

BANK OF ALBANIA

BANKING SUPERVISION
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1. INTRODUCTION

Honorable readers,

During 2002, the Supervisory Department has made progress towards the increase of professionalism at work, combined with important developments in the standardization of working process, improvement of regulative staff by means of attracting the public's opinion, increase of objectivity in judging, and use of the most sophisticated and contemporary techniques for the identification of risks and adoption of preliminary measures to prevent them.

In concrete terms, Albanian banking system, even during 2003, has continuously been under the supervision of Bank of Albania by on-site supervision and bank-undertaken risk analysis. The on-site supervision, being the focus of the supervising process, is realized through complete on-site examinations, and in this context each bank of the system is inspected at least once a year, but also through thematic examinations, considering each bank's analysis between the two periods and the recommendations that are to be executed. It is certain that the attention focused on department's workings has been directed towards the banking system, as banks play a key role in the financial system and domestic economy of a country and shows a special interest to the wide audience who entrust them with their savings.

We have tried to reach the equilibrium between the security for a careful management of banks on the one hand, and of their efficiency growth on the other, in order to perform our main mission in having a safe and sound financial and especially banking system. In this sense, we are conscious that although banking system is to be stable, it is not the supervisory authority's compulsion to prevent every banking system problem having consequences such as bankruptcy. But primarily it is the prevention of most of these problems, and in the worst cases the removal of mal-managed banks from the market, on time, encouraging the improvement of other banks' management.

It must be stressed that the volume of work has increased in comparison with previous years. Despite the routine program, it has successfully been worked in parallel, even on the realization of most duties of the Supervisory Development Plan in cooperation with World Bank. The Chinese proverb reminds us that " In one hundred-mile journey, ninety miles are just half-way" and I believe that the last miles of the marathon are the hardest to run.

Even international institutions, such as World Bank, International Monetary Fund positively evaluates banking supervision.

In conclusion to this introduction, honorable readers, I share with you the opinion that our interests and mission as supervisors are in harmony with your interests of having a stable banking and financial system. In this sense, the enhanced disclosure at work and at the banking system in general, demands even your involvement to more forcefully perform the market discipline contributing, in this way, to confidence growth towards this system and to a more favorable environment for economic and welfare growth.

Fatos Ibrahimi
The first Deputy - Governor

2. Banking Environment

2.1. Characteristics of Albanian economy during 2002

The economic growth in Albania during 2002 was estimated at 4.7%. Many activities in branches of transport, services and construction affected the increase of Gross National Product. In meantime, the public sector continued to evidence its weight in fall.

In reality, Albanian economy during 2002 introduced the lowest growing rate in comparison with 1998-2001 period, as result of a lower foreign investment level and capital expenditures, while all the economic branches manifested lower growing rates than were predicted.

During 2002, changes in the Albanian economy structure have been evidenced. This event is related with the decrease of the agriculture and animal farming weight in economy. Whereas the trade and service sector contribution grows. These structural changes are positively considered for the future of a country; meanwhile the stimulus of the industrial product must be given priority. This grew only to 2%, evidencing the lowest growing rate compared to other branches of economy. It is clear that the industry sector is most affected by power problems, which have existed many-years long.

Anyway, Albanian economy has grown for the fifth consecutive year, which has influenced in the increase of per capita incomes. So, the per capita incomes calculated as a proportion of GDP in dollars to country population are estimated at USD1500.

The annual inflation rate for year-end 2002 was 2.1%. This is considered at a relatively low level and within Bank of Albania objective.

The progress of Albanian economy during 2002 cannot be excluded from the general slow-down impact of world economy, especially from problems accompanying regional economy.

2.2. Legal changes affecting banking supervision

After many overloaded technical and political discussions, People's Assembly of the Republic of Albania passed the law No. 8873, dated 29.03.2002 "On Deposit Insurance". The aim of this law is to regulate deposit insurance and compensation in cases of bank bankruptcy, and responsibilities, activity and the way of establishing Deposit Insurance Agency.

The establishment of deposit insurance system is an important step forward that will have a positive impact in banking system development. The deposit insurance offers protection to depositors, especially to households and small business

savings. In this way, the whole or a considerable part of the deposits will be given back to households and small business, even in case of bankruptcy.

The law "On Deposit Insurance" determines the deposit level insured by Deposit Insurance Agency, up to Lek 700,000. The deposit part up to Lek 350,000 is insured at 100% level, whereas the remaining part up to Lek 700,000 is insured at 85 % level.

People's Assembly of the Republic of Albania passed the law No. 8893, dated 14.5.2002 on "Some Amendments to law No. 8269, dated 23.12.1997 on "Bank of Albania" modified by the law No. 8384, dated 29.07.1998. The additions and modifications to the law consist mainly in obligations, which come from Article 161 of the Constitution of the Republic of Albania, approved by the law No. 8417, and dated 21.10. 1998. They also consist in some other amendments, that from the political-legislative point of view evidence and guarantee Bank of Albania independence in monetary policy development.

The increase of Bank of Albania independence as a supervisory authority is very important to decision-making process that is independent from political and government attitudes towards banking system.

The new law has introduced the following main amendments:

By Article 3 of the new law, the expression "independent" is added to the fourth point of Article 3, of the law No.8269, dated 23.12.1997. This modification influences on the increase of Bank of Albania independence in conducting monetary policy, as one of its key duties recognized by law.

By Article 4 of the new law, a special point is added, by which Bank of Albania is granted the right to use independently the instruments of monetary policies. Through these, Bank of Albania realizes its key objective, the achievement and preservation of the price stability, and other objectives of monetary policy, as well.

By Article 5 of the new law, another modification was made coming from the second point of Article 161 of the Constitution, considering the way of choosing and nominating the Governor of Bank of Albania. In the abrogated law the Governor was proposed by Head of the Council of Ministers and was nominated by the President, while by new law the Governor is proposed by the President of the Republic and is chosen and nominated by People's Assembly of Albania. This modification to the law of choosing the Governor is made in compliance with the institutional relations of Bank of Albania with People's Assembly, determined in the law "On Bank of Albania".

By Article 6 of the new law, a modification to article 46 of the law No. 8269, dated 23.12.1997, was made and it consists in the avoidance of interest conflict for the members of the Supervisory Council. This amendment determined the irreconcilability of the function of Bank of Albania's Supervisory Council member with that of the employee, manager and shareholder having effective participation in a commercial bank or in institutions licensed by Bank of Albania. According to the law "On Bank of Albania", the Supervisory Council takes decisions directly

linked to interests of those institutions carrying out banking or financial activities according to the law "On Banks in the Republic of Albania",¹² decisions which initiate from the receive of the license, approval of the regulative supervisory actions to license revocation. By means of this modification, interest conflict elimination of this high function of Bank of Albania is completely guaranteed with whatever nomination or working position in a commercial bank or non-bank institutions licensed by Bank of Albania, or with other high government functions, mentioned in the first paragraph of Article 46 of the law.

By Article 7 of the new law, the first point of Article 63 of the law No.8269, dated 23.12.1997 is modified, as an obligation coming from Article 161 of the Constitution. This amendment determines Bank of Albania compulsion to maintain and manage not only its foreign exchange reserves (as the amended law determined), but also the whole exchange reserves of the Republic of Albania, the constituent components of this foreign exchange reserve, which by new law do not undergo changes.

2.3. The Privatization Process of Savings Bank

The stability of the banking sector, as a leading factor of financial stability in every country and an important condition for a successful accomplishment of economy restructuring as a market economy, is the banking system reform and restructure. The reform objectives for this period are:

- The reduction of Saving Bank's dominating position in market
- The completion of its restructuring process
- The privatization that will realize the state ownership transformation into private property.

Privatization will increase the banking system efficiency.

During 2002, from the Saving Bank analysis toward the adopted measures for privatization and within this framework for the smoothening of its dominating position, the following measures are evidenced as more specific:

- I) The transfer of all the pension services from Saving Bank to Alba-Post c.o., (Alba – Post sh.a.), (till the end of March 2003);
- ii) Further attempts for state budget services displacement from Saving Bank to other banks;
- iii) Further consolidation of Savings Bank branches in rural areas;
- iv) The improvement of bank's information system;
- v) The commence of setting up lending capacities

In relation to Saving Bank privatization, the shareholder of this bank, the Ministry of Finance, has prepared a plan for its reconstruction, for the period December 2002-September 2003. This plan consists in further IT developments, staff

¹² Notice Article 43 letter "c" and letter "e" of the law No.8269, dated 23.12.1997 "On Bank of Albania".

reduction and professional promotion, fiscal services transfer, banking network restructuring, payment system improvement, bank geographical extension, decrease of bank's dominance and marketing.

3. MISSION OF BANKING SUPERVISION

Bank of Albania, as a central bank and supervisory authority, according to the law "On Bank of Albania" and "On Banks in the Republic of Albania" exercises the banking supervision function. Among key duties of Bank of Albania, is to license or revoke the banks license and supervise their banking activities, so that to assure banking system stability.

The mission of the banking supervision² is:

- To assure banking system stability and protect the depositors interests and those of the public in general;
- To assure a sound banking system, whose activity must be transparent and towards market-based economy;
- To rise up the depositors and business trust by supporting the development of the banking industry and its efficiency.

The role of the banking supervision is:

- To insure, through the licensing process, the admission in the banking market only for the qualified entities (shareholders and administrators) that meet the corresponding legal, professional and ethic requirements, have adequate capital for undertaking risks, as well as policies and procedures for managing them;
- To assure that banks are operating soundly in compliance with the laws and regulations, so that they can have the adequate capital, necessary liquidity, satisfactory assets quality, shareholders reserves to withstand the undertaken risks, managing them according to international standards "of best practices", to insure the customers protection and evidence abusive practices;
- To assure problem banks are treated soon and effectively so that to protect depositors, making use of all the existing possibilities, minimization of government and households cost.

To perform this role, banking supervision:

- Drafts and reviews the regulations considering: recent banking system entities, cautious banking activity operation, coping with achieved results, custody and liquidation of banks, and imposes the execution of rules and regulations;

² Approved by Supervisory Council of Bank of Albania with the decision No. 37, on 22.05.2002.

- Drafts active policies and strategies for the supervision of certain banks and banking system in general, based on the estimation of risk management;
- Develops supervisory procedures according to international guidelines and standards;
- Performs these procedures, standards and guidelines in continuation;
- Insures quantitative and quality staff sufficiency, in order to conduct banking industry supervision;
- Finances and participates regularly in meetings with banking industry and other supervisory authorities, for problems of common interest.

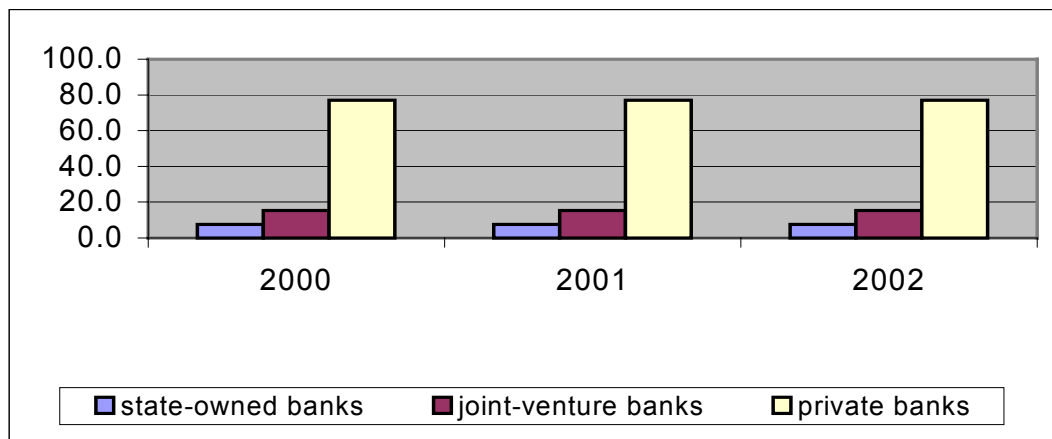
4. Functions of banking supervision

4.1. Analysis of the banking system

4.1.1. Structure of the banking system

Even by the end of 2002, the banking market consists of 13 banks, 1 state-owned bank (the biggest bank of the system), 2 joint-venture banks and 10 private banks (including 3 branches of foreign banks). In 2002, a new private bank was licensed, Credit Bank of Albania.

Figure 1. Structure of the banking system according to shares.



Banks expand their activity network by means of new branches, some of which presented new products, such as: ATM (Automatic Teller Machine), credit cards, deposit certificates, consumer credit, forward contracts, etc. During 2002, 9 branches of banks and 1 banking agency were introduced.

Table 1. Geographical expansion of the banking system at year-end 2002.

1	Banks Name	No. of Employees	No. Of Branches	District where it is present	No. of agencies	1.1 Districts
1.	SB	1 283	37	Berate, Kuçova, Çorovoda, Bilishti, Burreli, Durrësi, Elbasani, Gramshi, Peqini, Fieri, Ballshi, Gjirokastra, Tepelena, Kavaja, Korça, Erseka, Kruja, Kukësi, Krumi, Laçi, Rrësheni, Lezha, Librazhdi, Lushnja, Përmeti, Peshkopia, Bulqiza, Pogradeci, Saranda, Delvina, Shkodra, Kopliku, Puka, Bajram Curri, Tirana 1, Tirana 2, Vlora.	91	Berati, Kuçova, Çorovoda, Bilishti, Burreli, Durrsi, Elbasani, Gramshi, Peqini, Fieri, Ballsh,i Gjirokastra, Tepelena, Kavaja, Korça, Erseka, Kruja, Kukësi, Krumi, Laçi, Rrësheni, Lezha, Librazhdi, Lushnja, Përmeti, Peshkopia, Bulqiza, Pogradeci, Saranda, Delvina, Shkodra, Kopliku, Puka, Bajram Curri, Tirana 1, Tirana 2, Vlora.
2.	NCB	226	10	Tirana(3),Durrësi,Gjirokastra, Elbasani, Korça, Shkodra, Vlora, Lushnja.		
3.	IAB	72			3	Tirana, Durrësi, Vlora.
4.	AAIB	43	1	Shkodra		
5.	DB	11				
6.	TB	160	11	Tirana(4), Durrësi, Fieri, Gjirokastra, Elbasani, Korça, Shkodra,Vlora.		
7.	NBG-branch Tirana	58			3	Tirana, Durrësi, Korça.
8.	ICB	35	1	Tirana.		
9.	Alfa-Bank Tirana	51	5	Tirana,Durrësi,Gjirokastra, Elbasani, Berati.		
10	ABA	151	2	Durrësi,Vlora.		
11	FEFAD	171	7	Tirana, Durrësi, Fieri, Elbasani, Korça, Shkodra, Vlora.	1	Tirana.
12	FIB-branch Tirana	13				
13	CBG (AL)	39				

4.1.2 System assets, their structure and quality

Banking system assets increased by Lek 20,9 billion or 6,5 % compared to year-end 2001. While during 2001, the total assets of the banking system increased by 17,6% or Lek 46,7 billion, it must be mentioned that the reason for the lowest growing rate for 2002, is the considerable deposits withdrawal from Saving Bank and National Commercial Bank during March-April months. So, while in February the total system assets increased by Lek 7,3 billion compared to year-end 2001, in March the decrease is calculated at Lek 7,6 billion compared to February and Lek 385,6 million compared to the year-end. In April, a greater level of deposit withdrawal from these banks is evidenced, which affects the decreasing of the banking system total assets in June at Lek 3,9 billion, if compared to year-end 2001. Compared to the year-end, it is exactly in August that the banking system represents an increase, which is being reflected also in other months of year 2002.

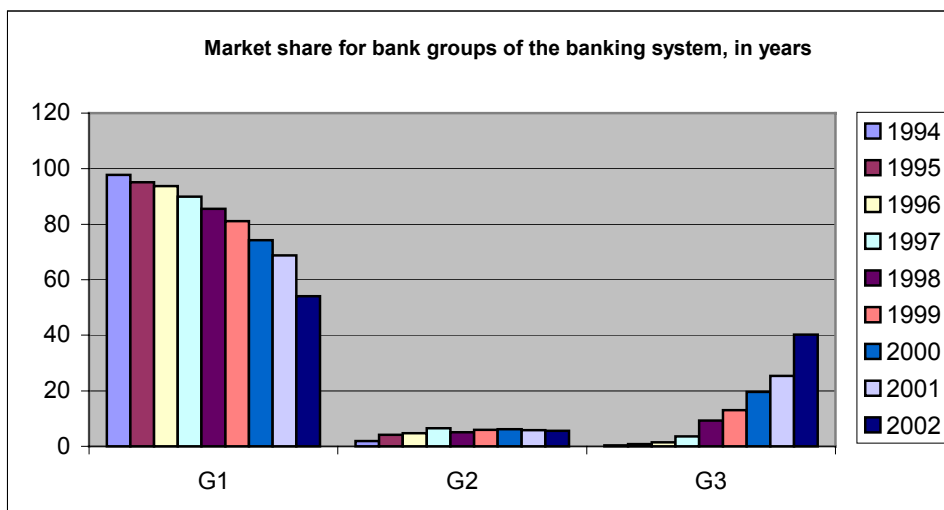
Table 2. Total assets, its trend in years.

<i>Indicator in billion Lek</i>	<i>December '99</i>	<i>December '00</i>	<i>December '01</i>	<i>December '02</i>
Total Assets	249.5	270.8	318.5	339.3
In % of GDP	49.2	50.2	53.5	51.6

The group of state banks, in the bank group analysis, evidences total assets decrease at Lek 4,9 billion, the group of joint-venture banks an increase at Lek 447 million, while the group of private banks an increase at Lek 25,4 billion, which confirms the last one's importance in banking system assets increase during 2002.

The extension of the private banks' activities has somehow made comparable this group's weight with that of state-owned banks (40,3% in comparison to 54,1%) against banking system.

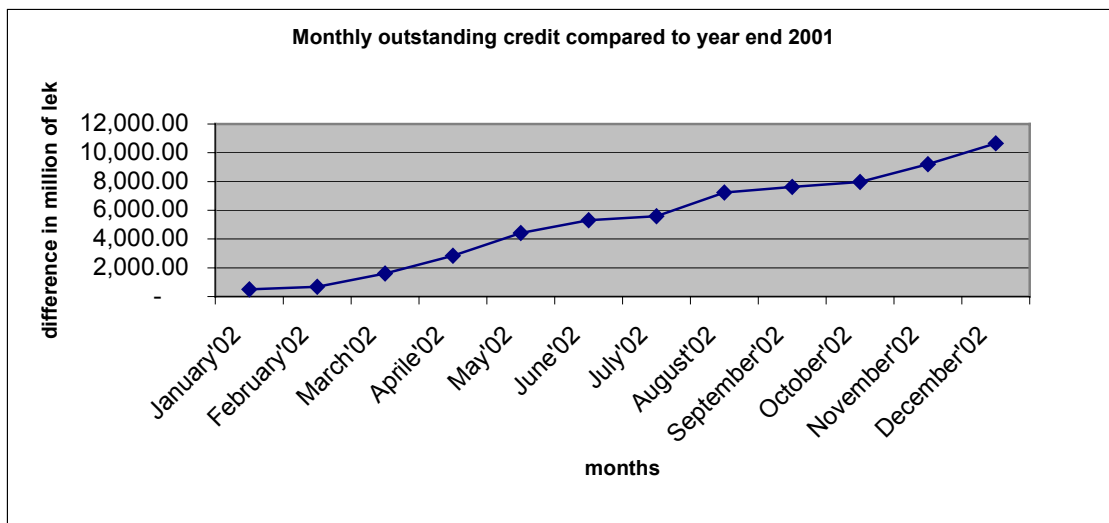
Figure 2. Market share for bank groups of the banking system, in years (according to total assets.)



Lending activity.

During 2002, lending by the banking system is presented in upward trend. While the year-end 2002 presented the credit outstanding increase by 37,7% or Lek 10,7 billion compared to year-end 2001, the other months compared to the same period, marked the increase as shown in the following diagram:

Figure 3. Credit Outstanding trend (in million Lek)



Some of the loaning features appearing during 2002 are:

- Tendency towards long-term lending. Long-term lending consists 7,6% of the credit outstanding from 5,4% at last year-end. Meanwhile, short-term lending of 55% in the year-end 2001 is evidenced 47,7% of the credit outstanding at year-end 2002.
- Increase of loans weighted in Lek. At year-end 2002, the credit outstanding in Lek consist 21% of the overall credit outstanding from 18,3% evidenced at year-end 2001.
- Growth of households loaning. 19% of the credit outstanding from 15,1% at year-end 2001 belongs to households.

Lending quality.

In addition to quantitative credit increase, we will consider its quality as well. To evaluate the credit portfolio quality, we take into consideration the credit ratio and its problems towards credit outstanding. This indicator calculated on gross basis, is evidenced 5,6% at this year-end, from 6,9% at year-end 2001. The explanation of this ratio improvement is found in the new credit, which led to credit outstanding increase. By assessing separately the effects influencing in the change of non-

performing loans ratio towards 1,3% credit outstanding, the effect of credit outstanding increase is calculated 1,8% and that of the non-performing loans – 0,5%. It should be stressed that credit outstanding has increased Lek 10,7 billion during 2002, whereas non-performing loan outstanding has increased Lek 207 million. In the same way, the proportion of non-performing loans to the gross credit outstanding is evidenced 2,8% from 4% at year-end 2001.

Finally, we conclude that the quality of the loans weighted by the banking system presents a relatively satisfying rate.

4.1.3. Deposits and current accounts trend.

Liabilities or deposits are the main funding source, which banks actually rely on for their investments. Banks of the system considering the proportion of the capital share to deposits, evidence just a few banks relying more on capital than on liabilities. It is exactly the recent banks and those not widely relying on lending³ which present high rates of this proportion. But the banking system in general continues to rely on liabilities. These constitute 84% of the total liabilities from 86% by year-end 2001.

Although experiencing contraction in March-April period, during 2002 the system deposit trend recognized an upward trend in the last two or three months, which compensated for the deposit rate decrease in the previous period. In comparison to year-end 2001, the deposit rate increased 4% or Lek 11,2 billion.

Table 3. Deposit and current accounts trend.

Indicator in million Lek	December 2001	March 2002	June 2002	September 2002	December 2002
Total deposits and current accounts	277 818	270 700	265 082	279 626	289 006

Private banks provided the main influence in this increase (nearly Lek 19 billion). During the three last months of 2002, Saving Bank made the best contribution to the banking system (Lek 6,2 billion) nearly the double of private banks (Lek 3,1 billion). Saving bank continues to have the basic share in system deposits,

³ Exclusion from this evidence is only one bank of G3, which invests more than 50% of assets in lending, relying on capital rates

although the deposit rate at this bank, by year-end 2002, did not reach the rate marked at year-end 2001⁴.

Table 4. Saving Bank position in the depositing activity of the banking system.

<i>Indicator in % to banking system</i>	<i>December 2001</i>	<i>March 2002</i>	<i>June 2002</i>	<i>September 2002</i>	<i>December 2002</i>
<i>Total deposits and current accounts</i>	63.7	61.8	59.4	58.0	58.3

System deposit structure shows individuals deposits having the highest percentage in the banking system (85%), time deposits (80%) and Lek deposits (67,3%). While in the first two divisions, all the groups of banks follow the tendencies of the banking system, in the division according to current accounts, it is only the group of state banks which dictates the tendency of the banking system for foreign currency (nearly 74%) whereas the group of joint-venture and private banks evidences the highest deposit rate in currency (nearly 73%). But the banking system, benefited from interest rate, in general, for bank's Lek deposits presented a higher increase of these deposits (Lek 8,5 billion), against foreign currency that marked a lower increase (Lek 2,6 billion) as compared to year-end 2001.

⁴ Saving Bank deposit rate is 168 billion Lek at year-end 2002 from 177 billion Lek evidenced at year-end 2001.

Figure 4. Deposit structure

Figure 4a. Deposit structure by availability

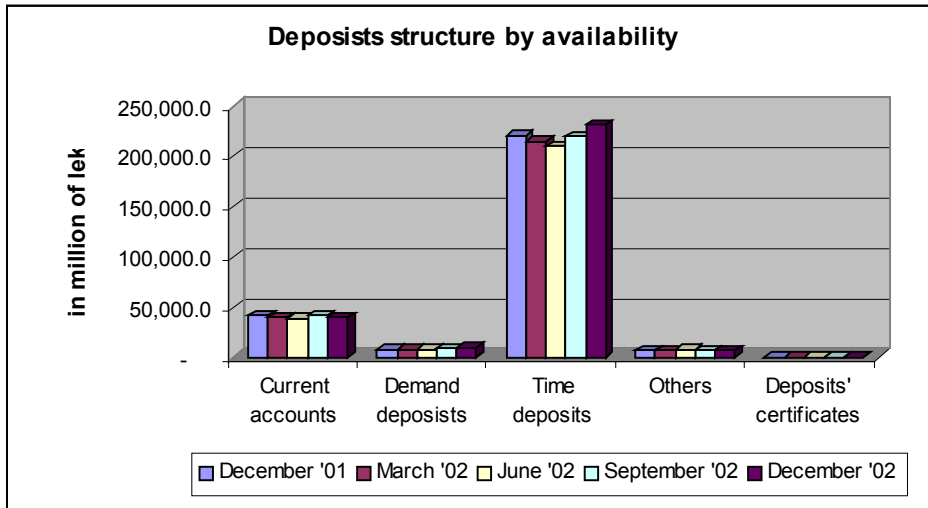


Figure 4b. Deposit structure by sectors

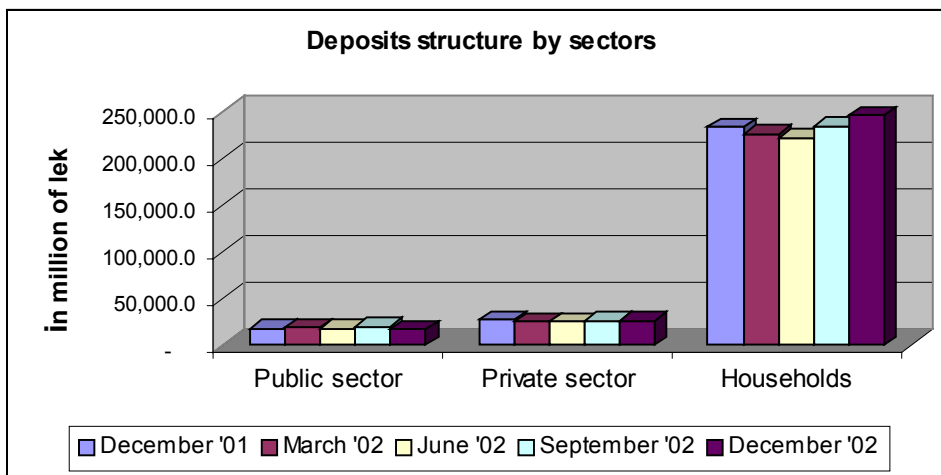
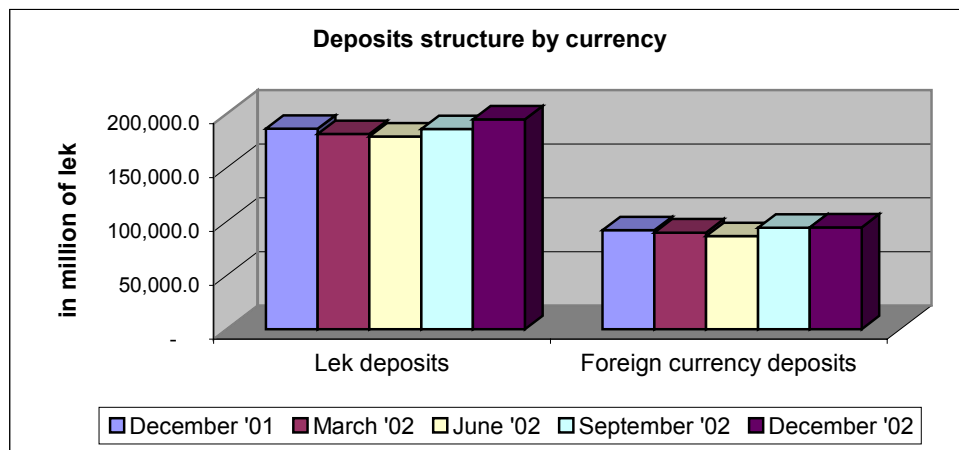


Figure 4c. Deposit structure by currency



4.1.4 Structure of incomes and expenses, net income.

Incomes are regarded as the main factor for the financial institutions' efficiency. The level of these incomes undertaken risk mostly affects them. Institutions actually prefer not high risks, but stable and reasonably growing incomes.

At this year-end, although the general banking system situation is evaluated as good and the profit ratio indicator at normal limits, there are still problems with the assets and resource management, consequently the profit ratio indicator is below the level of the system.

Net income.

At year-end 2002 net income (after taxes) for the banking system are evidenced by Lek 3,9 billion. This indicator compared to year-end 2001 is at a lower rate for Lek 0,4 billion or 9,4%.

The group G1 (evidences net income reduction at Lek 0,8 billion) has influenced on net income reduction (after taxes), whereas the two other groups G2 and G3 reflect increase (to Lek 0,1 billion and Lek 0,3 billion).

Net income from the banking system main activity (the net income from interests, commissions, foreign exchange activity etc.) compared to year-end 2001 increased at 1,7 %, while the operating expenses and reserve funds coping with

loans losses evidence an increase at 14,4%. For bank groups, the tendency of the above indicators is:

- In G1, net income from the main activity evidence 12,2 % decrease, whereas the overall operating expenses and reserve funds coping with the loans losses evidence 27,9% increase.
- In G2, net income from the main activity has increased at 0,96%, whereas the overall operating expenses and reserve funds coping with loan losses decreased 8,5%.
- In G3, net income from the main activity evidence an increase of 20,3%, whereas the overall operating expenses and reserve funds coping with loans losses an increase of 14,7%.

At this year-end, a sole bank of G3 evidences loss.

Table 5. Incomes and expenses, net income.

Indicator In million Lek	G1		G2		G3		Banking system	
	2001	2002	2001	2002	2001	2002	2001	2002
1. Net interest income	4,626.1	3,984.6	739.7	604.6	3,312.5	4,258.1	8,678.3	8,847.3
Net interest income	14,834.1	14,747.1	1,088.8	961.7	6,487.9	7,829.3	22,410.8	23,538.1
Interest expenses	10,208.0	10,762.5	349.1	357.1	3,175.4	3,571.2	13,732.5	14,690.8
2. Net incomes from other activities	1,065.6	1,012.5	317.1	462.3	986.7	915.6	2,369.4	2,390.5
Incomes from other activities	1,253.0	1,065.7	438.7	501.7	1,987.8	1,794.4	3,679.5	3,361.7
Expenditures for other activities	187.4	53.1	121.6	39.3	1,001.1	878.8	1,310.1	971.3
3. Expenditures for provisions	- 99.9	98.3	541.9	381.1	237.8	241.1	679.8	720.5
4. Gross income for the banking activity	5,791.7	4,898.9	514.9	685.9	4,061.4	4,590.1	10,367.9	10,174.9
5. Expenditures for the banking	1,749.6	2,011.7	482.3	555.6	2,564.8	2,974.9	4,796.8	5,542.3
6. Net income of the banking activity	4,042.0	2,887.1	32.5	130.2	1,496.6	1,615.2	5,571.1	4,632.6
7. Exceptional net result	- 39.9	- 20.2	- 3.8	- 11.9	53.3	31.4	9.6	0.7
8. Net incomes before taxes	4,002.2	2,867.0	28.7	118.3	1,549.8	1,989.1	5,580.7	4,974.3
9. Taxes on incomes	1,000.5	716.7	6.2	0.3	291.5	379.0	1,298.3	1,096.0
10. Net income (after taxes)	3,001.6	2,150.2	22.5	118.0	1,258.3	1,610.1	4,282.4	3,878.3

Structure of incomes and expenses

Interest incomes give the main contribution to the banking system net income. Compared to year-end 2001, these incomes present an increase of 5%, while G3 banks evidences an increase of 20,7%.

Interest incomes represent 84,2% of the total incomes. The main incomes (64,2% of the total incomes) are interests received by securities investments (of Albanian government and international markets) and interests received by lending (10,7% of total incomes). This phenomenon is evidenced in banks of G1 and G3 whereas in Banks of G2 the main incomes are interests received by loans (33,4% of total incomes of the groups).

Incomes from other activities hold 12% of total incomes. This group's main incomes are those of commissions (6,7% of total incomes) and foreign exchange activities (3,9% of total incomes).

Interest expenses represent 61% of total expenses and have increased nearly 7% by year-end 2001. Paid interests for accounts and customers deposits (57% of total expenses) hold the main weight.

Analysis on bank groups evidences group G1 with a higher rate of interest expenses (77,9% of total expenses) that flow mainly from interests paid to customers (74,9% of the group total expenses).

In 2002, expenses for the creation of reserve funds coping with loans losses increased by 6% compared to year-end 2001, influencing mainly on banks of G2 (this group's provisions constitute 52,9% of the provisions of the banking system).

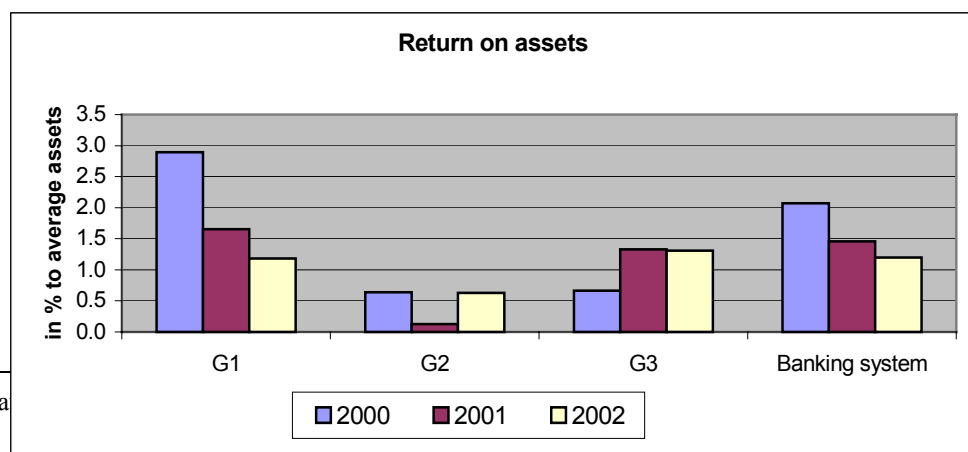
The operating expenses represent 19,4% of total expenses and have increased 15,5% since 2001. The banks of G2 and G3 evidence the greatest expense share in the total expenses of respective groups.

Operating expenses increase is because of banking network expansion – new banking branches and agencies, improvement of information technology, etc.

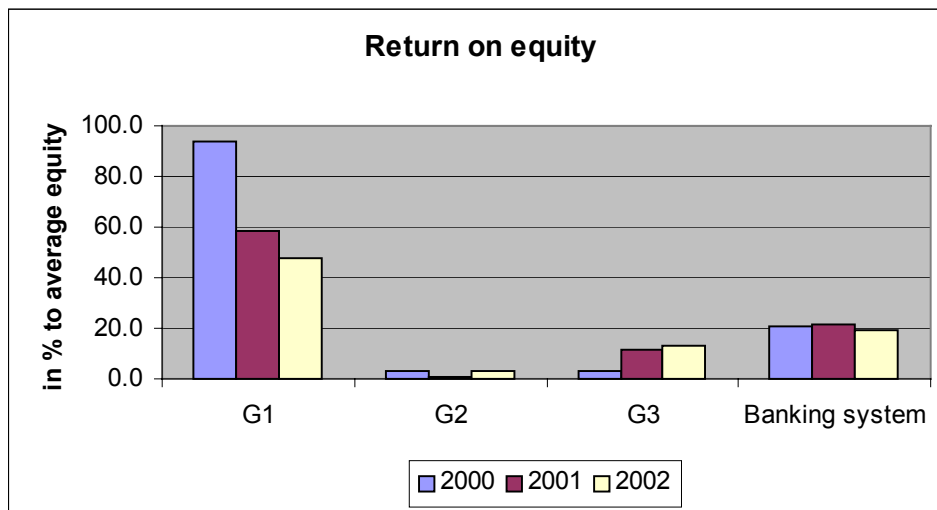
Profitability indicators

The results of financial institutions' policies and administrative decisions and their abilities in assets return into net income are reflected in profitability indicators. ROA shows the institution's ability to operate profitably in general; ROE shows the possibility of investments growth. These indicators are evidenced within normal rates⁵.

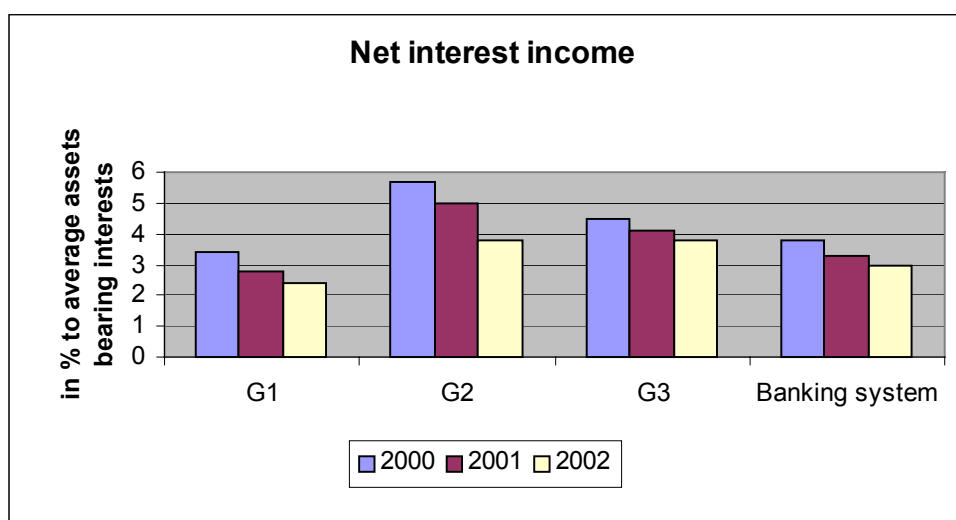
At this year-end ROA, accounted as a proportion of net income to average assets, results 1,2% from 1,5% at year-end 2001. The net income decrease (9,4%) and the average assets increase (10%) have influenced on ROA reduction. The indicator evidences the same rate in the groups G1 and G3, whereas in the group G2 the indicator is 0,6%. ROE results 19,1% from 21,6% at year-end 2001. In G1 ROE rate is higher than that of the banking system (47,6%), while in the other two groups this indicators rate is lower than that of the banking system (3,4% and 13,1%).



⁵ The normal ra



Net interest margin is the most important indicator for assets and resources management. This indicator does not change if the institution manages to control the impact of interest rate change. In an environment of fluctuated interest rate, this indicator's change is accompanied with great interest rate risks.



At this year-end, net interest margin is reduced in comparison with year-end 2001 (3⁶% from 3,3%). Reduction is evidenced in all the three groups of banks, whereas G2 presents the highest reduction. The high increase of average income assets (14,7%) rather than net interest incomes (1,9%) has influenced on this indicator's reduction.

⁶ The normal rate of NIM is considered 3-10%

4.1.5 Capital adequacy, liquidity and sensitivity to market risks

- a- *Capital analysis* - the most significant element in coping with risks of financial institutions (banks)⁷ and banking system in general will treat the trend of two main indicators of financial leverage and capital adequacy ratio.

It is a known fact that the greater the bank capital basis in proportions to assets, the smaller the total risks. *Financial leverage* (bank's capital/ total assets), - as an indicator of an institution's fund, refers exactly to the rate through which banks assets value is reduced before depositors and creditors threat. So, the higher this indicator, the lower the risk's level. At year-end 2002, this indicator for the banking system is evidenced 6,4%, from 5,9% evidenced at year-end 2001. The increase of financial leverage level is explained by the higher level of capital stock increase (15,3% compared to year-end) rather than that of system assets (6,6% compared to year-end), thus continuously evidencing satisfactory capital rates for the banking system.

At year-end 2002, *the capital adequacy ratio*⁸, as a significant indicator determining bank's ability to withstand its possible losses, continues to evidence a relatively high rate of 31,5% for the banking system, although if compared to year 2001 this ratio⁹ evidences fall.

The regulatory capital and assets classified according to risks – as elements of capital adequacy ratio, affect this ratio level as well. As the regulatory capital increases at 6,9% or nearly Lek 1,2 billion compared to year-end 2001, assets classified according to risks report an increase of 19,4% or nearly Lek 9 billion. Bank groups' analysis, evidences private banks having significant effects in this ratio reduction, which are expanding their reliance on risk assets. So the capital adequacy for private banks evidences the lowest level 28,9%, for state-owned banks 33,3% and for joint-venture banks 43,6%. This evaluates once more the on-going contribution of private banks in risky investments, and this is likely to increase if considering the internal capacities and satisfactory capital rates, bank owns.

⁷ Although the majority of studies suggest that capital does not constitute an adequate protection against risks, high capital rates often are insufficient to prevent the bankruptcy of grave problems, too. Capital exhaustion is the last result of outstanding crediting risk losses, interest rate, liquidity etc..

⁸ The capital adequacy ratio is given as a ratio of regulatory capital to total risk-adjusted assets.

⁹ Table: Capital adequacy ratio as of bank groups at year-end 2001.

Indicator	Banking system	G1	G2	G3
Capital adequacy ratio	35.3	29.9	40.4	35.7

- b- Analyses of main liquidity indicator evidence a satisfactory rate even for year 2002. In liquidity analysis we will continue to take into account liquidity ratios¹⁰ and maturity gap.

Liquidity ratios measure bank's ability to cope with currency needs, by having a minimal loss of its assets value decrease. *It is a known fact that not meeting these requirements may be destructive for the bank and for the system in general. Assets and liabilities are used as liquidity resources, while small banks rely mostly on short-term assets and big banks on liabilities.*

Banks of the system continue to evidence a satisfactory liquid asset rate of their total assets (above 37%) and above 100% liquid asset rate against short-term liabilities¹¹.

One-month maturity *gap* presents the difference between assets and liabilities of one-month remaining maturity, and even though it evidences negative values for certain banks, these values are relatively insignificant to total assets.

Regardless of March-April events that shocked system liquidity and were successfully faced up by Bank of Albania facilities in general, the banking system evidences a normalized situation and a satisfactory liquidity rate, which does not sensitively expose bank to liquidity risk.

- c- Sensitivity to market risks

The analysis of banking system sensitivity to market risks it can face up, considers credit loss and market risks.

A significant element of this analysis, known as Stress Tests, is used for evaluating risk gravity, preventing the deterioration of banking system macro-prudent indicators. This considers macro-prudent sensibility to considerable macro-economic shocks. Stress Tests objective is to make risks more disclosed, by assessing possible losses in the worst situation ever imagined.

In this way, a considerable economic decline is supposed as a shock for credit risking which has to do with debtors and liabilities risk in meeting their contracting demands. So we make use of regress equation of "non-performing loans/ total assets¹²" ratio (for the whole banking system) of gross domestic product nominal value (GDP) for the previous three months and calculate the respective correlation coefficient. The test result when the *shock* value of GDP is used in the equation confirms a low value of "non-performing loans/ total assets" ratio.

¹⁰These ratios are liquid assets to the total assets and liquid assets to short-term liabilities.

¹¹ Short-term liabilities are considered: international and treasury activities, non-term deposits, 10% of the current account (90%of current account, according contemporary standards is considered bank's funds because of their "frozen" nature).

¹² This ratio is considered as a measuring instrument for the banking system exposure to credit risk.

As a result of the above model, a modest banking system exposure to credit risk is evidenced.

In continuation, two important elements of market risks are analyzed, they are “exchange rate risk” and “interest rate risk”, since “capital price risk” and “other product prices risk” is not taken into account because of their non-existence here.

The exchange rate curve shift of three standard deviations, for a 99% credibility level and three-month frequency for December '98- December'02 period is considered as a shock for the foreign exchange rate risk (the later is evaluated by the transparent net position in foreign exchange). So after calculating this appreciation and depreciation of the two central currencies EURO and USD, the consequences (losses) that disclosed currency positions might cause, are analyzed. Banks that present high values of transparent position in currency perform the accounts. In concrete terms, the final tests showed that *banks in general are protected by foreign exchange rate fluctuations.*

A method for evaluating interest rate risk is the return of interests into net income because of interest rate fluctuations.

In this case, the shift of interest rate curve with three standard deviations, for a 99% credibility rate and three-month adequacy of deposits interest rate during December '98 – December '02 was used as a *shock*. In concrete terms, this *shock* for year-end 2002 was equivalent to an interest rate increase of 3,3%. After calculating the gap between assets and liabilities sensitive to interest rate, the application of the above *shock* turned out to be a loss that could be faced up by the banking system, which means a limited exposure of the system to interest rate risk.

Tendencies and perspectives of the banking system during 2003.

- Successful privatization of Saving Bank – the last state-owned bank, will avoid its domination in deposit market and will increase competitiveness, as a new private bank will enter this market.
- Improvement of banks' investment structure especially in riskier assets mainly in loans will make its contribution to economy.
- The incomes increase from other assets in addition to interests ones, mainly by private banks, will contribute to banking activity expansion in totality.
- Facilities offered by Bank of Albania for liquidity will limit banks' exposure to liquidity risk.
- Adequate capital rate will present banks of the system as protected mainly against credit risk
- A more effective banking supervision will continue to ensure a healthy banking system and depositors protection.

4.2. On – Site Inspection and corrective actions

On-site inspection of banks is an important part of banking supervision because it examines those fields that cannot be evaluated by the off-site analysis. Specifically, it appreciates the level of bank's management, of procedures followed for identifying, coping with and managing risks, internal controlling system. On-site inspections play a significant role in the adequacy and improvement of the data reported by Bank of Albania.

Banking supervision inspectors base their work on making contacts with supervised banks. These contacts are important to give positive solution to all problems observed during inspection.

On-site inspection fulfillment is performed on basis of the plan, approved at year onset. Its objective is to perform full-scope inspections of all banks. This program is accompanied by partial inspections for specific problems occurring during the year.

During 2002, 13 full-scope inspections and 11 partial ones were performed:

Banking examination in commercial banks aimed at making sure:

- I. Banks engagement in safe and sound activities.
- II. Identification of specific banks or banking activities that requires the attention of supervisory authority.
- III. Appreciation of banks' management and the approval and supervision of banks internal laws and regulations by bank's board of directors such as policies, procedures, etc.

Generally speaking, banking system condition, as estimated by on-site examination, is good, which is a very important element for economy support in its development.

Some remarkable characteristics of the banking system during 2002 are as follows:






1. Expansion of loaning activity in some banks is accompanied by the increase of non-performing loans. This is a result of certain causes, the most important of which are:
 - Commence of loaning activity without having an adequate staff to comply with the necessities of this sector and lack of experience to cope with loans.
 - The lack of support with adequate policies and procedures.
 - The existence of an undeveloped market that cannot comply with the obligations deriving from loan making, and is not familiar enough with the principles of free market economy.

- The unstable situation in some sectors of crucial importance for the economy, such as energy.
 - The malfunction of certain legal aspects concerning lending process.
2. People's trust in banking system has returned after the panic prevailing the April - May 2002 period in Saving Bank and National Commercial Bank. Liquidity situation and these banks activity in general, are substantially improved by returning to its normal course.

There has been a good situation of liquidity in the banking system, mainly resulting from highly liquid investments such as: investments in other banks, Treasury Bill of Albanian Government or in securities of other A zone government.

3. Banks continue to expand their activity by means of the new branches and agencies in different towns in South and North Albania, and some of them try to apply new banking products.
4. Generally executive management has reacted positively to the problems of the examination, but they have not shown adequate attention to:
- Improve the policies and procedures of bank's activity;
 - Complete the regulative framework of bank's activity;
 - Follow the business plan of the bank (in certain banks, deviations from the amount of profit, deposits and investments as predicted by business plans, are evidenced).

During the examinations, there have come out some findings, which are not in accordance with sound banking practices. These are of different nature such as:

-  Violations of the Law on Accounting. Banks do not follow strictly the Manual of Bank Accounting to record accounting and financial results on local currency.
-  Violations of Law No.8365 date 02.07.1998 "On Banks in the Republic of Albania", Article 6, on recording the documentation and correspondence of Albanian language.
-  Violations of Law 8365, date 02.07.1998 "On Banks in the Republic of Albania", Article 20, considering the separate position of the Audit Committee member from that of Managing Committee.
-  Lack of strict execution of the Law No. 8365, date 02.07.1998 "On Banks in the Republic of Albania", Article 20, considering the increase of the Audit Committee and the function of banks internal control unit.
-  Violations of BOA regulations as follows:
 - i) Non-compliance loan portfolio classification with BoA regulation "On credit risk management".

- ii) Nomination and commencement of the work of some managers without prior approval from Bank of Albania.
- iii) The documentation for outgoing transfer doesn't comply with the regulation "On foreign currency operation".

Banking Supervision Department, depending on extension and type of irregularities found in the bank, determines corrective actions, based on the provisions of Law No. 8365, date 02.07.1998 "On Banks in the Republic of Albania" and BOA regulations.

The actions taken during 2002 are:

- Recommendations or suggestions to correct minor irregularities;
- Requirements that the bank has to present to Bank of Albania a program of actions to improve the bank condition, and in case of irregularities the action plan must have specified deadlines;
- Punishment for bank's management for evidenced violations against rules and regulations in force.

Banks, according to the recommendations given in the examinations reports (compared to last year) have paid attention to the completion of their internal regulations for all banking activities especially for lending, risk management etc. Banks are becoming aware of the necessity of compliance with law, regulations and recommendations of Bank of Albania. This sets the basis to develop correct relations between Bank of Albania and commercial banks.

"Manual of corrective actions"

The main objective of "Manual of corrective actions" draft is to determine BOA policies so that to make use of powers in applying its responsibilities to undertake corrective actions in cases of any violations of law or regulations by banks, and/or when an inadequate and unstable banking activity is observed.

This policy is prepared to determine actions at BOA disposal, in cases of necessity in undertaking them to provide a solution to certain problems considering a safe and sound banking activity or problems in conformity with this activity standards.

"Manual of corrective actions" determine the standards for a safe and stable banking system and the procedures for meeting these standards.

Bank of Albania has the authority over determining and conducting the standards of a safe and sound banking activity, so that the banking system stability can be insured. If Bank of Albania observes that in a certain bank, there are problems considering a safe and stable banking activity or lack of conformity with its standards, it intervenes by undertaking corrective actions. Bank of Albania may use many means to execute its supervising responsibilities according to article 44, point 2, of law No.8265, date 2 July 1998 "On Banks in the Republic of Albania". These means start from advises and guidelines (which can be given even in cases when there is no violations of rules and regulations, but simply the inspector observes that bank risk is growing) Understanding Memorandum, penalties and to extreme punishments.

According to this manual, BOA inspection ratio or other means of communicating with the bank must identify and carry clearly the evaluation of the condition of the inspected bank and describe every problem, issue, weaknesses and deficiency, presenting also the initial cause of each of them. The corrective action of Bank of Albania must affect the weaknesses since their occurrence, before they turn into serious problems. The corrective action in general includes the managers' promises or Supervisory Council commitment, to give a resolution to problems observed by Bank of Albania. When the bank starts applying measures to correct the observed problems and prevent the further deterioration of the situation, Bank of Albania, the Supervising Department, the respective inspector or examiner must their conducting and report to the department's head.

4.3 Licensing and Bank Regulations

4.3.1. Licensing

During 2002, the policies of Bank of Albania considering banks and other non-bank financial institutions licensing, in comparison to the previous year, have not changed. Demands for the necessary minimal capital are at the same rate. Aiming at the increase of banks licensing transparency, Bank of Albania approved certain modifications to the regulation "On the granting of the license to conduct banking activities in the Republic of Albania". During 2002, differently from previous years, Albanian business is interested in opening Albanian private banks.

After a ten-year period, Albanian business experienced the first step of its development, gained experience and it actually feels more secure in performing long-term investments.

During 2002, after three years, the number of banks has increased. The Supervisory Council approved granting the final license to Credit Bank of Albania, which increased the number of operating banks and branches of foreign banks in Albania into 14. The preliminary license for conducting banking activity was given to this subject by the name "Commercial Bank of Kuwait", but during the period the bank was getting prepared to have the final license, its General Assembly of Shareholders, considering the bank's proposed name as inappropriate, decided to change the name into "Credit Bank of Albania", preliminarily approved by Bank of Albania. This bank started its activity in February 28, 2003.

A characteristic of this year is the expansion of the existing banks' activity in other districts by opening branches and agencies. During this year 9 new branches and 1 agency were opened. In the meantime Bank of Albania has accepted to open other branches that are at the phase of setting up the conditions to start the activity.

Bank of Albania preliminarily examines the banks' demands to open new branches and agencies and silently approves or refuses the extension of the banking activities when it threatens the organizing financial and supervisory possession of the banks or market structure according to the competitiveness principle.

Bank of Albania allows opening the branches of the banks licensed abroad if certain conditions are met, as they are determined in the regulation "On granting the licenses for performing banking activity in the Republic of Albania". During this year Bank of Albania presented the demand of Saving Bank to open a new branch in Pristine. The Supervisory Council of Bank of Albania approved this request.

Table 2. Number of constituent banks in the banking system.

<i>Divisions according to shares</i>	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
G1 (state-owned banks)	4 ¹³	3 ¹⁴	3	3	3	3	2 ¹⁵	2	1	1	1
G2 (joint-venture banks)		1 ¹⁶	2 ¹⁷	2	2	2	2	2	2	2	2
G3 (private banks)			1 ¹⁸	1	1	3 ¹⁹	6 ²⁰	9 ²¹	10 ²²	10	11 ²³
No. of banks in total	4	4	6								
	4		6	6	6	8	10	13	13	13	14²⁴

Table: List of non-bank financial institutions licensed by Bank of Albania.

No	Of	Non-bank financial	Year	Year	Year	Year	Year	Year	Year
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¹³In the bank market, the following banks operated:

- National Bank of Albania.
- National Commercial Bank.
- Bank of Agriculture and Development.
- Saving Bank.

Bank of Albania, in December of 1992, grants the license to Arab Albanian Islamic Bank, but this has started its banking activity in 1994.

¹⁴ State banks are National Commercial Bank (which includes National Bank of Albania and National Commercial Bank), Rural Commercial Bank (which was set up by the good assets of Bank of Agriculture and Development, which stopped operating) and Savings Bank.

¹⁵Rural Commercial Bank is closed down.

¹⁶ Italian-Albanian Bank starts the activity.

¹⁷ Arab Albanian Islamic Bank starts the activity.

¹⁸ Dardania Bank starts the activity.

¹⁹ Tirana Bank and Branch of National Bank of Greece in Tirana start the activity.

²⁰ National Commercial Bank and Branch of Alpha Bank in Tirana and American Bank of Albania start their activity.

²¹ FEFAD Bank, First Investment Bank – Tirana branch and International Commercial Bank (nowadays known by the name Commercial Bank of Greece (Albania)) start their activity.

²² National Commercial Bank is privatized and the number of state-owned banks is reduced and the number of private banks is increased.

²³ Credit Bank of Albania is added.

²⁴ Credit Bank of Albania receives the license in August 2002, but started its activity in February 2003.

institutions		1996	1997	1998	1999	2000	2001	2002
1	Banks and branches of foreign banks	6	8	10	13	13	13	14
2	Non-bank financial institutions				1	2	4	5
3	Foreign exchange bureaus				10	19	38	58
4	Saving-credit associations							113
5	Saving-credit associations unions							2

During 2002 “Mountain Area Financing Funds” was licensed, a non-bank financial institution whose objective is to conduct the loaning activity. Among non-bank financial institutions, the association “Alba – Post. Sh.a.” (Albanian Post joint-stock company) has expanded its activity by the service activity of a financial advisory and has been granted the license for conducting the foreign exchange activity in certain districts.

The law “On saving –credit unions” defined Bank of Albania as a supervisory authority in saving and loaning associations and their unions. On this basis, Bank of Albania determined the internal regulatory articles related to the licensing and supervision of these micro-financial institutions. According to the regulations “On saving-credit associations and their unions licensing” in cooperation with “Rural financing fund” and with the foundation “The movement for the development of saving-credit associations”, 113 saving and loaning associations and 2 unions of these associations were licensed.

Banks and branches of foreign banks change the managers and their shareholders only after Bank of Albania preliminary approval. Bank of Albania has preliminarily approved 40 new managers of banks and branches of foreign banks, where are included members of the leading council, of Audit Committee, general heads, heads of departments and heads of banks branches.

Bank of Albania, during 2002, in compliance with the law “On banks in the Republic of Albania” preliminarily approved the participation of the Commerzbank AG, owing 20% of FEFAD Bank shares.

4.3.2. Supervision regulatory framework

During 2002 the regulatory framework obtained new significant rules and regulations concerning the formalization of the saving-crediting associations and their unions, management and liquidation of banks, but during 2002 the existing regulatory framework has improved by modifying certain regulations to get adopted to the actual changes in bank loans and services market.

1. Establishment of new rules and regulations:

- a) The regulation “On saving-credit associations and their unions licensing” approved by the Supervisory Council with Decision No. 11, on 27.02.02.

Saving and loan associations and their unions licensing is a forward step toward turning these micro-financial institutions into formal institutions supervised by a responsible authority such as Bank of Albania.

The regulation “On saving-credit unions licensing” comes as a result of a many-month work of Bank of Albania specialists, Albanian and foreign experts of “Funds for Rural Development”, of the Foundation “The movement for the development of saving-credit unions” and of World Bank experts.

Regulatory framework is similar to the standard framework of other licensing documents of Supervisory Department for other non-bank financial institutions.

It determines the documentation of the requirement for license, terms and authorities that are authorized to meet this requirement. Quite differently from the standard documents of licensing prepared by Supervisory Department, the regulation predicts the right of the unions of saving and loan associations to complete the documentation of requiring the license and by means of temporary provisions; the dynamism characterizing the creation of saving-credit associations and their unions is standardized.

- b) The regulation “On saving-credit associations and their unions supervision” approved by the Supervisory Council with Decision No. 11, on 27.02.02.

The regulation “On saving-credit associations and their unions licensing” is the second document, which completes the supervisory regulatory framework for savings and loan associations and their unions. While the approval of the regulation “On saving-credit associations and their unions licensing” formalizes these institutions in the financial markets, this project realizes another objective, that of turning these institutions into regulatory ones.

This regulation is drafted in accordance with the standards of THE CONSULTATIVE GROUP TO ASSIST THE POOREST (CGAP) and the reality of micro-finance in our country.

This regulation determines the way of classifying the loans by analyzing days of delays and their provisions, supervisory norms for the quality of credit portfolio, capital adequacy, liquidity and risk management. The regulation is drafted in close cooperation with Albanian and foreign partners of “Rural financing fund”, the foundation “Movement for the saving-credit union development” under the continuous supervision of the mission and experts of Bank of Albania.

- b) Guideline “On custody and liquidation of banks”, approved by the Supervisory Council with Decision No. 45, on 12.06.02.

The Guideline “On custody and liquidation of banks” comes as a result of the law “On banks in the Republic of Albania”. The procedures treated in this guideline concern the situations in which banks, as a result of their activity or workings out of that, confront financial problems, which need intervention.

In this guideline, the custody and liquidation process is treated in two phases:

- If Bank of Albania sees the ability for the financial condition rehabilitation, it establishes its custody;
- If Bank of Albania sees that this custody gives no result, it establishes license revocation and bank's liquidation.

In these conditions, the supervision role is:

- To assure the depositors that their money in a bankrupt bank, will be honestly treated;
- To assure credibility toward the banking system in totality.

2. Improvement of existing regulations:

a) A modification to the regulation "On credit risk management", approved by the Supervisory Council with Decision No. 31, on 08.05.02.

The proposed modifications to the regulation "On credit risk management", were dictated by the practice experience of using limit credit. These specify and complete the regulatory framework in order to increase the supervision efficiency by the respective department.

b) A modification to the regulation "On capital adequacy" approved by the Supervisory Council with Decision No. 71, on 11.09.2002. The list of the "A" area countries is provided in the regulation "On capital adequacy", in the specified part. Turkey is omitted in this list after the regulation's modification. Its omission is due to concrete economic and political conditions Turkey is experiencing. These conditions differ a lot from those of a stabilized country such as other countries of "A" area are.

The approval of banks executive managers

During the year, banks managers, approved by Bank of Albania, respectively the Sector of Banks Licensing and Regulations according to the law "On Banks in the Republic of Albania" have changed a lot. There are approved 40 managers, evidenced in the register of banks managers, and inspectors have been informed for every change. In this direction, there has been a close cooperation with the department inspectors, who cover banks for the accordance with managers' registers and stress on inspectors' requirements for banks applying the respective regulations.

Banks have been cautious in applying the regulations for their managers' approval. In case of any deficiency in documents, Bank of Albania informs the other banks and after meeting all the regulations, the corresponding managers are approved.

The approval of certified accounting experts of banks

Banks, according to Article 40 of the law "On banks in the Republic of Albania", have published their balance sheet and annual ratios. This law requirement is also the bank's compulsion to be disclosed to households and public opinion. The publication of these materials gives the customers the possibility to be informed about the financial condition of the bank that they have entrusted their deposits, and encourage the discipline perfection in the market, since banks have the possibility to know their competitors conditions and to react for certain problems. During the passed year, there has been a prudent work of banks in meeting the guideline requirement "On banks accounting experts".

The ratios and opinions of the accounting experts helped banks in applying the standards and principles of accounting. During the last year, not a single case of fraud or incorrectness has been evidenced in banks. However, accounting experts have recommended regulations and systematization in compliance with accounting stability.

4.2. Medium-term plan of the Supervision Department development

Bank of Albania in cooperation with World Bank, has drafted a program to strengthen the supervisory abilities with an effect as of 2004. This plan's application aims at increasing the Albanian banking system security level by effectively putting into practice the standards of a safe and sound banking system.

In order to perform this key objective, there were identified needs in relation not only to the basic regulatory documents improvement, on which supervision relies, but also to the development and further improvement of the regulatory basis for commercial banks and human resources within the Supervision Department.

According to this law, certain duties were determined, a part of which have come to an end or are being applied and these are mainly:

- Reviewing the declaration of the supervision mission with a view of increasing the transparency and responsibility to the audience and households and banking system awareness in its function of banking supervision. Within this framework, the Supervisory Council of Bank of Albania, by the Decision No.37, on 22.05.2202, approved the Mission of Banking Supervision with Decision No.37 on 22.05.2202.
- Deepening the applied audit to banks by independent accounting experts and the perfection of its approving process by Bank of Albania through disciplining certain contemporary criteria in the regulatory framework.
- Evaluating the work quality in relation to the whole cycle of bank examination and applying the improvements based on conclusions. This process is known by the name " The Process of Quality Insurance".
- *In order to perform this duty of the supervision development plan, two institutions are engaged, Bank of Albania and Deposit Insurance Agency. An Understanding Memorandum is signed between them, which engages both of*

them in assuring quality, aiming at appreciating banks supervising process, from the quality and quantitative point of view.

Clearly determining the level of the decision-making process by developing a matrix commencing with the heads of the department, first Deputy-Governor, Governor and Supervisory Council.

This document, approved by the Supervisory Council with Decision No.59 on 24 July 2002 aims at increasing the transparency level in banking supervision, making sure that every link in the hierarchy chain be prudent in applying its rights and duties.

- Developing the policies of determining the actions at Bank of Albania disposal, in cases it finds these actions necessary for the resolution of the problems concerning a safe and sound banking activity or cases in conformity with the this activity standards.

In this direction, Bank of Albania, with Decision No.51, on 26 June 2002, approved "The manual of corrective measures". This manual aims at isolating normal banks activity from those of problem banks, depending on their general financial condition evaluation according to CAMELS system. For the purpose of improving the situation, Bank of Albania may adopt certain measures. These measures consider releasing recommendations, orders, signing Understanding Memorandums between Bank of Albania and problem banks, punishments for banks' managers up to extreme measures of revoking bank's license.

- Growing the cooperation with the domestic banking industry and foreign supervisory authorities by means of opening and insuring different ways of communication.

In this direction, Bank of Albania has had meetings with some commercial banks, aiming at providing information about different problems troubling banks, problems of economy, appreciation of the bank's strengthens by managers, and the kinds of changes it would like to observe in banks/banking activity and economy development.

Also, within this framework, bilateral negotiations with representatives of Central Bank of Greece, Banking and Payments Authority of Kosovo and the Agency of Banking Regulating and Supervision of Turkey are developed.

- Developing electronic database for all banks aiming at saving their own history and avoiding an operational risk within the department, receiving information on time and insuring the on-going supervision for each bank.

Soon, the work on database will come to an end, and after that, the Supervisory Council of Bank of Albania will approve its usage.

Developing human resources within the department by setting up a certain policy and establishing some procedures, which will identify the requirements for inspectors training and their complete performance.

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

5.1. Banks and branches of foreign banks

1. ITALIAN - ALBANIAN BANK

Licence No. 1/1996, dated 17.07.1998.

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

Director : Adrian FULLANI

Address : Rruga "Barrikadave", No. 70, Tirana - Albania

Tel : 356 97, 356 98, 262 62

Fax : 330 34

2. SAVINGS BANK

Licence No. 2/1998, dated 11.01.1999.

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

Certificate No.2, "On Deposit Insurance"

Director : Edvin LIBOHOVA

Address : Rr. .Dëshmorët e 4 Shkurtit. No.6, Tirana - Albania

Tel : 245 40, 226 69, 254 16

Fax : 235 87, 236 95, 240 51

3. ARAB ALBANIAN ISLAMIC BANK

Licence No. 3/1998, dated 11.01.1999.

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

Certificate No.3 "On Deposit Insurance".

Director : Abdul Waheed ALAVI

Address : Bulevardi .Dëshmorët e Kombit. No. 8, Tirana - Albania

Tel. central : 22 84 60, 223 873, 274 408

Fax : 284 60, 283 87

4. DARDANIA BANK

Licence No. 5/1998, dated 11.01.1999.

Approved with the Supervisory Council Decision No. 164, dated 01.12.1998,

Certificate No.4 "On Deposit Insurance".

Director : Beqir MEZELXHIU

Address : Bulevardi "ZOGU I" Tirana - Albania

Tel : 228-759, 259-350, 259-351

Fax : 230-566

Telex : 2298 db banc ab

E-mail : db@albaniaonline.net ; dardaniabank@hotmail.com .

5. NATIONAL COMMERCIAL BANK

Licence No. 6/1998, dated 11.01.1999.

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

Certificate No. 5, "On Deposit Insurance".

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Director : Seyhan PENCAPLIGIL

Address : Bulevardi .Zhan Dark. Tirana - Albania

Tel: : (0)4250 955
Fax: : 4250 956

6. TIRANA BANK

Licence No. 07, dated 12.09.1996.

Approved with the Supervisory Council Decision No. 9, dated 12.09.1996, Certificate No. 6 "On Deposit Insurance".

Director : Dimitris KARAVIAS

Address : Bulevardi "ZOGU I", No. 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, Certificate No.7 "On Deposit Insurance".

Director : Vasilios FILIS

Address : Bulevardi "ZOGU I", No. 72, Tirana - Albania

Tel : 336 21, 336 22, 336 23, 336 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, Certificate No. 8 "On Deposit Insurance".

Director : Lee Chong Pa

Address : Rr. .Ded Gjon Luli., Tirana - Albania

Tel : 37567, 37568, 37569

Tel/fax :.37570

9. BRANCH OF ALPHA BANK IN TIRANA

Licence No.10, dated 07.01.1998.

Approved with the Supervisory Council Decision No. 01/03/96, dated 27.12.1997, Certificate No. 9 "On Deposit Insurance".

Director : Andrea Antonios GALATOULAS

Address : Bulevardi "ZOGU I", No.47, Tirana - Albania

Tel. : 335 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, Certificate No. 10, "On Deposit Insurance".

Director : Lorenz RONCARI

Address : Rruga .Ismail Qemali. No.27, P.O. Box 8319 . Tirana - Albania

Tel. : 48753/4/5/6

Tel/fax : 487 62

11. FEFAD BANK (JOINT-STOCK COMPANY)

Licence No. 12, dated 15.03.1999

Approved with the Supervisory Council Decision No.22, dated 03.03.1999, Certificate No. 11, "On Deposit Insurance".

Director : Emmanuel DECAMPS

Address : Rruga .Sami Frashëri., Tirana e Re, P.O. Box. 2395, Tirana - Albania

Tel. : 304 99, 334 96

Tel/fax : 334 81

12. FIRST INVESTMENT BANK - TIRANA BRANCH (JOINT-STOCK COMPANY)

Licence No. 13, dated 16.04.1999.

Approved with the Supervisory Council Decision No.45, dated 13.04.1999, Certificate No. 12, "On Deposit Insurance".

Director : Pettier Gavrillov KRASTEVI

Address : Bulevardi "ZOGU I", No. 64, Tirana - Albania

Tel. : 564 23, 564 24

Tel/fax : 564 22

13. COMMERCIAL BANK OF GREECE (ALBANIA) (JOINT-STOCK COMPANY)

Licence No. 14, dated 28.10.1999.

Approved with the Supervisory Council Decision No.105, dated 19.10.1999, Certificate No. 13, "On deposit Insurance".

Director : George CARACOSTAS

Address : Rruga "Kavajës", .Tirana Tower., Tirana - Albania

Tel. : 587 55, 56, 57, 58, 59, 60

Tel/fax : 587 52

14. CREDIT BANK OF ALBANIA (JOINT-STOCK COMPANY)

Licence No. 15, date 28.08.2002.

Approved with the Supervisory Council Decision No. 66, date 28.08.2002, Certificate No. 14, "On Deposit Insurance".

Director : Kamal Abdel MANEIM.

Address : Rruga "Perlat Rexhepi, Al-Kharafi Group Administration Building, Kati 1&2" Tirana-Albania.

Tel. : 272 168; 272 162.

Tel/Fax : 272 162.

E-mail : creditbkalb@icc-al.org

15. "CREDINS" BANK, TIRANA (JOINT-STOCK COMPANY)

Licence No. 16, date 28.03.2003.

Approved with the Supervisory Council Decision No. 22, date 26.03.2003., Certificate No.15, "On Deposit Insurance".

Director : Artan SANTO

Address : "Rruga Ismail Qemali", No.21, Tirana-Albania.

Tel. : 222916; 234096.

5.2. Non bank subjects

1. Unioni Financiar i Tiranës s.r.l. (Western Union)

Licence No. 1, dated 08.12.1999 to conduct the following financial activities:

- offering payment services;
- mediating in the conduct of monetary transactions;
- acting as financial agent or advisor .

Director : Niko Leka

Address : Rr. "Reshit çollaku", Pall. Shallvareve, sh 2. No. 18, Tirana-Albania.

Tel. : 250 653.

2. Diners Club Albania s.r.l.

Licence No. 2, dated 09.10.2000 to conduct the following financial activity:

- mediating in the conduct of monetary transactions.

Director : Vebi Velia

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

3. Posta Shqiptare (Joint Stock Company)

Licence no. 3, dated 18.04.2001 to conduct the following financial activity:

- Offering payment services.
- acting as financial agent or advisor .

Type : state-owned

Director : Aleksandra Çollaku

Address: Rr. .Reshit Çollaku. , No.4 Tirana - Albania

4. CREDINS. (Joint Stock Company) Tirana

Licence No. 04, dated 13.06.2001 to conduct the following financial activities:

- granting credit;
- offering payment services;
- mediating in the conduct of monetary transactions (foreign currency included);
- offering guarantees;
- acting as financial agent or advisor (excluding herein the services set forth in point 3/a and 3/b of Article 26 of *the Law on Banks in the Republic of Albania*).

Director : Monika Milo

Address : Rr. "Ismail Qemali" No.21, Tirana - Albania

Tel : 222916; 234096.

5. Mountain Area Financing Fond..

Licence no. 5, dated 29. 03.2002 to conduct the following activity:

- granting credit.

Created according to the Decision of the Council of Ministers of the Republic of Albania.

Director: Arben Jorgji

Address: Rr. "Mustafa Matohiti" No.12, Tirana - Albania

Tel: 250633

6. "ALBACREDIT s.r.l."

Licence No.6, dated 18.04.2003 as a non-bank financial institution to conduct the following activity:

- offering payment services;
- mediating in the conduct of monetary transactions (including foreign exchange).

Manager : Ermira Skënderi.

Address : Rruga "Ded Gjon Luli", No. 5 Tirana-Albania

Tel. : 230 956

Fax : 228 929

The financial subjects not licensed by Bank of Albania for the conduction of their activities according to the Supervisory Council Decision No. 26, dated 29.03.2000 . On exemption of some subjects from the requirements of the provisions of Law No. 8365, dated 02.07.1998. On Banks in the Republic of Albania..

(These subjects are not licensed or supervised by Bank of Albania but they are obliged to report to the Bank of Albania according to the approved reporting system).

1. Rural Financing Fund.

- Created according to the Decision of the Council of Ministers of the Republic of Albania No. 207, dated 28.04.1999.
- Object of the activity: Financing the rural area.
- Address: Rr."Ismail Qemali", P. 32, Tirana
- Director: Zana Konini
- Exempted with the document of the Bank of Albania no.1843, dated 01.08.2000

2. Besa Foundation.

- Created by .Open Society Fond for Albania. (SOROS).
- Object of the activity: Financing small and medium firms.
- Address: Rr."Asim Vokshi", No. 35, Tirana
- Director: Bajram Muça
- Exempted with the document of the Bank of Albania no. 2895/1, dated 19.01.2001.

3. Albanian Partner on Microcredit.

- Shareholder: .Opportunity International.(East Europe).
- Object of the activity : Granting credit.
- Address: Rr. "Gjin Bue Shpata", No. 7/1, Tirana
- Director: James Reiff
- Exempted with the document of the Bank of Albania no. 828/1, dated 08.04.2002.

5.3. Foreign exchange bureaus

1. JOARD. Foreign exchange office s.r.l.,Tirana

Licence: No. 1, dated 01.10.1999

Address: Rruga .Ded Gjon Luli. No.2, Tirana

2. AMA. Foreign exchange office s.r.l., Durrës

Licence: No. 2, dated 01.10.1999

Address: Rruga "Tregtare", Lagja 3, Durrës

3. ARIS. Foreign exchange office s.r.l., Tirana

Licence: No. 3, dated 01.10.1999

Address: Rruga .Luigj Gurakuqi. , Tirana

4. UNIONI FINANCIAR TIRANË" Foreign exchange office s.r.l.

Licence: No. 4, dated 01.10.1999

Address: Rruga .Reshit Çollaku., Pall. Shallvare, Shk. 2/18, Tirana

5. AGLI. Foreign exchange office s.r.l.,Tirana

Licence: No. 5, dated 01.10.1999

Address: Agjencia No.1: Rruga .Islam Alla. No.1, Tirana
Agjencia No.2: Rruga "Kavajës", Tirana

6. ALBAKREDIT. Foreign exchange office s.r.l.,Tirana

Licence: No. 06, dated 24.11.1999

Address: Rruga .Ded Gjon Luli. No.5, Tirana

7. GUDEN. Foreign exchange office s.r.l.,Tirana

Licence: No. 07, dated 24.11.1999

Address: Rruga .Konferenca e Pezës. , Tirana

8. EXCHANGE. Foreign exchange office s.r.l.,Tirana

Licence: No. 08, dated 24.11.1999

Address: Rruga "Durrësit" No. 170 and Rruga .Reshit Çollaku. , Pall. Shallvare Shk. 4, Ap.42, Tirana

9. UNISIX. Foreign exchange office s.r.l.,Korça

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. ,Durrës

11. MI & CO. Foreign exchange office s.r.l.,Tiranë

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 Nëntori, Pall. 70, No.14, Elbasan

14. ALBTUR. Foreign exchange office s.r.l.,Tiranë

Licence: No. 15, dated 07.04.2000

Address: Agency no.1, Bulevardi .Zogu I., Pall. 32, Shk.1, Tirana

15. R & M. Foreign exchange office s.r.l.,Tiranë

Licence: No. 16, dated 22.05.2000

Address: Rruga .Punëtorët e Rilindjes., Pall. 182, Tirana

16. TEUTA 2000. Foreign exchange office s.r.l., Durrës

Licence: No. 17, dated 22.05.2000.

Address: Lagja 4, Rruga .Skëndërbej., Ap. 950, Durrës

17. T & E. Foreign exchange office s.r.l., Durrës

Licence: No. 18, dated 11.06.2000

Address: Lagja 4, Rruga .9 Maji., Durrës

18. SHIJAK 2000. Foreign exchange office s.r.l., Shijak

Licence: No. 19, dated 24.11.2000

Address: Lagja .Popullore., Shijak

19. R & T. Foreign exchange office s.r.l., Tirana

Licence: No. 20, dated 20.12.2000

Address: Bulevardi "ZOGU I", Tirana

20. DV-ALBA. Foreign exchange office s.r.l., Tirana

Licence: No. 21, dated 11.01.2001

Address: Sheshi "Skënderbej", Tirana Internacional Hotel, Tirana

21. MANUSHI. Foreign exchange office s.r.l., Tirana

Licence: No. 22, dated 18.04.2001

Address: Bulevardi .Zogu I., VEVE Business Center, Tirana

22. UNIONI SELVIA. Foreign exchange office s.r.l., Tirana

Licence: No. 23, dated 21.05.2001

Address: Rruga "Saraçëve", Pallati 124/1, Tirana

Tel. 376 274

23. KALENJA. Foreign exchange office s.r.l., Tirana

Licence: No. 24, dated 29.06.2001

Address: Rruga .Kavajës. (near Turkish Embassy), Tirana

24. TILBA. Foreign exchange office s.r.l., Elbasan

Licence: No. 25, dated 30.09.2001

Address: Lagja "Luigj Gurakuqi", Bulevardi "Qemal Stafa", Njësia no.12, Elbasan

25. ANAGNOSTI" Foreign exchange office s.r.l., Tirana

Licence: No. 26, dated 31.10.2001.

Address: Zyra 1- Bulevardi Zogu I, Pallati 97, shk.3.ap28, Tirana

Zyra 2- Rruga "Kajo Karafili", No. 11, Tirana

26. KO-GO. Foreign exchange office s.r.l., Tirana

Licence: No. 27, dated 12.11.2001

Address: Rruga .Vaso Pasha., Pall.16, Shk.2, Ap. 9, Tirana

27. ALB- FOREX. Foreign exchange office s.r.l., Tirana

Licence: No. 28, dated 22.11.2001

Address: Agjencia 1: Rruga .Abdyl Frashëri No.3., Tirana

Agjencia 2: Rruga. Mine Peza, Pall. 102, Shk. 1, Tirana

28. L&N. Foreign exchange office s.r.l., Tirana

Licence: No. 29, dated 22.11.2001

Address: Rruga .Muhamet Gjollësha., Tirana

29. TERBACI- GJ. Foreign exchange office s.r.l., Tirana

Licence: No. 30, dated 22.11.2001

Address: Rruga .Muhamet Gjollësha., Pall.215, Tirana

30. EXCHANGE ALOG. Foreign exchange office s.r.l., Tirana

Licence: No. 31, dated 22.11.2001

Address: Rruga .Mine Peza" , Tirana

31. EX-CHANGE BEBI&FLORI. Foreign exchange office s.r.l., FIER

Licence: No. 32, dated 26.11.2001

Address: Lagja "Kongresi i Përmetit", Fier

32. GERSILDA. Foreign exchange office s.r.l., TIRANA

Licence: No. 33, dated 03.12.2001

Address: Lagja nr.2, Rr. .Mihal Grameno., Pall.10, dyqani no.5, Tirana

33. CHANGE-ARIZAJ. Foreign exchange office s.r.l., TIRANA

Licence: No. 34, dated 03.12.2001

Address: Rr. "Pandi Madhi", Pall.60/2, Ap.15, Tirana

34. BASHKIMI 2001" Foreign exchange office s.r.l., TIRANA

Licence: No. 35, dated 12.12.2001

Address: Rr. "Kavajës" , Tirana

35. ARJON 2002. Foreign exchange office s.r.l., ELBASAN

Licence: No. 36, dated 14.12.2001

Address: Lagja .Kongresi i Elbasanit., Bulevardi.Qemal Stafa., Pall.9-katësh, Elbasan

36. Euro 2002. Foreign exchange office s.r.l., Durrës

Licence: No. 39, dated 20.12.2001

Address: Lagja nr.11, Rr. .Ismail Qemali., Durrës

37. Euro Travels International. Foreign exchange office s.r.l., Tiranë

Licence No. 40, dated 14.01.2002.

Address: Bulevardi .Bajram Curri., pallatet Agimi Nr.1, Tiranë,

38. G&3. Foreign exchange office s.r.l., Kavajë,

Licence No. 41, dated 15.01.2002.

Address: Rruga.Kajo Karafili., Kavajë,

39. ALAKTH. Foreign exchange office s.r.l., Tiranë,

Licence No. 42, dated 18.01.2002.

Address: Rruga e Dibrës,nr.105/1, Tiranë,

- 40. Format. Foreign exchange office s.r.l., Tiranë,**
Licence No. 43, dated 21.01.2002.
Address: Rruga e Durrësit, Pall.85, shk.1,ap.1, Tiranë,
- 41. TRI URAT. Foreign exchange office s.r.l., Elbasan,**
Licence No. 44, dated 05.02.2002.
Address: Lagja .29 nentori., prane filialit te postes Elbasan,
- 42. CROWN TOWN. Foreign exchange office s.r.l., Tiranë,**
Licence No. 45, dated 05.02.2002.
Address: Rruga .Mihal Grameno., Pall 10,Tiranë
- 43. BESA 2001. Foreign exchange office s.r.l., Tiranë,**
Licence No. 46, dated 15.02.2002.
Address: Rruga .Myslym Shyri., Nr.25,Tiranë
- 44. MARIO. Foreign exchange office s.r.l., Sarandë,**
Licence No. 47, dated .03.2002.
Address: Lagja 1, prane ish komitetit ekzekutiv te rrethit Saranda.
- 45. "JAV" Foreign exchange office s.r.l., Tiranë,**
Licence No. 48, dated 20. 03.2002.
Address: Bulevardi Zogu I Godina e Zerit te Popullit Tirane.
- 46. DROGU. Foreign exchange office s.r.l., Tiranë,**
Licence No. 49, dated 23.04.2002.
Address: Rruga .Vaso Pasha. Kulla 1, Kati I (pas pallatit Agimi) Tirane.
- 47. HYSEN-C. Foreign exchange office s.r.l., Laç,**

Licence No. 50, dated 23.04.2002.
Address: Lagja nr.3, perballe Komisarariatit te Policise, Laç.
- 48. UNIONI FIER. Foreign exchange office s.r.l., Fier,**

Licence No. 51, dated .05.2002.
Address: Lagja 15 Tetori, Rruga Kastriot Muca, Fier.
- 49. TAXI EKSPRES. Foreign exchange office s.r.l., Elbasan,**

Licence No. 52, dated 20.05.2002.
Address: Rruga Sami Frasheri, 11(prane Shkolles .Edit Durhan..
- 50. MERO. Foreign exchange office s.r.l., Devoll,**

Licence No. 53, dated.05.2002.
Address: Zyra nr.1 : Bulevardi Fuat Babani, Bilisht.
Zyra nr.2 : Dogana Kapshtice

51. "GLEAR" Foreign exchange office s.r.l. Shijak

Licence No. 55, date 23.07.2002.

Address: Lagja Kodër Shijak Durrës

52. ALBA-POST Joint-stock company Foreign exchange office , Tiranë

Licence No.56, dated 28.08.2002.

Address: Rruga "Reshit Çollaku", No. 4, Tiranë

53. UNION BALLSH Foreign exchange office s.r.l Ballsh

Licence No. 57, dated 11.09.2002.

Address: Rruga "8 Nentori", Ballsh

54. ESLULI Foreign exchange office s.r.l , Tiranë

Licence No. 58, dated 17.10.2002.

Address: Rruga "Reshit Çollaku", Pallati iShallvareve, shkalla No. 4/1.

55. "AMERICAN GLOBAL CAPITAL FUND-WORLDWIDE INVESTMENT" Foreign exchange office s.r.l ,Tiranë

Licence No.59, dated 26.11.2002.

Representative with power of attorney : Dashar Sheshaj, Vilson Ahmeti

Address: Rruga "Ismail Qemali", Parcela 167/187 "Euroapartment", Tiranë

SAVING-CREDITING ASSOCIATION UNIONS

1. JEHONA Saving-crediting association union, Tiranë

Licence: No.1, dated 27.06.2002

Head of the leading board : Vojsave Rama

The members of this union are 41 saving-crediting associations licensed also as special ones. They rely on technical assistance by the foundation " The movement for the saving-crediting associations development".

2. ALBANIAN SAVING-CREDITING UNION Saving-crediting association union, Tiranë.

Licence: No. 2, dated 09.08.2002.

Address: Rruga "Ismail Qemali", No. 32.

Head of the leading board : Zana Konini

Tel. 25 19 10

E-mail: ffrural@albaniaonline.net

The members of this union are 71 saving-crediting associations, licensed also as special associations. They rely on technical assistance by "Mountain Area Financing Fond".

3. INBLEG Saving-crediting association, Tiranë

Licence: No. 70, dated 25.09.2002.

6. THE LIST OF BANKING SUPERVISION REGULATIONS IN FORCE AS OF JUNE 2003

- 1 .** The regulation "**On the granting of the license to conduct business in the Republic of Albania**", approved by the Supervisory Council with Decision No. 173 on 02.12.1998; a supplement approved by the Supervisory Council with Decision No. 43 on 17.05.2000.
- 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 and a modification to this regulation with Decision No.17 on 01.03.2000.
- 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 credit risk management**" approved by the Supervisory Council with Decision No.12 on 21.02.2001, modified with Decision No.32, on 08.05.2002.
- 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. 57, on 05.05.1999, modified by the Supervisory Council with Decision No. 40, on 16.05.2001.
- 7 -** The regulation "**On the capital adequacy ratio**", approved by the Supervisory Council with Decision No. 58, on 05.05.1999, the modifications to the regulation "**On capital adequacy**" approved by the Supervisory Council with Decision No. 86, on 07.11.2001 and some modifications approved by the Supervisory Council with Decision No. 72, dated 11.09.2002, and some modifications approved by the Supervisory Council with Decision No. 30, dated 16.04.2003.
- 8 -** The regulation "**On foreign exchange open positions**", approved by the Supervisory Council with Decision No. 59, on 05.05.1999; some modifications to the regulation approved by the Supervisory Council with Decision No. 118, on 01.12.1999.
- 9 -** The regulation "**On foreign exchange operations**" approved by the Supervisory Council with Decision No.12, on 21.02.2001.
- 10 -** The regulation "**On banks liquidity** ", approved by the Supervisory Council with Decision No. 04, on 19.01.2000 and modified by the Decision No. 08, on 12.02.2003.

- 11** - The regulation “**On market risks.**”, approved by the Supervisory Council with Decision No.72, on 02.06.1999, a modification to the regulation approved by the Supervisory Council with Decision No. 98, on 19.12.2001.
- 12** - The regulation “ **On the control of significant risks.**”, approved by the Supervisory Council with Decision No. 78, on 07.07.1999; some modifications to the regulation approved by the Supervisory Council with Decision No.119, on 01.12.1999; some modifications approved by the Supervisory Council with Decision No. 92, on 05.12.2001.
- 13** - The guidelines “**On internal control of banks.**”, approved by the Supervisory Council with Decision No.107, on 03.11.1999.
- 14** . The regulation “**On investments in the capital of commercial companies by banks**” approved by the Supervisory Council with Decision No. 42, on 06.06.2001.
- 15** - The regulation “ **On cooperative banks**”. approved by the Supervisory Council with Decision No. 25 on 29.03.2000.
- 16** . The guidelines “**On the interest rate risk management**”, approved by the Supervisory Council with Decision No. 61 on 05.07.2000.
- 17** - The Supervisory Council Decision No.26, dated 29.03.2000 .**On exemption of some subjects from the requirements of the provisions of Law No. 8365 dated 02.07.1998 "On Banks in the Republic of Albania"**.
- 18** . The regulation “**On supervision terms of non bank subjects which conduct financial activity**” approved by the Supervisory Council with Decision No. 06, dated 05.07.2000.
- 19**. The guidelines. **On certified accounting experts of banks and branches of foreign banks**, approved by the Supervisory Council with Decision No. 06 on 29.01.2003.
- 20**. **Reporting system of the saving-credit unions.** approved by the Supervisory Council with Decision No. 75 on 05.09.2001.
- 21** . The guidelines “**On deposits certificates**”, approved by the Supervisory Council with Decision No. 79 on 03.10.2001.
- 22** . The guidelines. **On preventing money laundering.**, approved by the Supervisory Council with Decision No.102 on 29.12.2001.
- 23** . - The regulation. **On savings-credit unions licensing.**, approved by the Supervisory Council with Decision No. 11, on 27.02.2002, modified by the Supervisory Council with Decision No. 09 on 12.02.2003.

24. - The guidelines “**On custody and liquidation of banks**”. approved by the Supervisory Council with Decision No. 45, on 12.06.2002.

25. The Supervisory Council approved the increase of the allowed banking activity “**banking activity in relation to gold and noble metals**” with Decision No. 58 on 24.07.2002.

26. The regulation “**On saving-crediting union supervision**” approved by the Supervisory Council with Decision No. 67 on 28.08.2002, some modification to the regulation by the Supervisory Council with Decision No.83 on 13.11.2002.