

## 1. ACTIVITY OF THE 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. It is composed of nine members elected and appointed by the Assembly of the Republic of Albania.*

The Supervisory Council performs its activity in line with the competences set out in the Law "On the Bank of Albania"<sup>1</sup> and the procedures established in the regulation for the organisation and functioning of the Supervisory Council. It has the ultimate responsibility for formulating and adopting the monetary policy. The Council makes decisions on the approval of regulations and guidelines on the banking activity, on drafting the strategy of the Bank of Albania, and, among others, the appointment of heads of departments, organisational structure, and realisation of obligations related to risk management. A special committee assists the Council, with delegated responsibilities in the aspects of internal and external audit.

Highlights of Supervisory Council activities in 2016: (i) approval of the financial statements of the Bank of Albania in accordance with International Financial Reporting Standards (IFRS); (ii) establishment and functioning of the Projects Management Unit; (iii) establishment of the Capital Expenditure Committee; and (iv) establishment of the Operational Risk Management Unit.

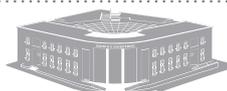
In 2016, the composition of the Supervisory Council changed. In July, the Assembly decided on electing a new member, Mr Arben Malaj, to replace Ms Ermelinda Meksi, following her resignation.

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

The Supervisory Council met 15 times in 2016. Eight of these meetings focused on the review and approval of the monetary policy, based on 4 quarterly and 4 intermediate reports. In these meetings, the Council made decisions about the policy rate. Starting in April, decisions included the other two key interest rates that provide facilities for the short-term management of liquidity for banks: the overnight deposit and overnight loan.

To ensure an effective division of responsibilities for the monetary and financial stability, the other four meetings focused on issues related to banking supervision

<sup>1</sup> The Law No. 8269, dated 23.12.1997, "On the Bank of Albania".



and financial system stability. Separate meetings were also held for: (i) approving the Annual Report 2015; (ii) approving the financial statements; and (iii) approving the budget of the Bank of Albania.

### *a. Decision making*

The Supervisory Council has the power to adopt decisions, regulations and guidelines of general application, issued by the Bank of Albania. During 2016, the Council adopted 136 decisions, of which 82 were legal acts approved for the first time, and 54 amendments to the existing legal acts. In addition, the Council adopted 63 regulations (of which 26 were new, 35 were amendments to existing regulations, and 2 were guidelines), regarding different aspects of the activity of the Bank of Albania. Of them, 20 were internal regulations for the organisation and functioning of Bank of Albania departments.

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).

### *b. Internal organisation*

The Law on the Bank of Albania stipulates that the Supervisory Council is responsible for: (i) approving internal regulations of the Bank of Albania; (ii) determining the organisational structure; and (iii) approving heads of departments and setting employment conditions at the Bank of Albania. On this basis, amendments to the organisational structure (and regulations on the functioning) of some departments were approved: Human Resources, Supervision, Issue, and Security and Protection departments.

At the end of the respective probation periods, the Council approved the appointment of the: (i) Head of the Human Resources Department; (ii) Head of the Supervision Department; (iii) Head of the Administration Department; (iv) Head of the IT Department; and (v) Head of the Issue Department.

### *c. Budget*

The Law on the Bank of Albania tasks the Council also with the approval of the budget, administration policies and procedures for using the financial assets for the realisation of the operational activity of the Bank. In July, the new budget regulation was adopted, which enhances the coordination in the process of the budget drafting, as well as planning and control of capital expenditures at the Bank of Albania.

In December, the Supervisory Council adopted the annual budget 2017. For the first time, based on the alignment of the regulatory budgeting framework with



the best national and international practices, the budget included projections for the next year (2017) and the following two years (2018 and 2019). The budget was adopted in accordance with the Medium-Term Development Strategy objectives of the Bank of Albania and departmental projections on income and expenditure for 2018 and 2019. The medium-term budget details items for the first financial year and summary and orienting items for the second and third years. The planning period of the medium-term budget concurs with the period of the budget system of the Republic of Albania (Medium-term Budget Programme). The medium-term budget is reviewed every year.

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

In 2016, special attention was given to the supervisory responsibility of the Supervisory Council over policies, administration and operations of the Bank of Albania. To ensure proper compliance with the law and other acts that regulate the daily activity of the Bank of Albania, the Council has been regularly informed by the relevant internal and external control units.

### *a. Internal audit*

The internal audit is an independent activity from the administration, which provides evaluation, reporting and objectivity, and includes compliance, internal auditing and risk management functions.

#### *i. Control over administration*

According to the Law on the Bank of Albania, the Governor is responsible to the Supervisory Council for the execution of the adopted decisions, and for the management, control and oversight of the administration and operations of the Bank of Albania. Administrators (the Governor and two Deputy Governors) informed the Supervisory Council on monthly basis about the economic, financial and monetary developments, in accordance with the legal obligations. The Council was also informed about the institution's management policies and ways of using the financial assets for the realisation of the operational activity of the Bank of Albania. Every month, information was presented on the financial position and result of the Bank of Albania and on the foreign currency reserve management.

#### *ii. Activity of the Audit Committee*

With a view to enhancing efficiency, internal and external audit functions are coordinated by the Audit Committee. This committee is responsible for the following: (i) financial reporting process; (ii) internal control system; (iii) internal and external audit; and (iv) compliance with legal and sublegal acts in force.



The Committee is composed of three external members of the Council, namely: Mr Petraq Milo (Chair), Ms Ela Golemi and Ms Denada Prifti. The members were appointed by a Council Decision in May 2015 for a three-year period. They may be re-elected only once. As a rule, the Audit Committee shall meet at least four times a year. In 2016, the Audit Committee met seven times. Meetings aim at facilitating communication between Committee members, Inspector General and Audit Department staff, as well as the independent external auditor. Administrators were not present in all the meetings.

The Audit Committee met regularly with the Inspector General. They discussed on the organisation of the Audit Department and the annual audit plan. Particular attention was paid to the human and financial resources necessary for realising the annual plan. As a result of the meetings, Committee members were able to have a better understanding of the internal audit and risk management systems at the Bank of Albania.

The Audit Committee, and in turn, the Supervisory Council have been informed regularly on audit findings and recommendations by the Audit Department, which provide an independent guarantee on the effectiveness and quality of the systems mentioned above.

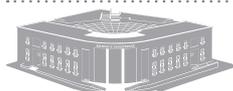
In March, the Audit Committee invited the external auditor (KPMG) to discuss on the audit for 2015 and the certification of financial statements. The Committee members are interested especially in understanding the conditions of the audit engagement - described in the engagement letter - including also the audit objective and responsibilities of the auditor and administration of the Bank of Albania. The Committee was informed on: (i) audit strategy and results; (ii) necessary skills for realising the planned procedures; (iii) degree of labour utilisation of internal auditors; (iv) evaluation of the external auditor on BoA's financial reporting; and (v) other relevant issues.

Meetings with the head of department responsible for finances focused on the preparation of financial statements in accordance with the IFRS and deviations compared to the existing accounting policies at the Bank of Albania, as well as the quality and internal audit on financial statements. The Audit Committee has also received feedback regularly from the head of department responsible for finances about the external auditing.

Lastly, to enhance its work and capacities, the Audit Committee visited and exchanged experiences with reputable international institutions such as the Banque de France and De Nederlandsche Bank.

### *iii. Internal audit*

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 control procedures at the Bank of Albania.



In accordance with the Internal Audit Policy, in February, the Council adopted for the first time the annual plan of activities of the Inspector General and of the Audit Department. The plan had been approved preliminarily by 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.

#### *iv. Risk management*

In July, the Supervisory Council adopted for the first time the Operational Risk Management Policy at the Bank of Albania, a comprehensive framework for the identification, assessment, control, management and integrated follow up of the operational risk at the institutional level. The document sets out the objectives, resources and key risk assessment principles, reporting lines and responsibilities of the relevant units. On these grounds, rules were adopted on the organisation and functioning of the Operational Risk Management Unit. This unit reports to the Inspector General and is responsible for coordinating risk assessment activities at the Bank of Albania. The unit contributes to a proper management of uncertainties and informs the decision-making process on the management of risks that may prevent the achievement of BoA objectives or may have adverse financial and/or reputational effects.

#### *b. External audit*

Pursuant to the Law on the Bank of Albania, its financial statements are audited by external independent auditors, among reputable international institutions, as determined by the Council. Auditors state their opinion, whether the financial statements reflect truly and accurately the financial situation of the Bank of Albania, in accordance with the IFRS.

#### *v. External independent auditor*

The external auditor audits the financial statements of the Bank of Albania to provide reasonable certainty that they do not have material anomalies, as a result of fraud or error. 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 contributes to this process through continuous communication and dialogue with the external auditor throughout the auditing cycle. This communication focuses on main issues that have risen during the audit and on ways for their solution, as well as on conclusions on key accounting and audit-related issues.



### *vi. Financial control*

The Council was informed on and discussed about the State Supreme Audit Report for 2015 to ensure that the recommendations therein comply with the principle of the central bank independence. The Council has been also informed periodically on the measures taken by BoA departments with regard to addressing these issues.

## ACCOUNTABILITY AND TRANSPARENCY

During 2016, The Council complied to the obligation of Bank of Albania's accountability to the Assembly and the obligation of its transparency to the public, the financial system and the media.

Pursuant to the Law on the Bank of Albania, the Council is vested with the power to approve all the reports that the Bank submits to the Assembly, or the Council of Ministers. 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*

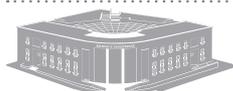
The Bank of Albania prepares the report and financial statements at the end of each financial year, which are published following their approval by the Council. In March, the Council approved the Annual Report 2015 and sent it to the Assembly. The report describes the economy and financial situation in Albania and the activity of the Bank of Albania over the reporting period. The report presents detailed information on the realisation of objectives of the Bank of Albania in the area of monetary policy, financial stability, and banking supervision, as well as the use of financial and human resources.

For the first time, information on the annual activity and results of the Audit Department for the period January-December 2015 was added to the report. This is an important step towards strengthening the accountability of the institution.

### *b. Approval of financial statements*

The financial statements and the opinion of the external independent auditor were an integral part of the Annual Report, based on the audit conducted in compliance with the International Audit Standards.

The approval of the financial statements according to the IFRS was one of the key priorities of the Bank of Albania for 2015 arising from the Law on Accounting and Financial Statements and the Law on the Bank of Albania. It has been a constant recommendation of the Inspector General, Safeguards Assessment missions of the IMF and the Supreme State Audit over the years.



### *c. Profit distribution*

In March, the Supervisory Council approved the financial position of the Bank of Albania for 2015, in accordance with the IFRS, and distribution of profit. The net profit from the activity of the Bank of Albania for 2015 was ALL 1,894,920,824.13. The Council decided to separate from the profit a reserve fund amounting to ALL 800 million to cope with unexpected financial situations, which the Bank of Albania might face, and may affect its normal operation.

This fund was calculated from the projections in the three-year budget 2016-2018 and assessments on developments and uncertainties in international financial markets, which show that the return from investments in euro-denominated assets is highly likely to be in negative territory.

### *d. Reporting for the Assembly and Council of Ministers*

The Law on the Bank of Albania requires the mandatory publication, quarterly, of a detailed opinion on the situation of the economy and, half yearly, a statement on threats to the stability of the financial system. On this basis, in February, May, August, and November, the Council approved the quarterly monetary policy reports, the main instrument for accountability and transparency in the area of monetary policy. These reports present a comprehensive description of the latest macroeconomic developments and factors that affect the performance of consumer prices in Albania.

In addition, in March and September, the Council approved the half-yearly financial stability reports, which present Bank of Albania's assessment of 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.

