value of profit was set in advance by the Council, in accordance with the organic law that provides for all possible deductions, subject to approval by the Supervisory Council, before distribution.

