

1. SUPERVISORY COUNCIL OF THE BANK OF ALBANIA

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

The Supervisory Council is the highest decision-making and supervisory body of the Bank of Albania. As such, it is responsible for formulating the monetary policy and approving guidelines for its implementation.

The Supervisory Council has the ultimate responsibility for deciding on acts to fulfil the functions and duties of the institution, which include the strategy of the Bank of Albania, the appointment of heads of departments, approval of the 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.

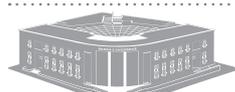
Highlights in the activity of the Supervisory Council for 2019, include (i) appointment of Ms Luljeta Minxhosi as First Deputy Governor of the Bank of Albania, (ii) appointment of the Chair and members of the Audit Committee, (iii) approval of the Regulation on macro-prudential capital buffers, and (iv) appointment of the External Auditor of Financial Statements of the Bank of Albania and Supplementary Pension Fund for the period 2019-2023.

At the end of 2019, the Supervisory Council of the Bank of Albania was composed of eight members elected and appointed by the Assembly of the Republic of Albania.

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

The Council held 15 meetings in 2019. Eight of these meetings, 4 quarterly and 4 intermediate, focused on review and approval of the monetary policy. In these meetings, after discussing economic and monetary developments at home, and their outlook, the Council decided on the policy interest rate. During this year, the Council kept key interest rates unchanged, namely, (i) the policy rate at 1.00%, (ii) the overnight deposit facility rate at 0.1%, and (iii) the overnight lending facility rate at 1.9%.

Four meetings were dedicated to financial stability and analysis of the developments in the banking sector and in non-bank financial institutions. The



other 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, and the annual and medium-term budget.

- *Decision-making*

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 2019, in fulfilment of its duties set out in the organic law, the Council approved 82 decisions, of which 60 were acts approved for the first time and 22 were amendments to existing acts.

- *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 December, the Council reviewed the Medium-term Development Strategy of the Bank of Albania for the period of 2019-2021, keeping the Bank of Albania's mission, vision and values unchanged.

In fulfilment of its responsibilities with regard to the internal organization of the institution, in February and November, the Council adopted a number of amendments to the regulations on the organization and functioning of the Administration and Issue Departments.

Also, in December, some amendments were made to the Regulation on organization and functioning of Bank of Albania branches, aimed at improving work processes regarding delivery in monetary values from commercial banks to these branches.

- *Budget*

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

In December, the Council approved the budget of the Bank of Albania for 2020 and the planned medium-term budget for 2021-2022. The budget was drafted in accordance with the Medium-term Development Strategy of the Bank



of Albania (revised in December) and departmental projections on medium-term incomes and expenses.

The main objectives of the budget are (i) the normal conduct of the activity of the Bank of Albania to fulfil its legal duties, (ii) retention of human resources capacities and rationalising organisational structures, (iii) improvement of security and quality of currency in circulation, as well as increasing the efficiency of currency management, (iv) reconstruction of building No 2 of the Bank of Albania and improving the work and security conditions of the institution, and (v) improvement and continuous update of information technology infrastructure.

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*

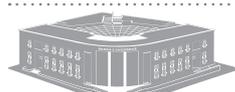
The internal audit is an activity independent of management. It includes the functions of compliance, internal auditing and risk management, carried out by providing evaluation, reporting and objective certainty.

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



- *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 Supervisory Council elected Ms Suela Popa (Chair) and Mr Ridvan Bode (member) to the Committee in March 2019. 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.

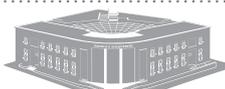
In 2019, the Audit Committee held seven meetings, which included review of the following: (i) financial statements for 2018, along with the letter on management and the opinion of the external auditor, the Inspector General and the external KPMG auditor; (ii) the audit of financial statements for the Bank of Albania and the Pension Fund; (iii) the performance of the Project on the Bank of Albania's Business Continuity Programme ; (iv) the regular report of the Inspector General on the audit activity; (v) the Code of Conduct for the Bank of Albania; (vi) the budget of 2020 and the planned medium-term budget; and (vii) the annual work plan and internal audit commitments for 2020.

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.

- *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.

Based on the Internal Audit Policy, in February, the Council approved the work plan of the Control Department for 2019. The plan is based on international internal audit standards and the updated risk assessment of the identified functions in the revised audit universe. It also reflects the suggestions of the Council, the Audit Committee and administrators related to the functions and processes that need to be audited, or requests for counselling and investigating on specific issues, as well as the available budget for the year.



The Inspector General has reported regularly to the Council on the realisation of this plan and the result of the auditing commitments. After the last report in December 2019, the Council also approved (i) the 2020 annual plan for internal audit activity, and (ii) orientation to the medium-term plan for 2020-2024, in accordance with the auditing universe cycle.

- *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 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 2018 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 2018 were audited by KPMG Albania. In the opinion of KPMG Albania, the financial statements give a fair view of the Bank of Albania's financial position as of 31 December 2018, and of its financial performance and cash flows in accordance with International Financial Reporting Standards. Information on



the annual activity and results of the Control Department, for the period January-December 2018, was attached to the Annual Report. This document constitutes an additional instrument towards the accountability of the institution.

Also, this year's Report was accompanied, for the first time, 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 these reports, where the decision making of the institution and its performance in fulfilling the legal objectives are explained, 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 2018. The value of net profit realized during 2018 was ALL 522,457,229.13 - the result of the difference between net income from activity (ALL 528,015,904.25) and net provisions (ALL 5,558,675.12). This profit was around 35% lower than that realized in 2017 - excluding the deduction of ALL 28 million retained for the creation of the "Expected impact from Financial Instruments" reserve fund.



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.

