

1. INTRODUCTION

The supervision of the second tier banks is a function of the Bank of Albania, as their only regulatory and licensing authority.

The Bank of Albania is aware that to better implement the regulator function of the banking system, the transparency in the financial operations and the informing of the public on the banking system play an important role in the bank-customer relations and in the stability of the banking system.

In this framework, the Bank of Albania has increased the number of publications and along with its comprehensive Annual report, which includes all scopes of the annual activity of the Bank of Albania during a year, it shall continue to publish even the Annual report of the banking supervision. The purpose of this publication is first of all to inform the public on the role of the banking supervision and on the other hand, to create possibilities for receiving information on the banking system in general and on bank groups in particular.

2. DEVELOPMENT OF THE BANKING SUPERVISION

2.1. Development of the banking system during 1999

During year 1999 the Albanian banking system is characterised by the following:

The increase of the number of banks or branches of foreign banks. During year 1999 started their activity FEFAD Bank, the Branch of the First Investment Bank – Bulgarian one and recently the Inter Commercial Bank – affiliate of Greek Commercial Bank. The number of banks and branches of foreign banks that perform banking activity in Albania was increased to 13. Meanwhile, interest is being shown in getting acquainted with the requirements and conditions for starting banking activity in Albania even by other subjects such as: Karefi group Kuwait, which is on the way to filling in the documentation needed for receiving a licence.

The expansion of existing banks not only in Tirana, but even in other districts. Hence Italian-Albanian Bank opened an agency in Durres; the National Bank of Greece opened an agency in Durres and Korce and FEFAD Bank has opened two Branches, one in Fier and the other in Durres.

During year 1999 there has been stability and improvement of macroeconomic indexes, which have had a positive impact on the banking system development. However, it should be realised that the private banks or the branches of foreign banks are new and appear as restrained towards undertaking the risk.

Their activities still remain restricted in lending, but even in introducing new banking products.

At the end of year 1999 the second tier banks were:

- | | | |
|-----|-----------------------------------|----------------------------------|
| 1. | National Commercial Bank | (state-owned bank) |
| 2. | Savings Bank | (state-owned bank) |
| 3. | Italian-Albanian Bank | (Albanian foreign joint venture) |
| 4. | Arab-Albanian Islamic Bank | (Albanian foreign joint venture) |
| 5. | Dardania Bank | (private bank) |
| 6. | Branch of National Bank of Greece | (branch of foreign bank) |
| 7. | Tirana Bank | (private bank) |
| 8. | International Commercial Bank) | (private bank) |
| 9. | Branch of Alpha Credit Bank | (branch of foreign bank) |
| 10. | American Bank of Albania | (private bank) |
| 11. | FEFAD Bank | (private bank) |
| 12. | First Investment Bank | (branch of foreign bank) |
| 13. | Inter Commercial Bank | (private bank) |

2.2. The degree of implementation of Basle Committee's Core Principles for an Effective Supervision

Bank of Albania, pursuant to its role as the supervisory authority for the banking system, has designed a complete system of regulations to be adhered to by second tier banks, in order to reduce the risk inherent in their activities. In designing the regulatory framework, the Supervision Department has applied the international experience in this area. The Basle Committee has established 25 core principles for banking supervision, which are applicable to any country regardless of its level of development.

In 1999, the Supervision Department accomplished a significant amount of work to improve existing regulations and to introduce new ones. All such regulations are totally in line with Basle Committee's principles for an effective banking supervision.

During this period, existing regulations were reviewed with the goal to further develop them, and to implement the Basle Committee's Core Principles regarding banking supervision. Also new regulations, such as the regulation on market risks, internal auditors, etc, have entered into force.

By reviewing the core principles on banking supervision, we will focus on their implementation in the legal and regulatory system of banking supervision.

PRE CONDITIONS FOR AN EFFECTIVE BANKING SUPERVISION

Principle 1

An effective system of banking supervision will have clear responsibilities and objectives for each agency involved in the supervision of banks. Each such agency should possess operational independence and adequate resources. A suitable legal framework for banking supervision is also necessary, including provisions relating to authorization of banking establishments and their ongoing supervision; powers to address compliance with laws as well as safety and soundness concerns; and, legal protection for supervisors. Arrangements for sharing information between supervisors and protecting the confidentiality of such information should be in place.

This principle is applied in Article 1 (3) of the Law No. 8269, dated 23/12/1997 "On Bank of Albania" where is stated: "...the Bank of Albania shall be entirely independent from any other authority in the pursuit of its objectives and the performance of its tasks."

Article 3 of this law lists the objectives and responsibilities of Bank of Albania. Section 4.c of Article 3 reads "The Bank of Albania is responsible to license or revoke and supervise banks that engage in the banking business in order to secure the banking system stability ". Furthermore, Article 12 of this law reads; "The Bank of Albania shall be exclusively responsible for the licensing and supervision of all banks in the Republic of Albania."

Hence, the legal framework for the Bank of Albania to successfully realize supervision of second tier banks is considered to be complete.

The duties and responsibilities required by the law, as well as international standards for banking supervision are included in the regulation "On the functioning of the supervision department". Also, "Operational manuals" describe the responsibilities and objectives for each individual involved in the supervision of banking institutions.

The Banking Supervision Department (BSD) has developed a strategic medium-term plan, which contains the BSD's objectives for a period of 3 years. Furthermore, this principle is applied also in Article 41 of the Law No.8365, dated 02.07.1998 "On Banks of the Republic of Albania", which states that "Banks and branches of foreign banks shall be subject to control by inspectors of the Bank of Albania". In this purview, in order to provide inspectors with the necessary legal support, regulations have been adopted. Such regulations cover the granting of licenses to banks and non-bank financial institutions; liquidity requirements; minimum capital requirements; loan classifications and provisions; open positions and foreign exchange activities; and, market risks.

Article 44 of the Banking Law provides measures that may be taken for infractions and penalties in case of violations of laws, regulations or any condition or restriction issued by the Bank of Albania.

LICENSING AND STRUCTURE

Principle 2

The permissible activities of institutions that are licensed and subject to supervision as banks must be clearly defined; and, the use of the word "bank" in names should be controlled as far as possible.

This principle is reflected in Article 26 of the Banking Law, which provides the permissible activities of institutions that are licensed and subject to supervision by Bank of Albania. Article 6, (3), of the Banking Law reads: "No one shall use the word "bank" or derivatives of the word "bank" in exercising commercial activities...unless licensed by Bank of Albania".

Principle 3

The licensing authority must have the right to set criteria and reject applications for establishments that do not meet the standards set. The licensing process, at a minimum, should consist of an assessment of the banking organization's ownership structure, directors and senior management, its operating plan and internal controls, and its projected financial condition, including its capital base; where the proposed owner or parent organization is a foreign bank, the prior consent of its home country supervisor should be obtained.

Chapter II (Articles 7 through 14) of the Banking Law grants the Bank of Albania the sole responsibility (authority) for the issuance of licenses. More specifically, Article 10, (2) of the Banking Law states the criteria on which the Bank of Albania is based for providing a preliminary consent of the licence. Section (3) of this same Article states that "The decision of the Bank of Albania to refuse the issuance of a license shall include an explanation of the reasons for which the license was refused".

Chapter II of the Banking Law, which covers the Bank of Albania's licensing authority and general requirements, is further expanded by separate regulations on licensing (Regulation No. 26 – On granting the license to non-bank institutions; and No. 173 – On granting the license to conduct banking business) and Regulation No. 13 – On requirements to be accomplished by administrators of banks and branches of foreign banks. Bank of Albania's licensing objects are foreign exchange offices and non-bank institutions that conduct financial activities.

These regulations list specific requirements; i.e., minimum initial capitalization of 700 million Leke (5 million US dollars), background of administrators and directors, and proposed business plan. Article 4.2.1, of the licensing regulation specifically requires "...the approval of the appropriate authority supervising the financial activities of the head office of the interested foreign bank...." when ownership by a foreign bank is involved.

Principle 4

Banking supervisors must have the authority to review and reject any proposals to transfer significant ownership or controlling interests in existing banks to other parties.

Article 13, (2), of the Banking Law states the grounds on which a license of a bank may be revoked. One of these cases, described in item 2(d), is when "The holder of a significant interest in the bank has transferred or otherwise lost such interest without prior written consent of the BoA".

According to the definitions in Article 2 (e) of the Banking Law, "significant interest" means a direct or indirect holding of 10% or more of the shareholders equity. The regulation on granting the license to conduct banking business in the Republic of Albania, Article 17, goes on stating that the transfer of a significant interest (10% or more), after receiving the prior approval of bank's shareholders, requires the prior written approval of the BoA.

To issue such an approval, Bank of Albania requires the submission of the same documents as in the case of granting the preliminary consent for a license.

Principle 5

Banking supervisors must have the authority to establish criteria for reviewing major acquisitions or investments by a bank and ensuring that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision.

Major acquisitions or investments by a bank are authorized only in accordance with the provisions of Article 33 of the Banking Law. Generally, any such investment between 15% and 25% of bank's regulatory capital must receive the prior written authorization from the Bank of Albania.

Based on the provisions of the Banking Law, a regulation establishing the criteria upon which Bank of Albania may issue such authorization has entered into force. This regulation aims at setting a balance between banks' participations in the equity of commercial companies, and their obligation to comply with certain prudential ratios, in order to prevent undue exposure to risks inherent in non-banking or non-financial activities.

REQUIREMENTS AND PRUDENTIAL REGULATIONS

Principle 6

Banking supervisors must set minimum capital adequacy requirements for banks that reflect the risks that the bank undertakes, and must define the components of capital, bearing in mind its ability to absorb losses. For internationally active banks, these requirements must not be less than those established in the Basle Capital Accord.

Article 1.4 of the licensing regulation sets the minimum initial capital required to start banking business at 700 million Lek. Regulatory capital requirements are established in Article 30 of the Banking Law. In addition, the Bank of Albania, in the regulation "On capital adequacy", has set the maximum ratios required for assets and off-balance sheet items with or without risk to various categories of regulatory capital.

This regulation describes also the components of various capital categories. Banks that started their activities before the licensing regulation "On Granting a Licence to Conduct Banking Activity in the republic of Albania"¹ was approved shall reach the amount of capital required through two installments.

¹ Approved with the decision of the Bank of Albania Supervisory Council, No. 143, dated 31.03.1998.

That is to say that all banks should have extended the paid –in capital to not less than 700 million Leks until 31.03.2001.

Furthermore, the regulation requires a minimum capital adequacy ratio of 12%. Failure to reach or fall below this minimum requirement will result in the bank being required to file with the BoA a plan for achieving or returning to the required level.

Article 48 of the Banking Law states that, should a bank's capital adequacy ratio fall below 50% of the regulatory required level (below 6%), the bank has a period of six months within which to remedy the situation. If, however, at the end of the six months the ratio remains below the 50%, the BoA shall appoint a conservator to take possession and control of the bank for a period not exceeding twelve months. If such situation persists, then liquidation proceedings shall start for the bank.

The Supervisory Council of the Bank of Albania recently passed a regulation on the capital required to cover market risks.

Principle 7

An essential part of any supervisory system is the independent evaluation of a bank's policies, practices and procedures related to the granting of loans and making of investments, as well as the ongoing management of the loan and investment portfolio.

Articles 28 and 29 of the Banking Law stipulate the legal documentation that banks are required to keep on the activities they conduct. Based on this and its own internal regulations, banks shall create an entire documentation necessary to continuously track its activities and to further be evaluated by Bank of Albania. Part of this is the credit documentation that includes credit policies and procedures. In order to monitor the loan portfolio and provisions, Bank of Albania approved the regulation "On loan classification and creation of reserve funds to cover loan losses" which provides loan classification and provision standards that the banks are required to follow.

The regulation No. 78 "On significant risks" approved by the Supervisory Council on 07/07/1999, established a maximum limit of exposure to risk of concentration at 20% for a single beneficiary, and 700% for all beneficiaries exceeding 10% of the bank's regulatory capital.

Principle 8

Banking supervisors must make sure that banks establish and adhere to adequate policies, practices and procedures for evaluating the quality of assets and the adequacy of loan loss provisions and reserves.

In addition to Articles 28 and 29 of the Banking Law, which stipulate what pertinent documentation banks are required to maintain (including written policies and procedures), Article 31 (2) of the same law states that banks are obliged to classify and evaluate their assets, create provisions based on loan classifications, and specify the period after which they will cease accruing interests.

The regulation "On loan classification and creation of reserve funds to cover loan losses" lists the minimum provision rates required for each category of loans (standard – 1%; special mentioned – 5%; substandard – 20%; watch – 50%; and, loss – 100%.)

During the on-site examinations, inspectors of the Supervision Department make evaluations on the adequacy of loan provisions created by banks. Following these reviews and evaluations, banks may be required to increase the amount of their provisions.

Principle 9

Banking supervisors must be satisfied that banks have management information systems that enable management to identify concentrations within the portfolio and supervisors must set prudential limits to restrict bank exposures to single borrowers or groups of related borrowers.

This principle is applied in Article 30 of the Banking Law , as well as in the regulation "On the control significant risks", which states that banks are required to control risk exposure and avoid significant concentrations. Also, the Article 38 of the Banking Law establishes requirements necessary to ensure compliance with this and other principles.

Principle 10

In order to prevent abuses arising from connected lending, banking supervisors must have in place requirements that banks lend to related companies and individuals on an arm's-length basis, that such extensions of credit are effectively monitored, and that other appropriate steps are taken to control or mitigate the risks.

Chapter V (Articles 35, 36 and 37) of the Banking Law defines related persons as "any person who is related to an administrator by marriage, consanguinity to the second degree, or business interest as defined in the regulation of the Bank of Albania." (Article 35 (b)) This same article states that transactions with related persons shall have terms and conditions similar to the market.

Principle 11

Banking supervisors must be satisfied that banks have adequate policies and procedures for identifying, monitoring and controlling country risk and transfer risk in their international lending and investment activities, and for maintaining appropriate reserves against such risks.

As noted above, Article 29 (d) requires banks to have written policies and procedures for identifying, monitoring and controlling risks, including international risks; however, there are no specific laws or regulations which address "country risk and transfer risk".

Lending activities currently being practiced by the banks in Albania are limited to Albanian customers known to them, or those with established relationships with their parent bank in the home country. Investments are limited to Albanian treasury bills. While it is expected these activities will expand to the international community, it will be sometime before this occurs, thus, general requirements such listed in Article 29 are considered sufficient.

Principle 12

Banking supervisors must be satisfied that banks have in place systems that accurately measure, monitor and adequately control market risks; supervisors should have powers to impose specific limits and/or a specific capital reserve on market risk exposures, if warranted.

As noted above, Article 29 (d) of the Banking Law stipulates that banks must have written policies and procedures for identifying, monitoring and controlling market risk. Article 30 of the Banking Law gives the BoA authority to impose specific limits and/or a specific capital reserve on market risk.

To establish such limits, the Supervisory Council approved the regulation "On market risks". It spells out when the additional capital charges are to be applied (in essence, the ratio of bank's trading portion in its investment portfolio, to total assets plus off-balance sheet items).

Principle 13

Banking supervisors must be satisfied that banks have in place a comprehensive risk management process to identify, measure, monitor and control all other material risks and, where appropriate, to hold capital against these risks.

The above cited article of the Banking Law gives the BoA sufficient authority to perform the appropriate risk assessments as required by this principle.

During the past twelve months, formal training sessions have been provided to the BSD in the areas of evaluating a bank's risk management process (Basic and Advanced Bank Supervision); Internal Controls and Audit; Liquidity and Funds Management; and Basic Credit.

Principle 14

Banking supervisors must determine that banks have in place internal controls that are adequate for the nature and scale of their business. These should include clear arrangements for delegating authority and responsibility; separation of the functions.

Article 29 of the Banking Law stipulates that written policies and procedures should be in place. Furthermore, the BSD has drafted the regulation "On bank internal controls". This regulation requires that each bank develop an effective system of internal controls; an independent internal audit function; and that these systems and controls are combined to ensure that banks are operated in a safe and sound manner.

Article 39 (1) of the Banking Law states that banks shall appoint a certified public accountant. In addition, Article 41 of this same law states: "All banks shall be subject to inspections by the Bank of Albania inspectors and by the certified public account".

Principle 15

Banking supervisors must determine that banks have adequate policies, practices and procedures in place, including strict "know-your-customer" rules, that promote high ethical and professional standards in the financial sector and prevent the bank being used, intentionally or unintentionally, by criminal elements.

This principle is put to use in the Banking Law (Article 26) and in the "Money Laundering" Regulation², as a result of which the BSD has sufficient grounds to assess the adequacy of an individual bank's "know-your-customer" practices.

² Approved with the decision of the Bank of Albania Supervisory Council, No. 3/3/97, dated 16.01.1997.

This will further be reinforced upon the approval of the Law "On Money Laundering", which foresees the establishment of an agency for the cooperation against money laundering in the Ministry of Finance.

METHODS FOR AN ONGOING BANKING SUPERVISION

Principle 16

An effective banking supervision system should consist of an integration of both on-site and off-site supervision.

The BSD has separate on-site and off-site organizational units. Currently, the off-site unit functions as a data gathering and report preparation center, while on-site inspectors perform quarterly analysis on each bank. The off-site unit prepares monthly analysis of the overall financial standing of the banking system through its basic indices, and monitors banks' compliance with limits set by banking regulations. The on-site inspections unit performs full or partial scope examinations in banks within predetermined periods of time. Full scope examinations are performed once a year, while the off-site examination process continues through the period between two on-site examinations by monthly and quarterly analysis of the performance data reported by banks. The off-site unit also provides the data necessary for bank examinations to on-site inspectors. The combination of the activities of these two unit results in an ongoing banking supervision.

The information on the financial macro situation is made public through quarterly bulletins.

Principle 17

Banking supervisors must have regular contact with bank management and a thorough understanding of the institution's operations.

Description: Regular contact with bank managers is kept and it has been formalized in a monthly meeting with directors of banks and branches of foreign banks. Most contact evolves from issues arising during on-site inspections or off-site reviews. As a normal practice, the BSD submits to bank managers the findings during the examination that will be included in the report of examination, prior to submission to the Bank of Albania for approval. Prior to the adoption of new banking supervision regulations, bankers are solicited to give their opinion on such, and the possibility for them to be applied in practice is tested.

The Bank of Albania has organized regular monthly meetings with bank managers on different matters. Discussions in these meetings are useful to the enhancement of regulations as well as to the understanding and implementation of them by bankers.

Principle 18

Banking supervisors must have a means of collecting, reviewing and analyzing prudential reports and statistical returns from banks on a solo and consolidated basis.

Articles 38 and 43 of the Banking Law require the banks to maintain adequate records and to prepare and submit summary reports to the BoA. These reports are to be prepared on an individual and consolidated basis (Article 43).

Also, Article 40 of the Banking Law requires that each bank publish its annual report in the official bulletin of the bank. Reports are submitted to the BoA monthly. These reports contain financial data required in separate regulations.

Principle 19

Banking supervisors must have a means of independent validation of supervisory information either through on-site examination or use of external auditors.

The Banking Law (Articles 39 and 41) provides for both on-site inspections by BoA and external auditors for a bank. The current Albanian law requires that external auditors be approved by the Bank of Albania (Article 39 of the Banking Law). Evaluations by inspectors and external auditors are independent, however, auditors are required by law to notify the Bank of Albania when they find cases of fraud or deficiencies and irregularities which can lead to losses for the bank. Also, Article 39 determines that a copy of the opinion by the certified public accountant be sent to the Bank of Albania.

Principle 20

An essential element of banking supervision is the ability of the supervisors to supervise the banking group on a consolidated basis.

According to Article 43 of the Banking Law, inspectors are provided with this potential by assessing the bank's or branches of foreign banks' financial situation based on the data submitted by them. On-site examinations to offshore branches of local banks are conditioned by mutual agreements with supervisory authorities of the respective countries.

REQUIRED INFORMATION

Principle 21

Banking supervisors must ensure that each bank maintains adequate records drawn up in accordance with consistent accounting policies and practices that enable the supervisor to obtain a true and fair view of the financial condition of the bank and the profitability of its business, and that the bank publishes on a regular basis financial statements that fairly reflect its condition.

Articles 38 and 40 of the Banking Law specifically require banks to maintain adequate records and to publish them in bank's annual report. Effective January 1, 1999, the new chart of accounts entered into effect and thus, all banks are now reporting to the Bank of Albania according to the new chart of accounts.

SUPERVISION LEGAL POWER

Principle 22

Banking supervisors must have at their disposal adequate supervisory measures to bring about timely corrective action when banks fail to meet prudential requirements (such as minimum capital adequacy ratios), when there are regulatory violations, or where depositors are threatened in an other way. In extreme circumstances, this should include the ability to revoke the banking license or recommend its revocation.

Chapters VII and VIII (Articles 44 – 65) of the Banking Law provide the remedial measures and penalties available to the Bank of Albania for violations of the law or any regulation or order issued by the BoA. Included in these measures is the ability to revoke a bank's license (Article 44 (2)(g).)

OFF-SHORE BANKING ACTIVITY

Principle 23

Banking supervisors must practice global consolidated supervision over the internationally active banking organizations, adequately monitoring and applying appropriate prudential norms to all aspects of the business conducted by these banking organizations worldwide, primarily at their foreign branches, joint ventures and subsidiaries.

The banking business being conducted by the banks in Albania is limited to Albania. Activities with out-side parents or affiliates is not extended overseas. Therefore, BoA supervision is limited to domestic activities.

Principle 24

A key component of consolidated supervision is establishing contact and information with the various other supervisors involved, primarily host country supervisory authorities.

On January 18, 1999, the Governors of the Bank of Albania and the Bank of Greece signed an agreement for Cooperative Banking Supervision. There are currently three Greek banks or branches operating in Albania. A similar agreement is being discussed with the central bank of Bulgaria. Also, the central bank of Poland has sent the Bank of Albania a draft of its proposed agreement and the Bank of Albania has sent a draft agreement to the Central Bank of Turkey.

Principle 25

Banking supervisors must require the local operations of foreign banks to be conducted to the same high standards as are required of domestic institutions and must have powers to share information needed by the home country supervisors of those banks for the purpose of carrying out consolidated supervision.

The Article 4 (1) (c) of the Banking Law stipulates that branch offices of foreign banks shall be licensed by the Bank of Albania, in compliance with all requirements of the respective law and regulation. All banks operating in Albania, bank branch or not – are licensed as “banks” by the Bank of Albania.

Article 58 (2)(i) of the BoA Law allows for the sharing of information by the Bank of Albania with other central banks and other banking supervisory authorities. This provides a more comprehensive information and helps consolidated banking supervision of banks and branches of foreign banks.

2.3. Role of Banking Supervision by Bank of Albania – its scope in non-bank institutions

The Bank of Albania, pursuant to the "Banking Law of the Republic of Albania", article 1, paragraph 3, has decided to include as subjects to this Law the ones that perform activities described in article 26 of this Law, other than the collection of deposits. Thus, the Bank of Albania approved the regulation "On granting the license

to non-bank institutions to perform financial activities in the Republic of Albania", with the Supervisory Council Decision no. 26, dated 18.03.1999.

This regulation contains requirements regarding the minimum capital amount required to receive the license, as well as requirements on the founders, directors, source of capital, and the business plan for the first year of activity.

In the past few years, an ever-increasing number of institutions are performing activities in the market similar to those of banks, with the distinction that they do not collect deposits. Such reality dictated the need for regulation as it directly related to the scope of supervision of the Bank of Albania. To this effect served the drafting and the approval of the above regulation.

The regulation contains the activities allowed to be performed by non-bank subjects, the minimum required paid-in capital classified according to the activities allowed to be performed, terms of acceptance and verification of documents, cases of license revoking, commissions, etc.

This regulation completes the licensing framework and resolves the issue of supervision of non-bank institutions that, after being licensed, are obliged to comply with all the supervisory norms established for them by Bank of Albania.

3. FUNCTIONS OF BANKING SUPERVISION

3.1. Information on, and analysis of, the banking system

3.1.1 Structure of Banking Sector

During year 1999, the structure of banking system was subject to changes, including the advent of 3 new banks with completely private capital. Changes to the number of banks are shown as follows:

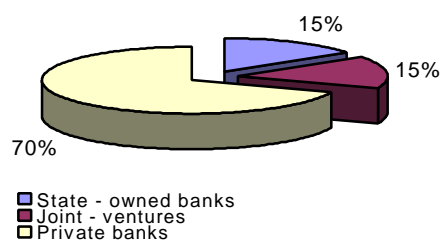
Table 1. Changes in the number of component banks of the banking system.

	1998	31.03.99	30.06.99	30.09.99	31.12.99
Total number of banks	10	11	12	12	13
G1	2	2	2	2	2
G2	2	2	2	2	2
G3	6	7	8	8	9

New banks, which started the banking activities during year 1999, are FEFAD Bank, Inter Commercial Bank, and the Branch of First Investment Bank.

The above changes led to an improvement of the structure of the banking system in favor of the private banks, bringing their number to 9 (6 of which are banks, and the rest are branches of foreign banks).

Chart 1. Structure of the banking system³ as of December 31, 1999



During year 1999, private banks have shown interest in expanding their activities in other towns of Albania. While in 1998 only branches from the two state banks, and Tirana Bank branches in Durres and Fier, operated in other districts of the country, in 1999, 2 new branches and 3 banking agencies started their banking activities as follows:

- ? FEFAD Bank opened two branches in Durres and Fier
- ? Italian Albanian Bank opened a banking agency in Durres
- ? National Bank of Greece opened two banking agencies, one in Durres and the other in Korce.

³ In the following sections the banking system shall be classified:

G1 – State capital banks;

G2 - Joint ventures;

G3 – private capital banks and branches of foreign banks.

3.1.2 Total balance

The banking system reflects an upward trend of its banking activities, sustaining the increase of different indices. Thus, the '99 year-end figure of total balance shows an increase of 22.6% compared to the previous year-end.

The three bank groups showed an increase of the total balance, however, different groups have different rates of increase. G3 banks have a more significant increase, due to not only the increase in the number of banks, but also the growth of the existing banks.

Therefore, the weight of bank groups to the overall banking system has progressed in favor of G2 and G3 banks.

Table 2. Total balance for the banking system and for each group of banks.

(in million Lek)

Years	G1	G2	G3	Banking System
1998	176.4	10.4	19.2	206.0
1999	205.4	14.7	32.4	252.5

Table 3. The weight of each group of banks to the banking system (as a percentage).

Years	G1	G2	G3	Banking System
1998	85.6	5.1	9.3	100.0
1999	81.4	5.8	12.6	100.0

Table 4. The weight of each bank to the banking system.

No.	Banks	1998	1999
1.	National Commercial Bank	16.3	13.5
2.	Savings Bank	69.3	67.9
3.	Italian-Albanian Bank	4.2	5.0
4.	Arab-Albanian Islamic Bank	0.9	0.8
5.	Dardania Bank	3.2	1.2
6.	Tirana Bank	2.0	3.0
7.	Branch of National Bank of Greece	1.9	2.2
8.	International Commercial Bank	0.4	0.5
9.	Branch of Alpha Credit Bank	1.2	1.7
10.	American Bank of Albania	0.6	2.5
11.	FEFAD-Bank	0	0.1
12.	First Investment Bank	0	0
13.	Inter Commercial Bank	0.5	0.3

3.1.3 Asset structure

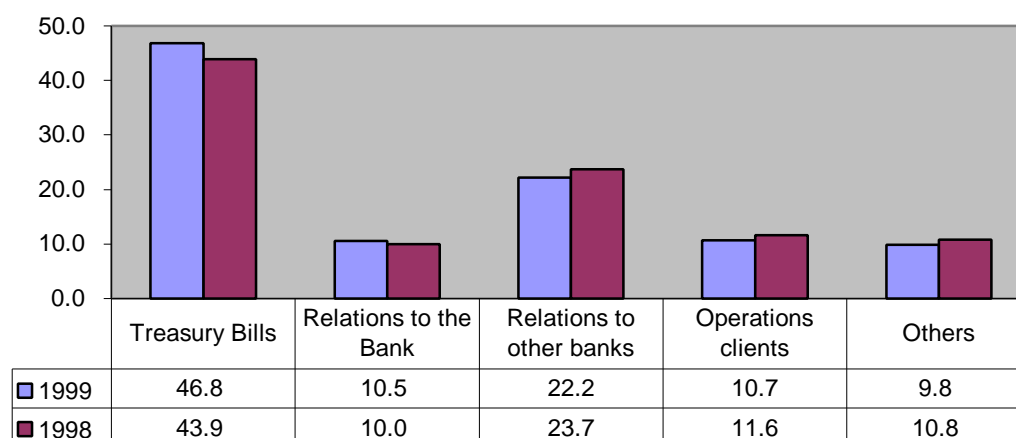
A typical characteristic of the asset side of the balance sheet statement for the banking system in general, is the concentration of funds in the group "transactions with treasury and international". Banks have a greater orientation towards the investments in treasury bills, which account for 46.8% of their total balance for year 1999, compared to 43.9% of the previous year. This was due mainly to the fact that these instruments carry virtually zero risk, while offering considerable interest rates.

While the lending level remains low for the system as a whole, it further downgraded in comparison with the previous year. This indicates that banks still do not fully act as

financial intermediaries by collecting money and relending it to businesses that have a need for loans.

Even the more consolidated private banks, which operate in Albania from several years, are experiencing a reduction in the amount of their loan portfolio, which is indicative of their hesitations in the lending area.

Chart 2. The asset structure of the banking system

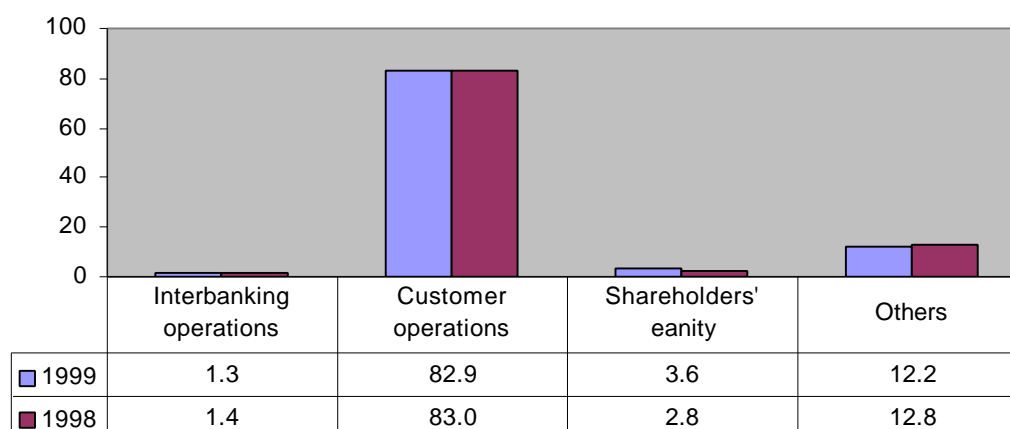


There has been an increase of 30.6% in the treasury bills investments compared to year 1998, while placements in the Central Bank increased for 29.2%, placements in other correspondent banks increased for 14.6%, and customer transactions increased only for 13.7%.

3.1.4 Liability structure

By analyzing the liability structure for the overall banking system in 1999 year-end, phenomena similar to the previous years are distinguished. The primary sources for the financing of banking activities are customer current accounts and deposits, which account for 82.9% of the total balance, whereas permanent resources account for 4.8% and shareholders' equity is 3.6% of the total balance.

Chart 3. The liability structure of the banking system



Customer accounts and deposits in the '99 year-end have increased by 22.4% against the previous year-end, while the same item for G2 and G3 bank groups has more than doubled (104.2 increase). This is due to mainly two factors: firstly as a result of a flow of deposits from the state banks into the private banks with foreign capital, and secondly, due to an increase of various accumulations of the population.

G1 banks have collected 84.8% of accounts and deposits of the banking system. Compared to the previous year, accounts and deposits in this banks group have increased for 14.3%.

G2 banks have collected 4.5% of the total deposits of the system, which compared to year 1998 increased for 59.3%.

G3 banks have collected 10.6% of the deposits and the growth rate against 1998 is very high, resulting in an increase of 152.3%.

The deposit structure according to each currency indicates that, on 31.12.1999, 73.7% of the total deposits is comprised of Lek deposits against 76.0% in 1998, yet the G1 banks having the larger portion of such deposits in the banking system (70.8%).

Table 5. Structure of deposits according to currencies for the bank groups.
(As a % against total deposits)

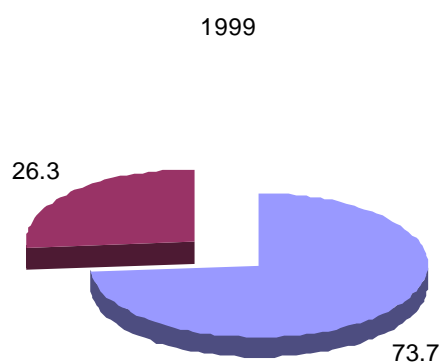
Banks	1998		1999	
	Lek	Foreign currency	Lek	Foreign currency
G1	74.6	16.8	70.8	14.3
G2	0.4	3.1	0.5	3.9
G3	1.0	4.1	2.4	8.1
Banking System	76.0	24.0	73.7	26.3

G2 and G3 banks attract basically customers that operate with foreign currency and this trend is noticed this year as well. There is a slight increase in the structure of foreign currency deposits for the overall system, compared to the local currency deposit structure. In presence of imports higher than exports, such an increase is derived of the inflow of foreign currency from the emigration, as well as of a lower local currency issuance, in comparison to the past high-inflation years.

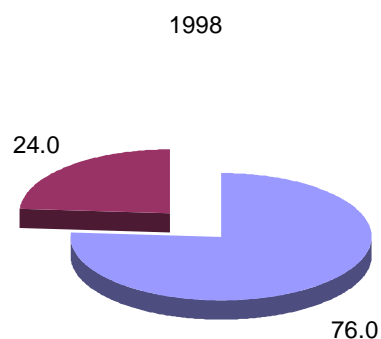
The deposit structure according to its terms indicates that 75.3% of the total deposits of the banking system are term ones, against a 79.5% portion they occupied in the previous year 1998. Although G1 banks represent the biggest collectors of term deposits, it is perceived an increase of these deposits in G2 and G3 banks.

Chart 4. Deposit structure of the banking system

a. The deposit structure according to currencies

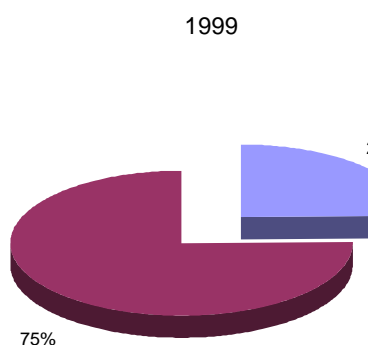


■ Lek ■ Foreign currency

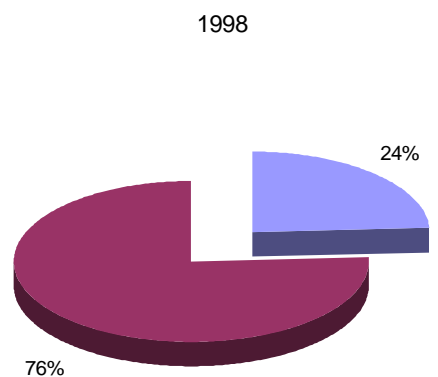


■ Lek ■ Foreign currency

b. The deposit structure according to terms

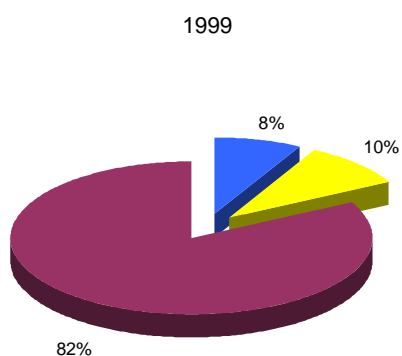


■ Account & Dimand deposit ■ Term

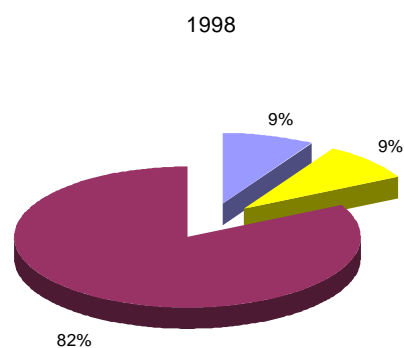


■ Account & Dimand deposit ■ Term deposit

c. The deposit structure according to sectors



■ Public ■ Private ■ Individual



■ Public ■ Private ■ Individual

3.1.5 The structure of financial incomes and expenses of the banking system

The banking system closed the year 1999 with a profit of 1 267,6 million Lek, which is a positive achievement considering the loss of 3 279,8 million Lek in 1998. This is due to the closure with profits by the Savings Bank for the first time in 5 years, financial result of which is of important significance in the overall financial result of the banking system. After stripping off the impact that the two state-owned banks, namely the Savings Bank and the National Commercial Bank, have on the financial result of the banking system, the resulting figure for the G2 and G3 banks indicates 94.4 million Lek profit, or 169.7% higher than the previous year.

The net interests resulted positive for all banks, which is indicative of a cautious interest rate risk management through following predetermined asset & liability management policies.

However, a steady descending trend of interest rates on deposits has also positively influenced such results by not exposing banks to abrupt interest rate fluctuations.

Interest expenses have fallen by 17.2% compared to a year ago. A significant influence for this item has resulted from the continuous decrease in interest rates, mainly for the Lek deposits. Such a measure taken by the Bank of Albania (the decrease of interest rates) has substantially affected the G1 banks, whose deposit structure is largely composed by Lek term deposits.

Operating expenses experienced an increase of 27.5%, however, in light of the growth in banks' activities, such increase shall be considered normal. Compared to the total assets, the operating expenses remain virtually within the same levels (1.23% against 1.17% of the previous year). The slight increase of 0.06% is a result of the personnel salary increase, which reflects the adjustment of salaries with the inflation.

Chart 5. Structure of incomes

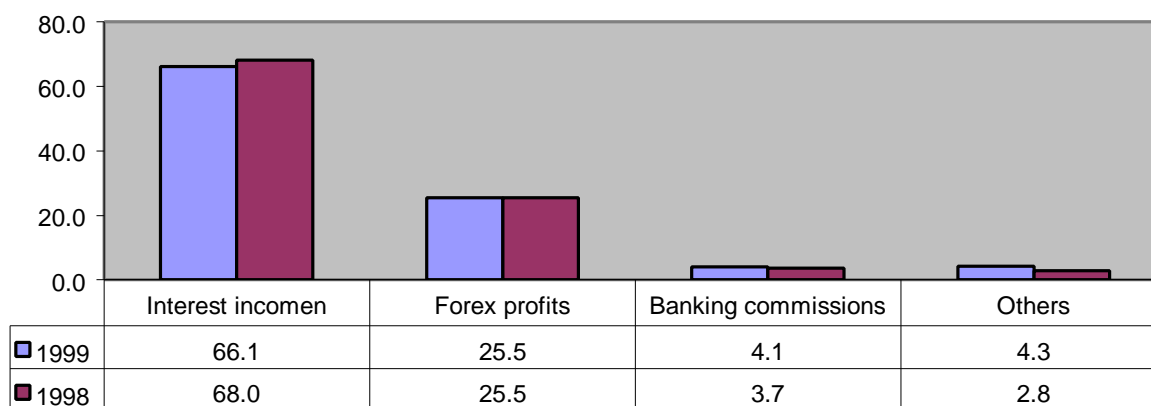


Chart 6. Expense structure

3.1.6 Profitability and adequacy of its own funds

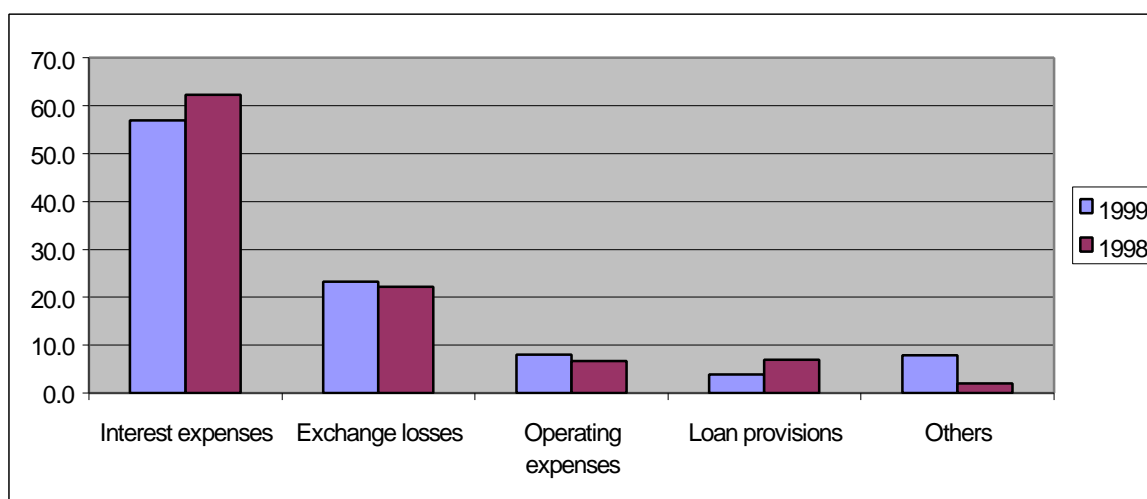


Table 5. Profitability of the banking system.

Indices (in %)	1996	1997	1998	1999
Returning level of assets	-0.5	-5.9	-1.8	0.6
Returning level of own funds	-14.9	-84.9	-82.3	16.4
Operating expenses/gross income of the activity	106.0	-14.1	-276.3	65.0

Table 6. Capital adequacy.

Indices (in %)	1996	1997	1998	1999
Corrected capital level (million lek)	3,024.0	1,448.4	- 332.4	3980.1
Corrected assets level (million lek)	31,319.6	26,393.3	24861.0	48614.9
Capital adequacy ratio (in %)	9.7	5.5	-1.3	8.2

The above indices slightly improved during year '99 influenced by the measure enforced by Bank of Albania to increase the minimum required capital to 500 million Lek, and the profit resulted for this year-end.

The trend of capital adequacy has been slightly improving. This has come due to the capital increase at a higher rate than the increase of classified assets (*which basically increased because of the quantitative factor; thus more from the increase of the assets' value, and less from the reclassification of assets in items of higher risk coefficient*).

3.1.7 Credit risk, loan classification and creation of provisions

The banking system is still acting reluctantly in the lending area. This is best reflected by an increase in total loans of only 13.7%, compared to a year ago.

While G1 banks have ceased lending because of the enforcement by Bank of Albania, G2 and G3 banks are hesitating to lend. Although total loans for these two bank groups have increased respectively by 27,1% and 181,7% in comparison to

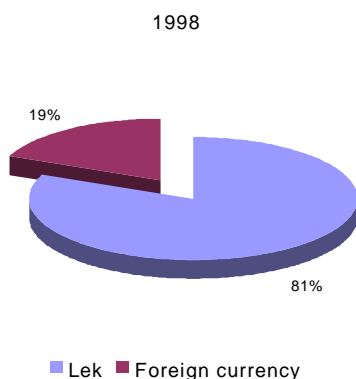
1998 year-end, the weight total loans have in their total assets remains low. The loans to deposits ratio is also in low levels for these two bank groups, as shown below:

For G2 banks, the loans/total assets and the loans/deposits ratios are respectively 30.1% and 46.7%.

For G3 banks, such ratios are respectively 12.5% and 18.2%.

Evidently, G3 banks represent the lowest levels for such ratios (considering also the numerous banks included in this group, while there is only 1 bank engaged in lending activities in the G2 group). As to the loan structure according to currencies, facts noticed in the past, such as the tendency of G2 and G3 banks to issue loans in foreign currency, are still current. This is mainly because of the greater interest for foreign currency loans shown by borrowers, and the possibility banks have to invest the local currency in Treasury Bills at high interest rates.

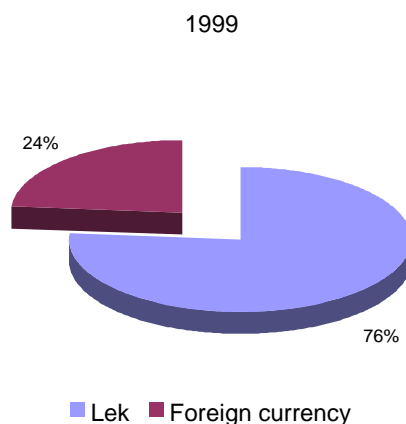
In an environment of falling interest rates for the local currency, lending in this currency is expected to rise. The total foreign currency loans combined for both groups represent 91.1% of their loan portfolio.



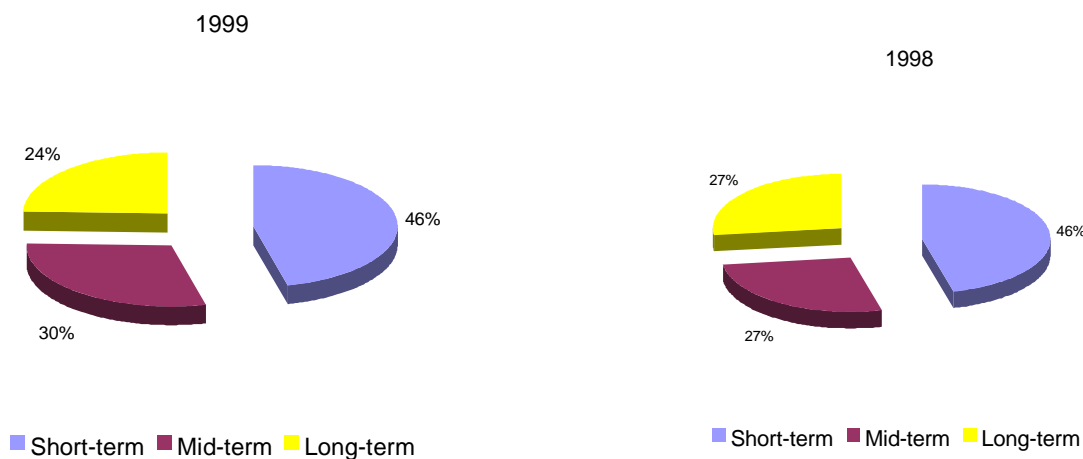
The structure according to maturities indicates that G2 and G3 banks tend to operate with short- and medium-term loans. This is best reflected by the ratio of these two structures against the total of loans that respectively result 45,9 % and 19,1 %.

Chart 7. Loan structure of the banking system

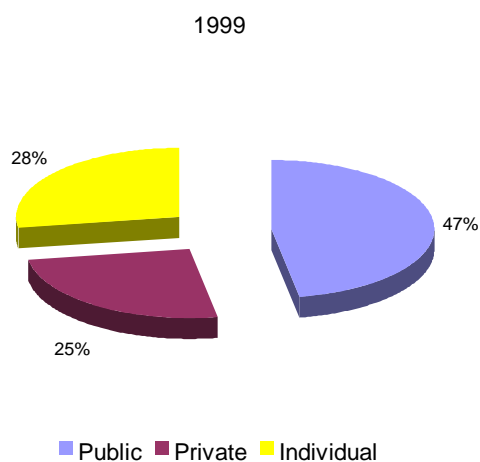
a. The loan structure according to currencies



b. The loan structure according to maturities



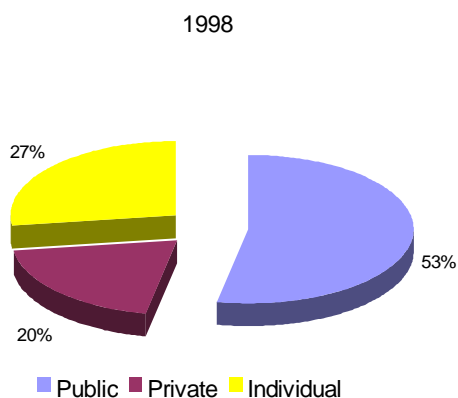
c. The loan structure according to business sectors



During the past years, the banking system has faced loan repayment problems, which brought G1 banks into a difficult situation. Actually the banks that grant loans are reluctant in lending.

Regardless of the problems, the banking system has created provisions to cover loan losses, based on the respective regulations issued by Bank of Albania.

Tabela 7. Loan classification and provisions (as % to the total).



	Loan classification		Provisions created	
	1999	1998	1999	1998
Standard loan	48.0	42.0	1.6	0.9
Hua në ndjekje	2.9	2.5	0.6	0.4
Understandard loan	6.6	7.6	8.8	3.3
Doubtful loans	2.4	6.3	2.8	7.0
Lost loans	36.6	41.6	86.1	88.5

3.2. Investment activities and corrective actions

The banking supervision is the process of monitoring the situation of each single bank and through this, ensuring the coverage of the banking system as a whole. This process starts by establishing regulatory and normative standards, granting the license to operate as a bank (the licensing process), it continues by evaluating bank conditions (off- and on-site examinations), and if necessary, includes application of corrective actions to ensure compliance with laws, thus creating a sound banking industry. These measures include even the revoking of a licence.

Because of the special role that banks play, the primary task of the banking supervision is to reduce as much as possible the risk of loss to depositors, and by doing so, the overall stability of the banking system is achieved.

The banking system in Albania has further increased and extended in 1999 with the advent of new banks and the increase of total assets of the existing ones.

Total assets for banks licensed and operating in the Republic of Albania, as of 31.12.1999, has increased by 16.7% compared to the same period of the previous year.

While the Savings Bank and the National Commercial Bank occupy the biggest share of the banking system with their respective 67.3% and 14.1%, private and joint venture banks have displayed a persistent tendency to extend their market share. Such extension has pushed up the amount of examination work, as well as its effectiveness, while adopting contemporary supervision standards in order to respond to new supervision challenges and ensure a safe and sound banking environment.

OBJECTIVES AND GOALS OF THE ON-SITE EXAMINATIONS

Examination of banking operations in 1999 was focused on banks and branches of foreign banks' objectives for strategic developing, their business plans, and the completion and enhancement of their internal policies and procedures approved by their boards of directors.

Also identification, measurement, control and monitoring of risks to which banks are exposed, with a special focus on risks inherent in their core activities, were some of the base objectives of on-site examination in 1999. Special emphasis was placed on strengthening the internal controls, getting the bank personnel familiarized with bank's internal regulations and the supervisory authority, completing the bank with the necessary structures along with the growth of their activities, etc.

During 1999, it was set the strategic objective of preparing the conditions that, from year 2000 on, banks be subject to a full scope on-site examination once every 12 months. Newly licensed banks will be subject to a full scope examination, 6 months upon receiving the license (initiation of their activities).

In 1999:

- * There were 7 full scope and 18 partial scope bank examinations. For the first time it was achieved to perform on-site examinations for all foreign exchange bureaus within one year.
- * It was accomplished the institutionalization of the functioning of the inspection unit at the beginning of year and on December 1999 this was further improved, accompanied by ongoing training of personnel, the increase of the feeling of responsibility and commitment to accomplish required tasks.
- * The quality of examinations stepped up by introducing for the first time the CAMELS system and all the necessary indexes to perform banks' rating.
- * The financial analysis for banks was improved and updated with the current experience. Standardized key ratios were introduced in the analysis and the evaluation of banks during examinations.

On-site examinations were principally focused on:

✍ **High-risk areas – Lending.** In the examinations carried out, it was revealed that banks have sometimes lacked adequate policies and procedures in the lending area; there have been cases of non-adherence to the regulation on loan classification and creation of reserve funds to cover loan losses; also there have been violations to prudential ratios regarding lending to single borrowers or groups of related borrowers, etc.

As a result of recommendations and tasks issued for safe and sound banking activities, banks and branches of banks have taken measures and have compiled work plans to improve their standing and implement laws and by-laws in force.

Thus, several banks drafted credit policies and procedures in the beginning of 2000. Loan portfolio monitoring and management was improved; the number of personnel increased as a result of a higher volume of loans; the reclassification of loans and the creation of provisions for covering the loan losses was completed, etc.

The credit risk was handled in connection with the loan portfolio diversity to provide the most diversity of loans possible, in order to reduce such risk. The level of interest rates applied on loans issued to protect the bank from interest rate risk was also considered.

✍ **The functioning of AL-CO committee.** In the inspections performed, it was noticed that the AL-CO (asset/liability management) committee, which is an important component of the bank management, was not operating or was lacking appropriate procedures in some banks. Recommendations issued have established the functioning of the AL-CO committee and enabled the drafting of its operating procedures in some banks and bank branches.

✍ **The drafting and implementation of procedures for foreign exchange operations.** In general, banks are committed to implementing the regulations issued by Bank of Albania, as well as recommendations and tasks issued in various inspections.

Banks, in response to tasks and recommendations issued by Bank of Albania, have reacted by drafting, implementing and completing the procedures of foreign exchange operations. The enhancement of policies and a better follow-up on foreign exchange open positions in compliance to the Bank of Albania Regulations is an example of this.

During 1999, it was noticed a downfall of open positions for all the banks, and such positions were held in minimum levels, thus reducing significantly the foreign exchange risk. Special emphasis was placed on the need for providing information by banks on a daily basis, which was existent in the major part of examined banks, enabling them to timely close positions opened during the day or maintain them within due levels.

✍ **The implementation of requirements posed by the regulation on the foreign exchange market.** As revealed by on-site examinations, several banks did not take appropriate actions to implement the regulation on the foreign exchange market. Following the corrective actions taken by Bank of Albania, banks have made significant progress toward the implementation of the above regulation.

✍ **The functioning of Internal Controls.** Based on the examinations performed with the objective of reviewing banks' internal controls, it was observed that several deficiencies still are present.

Such deficiencies consisted in personnel lacking of the approved bank structures, inadequate staff to cover all bank operations and their increased volume, inadequacy of rigorous controls over bank operations, and infractions in the reporting procedures (to the board of directors), which is harmful to the independence of controls (according to the principles of Basle Committee – principle 12- on direct reporting to Board of Directors, Audit Committee and Senior Management).

As a result of recommendations issued by Bank of Albania, internal controls were introduced in banks that lacked such a structure, some banks increased the number of internal control staff, other banks introduced appropriate reporting procedures, etc.

In addition to the procedural factor, improving the quality of the work by the internal auditors assumed a greater stress in 1999. Areas that should be of interest for the internal auditors were reviewed, along with the extent to which internal auditors were familiarised with bank's position, their ability to anticipate any potential negative phenomena, and their professional ability to cope with the requirements of the internal auditors.

For a better functioning of internal controls, Bank of Albania required accurate procedures for such a job position to be in place, along with detailed internal control planning of what was already done and what had to be done, in order to set accurate future benchmarks.

On important issues stemming from banks with state capital, it was also communicated with the Ministry of Finance, their shareholder.

✍ **The standardization of the Examination Report.** The Examination Report is the written communication form utilized to present all significant findings, conclusions and recommendations for corrective actions resulting from on-site examinations, to the Bank of Albania and the board of directors of the examined bank.

3.3. Licensing and banking regulations

3.3.1 Licensing

During 1999, the Banking Supervision Department (the Licensing Unit) reviewed applications submitted by various entities such as banks, non-banking institutions that perform financial operations, or foreign exchange offices, for license to perform financial operations as established in the banking law.

Based on the applications submitted to the Bank of Albania this year, several entities obtained the license as follows:

Banks licensed in 1999

Applications for license to perform banking operations were submitted to the Bank of Albania by various subjects based on the regulation "On granting the license to exercise banking activities in the Republic of Albania", approved by Decision no. 173 dated 02.12.1998 of the Supervisory Council of Bank of Albania, and the criteria established in this regulation.

The basic criteria followed by Bank of Albania in issuing the license to exercise banking activities were the capital and its source, the reputation of the founders and their background, the proposed bank's business plan, the anticipated financial situation of the proposed bank, etc.

The Bank of Albania, considering the capital and its components as a fundament upon which the banking activities will be based and further developed, and pursuant to Article 8 of the "Banking Law of the Republic of Albania", decided to gradually increase the minimum amount of initial capital required to be paid-in as cash contribution for the banking license, from 350 million Lek to 500 million Lek, and ultimately to 700 million Lek.

This has positively affected not only newly licensed banks, but has also strengthened the base capital of existing banks with a capital of less than 700 million Lek, by enabling them to compete with new banks, which started their activities with a capital of 700 million Lek.

Licensed banks include:

- * **FEFAD BANK**, which was given the right to exercise banking activities in the Republic of Albania with License No. 12, dated 15.03.1999.
- * **FIRST INVESTMENT BANK, TIRANA BRANCH**, which was given the right to exercise banking activities in the Republic of Albania with License No. 13 dated 16.04.1999.
- * **INTERCOMMERCIAL BANK (Albania)**, which was given the right to exercise banking activities in the Republic of Albania with License No. 14 dated 28.10.1999

The licensing of foreign exchange offices

Upon the approval by the Supervisory Council of Bank of Albania of the Guidelines no. 3 "On granting the license to foreign exchange offices" with Decision No. 63, dated 27.05.1999, new criteria were introduced by Bank of Albania with the purpose

of determining more precisely the documentation to be submitted to Bank of Albania in order to obtain the license for foreign exchange offices.

A positive factor that influenced the increasing number of entities licensed by Bank of Albania in 1999 was the fact that, as stipulated in these Guidelines, the license to be issued carries no time limitations, while the existing one required that the license be renewed every year.

According to the documentation submitted to Bank of Albania by single entities, 10 foreign exchange offices were licensed in 1999, a part of which have re-submitted the documentation in order to obtain their final license, and the rest have presented their documentation for the first time to obtain the license for exercising foreign exchange activities.

The licensing of non-bank institutions

Bank of Albania, in compliance with the Regulation "On granting the license to non-bank institutions in the Republic of Albania" approved by the Supervisory Board of Bank of Albania with Decision No. 26, dated 18.03.1999, has granted the license as non-banking financial institution to the company "Financial Union" Ltd.

This company is licensed to perform the following financial activities:

- * Offering services of payments and receivables;
- * Acting as a intermediary for financial transactions;
- * Acting as an agent or a financial adviser.

In addition to the subject licensed as mentioned above, other entities have submitted their application to Bank of Albania for the license to exercise financial activities as non-bank financial institutions. They are in the process of completing the documentation in compliance with the regulation mentioned above.

3.3.2 Bank regulations

The regulatory framework of banking supervision, upon which the activity of the whole banking system in Albania is based, has undergone improvements in quality during 1999. These improvements reflect the following:

- * The implementation of international standards in this area, such as the principles of Basle Committee and other international supervision standards from developed countries;
- * The continuous recommendations issued by the IMF missions on different areas;
- * The transparency in complying with the requirements of the "Banking Law of the Republic of Albania" by second tier banks, including without limitation, the guarantee for their adequate capitalization, the accomplishment of specific requirements in order to be licensed as a banking subject or be re-licensed as such, etc.

The Supervision Department has concluded that, upon the drafting and the review of regulations in 1999, the regulatory framework in the area of banking supervision may be considered almost complete. This conclusion is a logic consequence of the fact

that during 1999, the Bank of Albania has approved a considerable number of regulatory acts (regulations or guidelines) in the area of banking supervision (13 in total, new or revised).

With respect to year 1999, it can be said that, aside from the regulation on the licensing of banks and the one on the prevention of money laundering, all other regulations were drafted as new, or the existing ones were revised, based also on the requirements stipulated in the Law No. 8365, dated 02.07.1998 "Banking Law of the Republic of Albania" concerning this direction.

The improvements to the regulatory framework of banking supervision consist in:

- * The review of the Regulation **"On the requirements that administrators of banks and of branches of foreign banks must accomplish"**, approved with the Supervisory Council Decision No. 13, dated 17.02.1999. This regulation defines requirements regarding professionalism and reputation of persons in charge of bank management, administration and control, as well as limitations to be considered in their nomination and dismissal. The new regulation includes higher standards to be met by bank managers, especially regarding the reputation of the candidates for bank administrators.
- * The introduction of the Regulation **"On granting the license to exercise financial activities to non-bank institutions in the Republic of Albania"**, approved with the Supervisory Council Decision No. 26, dated 18.03.1999. This regulatory act established subjects, terms, conditions and procedures for granting the license to non-banking institutions to exercise financial activities. According to this regulation, non-bank subjects are not allowed to accept and collect monetary means in any way by the public, but they have the right to perform financial activities prescribed in the "Banking Law of the republic of Albania".
- * Improvement of the Regulation **"On loan classification and creation of reserve funds to cover loan losses"**, approved with the Supervisory Council Decision No. 50, dated 22.04.1999. This improvement concentrated on the criteria and ways to be employed in the classification of assets, and provided a base for determining adequate reserve funds to cover loan losses.
- * The introduction of the Regulation **"On the amount and accomplishment of the minimum initial capital required for activities allowed to be performed by banks and branches of foreign banks"**, approved with the Supervisory Council Decision No. 51, dated 22.04.1999. This regulation aims at the accomplishment of the "Minimum Initial Capital" by banks and branches of foreign banks that were licensed prior to the publication by Bank of Albania of the change in this item, as well as to determine the amount of capital required for banks and branches of foreign banks that perform financial activities in compliance with Paragraphs 4 and 5 of Article 26 of Law No. 8365, dated 02.07.1998 "Banking Law of the Republic of Albania".
- * The introduction of the Guidelines **"On regulatory capital"**, approved with Supervisory Council Decision No. 57, dated 05.05.1999. These guidelines aim at determining the ways for the calculation of bank's regulatory capital to cover credit risk, considering the importance of this item and its use by Bank of Albania in the process of supervision of banks and branches of foreign banks performing banking activity in the Republic of Albania. The regulatory capital serves as a base for building several ratios used to oversee and control the management and the financial stability of banks and branches of foreign banks, such as the capital

adequacy ratio, the liquidity ratio, the concentration of loans to a single borrower, the maximum limit of foreign exchange open positions, etc.

- * The review of the Regulation "**On capital adequacy ratio**", approved with the Supervisory Council Decision No. 58, dated 05.05.1999. Its purpose is to provide the method for the calculation of the ratio of regulatory capital to assets and off-balance sheet items weighted at risks that is called "Capital adequacy ratio", and to establish a minimum limit for this ratio that is called "Minimum capital adequacy ratio". This regulation established the increase of the minimum ratio to 12% from 8% that was set in the previous one, with the purpose of providing more flexibility in the calculation of this ratio, pursuant to standards of Basle Committee.
- * The review of the regulation "**On foreign exchange open positions**", approved with the Supervisory Council Decision No. 59, dated 05.05.1999, which established the maximum limit on net foreign exchange open positions for banks and branches of foreign banks, which are licensed by the Bank of Albania to perform banking activity in the territory of the Republic of Albania. This regulation provides the rules for calculating the bank's open positions in order to reduce bank losses from transactions in foreign currencies and precious metals. As a result of this regulation, the regulatory framework for foreign exchange positions of banks and branches of foreign banks was improved with the purpose to reduce losses from transactions in foreign currencies and precious metals. In addition, the methodical guidelines "On foreign exchange risks" were introduced in order to provide more clearness to the content and implementation of this regulation.
- * The review of the Regulation "**On foreign exchange activities**", approved with the Supervisory Council Decision No. 63, dated 27.05.1999. This regulation was redesigned to offer a clearer definition for, and a more comprehensive classification of, the components of the foreign exchange market, its participating subjects, foreign exchange transactions carried out in the territory of the Republic of Albania, etc. This regulation was built in different chapters such as the one on capital transactions, current transactions, etc., and established the respective documentation on the basis of which, the subjects of this regulation shall perform transactions for this group. In addition, it provided the conditions and the documentation necessary to open and maintain accounts in foreign currency by residents outside and non-residents inside the republic of Albania. New and up-to-date criteria were introduced regarding the procedures, activities and participants in the foreign exchange activities carried out inside the territory of the Republic of Albania.
- * The introduction of the regulation "**On the liquidity report**", approved with the Supervisory Council Decision No. 71, dated 02.06.1999, that aims at the control and monitoring of the ability of the bank to timely pay back its short-term obligations, such as obligations with less than one month maturities or the current ones, which have the statistical probability to mature within a month. It also aims at reducing the risk of transformation of short-term sources.
- * The introduction for the first time of the Regulation "**On market risks**", approved with the Supervisory Council Decision No. 72, dated 02.06.1999. The purpose of this regulation is the calculation of regulatory capital to cover market risks. It outlines the methodology of calculation of regulatory capital to cover market risks, the methodology of calculation of net open positions, the methodology of calculation of regulatory capital required to cover interest rate risks, the methodology of calculation for regulatory capital to cover foreign exchange risks.

- * The review of the Regulation "**On the control of significant risks**", approved with the Supervisory Council Decision No. 78, dated 07.07.1999, which aims at the measurement and control of risk concentration to a single borrower, in order to avoid negative impact to the financial conditions of the bank as a result of excessive concentration of risk to a single beneficiary.
- * The introduction of the Regulation "**On internal controls**", approved with Supervisory Council Decision No. 107, dated 03.11.1999, which aims at providing an effective internal control system as an essential factor in the management and administration of banks.
- * The introduction of the Regulation "**On participation in the equity of commercial companies by banks and branches of foreign banks**", approved with the Supervisory Council Decision No. 108, dated 03.11.1999. Its purpose is to establish a balance between bank's free activity to purchase equity in commercial companies, and its obligation to comply with certain prudential ratios, in order to prevent bank's exposure to risks inherent in non-banking or non-financial activities. This regulation also provided a more accurate classification of conditions and criteria that banks and branches of foreign banks must meet when participating in the equity of commercial companies.

4. LIST OF ALL SUBJECTS LICENSED BY THE BANK OF ALBANIA

4.1. Banks and branches of foreign banks

1. NATIONAL COMMERCIAL BANK

Licence No.6/1998, dated 11.01.1999.

Approved with the Supervisory Council Decision No. 162, dated 11.01.1999.

Address : Bulevardi Zhan d'Ark, Tirana - Albania

Tels. : 231 33,221 54,351 00,509 55,56/57

Fax : 332 08; 333 38.

2. SAVINGS BANK

Licence No.2/1998, dated 11.01.1999.

Approved with the Supervisory Council Decision No. 163, dated 11.12.1998.

Address : Rr. "Deshmoret e 4 Shkurtit", Nr. 6, Tirana - Albania

Tels. : 245 40, 254 16; 226 69.

Fax : 235 87, 236 95, 240 51

3. ITALIAN - ALBANIAN BANK

Licence No. 01/1996, dated 17.07.1998.

Approved with the Supervisory Council Decision No. 89, dated 18.06.1998.

Address : Rruga "Haxhi Hafiz Dalliu" No 70, Tirana - Albania

Tels. : 356 97,356 98,262 62

Fax : 330 34

4. DARDANIA BANK

Licence No. 05/1998, dated 11.01.1999.

Approved with the Supervisory Council Decision No. 164, dated 11.12.1998.

Address : Bulevardi "Zogu I", VEVE Business Center, Tirana - Albania

Tels. : 350 52, 350 53, 350 54

Fax : 425 66

5. Arab Albanian Islamic Bank

Licence No. 03/1998, dated 11.01.1999

Approved with the Supervisory Council Decision No. 165, dated 11.12.1998

Address

Rr. "Deshmoret e Kombit" No.8,

Tirana - Albania

Tels: 284 60; 238 73; 274 08.

Fax : 284 60; 283 87

6. Tirana Bank

Licence no. 07, dated 12.09.1996

Approved with the Supervisory Council Decision No. 9, dated 12.09.1996

Address

Bulevardi "Zogu I", Nr. 55/1,

Tirana - Albania

Tel: 334 41, 42, 43, 44, 45, 46, 47.

Fax. 334 17

7. Branch of National Bank of Greece in Tirana

Licence No. 08, dated 25.11.1996

Approved with the Supervisory Council Decision No. 4, dated 14.03.1996

Address

Bulevardi "Zogu I", No 72,
Tirana - Albania
Tel. 336 21/22/23/24
Fax. 336 13

8. International Commercial Bank

Licence No. 09, dated 20.02.1997

Approved with the Supervisory Council Decision No. 9, dated 30.04.1996

Address

Rr "Ded Gjon Luli"
Tirana (Albania)
Tel. 375 67/68/69
Fax. 375 70

9. Branch of Alpha Credit in Tirana

Licence No. 10, dated 07.01.1998

Approved with the Supervisory Council Decision No. 01/03/96, dated 27.12.1997

Address

Bulevardi " Zogu I" Nr. 47
Tirana - Albania
Tel. 355 32, 333 59, 404 76, 404 77
Tel/Fax. 321 02

10. American Bank of Albania

Licence No. 11,dated 10.08.1998

Approved with the Supervisory Council Decision No. 105, dated 10.08.1998

Address

Rruga " Ismail Qemali" Nr.27
O.O. Box 8319,
Tirana - Albania
Tel. 487 53/54/55/56;
Tel/Fax. 48762

11. FEFAD Bank

Licence No. 12, dated 15.03.1999

Approved with the Supervisory Council Decision No. 22, dated 03.03.1999

Address

Rr."Sami Frasheri", Tirana e Re,
Tirana e Re, P.O. Box 2395,
Tirana - Albania
Tel: 304 99, 334 96.
Tel/Fax: 334 81

12. First Investment Bank - Tirana Branch

Licence No. 13, dated 16.04.1999

Approved with the Supervisory Council Decision No. 45, dated 13.04.1999

Address

Bulevardi "Deshmoret e Kombit", No. 64,
Tirana - Albania
Tel. 564 23, 564 24.
Tel/Fax 564 22

13. Inter Commercial Bank (Albania)

Licence No. 14, dated 28.10.1999

Approved with the Supervisory Council Decision No. 105, dated 19.10.1999

Address

Rruga e Kavajes "Tirana Tower",
Tirana - Albania
Tel 587 55, 56, 57, 58, 59, 60.
Tel/Fax: 587 52.

4.2. Non bank subjects

1. "UNIONI FINANCIARLI TIRANES"-WESTERN UNION

Licence No. 1, dated 08.12.1999

Address Rr "Sheshi Collaku", Pallati i Shallvareve No 2 /18, Tirana

Tel: 506 53

Tel/Fax: 349 79.

4.3. Foreign exchange bureaus

1. "JOARD" Foreign exchange office s.r.l

Licence No. 1, dated 01.10.1999

Address; Rruga "Ded Gjon Luli" No.2, Tirana

2. "AMA" Foreign exchange office s.r.l.

Licence No 2, dated 01.10.1999

Address: Rruga Tregtare, Lagjja 3, Durres

3. "ARIS" Foreign exchange office s.r.l.

Licence No. 3, dated 01.10.1999

Address:"Luigj Gurakuqi" Tirana

4. "UNIONI FINANCIAR I TIRANES" Foreign exchange office s.r.l.

Licence No 4, dated 01.10.1999

Address: Rruga "Reshit Collaku", Pallatet e Shallvare, Shk. 2/18, Tirana

5. "AGLI" Foreign exchange office s.r.l.

Licence No 5, dated 01.10.1999

Address: Rruga "Islam Alla" No. 1, Tirana

6. "ALBAKREDIT" Foreign exchange office s.r.l

Licence No 07, dated 24.11.1999
Address: Rruga "ded Gjon Luli" No. 5, Tirana

7. "Guden" Foreign exchange office s.r.l.

Licence No 07, dated 24.11.1999
Address: Rruga "Konferenca e Pezes", Tirana

8. "EXCHANGE" Foreign exchange office s.r.l

Licence No 08, dated 24.11.1999
Address: Rruga e Durrës no. 170 and "Reshit Collaku", Pallatet e Shallvare, shk4, Ap. 42, Tirana

9. "UNISIX" Foreign exchange office s.r.l.

Licence No. 09, dated 26.11.1999
Address: Bulevardi "Republika", Pall.4, Korça

10. EKSPRES J & E" Foreign exchange office s.r.l., Durrës

Licence No 10, dated 26.11.1999
Address: Lagja 11, Rruga "Prokop Meksi" (prane hotel Durrës), Durrës.

11. "MI & CO" Foreign exchange office s.r.l..Tirana

Licence No 11, dated 29.02.2000
Address: Rruga "Ded Gjon Luli" No. 2/3, Tirana.

12. "ILIRIA '98" Foreign exchange office s.r.l..Tirana

Licence: No. 12, dated 25.02.2000
Address: "Sheshi Skenderbej", Teatri i Kukullave, Tirana.

13. "SERXHIO" Foreign exchange office s.r.l..ELBASAN

Licence: No. 14, Dated 07.04.2000
Address; Lagja "Luigj Gurakuqi", Rr 11 Nentori, Pall. 70, No. 14, ELBASAN

14. "ALBTUR" Foreign exchange office s.r.l..Tirana

Licence: No.15, dated 07.04.2000.
Address; Agjencia No. 1, Bulevardi "Deshmoret e Kombit", Pall. 32, Shk.1 (perballe Bankes Tirana), Tirana;
Agjencia No. 2, Rruga "Mine Peza", Pall.102, Shk.1 (prane Bar Grand), Tirana.

15. "R&M" Foreign exchange office s.r.l.Tirana

Licence: No. 16, dated 22.05.2000
Address; Rruga "Punetoret e Rilindjes", Pall.182, Tirana.

16. "TEUTA 2000" Foreign exchange office s.r.l DURRËS

Licence: No. No. 17, dated 22.05.2000
Address; Lagja 4, Rruga "Skenderbej", Ap.950, Durrës

17. "T&E" Foreign exchange office

Licence: No. 18, dated 11.06.2000
Address; Lagja 4, Rruga "9 Maji", Durrës.

5. THE LIST OF BANKING SUPERVISION REGULATIONS IN FORCE AS OF JULY 2000

1. The regulation "**On the granting of the license to conduct banking business in the Republic of Albania**", approved by the Supervisory Council with Decision No. 173 on 02.12.1998
2. The regulation "**On the requirements to be met by administrators of banks and branches of foreign banks**", approved by the Supervisory Council with Decision No. 13 on 17.02.1999.
3. The regulation "**On the granting of the license to conduct financial activities to non-banking institutions in the Republic of Albania**", approved by the Supervisory Council with Decision No. 26 on 18.03.1999.
4. The regulation "**On loan classification and creation of reserve funds to cover loan losses**", approved by the Supervisory Council with Decision No. 50 on 22.04.1999.
5. The regulation "**On the size and completion of minimum initial capital for activities permissible to banks and branches of foreign banks**", approved by the Supervisory Council with Decision No. 51 on 22.04.1999.
6. The guidelines "**On the regulatory capital**", approved by the Supervisory Council with Decision No. No. 57 on 05.05.1999.
7. The regulation "**On the capital adequacy ratio**", approved by the Supervisory Council with Decision No. 58 on 05.05.1999.
8. The regulation "**On foreign exchange open positions**", approved by the Supervisory Council with Decision No. 59 on 05.05.1999.
9. The regulation "**On foreign exchange operations**", approved by the Supervisory Council with Decision No. 63 on 27.05.1999.
10. The regulation "**On the liquidity ratio**", abrogated by the Supervisory Council with Decision No. 04 on 19.01.2000.
11. The regulation "**On market risks**", approved by the Supervisory Council with Decision No. 72 on 02.06.1999.
12. The regulation "**On the control of significant risks**", approved by the Supervisory Council with Decision No. 78 on 07.07.1999.
13. The guidelines "**On internal controls**", approved by the Supervisory Council with Decision No. 107 on 03.11.1999.
14. The guidelines "**On the participation in the equity of commercial companies by banks and branches of foreign banks**", approved by the Supervisory Council with Decision No. 108 on 03.11.1999.

15. The modifications to the regulation "**On loan classification and creation of reserve funds to cover loan losses**", approved by the Supervisory Council with Decision No. 117 on 01.12.1999.
16. The modifications to the regulation "**On foreign exchange open positions**", approved by the Supervisory Council with Decision No. 118 on 01.12.1999.
17. The modifications to the regulation "**On the control of significant risks**", approved by the Supervisory Council with Decision No. 119 on 01.12.1999.
18. The guidelines "**On the liquidity of banks**", approved by the Supervisory Council with Decision No. 04 on 19.01.2000.
19. A modification to the regulation "**On the requirements to be met by administrators of banks and branches of foreign banks**", approved by the Supervisory Council with Decision No. 17 on 01.03.2000.
20. The regulation "**On cooperative banks**", approved by the Supervisory Council with Decision No. 25 on 29.03.2000.
21. A supplement to the regulation "**On the granting of the license to conduct banking business in the Republic of Albania**", approved by the Supervisory Council with Decision No. 43 on 17.05.2000.
22. The guidelines "**On the interest rate risk management**", approved by the Supervisory Council with Decision No. 61 on 05.07.2000.
23. The modifications to the regulation No. 63, dated 03.03.2000, "**On foreign exchange operations**", and to the regulation No. 03.03.1997, dated 16.01.1997, "**On the prevention of money laundering**".