

## 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.*

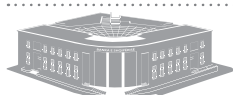
*The decision-making process at the Bank of Albania is guided by the principles of lawfulness, professionalism, independence, and transparency.*

Also, in 2021, the Supervisory Council focused its decision making on the mitigation of consequences derived from the COVID-19 pandemic and boosting economic growth of Albania.

The monetary policy continued to maintain the accommodative stance, by building on an environment of: low financing costs; adequate lending conditions; and a relatively stable exchange rate. The policy rate was kept unchanged throughout 2021, at 0.5%. This financial environment enabled a stable growth of credit to private sector, by supporting the increase in consumption and investments.

The Council approved in a timely manner the extension of supervisory measures implemented to reduce the impact of the pandemic on the economy, as: requirements on the classification and provisioning of loans; regulatory amendments for large exposures; the suspension of dividend allocation of banks profit for the years 2020 and 2021.

At the same time, the Supervisory Council completed the regulatory framework for the implementation of (i) the Law "On the recovery and resolution of banks in the Republic of Albania"; and (ii) the Law "On payment services". In the framework of modernising the payment system, the operationalisation of the AIPS EURO for the settlement of the domestic euro-denominated transfers, which reduces costs to the users, by enhancing the efficiency of the systems, as adopted.



Also in 2021, the Supervisory Council held the meetings virtually, pursuant to the containment measures in place due to the pandemic. Eight of these meetings focused on review and approval of monetary policy. Four meetings were dedicated to financial stability, while three meetings addressed: (i) the annual programme of the Supervisory Council; (ii) the Annual Report of the Bank of Albania; and (iii) the medium-term strategy, 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. The information on the financial position and result of the Bank of Albania and on the foreign currency reserve management was presented on regular basis. The Council has been regularly reported 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.

The Bank of Albania has regularly submitted the fulfilment level of recommendations in the resolution on the assessment of its activity, in compliance with the obligation for the regular annual reporting to the Albanian Parliament.

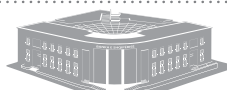
The Supervisory Council, in its last meeting decided to propose to the Parliament the candidature of Mr Gent Sejko for a second term as member of the Council. In its decision, the Council took into account the experience, qualification and personal qualities of Mr Sejko, distinguished particularly for the professionalism, reputation and the high moral integrity showed throughout its 7-year mandate of this body.

### ***The Supervisory Council - the highest decision-making body of the Bank of Albania***

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

The Council held 15 meetings in 2021. Eight of these meetings focused on the review and approval of the monetary policy, based on 4 quarterly and 4 intermediate reports. During its activity throughout 2021, the Council approved 77 decisions, of which 50 were acts approved for the first time and 27 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; (iii) provision of financial infrastructure (currency issue; payment settlement; clearing of payments and securities; and oversight of payment systems); (iv) foreign exchange reserve management; and (v) statistics.



### ***Management and internal organisation***

The Law on the Bank of Albania stipulates that the Supervisory Council is responsible for: (i) approving the Statute and the internal regulations of the Bank of Albania; (ii) determining the organisational structure; and, (iii) approving the appointment of the heads of departments and defining employment conditions at the Bank of Albania.

In November, the Council approved the Medium-term Development Strategy of the Bank of Albania for the period of 2022-2024, keeping the Bank of Albania's mission, vision and values unchanged. The strategy is conceived and compiled as a new document serving as a main pillar to draft the budget for the next three years of the Bank of Albania's activity.

### ***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 2022 and the planned medium-term budget for 2023-2024. 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 expenditures.

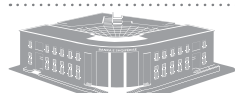
The budget of the Bank of Albania for 2023-2024 aims at: (i) normal conduction of the activity of the Bank of Albania to fulfil its legal duties, (ii) safeguarding and improving the quality of currency in circulation; (iii) improving the work and security conditions of the institution; (iv) improving and continuously updating the information technology infrastructure; and (v) retaining the human resources capacities. 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***

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

### ***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. 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 budget, accounting and audit procedures at the Bank of Albania.

## 2. *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 2021, the Audit Committee held seven meetings, and discussed issues such as: (i) the annual work plan and the commitments of the internal audit; (ii) the regular report of the Inspector General on the audit activity; (iii) the 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 annual work plan for 2022 and the medium-term guiding plan 2022-2026.

The Committee has informed the Council regularly on 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, the management and operational procedures of the Bank of Albania, in order



to ensure the implementation of the legal and sub-legal acts; and (ii) offer reasonable assurance on the efficiency of the control system, risk and processes managements, for the fulfilment of the institutional objectives.

The Inspector General has reported regularly to the Council on the realisation of this plan and the result of the auditing commitments. The plan is based on the international standards for internal auditing 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 on the implementation of the program for the business continuity management of the Bank of Albania and the relevant commitment for its improvement, in view of the lessons learned from the situations created by the earthquake and the pandemic.

#### **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 the opinion on the financial statements, the Committee meets with the external auditor, without the presence of the administrators, where the progress 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 2021 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 2021 were audited by Ernst & Young (EY) – Certified Auditors, Albania Branch. In the opinion of EY Albania, the financial statements give a fair view of the Bank of Albania’s financial position as at 31 December 2021, and of its financial performance and cash flows in accordance with International Financial Reporting Standards.

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

### ***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 these 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.

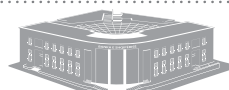
In accordance with these obligations, the Supervisory Council, in February, May, August and November, approved the quarterly monetary policy reports, which constitute the main instrument of accountability and transparency in this regard. These reports present a comprehensive description of the latest 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 Supervisory Council approved the distribution of profit of the Bank of Albania for 2020.



The value of net profit realised during 2020 was ALL 1,433,862,950.59, around 7% higher than the net profit realised in the previous year. The value of net profit is calculated as the result of the difference between net income from the activity of the Bank of Albania (ALL 1,462,203,238.47) and net provisions (ALL 32,695,010.06).

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.

