

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.

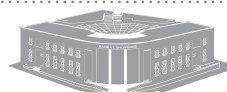
The internal audit functions are delegated to the Audit Committee, which is responsible for the financial reporting process and the internal audit system.

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

In February, the Assembly of the Republic of Albania re-elected Mr Gent Sejko in the position of Governor and Chair of the Supervisory Council of the Bank of Albania. In April, the Council was completed with 9 members, after the appointment of Ms Natasha Ahmetaj and Mr Anastas Angjeli. In support of the organic law and with Governor's proposal, the Council re-elected Ms Ahmetaj as the Second Deputy Governor of the Bank of Albania.

The Supervisory Council held the meetings, as scheduled in the annual schedule of meetings, virtually, through the Webex platform. Eight of these meetings focused on the review and approval of the 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 been informed regularly about the institution's management policies, methods and procedures related to the use of financial assets for the operational activity of the Bank of Albania. Information was also presented regularly on the financial position and result of the Bank of Albania, as well as on the international reserve management. The Council has received regular reports on the findings and recommendations from internal and external audits, on the effectiveness and quality of internal control systems, risk management and Bank of Albania's management.



The Bank of Albania has regularly submitted the fulfilment level of recommendations presented in the resolution on the assessment of its activity, in compliance with the obligations arising from the Assembly of Albania's manual for monitoring independent constitutional institutions.

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 2022. Eight of these meetings focused on the review and approval of the monetary policy, divided in four quarterly and four intermediate ones.

The Council approved 66 decisions and 1 guideline, of which 49 were acts approved for the first time, and 17 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 system); (iv) foreign exchange reserve management; (v) statistics.

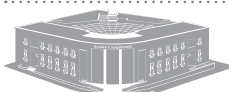
Based on the recent developments in the financial markets, under the conditions of an increase in the key interest rate, in October, the Council approved the extension in time of the intermediation investment activity of natural persons in treasury bills through the Bank of Albania. The Council estimated that maintaining this channel leads to faster transmission of monetary policy in the economy, and facilitates individual decision-making under the new monetary conditions.

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 March, the Council approved some amendments to the regulation on the organization and operation of the Payment System, Accounting and Finance Department, related to the activities for the operation of the new AIPS EURO system, which went live in January 2022.

In November, the Council approved the Medium-term Development Strategy of the Bank of Albania 2023-2025, keeping the Bank of Albania's mission, vision



and values unchanged. The Medium-term Strategy updates the existing strategy, extends the implementation deadline of this document beyond 2024 and sets out the objectives for the next medium-term period. The budget of the Bank of Albania was drafted in accordance with the objectives set forth in the strategy.

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 2023 and the planned medium-term budget for 2024-2025. 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 aims at completing the main functions, smoothly conducting the activity, and fulfilling the strategic objectives of the Bank of Albania: (i) the normal conduct of the activity of the Bank of Albania to fulfil its legal duties, (ii) preservation and improvement of the quality of currency in circulation; (iii) improvement and continuous updating of the information technology infrastructure and security system; and (iv) retention of the human resources capacities, rationalization of the organizational structure, management and promotion of human 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 the management, which provides evaluation, reporting and objective certainty, as well as includes the compliance, internal auditing, and risk management functions.

1. Control over management

The administrators (the Governor and the two Deputy Governors) inform the Supervisory Council on monthly basis about the 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 the 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 the guidance, control and oversight on the management and operations of the Bank of Albania.

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

2. *Activity of the Audit Committee*

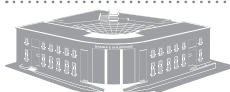
The Committee has the mandate to reinforce the internal and external control lines, in order to improve the decision-making of the Supervisory Council and of the Administrators of the Bank.

In order to increase efficiency and in-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 of the Supervisory Council, appointed by the Council, for a three-year term, with the right to be re-elected only once. The Administrators of the Bank may not be members of the Committee. The Chair of the Committee shall be chosen by the members.

In March, the Supervisory Council approved the re-appointment of the chair and member of the Audit Committee Ms Suela Popa and Mr Ridvan Bode. The other Committee member is Ms Edlira Luçi.

In 2022, the Audit Committee met seven times and addressed issues such as: (i) the financial result of BoA for 2021; (ii) the financial statements for 2021 and the opinion of the external auditor (meeting of the panel of external auditors EY); (iii) the commitments undertaken by the internal audit and the operational risk management activity for 2021; (iv) the letter addressed to the management and the opinion of the external auditor; (v) the audit of financial statements for the Bank of Albania and the Pension Fund (meeting of the panel of external auditors EY); (vi) the audit plan for 2023, along with (vii) the draft budget for 2023 and the mid-term guiding plan 2023-2025. The Committee has informed the Council regularly on its activity and the implementation of its responsibilities, through specific information.



3. *Internal audit*

The General Inspector 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 management, 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 engagements. 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.

In April, the Council approved some amendments to the Regulation "On the internal audit policy of the Bank of Albania" that reflect the updates adopted to the international internal audit standards and recommendations addressed by internal audit quality assessment carried out by the central Bank of Turkey in December 2020.

4. *Operational risk management and business continuity*

The Inspector General has informed the Supervisory Council about the activity of the Operational Risk Management Unit and the progress of program implementation for the business continuity management of the Bank of Albania. This unit is engaged in operational risks assessment arising from cyber-attacks at national level, and revision of scenarios in view of cyber risk management.

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 financial statements of the Bank of Albania.

The Audit Committee reviews the Bank's financial statements and assesses whether they are drawn up in accordance with International Financial Reporting Standards and in accordance with the external auditor's opinion.



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- 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. As at end-2021, the total assets of the Bank of Albania amounted to around ALL 749 billion. Investments in debt securities by around 42% and the balances with banks, part of the international reserve of BSH- have the highest share in total assets, accounting for around 37%.

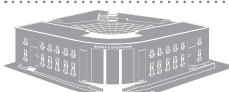
In accordance with the provisions of the Annual and Periodic Monitoring Manual of independent constitutional institutions, the Report was accompanied by the information on the implementation of the Assembly's requirements for the annual reporting of the Bank of Albania.

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 the 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.

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 the 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 the 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.

Approval of financial result

In March, the Council approved the gross loss from the activity of the Bank of Albania for 2021, amounting ALL -347,606,107.28. The net loss from the activity of 2021 was the total gross loss result from the activity of the Bank of Albania and net expenses for provisions (which are calculated as the difference between provisions for 2021 and reversals for provisions).

