

1. ACTIVITY OF THE SUPERVISORY COUNCIL OF THE BANK OF ALBANIA

The Supervisory Council is the highest decision-making and supervisory body of the Bank of Albania. It is composed of nine members voted and appointed by the Assembly of the Republic of Albania.

The Supervisory Council has the ultimate responsibility to decide on the strategy of the Bank of Albania, the appointment of heads of departments, the approval of the organisational structure, as well as the fulfilment of obligations related with risk management and compliance.

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

The Supervisory Council has performed 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 Council for 2018, include: (i) approval of the Policy "On increasing the use of the national currency (ALL) in the activity of banks and non-bank financial institutions" (De-euroization package); (ii) approval of the policy for the oversight of payment and settlement systems; (iii) approval of the accounting policy in accordance with the International Financial Reporting Standards (IFRS); and approval of the Medium-term Development Strategy of the Bank of Albania for 2019-2021.

On 3 November 2019, six members of the Supervisory Council completed their term. In December, the Assembly of the Republic of Albania voted and appointed the new Supervisory Council's members: Ms Luljeta Minxhozi, Ms Edlira Luçi, Ms Suela Popa, Mr Artan Hoxha, Mr Ridvan Bode and Mr Arben Malaj.

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

The Council held 15 meetings in 2018. Eight of these meetings focused on the review and approval of the monetary policy, divided in 4 quarterly and 4 intermediate ones. In these meetings the Council took decisions on the key interest rates and used the forward guidance tool to inform the markets about the likely path of the monetary policy in the future.



For three consecutive meetings, the key interest rates were kept unchanged. In June, the Council decided to lower the key interest rates, namely: (i) the policy rate to 1.00%; (ii) the overnight deposit facility rate to 0.1%; and (iii) the overnight lending facility rate to 1.9%. The rates were kept unchanged till the end of 2018.

Four meetings were dedicated to the 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.

a) Decision-making

The Supervisory Council has the power to approve all the decisions, regulations and guidelines of general application, issued by the Bank of Albania. During 2018, the Council approved 76 decisions, of which 55 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 set out in the organic law.

b) Management and internal organisation

In December, the Supervisory Council approved the Medium-term Development Strategy of the Bank of Albania for 2019-2021. The mission, vision and values of the Bank of Albania, were kept unchanged, as set out in 2015.

The strategic objectives set out the general directions and priorities in the activity of the Bank of Albania to achieve its mission and vision. In October, a set of changes in the structure of some organisational units took place: Resolution Department, Supervision Department, Governor's Office and Administration Department. The changes aim to promote the work improvement in these units.

c) 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.

In December, the Supervisory Council approved the budget of the Bank of Albania for 2019 and the planned medium-term budget for 2020-2021. 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 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 the organisational structures; (iii) improvement of security and quality of the currency in circulation; (iv) reconstruction of the



building No 2 of the Bank of Albania; and (v) improvement of work conditions, security and information technology infrastructure.

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

1.2. 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 has been regularly informed by the internal and external auditors.

a) 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.

Control over management

According to 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 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. Information was also presented regularly on the financial position and financial result of the Bank of Albania and the international reserve management.

Activity of the Audit Committee

In order to improve the decision-making of the Council and the management of the institution, the Audit Committee exercises its duties to support the strengthening of internal and external control lines.

This 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 in force.

The Committee is composed of three members of the Council, appointed by the Council, for a three year term. The members of the Committee were: Mr Petraq



Milo (Chair), Ms Ela Golemi and Ms Denada Prifti, till the completion of their term as members of the Supervisory Council.

In 2018, the Audit Committee met four times and discussed issues such as: (i) the annual work plan and the commitments of internal audit for the year; (ii) the regular reporting by the Inspector General on audit activity; (iii) the financial statements; (iv) letter addressed to the management and the opinion of the external auditor; and, (v) the performance of operational risk management at the Bank of Albania.

The Committee meets regularly with the Inspector General, without the presence of the administrators, and discusses the organisation of the Control Department, the auditing annual plan and the engagements' performance. In these meetings, members of the Committee were informed on the internal control systems and risk management.

The Inspector General has regularly informed the Committee, and in turn the Council, on the findings and recommendations by the Control Department, which provide an independent guarantee on the effectiveness and quality of the systems mentioned above.

In March, the Audit Committee held a meeting with the external auditor (KPMG) to discuss on the audit for 2018 and the certification of the financial statements. During the meeting, the external auditor communicated to the members of the Committee: (i) its assessment on the accounting principles at the Bank of Albania implemented in financial reporting; (ii) the main issues discussed with the management during the auditing process, particularly those significant on financial statements and the audit report; and, (iii) the main difficulties encountered during the auditing process.

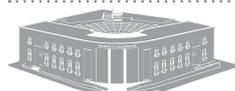
The Committee has informed the Council regularly on its activity and the implementation of its responsibilities.

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.

Based on the Internal Audit Policy, the Council approved the work plan of the Control Department for 2018, which had the preliminary approval of the Audit Committee.

The annual plan is based on international internal audit standards and the updated risk assessment on the identified functions in the revised audit universe.



It reflects also the suggestions of the Supervisory Council, the Audit Committee and administrators related to the functions/processes that need to be audited, or requests for counselling/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 engagements.

b) 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.

1.3. ACCOUNTABILITY AND TRANSPARENCY

The Supervisory Council has regularly complied with Bank of Albania's accountability obligations to the Assembly and its transparency obligations to the public, the financial system and the media. The Supervisory Council approves all the reports and recommendations that are presented to the Assembly or the Council of Ministers, as well as the annual and financial reports of the Bank of Albania. These reports explain the decision-making at the Bank of Albania and its performance in light of achieving its legal objectives.

a) Approval of the Annual Report

In March, the Supervisory Council approved the Annual Report 2017 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. Information on the annual activity and results of the Control Department was attached to the Annual Report. This document constitutes an additional instrument towards the accountability of the institution.



b) Approval of financial statements

The financial statements, an integral part of the annual report, are verified and certified by the external auditor and his opinion.

The financial statements were audited by KPMG Albania. In the opinion of KPMG Albania, the financial statements give a true and fair view of the Bank of Albania's financial position, its financial performance and cash flows in accordance with the International Financial Reporting Standards.

c) Distribution of profit

In March 2018, the Supervisory Council approved the distribution of profit of the Bank of Albania for 2017. The value of net profit realised during 2017 was ALL 886,436,572.64 (calculated as difference between net income from the activity of the Bank of Albania, ALL 929,794,268.80, on one hand and net provisions, ALL 15.357.696,16, and the reserve of ALL 28,000,000 for the expected effect from the application of IFRS 9, on the other hand).

The net profit realised in 2017 was around ALL 6.2 million higher from the net profit realised in 2016.

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

d) Reporting to the Assembly and 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 the threats to the financial system stability, half yearly.

Monetary policy decisions in February, May, August and December are accompanied by the publication of the quarterly report of the monetary policy, constituting 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 March and September, the Supervisory Council discussed and approved the half-yearly financial stability reports. These reports present Bank of Albania's assessment on the financial system developments in Albania, underline potential risks to financial stability and make recommendations in relation to the 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.

