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2017

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SUPERVISION
REPORT

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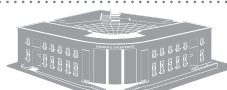
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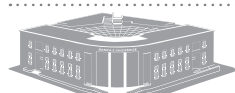
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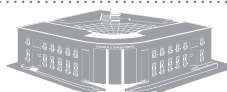
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1. THE FUNCTION OF SUPERVISION

The supervision function at the Bank of Albania is exercised through: consistent improvement of the regulatory framework, in compliance with the European directives and best practices and market specifics; entry into market of sound financial entities by adding value to enhancing competition; implementation of continuous supervision, materialised in on-site inspections and periodic analyses; implementation of effective corrective measures; and, cooperation with international supervisory and regulatory authorities, or other national authorities responsible for supervising financial entities. The constant supervision and regulation of financial activities in Albania, mainly of banking activities, are at the focus of this function and represent its main activities.

Through the supervisory function, the Bank of Albania aims at: ensuring a sound activity of the financial entities; increasing the contribution to strengthening financial stability; and fostering market discipline and fair competition. In recent years, our contribution was also aimed at the recovery and resolution of banks, to prepare a specific regime of crisis management.



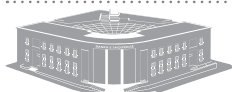
2. SUPERVISION HIGHLIGHTS IN 2017

Year 2017 marked a range of developments related to the supervision function and the financial institutions supervised by the Bank of Albania. The supervisory practice improved the methodology for controlling banks through approximation with Basel principles and efforts to adopt best international practices. These developments are based on the continuous review of the regulatory framework. The self-assessment process of banks on the internal capital requirements is expected to improve the management structure of banks due to an all-inclusive dynamics of management dictated by the process. On the other hand, the quality of bank management will be subject to an improved supervision filter as a result of the revised internal methodology for assessing their corporate governance. Considerable changes have taken place on anti-money laundering, through the revision of the respective regulatory framework and the establishment of internal methodologies for assessing the risk profile of supervised institutions. The increased cooperation with the European Central Bank is expected to support these developments.

In addition, the banking system has improved the credit quality, while the non-performing loans ratio fell by around 5 percentage points over 2017, standing at 13.23%. Liquidity and capital are at adequate levels. Special attention is being paid to the consolidation processes with the expected merger of two banks and the strategic plans on the re-positioning in the market, depending on the dominant short and long-term factors.

2.1 APPROXIMATION OF SUPERVISION PRACTICES

The preparation of the regulatory framework on the Internal Capital Adequacy Assessment Process (ICAAP) was one of the main highlights of supervision in 2017, regarding the approximation of supervisory practices with Basel principles and EU directives. This process is particularly important, as it complements the supervisory perspective with the self-assessment dimension of banks. It contributes qualitatively to establishing an objective risk profile for banks and, consequently, improves the risk-based supervision process. The document that regulates this process is compiled in the framework of a guideline and in compliance with the Basel II Pillar 2, which sets out the criteria for the establishment of an internal process by banks to assess risks that are not covered by the existing regulation on capital adequacy. The guideline identifies the core requirements to assess additional risks and calculate additional capital to cover these risks according to the determined methods and those built by banks, based on the risk profile and their strategy. The Bank of Albania will



review the reports of this assessment compiled by banks during 2018. The adequacy of self-assessment of the control environment for risk management and the relevant capital quantitative requirements will be discussed with banks.

In 2017, the project established in collaboration with the European Bank for Reconstruction and Development for the revision of the supervisory methodology in the qualitative assessment of banks' structures continued. This project focused on analysing and addressing the supervision of corporate governance elements for the established structures, functioning and independence of bank committees, structures and functions of internal control structures on risk assessment. This project is in the final stage of development. The resulting conclusions and recommendations of the project are accompanied by regulatory improvements finalised in 2017, in addition to the proposals for methodological revisions that are under preparation.

The Bank of Albania is preparing the regulatory framework for the approximation of Basel-III supervisory practices for the calculation of liquidity. The regulatory framework in compliance with the EU Directive was drafted last year, and, in parallel, the structure for conducting a prior exercise with banks on the calculation of the LCR (Liquidity Coverage Ratio) was established, aiming at the early identification of problems in its interpretation and the preliminary assessment of banks' position against this ratio. This process will continue over 2018.

2.2 MONITORING AND ADDRESSING NON-PERFORMING LOANS

Non-performing loans continued the downward trend of the last four years. In 2017, the absolute value of non-performing loans decreased more than a quarter, by 27.5%, lowering the relevant indicator at 13.23%, down by 5 percentage points in annual terms. The value of the remaining loans in the balance sheet is provisioned at higher than 70%. The fall by around ALL 30 billion of non-performing loans in 2017 was driven by their writing off from the balance sheet, at ALL 16.7 billion, solution of large borrowers, the payment of arrears by borrowers and the improvement of borrower classifications. The non-performing loans ratio is still high and further measures are needed to improve the evidenced falling trend, through maintaining the regular existing portfolio and providing an efficient solution of non-performing portfolio.

The fulfilment of the annual objectives of banks related with the performance of non-performing loans and the preparation Recovery and Resolution Plans of large borrowers are specially monitored through the regular reports required from banks in 2017. The submitted information aimed at clarifying the level of the relationships with every borrower, as well as the expectations and plans on future developments. They were subject of discussion with banks across the



system to identify options for sustainable solutions. This reporting will continue in 2018 and beyond, through standardised reports and will serve as a starting point for the regulatory framework for common borrowers.

With assistance from the World Bank and the International Monetary Fund, a regulatory framework is being compiled, aimed at promoting the collaboration and coordination among banks for addressing common borrowers starting at an early stage of problems. This framework provides incentives to bring banks into a common denominator in their decision-making and the coordinated solution of the occurred problems, by providing cooperation agreements among them as well as with the borrowers for the definition of the criteria and modalities of collaboration.

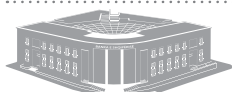
Currently, this regulatory framework is prepared as a draft version and following the discussion with the banking industry, it is expected to be approved in the first part of 2018.

The quality of analysis of credit performance is improved through the detailing of the received data on the shift among classes of credits, the factors that affect the performance of credit and the main currencies of lending. This analyses method was tested and applied in the previous year and will continue on quarterly basis.

2.3 COOPERATION WITH INTERNATIONAL INSTITUTIONS

The cooperation with the European Central Bank (ECB) intensified considerably over 2017. The content of a cooperation agreement between the two institutions has been discussed, which paves the way for a steady collaboration through sharing information on matters of common interest, professional experience and coordinating decision-making, an important step in the integration process of the Albanian institutions in the European Union structures. Meanwhile, the Bank of Albania was invited to participate as an observer in two supervisory colleges organised for Greek banking groups of international presence (including the Albanian presence) and in a targeted inspection in one bank of EU origin. The shared information and the meetings with partner institutions in other countries contributed to the coordination of actions and supervisory measures, and the establishment of a clearer profile for banks, both in Albania and in the relevant group. This collaboration is expected to continue in 2018 and beyond.

Throughout 2017, the Bank of Albania continued the cooperation with the European Banking Authority (EBA) and the central banks in South Eastern Europe in the framework of the Cooperation Forum between supervisory authorities of these countries, regarding the sharing of information on the recent regulatory amendments and the updating of developments in the field of supervision. The delivery of EBA's training plan for 2018, sharing of supervisory experiences



among authorities, possibility of participation in trainings organised by EBA, and the exchange of indicators of financial systems development through a common platform enhances the supervision quality and approximates our developments with the European ones.

The Bank of Albania is part of the Vienna Initiative, a broad forum for the exchange of sustainable information on measures to address non-performing loans in the Central, Eastern and South-Eastern Europe region (CESEE). This forum brings together public and private sector stakeholders of EU-based cross-border banks present in emerging Europe, including, the international financial institutions (the International Monetary Fund, the EBRD, European Investment Bank and the World Bank), European institutions (European Commission and the European Central Bank), etc.

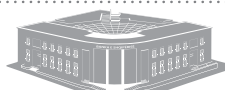
In this forum, the Bank of Albania has shared qualitative and quantitative information on the measures undertaken to address the non-performing loans and on their quantitative impact on the financial soundness of the system.

The International Monetary Fund has continuously assisted the Supervision Department through a resident advisor, with expertise in the supervision and financial stability areas. The advisor reviews the regulatory framework and the internal approach for addressing the supervisory issues aiming at their improvement and approximation with the best standards. The Bank of Italy assisted in two projects, during 2017. These projects consist in improving the internal process of risk analysis: the Early Warning System; and defining limits on financial indicators of borrowers to assess the risk analyses performed by banks.

Also, the Bank of Albania is member of Group of Banking Supervisors from Central and Eastern Europe, BSCEE Group. As a member of this group, the Bank of Albania has regular contacts with this institution sharing information about the annual developments in the banking system, and participating in annual conferences or seminars and trainings organised by the BSCEE.

2.4 EVALUATION OF ANTI-MONEY LAUNDERING MEASURES AND THE FINANCING OF TERRORISM PROCESS BY MONEYVAL

In 2017, important amendments were made to the regulation of the Bank of Albania for all institutions subject to its jurisdiction (banks, non-bank financial institutions, savings and loan associations, and foreign exchange bureaus) regarding anti-money laundering and financing of terrorism. The amendments consist in additional requirements for reporting by financial institutions of qualitative and quantitative data, according to a standardised form, on annual basis (including a questionnaire). The amendments, in addition to the problems



identified in the implementation of the applicable legal and regulatory framework, aimed at addressing the implementation of international standards and the recommendations provided in the fourth round of Albania's evaluation by Moneyval's experts.

These amendments drove to the need to approve a methodology for off-site evaluation dedicated to the risk on anti-money laundering and combating the financing of terrorism (AML/CFT) accompanied with a matrix of risk evaluation in this field. The off-site evaluation of AML/CFT risk is a crucial tool in supporting the supervisory process in accordance with a risk-based approach. Based on data reports for 2016, the Bank of Albania, for the first time, performed the evaluation of this risk exposure of the institutions, and has currently consolidated the analysis based on the data reported by institutions for 2017. The results of this evaluation shall serve to the supervisory process focusing on institutions and activities that pose high risk in terms of AML/CFT.

In 2017 Q4, the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) carried out the fifth round of Albania's evaluation. The Bank of Albania was an important part of this process as the supervisory authority of the financial system, and was very active in completing the necessary information requested through both template forms and direct meetings. The Moneyval Committee of Experts evaluated positively the above-stated developments. Currently, for the fifth evaluation round for Albania, the evaluation report is being drafted by the experts and the final report with the respective recommendations is expected to be approved by this Committee within 2018 H1.

2.5 ON-SITE EXAMINATIONS

In 2017, fourteen full-scope and partial examinations were performed in banks, non-bank financial institutions and savings and loan associations. In 2017, the number of examinations in non-bank institutions increased, after the expansion of their number and share in the financial system. The main objective of the examinations remains defining a complete risk profile for the licensed institutions, by considering both the qualitative and quantitative factors.

The main fields at the focus of 2017 examinations and the relevant conclusions by type of institution are summarised as follows:

In **banks**, improvements have been identified regarding the completion of the internal framework, the compliance with the supervisory regulatory framework (in particular the classification and establishment of provisions for the borrowers' exposure), the recovery of non-performing loans, the compliance with the regulatory indicators (capital and liquidity), etc. At the same time, the improvement of governance systems, the strengthening of the oversight role of



the management bodies, and the increase of independence, effectiveness and preventive ability of audit systems remain important issues of supervision. In addition to the prudential growth of lending, the efforts to solve and recover the non-performing loans are assessed as well. The assessment of strategic plans of banks, in terms of identifying the targeted expectations in the banking market, the orientation of sources and the adoption of structures with these expectations, have been given special consideration. The prudential addressing of bank activity expansion and the selected forms of investments with their complexity was part of this assessment, as banks seek to maintain their profitability levels.

The relationships with the related parties - taking into account the sensitive shareholder-bank-administrator relationship - will continue to be supervised attentively. Also, the transparency with customers is always an important part of assessment and verifications throughout the on-site examinations.

Regarding the **non-bank financial institutions**, the governance and audit systems in these institutions still have room to ensure effectiveness, independence and proper authority supported also by the improvement of information systems. These factors are materialised in a higher level of deficiencies regarding the correct reflection of classification and provision funds to the exposures of borrowers, transparency issues with customers, etc. On the other hand, non-bank institutions are rather active, not only in increasing or combining the activities, but also in expanding the use of loan instruments (in addition to their capital) to finance the activity (debt securities, participation in national financing programs/development, borrowing from banks or international institutions, etc.). This trend is considered as a normal developing phase for these institutions, and the increase of stakeholders, investors, that analyse and monitor the activity of non-bank financial institutions are expected to contribute positively to the strengthening of governance systems and their control.

Some of the **savings and loan associations** were subject to examinations for the first time, after the conclusion of the consolidating process and separation from the Unions. Overall, the separation process has been carefully managed by the governing bodies of the associations, maintaining the positive pace of both the activity and financial results. On the other hand, they need to improve their internal framework, the completion of operational units, the increase of professional capacities of management bodies, the clear separation of duties and responsibilities, etc. The response to the examination recommendations was positive, and within the established deadline.

At the conclusion of the examinations, recommendations on the necessary improvements were provided, and their implementation was monitored closely. Also, supervisory measures are applied on some institutions, for which recurring breaches of the regulatory requirements had been identified.

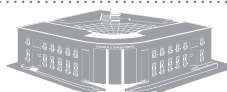
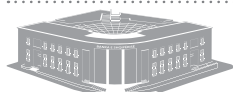


Table 1. Number of examinations by type of institution and risk

Examined licensed entities	Risks											Total assets (in ALL million)	Share to entities group	Share to financial system
	Strategic	Organisational	Credit	Liquidity	IRRBB *	Market	ICT	Operational	Reputational	Profitability	Capital			
Banks	4	5	7	5	4	4	4	4	5	4	5	1,029,328.80	71.22%	69.00%
Non-banks	2	4	3	2	3	2	4	1	3	3	3	11,190.20	29.33%	0.75%
SLAs	3	3	3	3	3	3	3	3	3	3	3	5,845.04	71.28%	0.39%
TOTAL	9	12	13	10	10	9	11	8	11	10	11	1,046,364.04	70.15%	70.15%

*Interest rate risk in the banking books

Source: Bank of Albania.



3. KEY PRIORITIES PLANNED FOR 2018

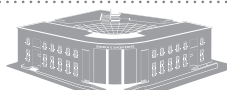
The priorities of Supervision Department for 2018 will focus on the assessment of main risks management to which the supervised entities are exposed; realisation of non-exhaustive supervisory actions; the continuous monitoring of the overall performance and individual risk profile for each of the supervised institutions. These priorities are further detailed in the following sections.

3.1 CREDIT RISK FOCUSED ON NON-PERFORMING LOANS AND THE ADDRESSING OF BORROWERS IN FINANCIAL DIFFICULTIES

The reduction of non-performing loans ratio will continue to be on the focus of supervision in 2018. Notwithstanding the considerable fall in non-performing loans during 2017, the current level is still considered high affecting the long-term stability of banks and banking system. Maintaining a prudential approach on early addressing problems and the commitment of the Bank of Albania in the framework of the national program on addressing non-performing loans, has continued through the undertaking of an initiative for the regulation of cooperation among banks, for addressing common borrowers that are in financial difficulties to repay their liabilities. This initiative will be realised during 2018, through the compilation of a special regulatory framework on the possibility of resolving out-of-court the non-performing borrowers that are exposed to more than one bank. It will serve as a mechanism to bring banks into a common denominator to find a long-term stable solution for these borrowers. This initiative is based on the similar international experiences and is drafted in collaboration with FinSAC project of the World Bank and the IMF resident advisor at the Bank of Albania.

3.2 APPROXIMATION OF REGULATORY FRAMEWORK WITH BASEL III

The global financial crisis highlighted the need to review the banking regulatory framework regarding the management of unfavourable situations. These changes were performed through Basel III. One of the important introduced elements is the establishment of the criteria on the quantitative management of banks liquidity through a new indicator named Liquidity Coverage Ratio (LCR). This indicator aims at the early preparing of banks to satisfy the needs for liquidity that may arise from unexpected events causing massive bank runs.



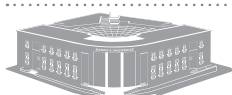
The Bank of Albania has planned the adoption of this regulatory framework and is carrying out all the needed preparations to draft it. This process, among others, considers also the preparation of banks on the new reporting elements of this framework and the adoption of their internal processes for the management of liquidity risk.

The revision of supervisory regulatory framework will aim at including Basel III elements, over 2018, related with the improvement of capital quality, after assessing the possibilities to adopt and establish adequate reserves of capital, to enhance the sustainability of banks in Albania.

3.3 REGULATION AND SUPERVISION OF BANK'S GOVERNANCE

Supervision has paid special attention to good governance in banks, as an important element for risk and management. Hence, the review of the internal regulations and manuals to assess banks is considered as necessary. The purpose of amendments is to approximate the supervisory requirements and methods with those of the European Union and to improve the internal criteria of assessment. Part of amendments have been released over 2017, while within 2018, other methodological changes will take place in collaboration with the European Bank for Reconstruction and Development (EBRD). This project consists in the structure and orientation for adequate assessment of banks' structures regarding the decision making, audit environment and the management process of important risks of banks.

The approval of the Guideline to the Internal Capital Adequacy Assessment Process (ICAAP) of banks, at the beginning of 2017, by considering a preparatory period for banks, has aimed at ensuring the realisation of an effective and comprehensive internal process of banks for the capital adequacy assessment. The process lays down the documentation and presentation, for the first time by banks till the end of April 2018, of capital adequacy self-assessment report. This report and the entire ICAAP will be subject of supervision assessment and review for the identification of possible deficiencies by supervisors and results will be informed to banks to make the necessary improvements in the next reporting. To conduct this assessment the internal guiding documents are reviewed and will be finalised to help in assessing each of ICAAP documents by all banks and the configuration of Internal Supervisory Review and Assessment Process. This process will take place throughout 2018. There will be continuous communication with banks, throughout this period, to discuss on the content and assessment conducted in the framework of this report.



3.4 BANKING SYSTEM CONSOLIDATION

The consolidating trends of the banking system identified in the previous years, materialised in 2017, with the decision on the merger of Intesa SanPaolo Bank with Veneto Bank, mainly driven by the international developments and by the decision of the Bank of Italy and the European Central Bank in coordination with Intesa SanPaolo group in Italy, following the announcement on the bankruptcy of Vento Banking group. The merger by absorption of Veneto Bank is expected to end in 2018, while the Albanian banking system will have less banks as a result. The Bank of Albania deems that there is still scope for further consolidation, expected to be materialised and is carefully monitoring all developments in this regard. This assessment is based on the interest stated by some banks to expand and the shrinkage of some other banks due to the revision of plans for the presence in the Balkans by the parent banks.

3.5 SELF-ASSESSMENT OF THE EQUIVALENCE WITH EUROPEAN REGULATORY AND SUPERVISORY FRAMEWORK

In the framework of aligning the legislation and regulatory framework with the EU directives and the relevant standards, to assess the current situation and determine on future intervention, in 2017, work started on the self-assessment of the equivalence of the supervisory regulatory framework with European regulatory and supervisory framework (CRD and CRR)¹, according to the filled in questions in the Questionnaire of the European Banking Authority (EBA)². This process shall precede the identification of Supervision Department needs for drafting new regulatory acts and supervisory methodologies or the review of the existing ones, aiming at ensuring continuous alignment with Acquis Communautaire on the activity of credit institutions.

3.6 COLLABORATION WITH THE EUROPEAN CENTRAL BANK

With the creation of a Single Supervisory Mechanism (SSM) at the European Central Bank in November 2014 and considering the active presence in Albania of subsidiaries of large European banking groups, the Bank of Albania and the European Central Bank are in the process of drafting a comprehensive agreement that will regulate all the fields and aspects of this cooperation. The signing of the agreement by both institutions, within 2018, will finalise this collaboration.

During 2018, the Supervision Department aims to take part in some of the Supervisory Colleges for European banking groups present in Albania, as an

¹ Capital Requirement Directive and Regulation.

² EBA (European Banking Authority)



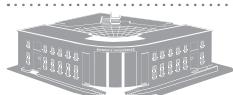
observer, through a specific agreement for this purpose. This is considered an important step not only in the framework of strengthening cooperation with EU supervision authorities and the alignment with the most advanced supervision practices, but also in the framework of a more comprehensive supervision assessment of EU-based banks that operate in Albania.

3.7 PREPARATION OF FINANCIAL REPORTING ACCORDING TO THE INTERNATIONAL ACCOUNTING STANDARDS

To adopt and apply the International Accounting Standards (IAS), the Bank of Albania is carrying out some theoretical and practical preparations. In addition, theoretical preparations through trainings, the possible effects arising from the application of standards in the financial statements and capital of banks are being assessed, with the assistance of the World Bank and Grant Thornton, an international auditor. During 2018, the Bank of Albania will carefully monitor the results from the application for the first time of the new standard - IFRS 9, at banks and, depending on the results, will determine a supervisory position with a prudential approach to ensure an adequate protection for banks.

Table 2 Supervision priorities for 2017 - 2018 and foreseen activities

Priorities 2017		Priorities 2018	Planned activities	Extension for a further period
Credit risk/ NPLs performance	➡	Credit risk/ NPLs performance	<ul style="list-style-type: none"> - Assessment of banks' strategies and objectives for NPLs - Assessment of Recovery and Resolution Plans for large borrowers - Platform to address common borrowers of banks 	✔
Capitalisation of business strategy	➡	Consolidation of banking system	<ul style="list-style-type: none"> - Assessment of IAPCA documents and their consultation with banks - Monitoring the merger processes of banks and possible purchases 	✔
Approximation of regulatory supervisory framework with European standards	➡	Approximation of regulatory supervisory framework with European standards	<ul style="list-style-type: none"> - Liquidity risk - BASEL III - Capital reserves - Basel III - SREP (Supervisory Review and Evaluation Process) - BASEL II - Recovery and resolution in banks - Assessment of approximation of the regulatory framework with those of EBA 	○
Regulation and supervision of banks' governance	➡	Supervision of banks' governance	<ul style="list-style-type: none"> - Revision of assessment process of banks' corporate governance - Methodological developments - Staff training 	○
Collaboration with ECB	➡	Collaboration with domestic and foreign authorities	<ul style="list-style-type: none"> - Signature of collaboration agreement with ECB - Participation in Supervisory College of European banks - Collaboration with FSA for joint inspections, revision of Collaboration Agreement, information sharing 	✔
	➡	Risk-based supervision	<ul style="list-style-type: none"> - Assessment of banks' IAPCA - Assessment of Recovery Plans - Determination of assessing criteria on lending 	○
		Implementation of International Accounting Standards	<ul style="list-style-type: none"> - Preparation of reporting framework on international accounting standards - Monitoring of IFRS 9 	✔



4. REGULATORY FRAMEWORK

The methodological and regulatory supervisory framework is subject of review and continuous process of completion, aimed at implementing the applicable legal requirements and alignment with the directives of the European Union, a comprehensive implementation of Basel Principles, and the addressing of problems and suggestions of supervised entities, obtained through an on-going communication with them.

Banks and other financial institutions, subject to supervision by the Bank of Albania, have played an active role in the drafting and reviewing process of the bylaws. They have contributed with ideas and opinions about the regulatory amendments.

The Guideline "On the Internal Capital Adequacy Assessment Process (ICAAP)"³ is a qualitative step forward in completing the supervisory process and improving the internal risk assessment and management processes at banks, and the start of the work to draft supervisory procedures related with the Supervisory Review and Evaluation Process (SREP)⁴. Also, various new regulatory acts were finalized. They are very important for banking supervision and the institutions entities subject to these acts. Furthermore, existing regulations were amended as follows:

- **Comprehensive review of the Regulation "On consolidated supervision" (approved by Decision No. 4, dated 1.2.2017 of the Supervisory Council of the Bank of Albania).**

This Regulation lays down the conditions, rules and regulatory requirements for conducting consolidated supervision, for the purposes of risk management deriving from a banking group and a financial group. The complete review of this Regulation was accomplished in compliance with the requirements and principles on consolidated supervision laid down in the directives and the regulations of the European Union (EU), and the standards of the Basel Committee. The reviewed Regulation sets out the rules for the supervisory authority, mainly on qualitative and quantitative supervision, the methodology to calculate regulatory capital and capital requirements for the main risks to banking and/or financial groups: credit risk; market and operational risk, including the important effect (material) that the dependant entities/institution might have. The regulation deals also with some qualitative supervisory requirements that address certain problems in the banking system in the framework of risks that

³ ICAAP – Internal Capital Adequacy Assessment Process.

⁴ SREP- Supervisory Review and Evaluation Process.



may derive from important transactions within the group, which are determined also in the European Union Regulation⁵ and the document of Basel Committee⁶.

- **Amendments to the Regulation "On capital adequacy ratio" (approved by Decision No. 5, dated 1.2.2017 of the Supervisory Council of the Bank of Albania).**

The purpose of these amendments is to re-introduce the measure that penalises (in terms of capital requirement) the placements of the banking sector with non-residents, while a part of measures have ended at the end of 2016. The change of the measure was considered to combine the need to maintain a higher capital requirement for banks that are active in placements with non-residents, and the need to place a limit on the measure to increase the capital requirement.

- **Amendments to the Regulation "On Prevention of Money Laundering and Terrorism Financing" (approved by Decision No. 22, dated 5.4.2017 of the Supervisory Council of the Bank of Albania).**

The purpose of these regulatory amendments was to fulfil the recommendations of the Moneyval Committee of Experts, provided in the last evaluation for Albania, and to resolve some issues concluded in the on-site supervision of the institutions that are subject to this Regulation.

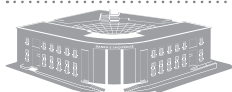
The amendments set out the requirements for the institutions, subject to the regulation, to compile and have in place internal rules and procedures regarding the implementation of the requirements against terrorism financing and the integrity of employees involved in the process of the prevention of money laundering and terrorism financing. Also, the amendments determine the obligation of institutions to inform the Bank of Albania, on the transactions related with persons declared as financiers of terrorism, and some additional requirements on reporting quantitative and qualitative data on money laundering and terrorism financing, according to a standardised form on annual basis.

- **Amendments to the Regulation "On transparency of banking and financial products and services" (approved by Decision No. 25, dated 3.5.2017 of the Supervisory Council of the Bank of Albania).**

The Regulation was amended with a view to completing and improving the regulatory framework of the supervisory authority on transparency of banking and financial products and services provided by the institutions subject to this Regulation, and the particular addressing of some problems at banks, regarding

⁵ "Regulation (EU) 2015/2303 of 28 July 2015 supplementing Directive 2002/87/EC of the European Parliament and of the Council with regard to regulatory technical standards specifying the definitions and coordinating the supplementary supervision of risk concentration and intra-group transactions".

⁶ "Intra-Group Transactions and Exposures Principles".



transparency with clients, by considering also the relevant recommendations of the Competition Authority. These amendments also aim at further aligning it with the European Directive on consumer protection, in the framework of continuous increase of requirements for the consumer protection.

The increase of transparency by the institutions subject to this Regulation improves the effectiveness of market discipline and the supervision by the Bank of Albania.

- **Approval of the new Guideline “On the Internal Capital Adequacy Assessment Process (ICAAP)”, (approved by Decision No 26, dated 3.5.2017 of the Supervisory Council of the Bank of Albania).**

The guideline sets out the requirements for the compilation and implementation of this process by banks, and the supervisory expectations, regarding the structure and content of the report that banks will submit to the Bank of Albania, on annual basis. This process is considered of particular importance to the bank and is realised by the bank independently, as it aims at assessing the adequacy of current and future capital levels, by considering also the bank’s risk profile and strategy (the following Box shows more detailed information on this guideline).

BOX 1. GUIDELINE “ON THE INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS”

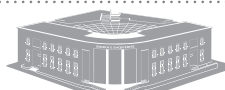
The Supervisory Council of the Bank of Albania approved the Guideline “On the Internal Capital Adequacy Assessment Process (ICAAP)”, with the Decision No 26, dated 3.5.2017.

ICAAP is a process fully based on the internal processes and systems of the banks that helps to manage and effectively control the risk profile and consequently determines the necessary capital level. This process is oriented toward the quantitative elements of the risk management process - the assessment of internal capital requirements and risk hedging capital, as well as its qualitative elements, created to strengthen the internal rules of management and control of the bank, which allow for an effective management and mitigation of this risk.

Banks, for the realisation of this process, will follow two steps: first, they will determine the level of a specific risk they can undertake, in order to define their risk-bearing capacity and ensure adequate capital to cover this risk; and second, they will make a critical analysis of the risk level that is rational to undertake, taking into account all the possibilities and threats that correspond to this risk.

Banks, in drafting ICAAP, will consider, at least the implementation of the following basic principles:

- Responsibility.** *The bank shall be responsible for the implementation and development of ICAAP.*
- Proportionality.** *Banks will implement ICAAP, regardless of their size and complexity. Each bank shall use appropriate tools and processes in its ICAAP, while it shall prove/argument for the Bank of Albania that ICAAP is complete and appropriate for the risks arising from the activity and the environment in which this activity is conducted.*



- c) **Materiality of risks.** ICAAP must be focused on risks that may have a material impact on the current or future capital adequacy situation of the bank.
- d) **Forward-looking.** ICAAP shall focus on ensuring the bank's capital adequacy, taking into account future developments and its activity's performance.

The bank, in calculating its capital requirements, shall consider all the important risks and the other internal and external factors that define its risk profile.

- a) **Risks that are subject of the minimal capital requirement.** The bank, in calculating the internal capital requirement on credit risk, market risk and operational risk, shall use the methods defined in the Regulation of the Bank of Albania "On capital adequacy ratio".
- b) **Risks that are not entirely covered by the minimal capital requirement.** The bank, in calculating the internal capital requirements, shall also consider risks that are not entirely covered by the minimal capital, calculated according the standard methods defined by the Bank of Albania (standard methods for credit risk, market risk or the simple indicator method and the operational risk standard one), which overall do not consider some particular factors in capital calculation to fully hedge a certain risk.
- c) **Risks that are not subject of minimum capital requirement.** The bank, in calculating the internal capital requirement, in addition to the risks that are subject of minimal capital requirement, shall also consider the calculation of the internal needs for capital for the interest rate risk in the banking books, concentration risk, reputational risk, profitability risk, strategic risk, etc. The bank, depending on the complexity and particularity of its activity, may consider also other risks of this category and use its internal qualitative and quantitative methods for their assessment.
- d) **External environment factors.** The bank, in calculating the internal capital requirement, shall also consider the risks that may materialise in extreme, but not impossible, situations with a considerable impact on bank's capital adequacy. These risks may derive from the macroeconomic environment or market factors, or from the regulatory framework, for the assessments of which the bank shall use stress-testing.

Bank of Albania, based on the internal capital adequacy assessment process carried out by the bank, will establish the Supervisory Review and Evaluation Process with the purpose to establish an overall opinion on the risk profile of the bank and of its needs for capital.

- Amendments to the Regulation "On establishing the level of decision-making in the supervision of banking and financial activities" (approved by Decision No 29, dated 7.6.2017 of the Supervisory Council of the Bank of Albania).

The amendments aimed at completing the regulatory framework of the Bank of Albania, regarding the decision-making process and its delegation, set out in the appendices, integral part of this Regulation. The amendments provide compliance with the processes and decision making set out in other supervisory acts, in particular: a) the processes laid down in the new law and new supervisory regulations on savings and loan associations and their unions, and b) reflection of some repeals in the law regarding conservatorship on



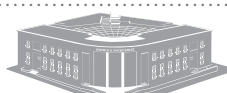
banks and consequently the approval of the new law "On the recovery and resolution of banks in the Republic of Albania".

- **Amendments in the Regulation "On risk management in the activity of non-bank financial institutions" and some amendments in the Regulation "On the granting of license to non-bank financial institutions" (approved with the Decision No. 46 and 47, dated 6.9.2017, respectively, of the Supervisory Council of the Bank of Albania).**

The simultaneous and interconnected reviewing of these two regulations aimed, first, at addressing some problems identified during the examination in non-bank financial institutions, and second, to provide some facilities for these institutions in carrying out their financial activity. An important amendment in the Regulation "On risk management in the activity of non-bank financial institutions", regards the stipulation in case of breaches and the supervisory measures and escalated sanctions on these entities, previously referred to in the law "On banks in the Republic of Albania and the Regulation "On licensing and activity of non-bank financial institutions", for the cases of licence suspension/revocation.

- **The comprehensive review of the guideline "On recovery plans of banks" (approved with the Decisions No. 72, dated 6.12.2017 of the Supervisory Council of the Bank of Albania).**

The comprehensive review of the existing guideline "On the recovery plans", by replacing it with a new Regulation "On the recovery plans of banks" completes the regulatory framework on recovery plans, in compliance with the requirements set out in the new Law 133/2016 "On the recovery and resolution of banks in the Republic of Albania". The Regulation sets out supervisory requirements on the recovery plans of banks and banking groups, mainly regarding: the content, the way and term of presenting and updating the recovery plans and the simplified recovery plans, the minimum framework of qualitative and quantitative indicators, which are included in the recovery plans, the scenarios banks may include in these plans, as well as the minimum criteria that Bank of Albania takes into account for assessing the recovery plans of banks (The following box provides a detailed information on this Regulation).



BOX 2. REGULATION "ON RECOVERY PLANS OF BANKS"

In compliance with Law No 133/2016 "On the recovery and resolution of banks in the Republic of Albania"* , the Bank of Albania adopted the Regulation "On recovery plans of banks", by Decision No.72, dated 6.12.2017 of the Supervisory Council.

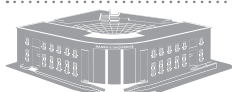
Recovery plans are an important part of risk management of banks, and of the assessment process of risk -based supervision from the Bank of Albania.

A qualitative recovery plan shall at minimum include information on the following issues:

- a) **A summary of all elements of the recovery plan.**
- b) **Bank's governance.** To ensure the plan is effectively compiled and in due time, the plan is crucial to be drafted on sound governance basis.
- c) **Recovery indicators.** The bank shall compile the framework of recovery qualitative and quantitative indicators, as an important part of recovery plan, which includes indicators of capital, liquidity, profitability, assets' quality, as well as market and macroeconomic indicators.
- d) **Strategic analysis of recovery plan.** Through the strategic analysis, the bank identifies the main activities (core business lines) and its critical functions, and determines the main steps to include them in the recovery scenarios.
- e) **Recovery measures.** Through the strategic analysis the bank identifies and assesses the recovery measures and the possible effects of their implementation.
- f) **Scenarios.** The bank, as part of the recovery plan, shall draft, at least, three scenarios: i. a systemic event, ii. a specific event, and iii. a combination of the two.
- g) **Plan of communicating and informing the group of interest.** The internal communication of recovery plan to the bank's employees and the external communication with all groups of interest is a crucial aspect of its effective implementation and avoidance of negative impacts on the financial system.
- h) **An analysis of preparatory measures.** The recovery plan may need organisational changes to facilitate the updating of the plan and its implementation in the future, to monitor the indicators, or because the process has identified some difficulties to implement the recovery measures. These preparatory actions to be undertaken by the bank or group should be included and described in the recovery plan, to assess if their implementation is possible and to facilitate the monitoring of their implementation by the bank and the supervisory authority.

The assessment of recovery plans by the Bank of Albania aims at ensuring the necessary information to the resolution structures, with the purpose the compilation of resolution plans, by considering the adequacy of capital and structure of bank's funds as a ratio to the complexity its organisational structure and risk profile.

* This Law is partially aligned with the EU Directive 2014/59 (Banking Recovery and Resolution Directive).



- **Amendments to the Regulation "On core management principles of banks and branches of foreign banks and the criteria for approving their administrators", approved with the Decision No. 73, dated 6.12.2017 of the Supervisory Council of the Bank of Albania.**

The reviewed Regulation aims the alignment with the recent requirements of the European Union regulatory acts on good governance and the compliance with the European Bank for Reconstruction and Development recommendations provided in the project on the assessment of the relevant legal and regulatory frameworks and supervisory practices of the Bank of Albania in place.

The amendments mainly consist in: definition of concepts: "risk appetite/tolerance" and "risk capacity"; and the requirements for the publication of special statement on the bank's risk appetite/tolerance; requirements to draft a special policy for appointing members of the bank's steering council; additional requirements for the risk management structure/unit and compliance unit; requirements for additional requirements on the credit status of the administrator proposed for approval; requirements to the bank to realise an analysis/assessment on the adequacy of professional knowledge of the administrator that is proposed to be approved; and requirements that banks conduct a regular re-assessment process of the administrators whenever deemed necessary, depending on the circumstances, during the discharge of their functions at the bank; etc.

- **Amendments to the Regulation "On internal audit system" (approved with Decision No. 74, dated 6.12.2017 of the Supervisory Council of the Bank of Albania).**

The regulatory amendments aimed at the approximation with best practices on internal audit and alignment with the amendments in the Regulation "On the core management principles in banks and branches of foreign banks and the criteria for the approval of their managers". In particular, the amendments set out the requirement to banks that the Head of Audit Committee be at the same time member of the Steering Council of the Bank, aiming at aligning it with the best practices that ensure the inclusion of the Audit Committee in the decision-taking process of the Steering Council and the limitation of risk for the expertise of the audit committee to remain only within the Committee.

- **Other legal acts**

The Supervision Department contributed also to the working group to compile the draft-law "On payment services", in the framework of the Bank of Albania's engagement to align the legal framework with the European Directive on Payment Services (PSD2)⁷.

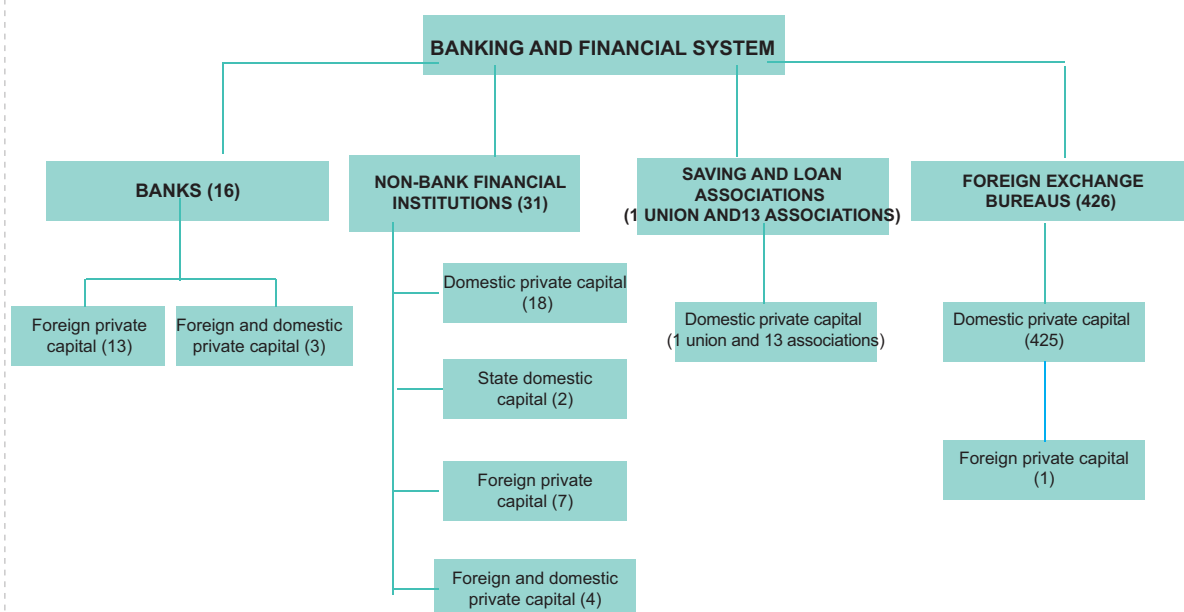
⁷ *Payment Services Directive.*



5. LICENSING

As at end-2017, the structure of the banking and financial system in Albania consisted in 16 banks, 31 non-bank financial institutions (NBFIs), 426 foreign exchange bureaus, 13 savings and loan associations and 1 union of savings and loan associations.

Chart 1 Financial and banking sector structure and ownership



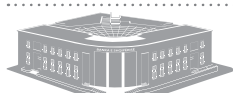
Source: Bank of Albania.

Pursuant to the Law "On banks in the Republic of Albania", the Bank of Albania is vested with the power to licence and supervise banks, non-bank financial institutions, savings and loans associations and their unions, foreign exchange bureaus and representative offices.

5.1 BANKS

During 2017, within the scope of the licensing function, the Bank of Albania has taken some decisions on:

- preliminary approval of the transfer of 100% ownership of the shares of Veneto Banka sh.a., and the transfer of the qualifying (indirect) holding in the shareholder capital of Banka Credins sh.a.;
- preliminary approval for the opening of the subsidiary of the Banka



- Kombëtare Tregtare sh.a. in the Republic of Kosovo, through the transformation of its branch there into a subsidiary;
- c) preliminary approval for conducting additional financial activity of intermediation in insurances by Banka Credins sh.a., Banka Intesa Sanpaolo Albania sh.a. and Veneto Banka sh.a.;
 - d) approval of 36 administrators of banks, of which 16 members of steering councils, 6 members of audit committees, and 14 executives.
 - e) approval of the expansion of the banking network with two new branches, within the territory of the Republic of Albania;
 - f) preliminary approval for the issuance of subordinated debt by Banka Credins sh.a. and the settlement of the subordinated debt by the Banka NBG Albania sh.a.;
 - g) approval of the amendments of the statute of Banka Intesa Sanpaolo Albania sh.a., Banka Kombëtare Tregtare sh.a., Banka Procredit sh.a., Banka Amerikane e Investimeve sh.a. and Veneto Banka sh.a.;
 - h) approval for the additional M-Banking Zing service by the Banka Ndërkombëtare Tregtare sh.a.

5.2 NON-BANK FINANCIAL INSTITUTIONS, MICROCREDIT FINANCIAL INSTITUTIONS AND ELECTRONIC MONEY INSTITUTIONS

During 2017, the Bank of Albania decided on:

- a) licencing three non-bank financial institutions, to conduct the financial activity of payments services and money transfer (Raea Financial Services sh.p.k.), financial leasing (Mogo Albania sh.a.), and microcredit financial institution (Kredo Financë sh.p.k.), respectively;
- b) preliminary approval for the transfer of the quota of the capital shares of the non-bank financial institutions Omnifactor sh.p.k., Albanian Financial Institution sh.p.k. and NOA sh.a.;
- c) preliminary approval for conducting the insurance intermediation activity by the non-bank financial institution Porsche Leasing sh.p.k. and payments services and money transfer by the electronic money institution Vodafone M-Pesa sh.p.k.;
- d) preliminary approval of the administrator of the non-bank financial institution Omnifactor sh.p.k. and of the microcredit financial institution luteCredit Albania sh.a.
- e) suspension of the licence of the microcredit financial institution Capital Invest sh.a. and the electronic money institution Vodafone M-Pesa sh.p.k. The microcredit financial institution Capital Invest sh.a. licence returned active after the termination of the suspension.



5.3 SAVINGS AND LOAN ASSOCIATIONS AND UNIONS OF SAVINGS AND LOAN ASSOCIATIONS

Within the scope of the licensing function the Bank of Albania's decision-making on savings and loan associations and unions of savings and loan associations during 2017 consists on:

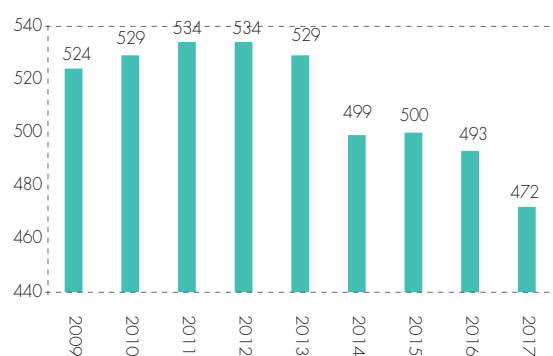
- the approval of the managers of micro-credit institutions, in accordance with the Law "On savings and loan associations and their unions" and of the Regulation "On licensing and activity of Savings And Loan Associations and their Unions". The approval was granted for 5 chairs of Steering Councils of savings and loan associations, 6 heads of Audit Committees of the savings and loan association, and 5 administrators of savings and loan associations;
- based on the legal and regulatory framework, in 2017, the transformation was finalised for the Union of SLAs "Jehona" into the Savings and Loan Association UniFin and the the licence was revoked for the SLA NewCred as result of this process.

5.4 FOREIGN EXCHANGE BUREAUS

Within the scope of the licensing function the Bank of Albania's decision-making on foreign exchange bureaus consists in:

- licensing 39 new foreign exchange bureaus.
- revoking the license of 41 foreign exchange bureaus due to the discontinuation of the activity.

Chart 2 Number of bank branches/agencies, over years

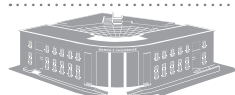


Source: Bank of Albania.

5.5 OTHER

As at end 2017, banks operate through 473 branches/agencies, across the country, while only one bank continues to have a branch outside the territory of the Republic of Albania. This branch is subject of the transformation process n into a subsidiary after the approval by the supervising authority of the host country⁸. The expansion of the banking services range electronically is a process that increases efficiency by offering banking and financial services in real time and 24/7, which has had an impact in the decrease of the number of branches and maintaining an optimal number of them.

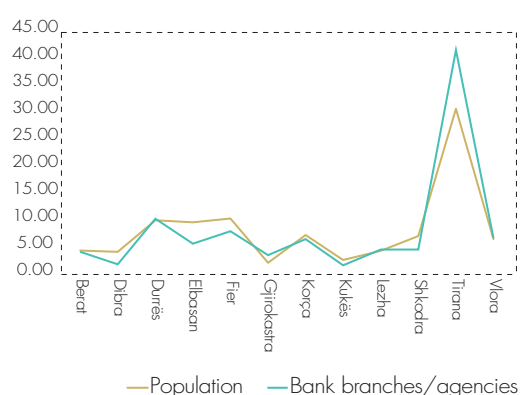
⁸ Central Bank of the Republic of Kosovo



The geographical distribution of bank branches/agencies include almost the entire territory of Albania, while a great concentration of branches and agencies is evidenced in Tirana (42%), where the population concentration is greater as well (31%). Likewise, the distribution of bank branches/agencies by prefectures is also in proportion with the population.

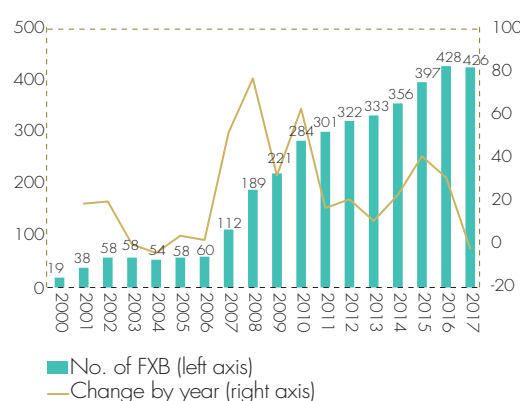
At the end-2017, 426 of foreign exchange bureaus conduct the activity in the foreign exchange market. During the year, 39 new foreign exchange bureau licences were granted, and 41 existing ones were revoked.

Chart 3 Geographical distribution of resident population and of bank branches/agencies' network, by region in 2017 (in %)



Source: Bank of Albania and INSTAT.

Chart 4 Foreign exchange bureaus, over the years



Source: Bank of Albania.

In compliance with the requirements laid down in the legal framework in force, the non-bank financial institutions and electronic money institutions may conduct the activity of payment and money transfer services and/or funds allocation and repayment, in case of e-money institutions even through agents. As at end-2017, the number of these entities' agents was 714.

Table 3 Number of money transfer agents as at end-2017

	AK-INVEST**	FINANCIAL UNION TIRANA	VODAFONE M-PESA*	EASYPAY	Total
Agents conducting the activity of money transfer on behalf of the non-bank financial institution	176	273			449
Agents of electronic money institution			-	265	265
Total	176	273	-	265	714

Source: Bank of Albania.

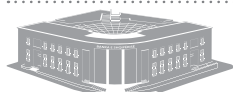
* The licence of Vodafone M-Pesa was suspended as at end-2017.

** The number of AK-Invest agents has been reassessed, compared with the previous year, including only the number of those that have a contract as agents.



In the category of Savings and Loan Associations, no new licenses were granted in 2017, while the reorganisation of Savings and Loan Associations was completed, through the transformation of the union of SLAs into Savings and Loan Associations. As at end 2017, there were 13 Savings and Loan Associations and 1 Union of Savings and Loan Associations.

During 2017, structural changes in the ownership of banks and non-bank financial institutions consisted mainly in changes in the non-qualifying holding in the shares/quota of their capital. Meanwhile these entities have notified an increase of their paid-in capital.



6. RISKS IN THE BANKING SYSTEM AND NON-BANK FINANCIAL INSTITUTIONS

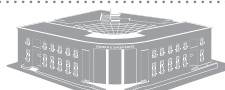
6.1 BANKING SYSTEM HIGHLIGHTS

The most important development of 2017 in the banking activity is the drop of the non-performing loans ratio at 13.23%, with an annual decline of around 5 percentage points. This decline constitutes a consistent development towards the improvement of the quality of the loans portfolio of the system over, at least, the last three years. While lending activity has a moderated growth, the highest impact in the improvement of the indicator of the loans quality comes from the decrease of the value of non-performing loans by around 27.5 %. This decrease was largely affected by the writing off of loans as well as by the solutions given to some large groups of borrowers during the year by the banks.

The stability of the banking system remains high under the circumstances when the Capital Adequacy Ratio increased at 16.6% and the level of profitability of the system remains relatively satisfactory when RoA and RoE are at 0.89% and 10.53%, respectively. Likewise, the banking system has a high level of liquidity with an indicator of 40% against the regulatory minimum of 20%.

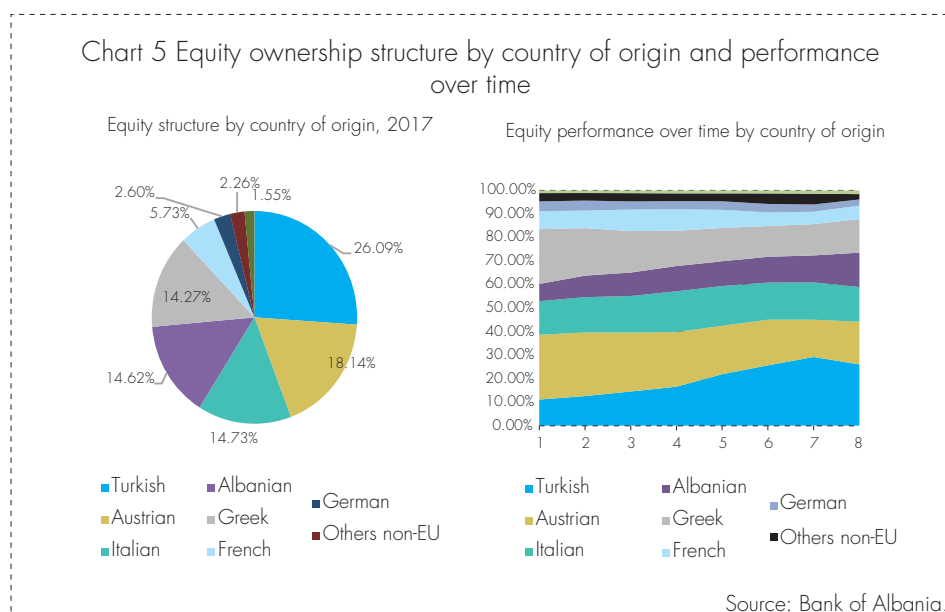
Following are the main banking system highlights during 2017:

1. Credit outstanding in the banking system grew by around 0.15%, against the increase by around 2.5% in the previous year;
2. Gross non-performing loans decreased by 5.04 percentage points, standing at 13.23% in December 2017, from 18.17% at the end of 2016; The value of non-performing loans decreased by ALL 30.17 billion during 2017, where an important impact came from the writing off of loans by ALL 16.67 billion;
3. Provisioning level of non-performing loans remains high and increased by 1.2 p.p. compared with the previous year, reaching 71.7%;
4. Banking system's liquidity situation remains satisfactory. The liquidity indicator stood at 40.79% at the end of 2017, almost at the same level of end-2016.
5. Deposits in the system grew by around ALL 8.5 billion in 2017, compared to the growth of around ALL 59 billion in 2016.
6. The Capital Adequacy Ratio shows an annual growth of around 0.9 p.p. reaching 16.6% against the regulatory minimum of 12%.
7. Banking system's profit was positive in 2017, at ALL 22.07 billion, or ALL 12.79 billion higher than in 2016. RoA and RoE were positive, standing at 0.69% and 7.15%, respectively, deteriorating from the previous year.



6.2 CAPITAL OWNERSHIP STRUCTURE BY COUNTRY OF ORIGIN

The shareholder capital of the banking system reached ALL 146.95 billion, up by around ALL 10 billion, or 7.36% against the previous year. Foreign capital continues to dominate the capital structure. At the end of 2017, it accounted for around 88.38% of paid-in capital in the banking system, slightly down by around 0.55 percentage point from end-2016.



6.3 BANKING SYSTEM STRUCTURE

6.3.1 ASSET AND LIABILITY STRUCTURE

During 2017, banking system assets grew by around ALL 38.04 billion or 2.7%, compared to the ALL 89.16 billion or 6.76% growth a year earlier. The loan portfolio grew by ALL 0.9 billion, or 0.15% during this year.

The banking system's share in the economy, measured by the total assets ratio to the Gross Domestic Product (GDP), continues to stay high. This ratio increased by 2.54 percentage points this year, standing at 92.50%. Meanwhile the loan to Gross Domestic Product ratio fell due to the growth of GDP against the decrease in the loan portfolio.

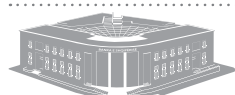


Table 4 Banking system total assets and loan portfolio's share in GDP

Indicators	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total assets (in ALL billion)	886.30	990.60	1,120.20	1,187.98	1,234.32	1,293.72	1,318.13	1,407.29	1,445.33
Total assets/GDP (in %)	77.50	81.00	86.10	89.61	91.13	91.56	91.33	95.05	92.50
Total loans/GDP (in %)	39.30	40.10	40.00	43.58	41.88	42.12	40.61	40.55	38.46

Source: Bank of Albania.

The following provides the banking system asset structure highlights, compared to the same period in the previous year:

- Increase in treasury and interbank transactions by ALL 21.3 billion, or 4.6%, mainly arising from:
 - the increase in transactions with other banks, credit institutions and other financial institutions by ALL 30.9 billion or 14.5%;
 - while a contrary impact came from the decrease Treasury bills transactions by ALL 3.98 billion (5.8%) and the decrease of transactions with the Central Bank by ALL 5.57 billion or 3.6%;
- Increase of client transactions (net) by ALL 74.18 billion or by 2.3%;
- decrease of security transactions with foreign institutions (net) by ALL 10.04 billion or 2.7%.
- increase in other assets by ALL 5.45 billion or 17%.
- increase in fixed assets by ALL 2.24 million or 12.7%.

Table 5 Key banking system asset items

Indicators	December 2015			December 2016			December 2017		
	Amount**	Share**	Change %***	Amount*	Share**	Ndryshimi %***	Amount*	Share**	Change %***
1. Treasury and interbank transactions	448.6	34.0	9.2	462.4	32.9	3.1	482.9	34.3	4.4
Of which:			-						
- Transactions with the central bank	149.6	11.3	36.1	155.4	11.0	3.9	149.8	10.6	(3.6)
- T-bills	73.1	5.5	(28.0)	68.6	4.9	(6.1)	65.5	4.7	(4.5)
- Transactions with other banks	205.0	15.6	16.2	213.4	15.2	4.1	244.3	17.4	14.5
2. Transactions with customers (net)	511.8	38.8	1.5	523.6	37.2	2.3	542.7	38.6	2.3
3. Security Transactions (net)	311.3	23.6	(6.1)	371.5	26.4	19.4	361.5	25.7	(2.7)
4. Other assets	29.1	2.2	0.2	32.1	2.3	10.5	37.6	2.7	17.0
5. Fixed assets	17.3	1.3	(5.3)	17.6	1.3	1.5	19.8	1.4	12.7
Total assets	1,318.1	100.0	1.9	1,407.3	100.0	6.8	1,445.33	100.0	2.7

Source: Bank of Albania.

Note: Items 1, 2, 3 in this table include accrued interest.

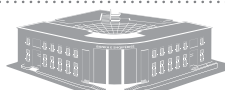
*in ALL billion

**in % to total assets

***in % to a year earlier

The following provides the banking system's liability structure highlights, compared to the previous year:

- increase in transactions with customers by ALL 7.93 billion or 0.7%. This increase was mainly arising from the following:
 - increase in private sector by ALL 10.6 billion or 0.93%;
 - decrease in public administration by ALL 1.92 billion or 0.93%;
- Increase in permanent resources by ALL 11.74 billion or 7%;
- Increase in treasury and interbank transactions by ALL 14.31 billion or 22.9%, mainly driven by
 - increase in treasury bills and other acceptable bills, by ALL 7.6 billion



- or 26.03%;
- increase of deposits with banks, financial institutions by ALL 2.3 billion or 12.16%;
- increase in current account by ALL 2.87 billion or 53.93%;
- decrease in loans by ALL 1.88 billion or 30.48%;
- Increase in other liabilities by ALL 1.85 billion or 14%;

Table 6 Key banking system liability items

Indicators:	December 2015			December 2016			December 2017		
	Amount*	Share**	Change %***	Amount*	Share**	Change %***	Amount*	Share**	Change %***
1. Treasury and interbank transactions	49.5	3.8	(23.4)	62.5	4.4	26.3	76.8	5.3	22.9
2. Transactions with customers (gross)	1,100.3	83.5	3.3	1,157.8	82.3	5.2	1,165.7	80.7	0.7
3. Other liabilities	9.6	0.7	(20.1)	13.2	0.9	37.7	15.0	1.0	14.0
4. Permanent resources	158.1	12.0	13.6	167.7	11.9	6.0	179.4	12.4	7.0
Total liabilities	1,318.1	100.0	1.9	1,407.3	100.0	6.8	1,445.3	100.0	2.7

Source: Bank of Albania.

*in ALL billion

**in % to total liabilities

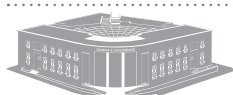
***in % to a year earlier

During 2017, the share of off-balance sheet items in total assets increased to 113.82%, from 102.62% at the end-2016. Table 7 shows that the annual growth during this year was driven by the growth in "commitments granted" item. Foreign currency transactions fell by ALL 8.3 billion, while the either items were up. The commitments received have the main share in off-balance sheet items, accounting for 84%, from 83.26% at the end of 2016.

Table 7 Change in off-balance sheet items compared to the previous year

Indicators:	Change from previous year		December 2015	Ndryshimi me vitin paraardhës		December 2016	Ndryshimi me vitin paraardhës		December 2017
	December 2015			December 2016			December 2017		
	In ALL bln	In %		In ALL bln	In %		In ALL bln	In %	
TOTAL	(86.8)	(5.7)	1,423,481.0	20.7	1.5	1,566.8	78.4	5.0	1,645.2
Commitments granted	(34.2)	(17.1)	166,258.5	20.7	12.5	187.0	15.3	8.2	202.3
Of which:						0.0			0.0
- Financing commitments	(20.8)	(30.1)	48,197.5	10.2	21.1	58.4	(4.0)	(6.9)	54.4
- Guarantees	1.7	4.2	42,891.9	(1.5)	(3.4)	41.4	5.7	13.7	47.1
- Security commitments	(15.1)	(16.8)	75,169.1	12.0	16.0	87.2	13.7	15.7	100.8
Commitments received	(31.0)	(2.5)	1,203,893.5	(1.5)	(0.1)	1,325.0	65.0	4.9	1,390.0
Of which:						0.0			0.0
- Financing commitments	(18.7)	(67.2)	9,088.8	3.1	34.3	15.2	-3.9	(25.6)	11.3
- Guarantees	(12.1)	(1.0)	1,193,304.6	(4.3)	(0.4)	1,308.7	69.1	5.3	1,377.8
Foreign currency transactions	(28.5)	(40.4)	42,115.9	1.6	3.9	43.8	-8.3	-19.0	35.4
Other commitments	7.6	522.9	9,096.2	0.8	8.8	9.9	-0.7	-7.4	9.2
Commitments for financial instruments	(0.7)	(26.1)	2,116.9	(1.0)	(44.9)	1.2	7.1	611.2	8.3

Source: Bank of Albania.



6.3.2 CONCENTRATION

Concentration indicator, as measured by the Herfindahl index calculated for total credit and assets registered the same level of 2016, while the deposit index showed a slight increase. All three indicators result at low levels.

Table 8 Herfindahl* (H) Index of asset, deposit and loan concentration

Indicators	2010	2011	2012	2013	2014	2015	2016	2017
Index H (assets)	0.14	0.15	0.15	0.14	0.14	0.15	0.15	0.15
Index H (deposits)	0.16	0.16	0.15	0.14	0.14	0.15	0.14	0.15
Index H (loans)	0.11	0.12	0.12	0.12	0.12	0.12	0.13	0.13

Source: Bank of Albania.

* The values of this indicator fluctuate between 0 and 1. Values closer to 0 show low levels of concentration.

6.4 MANAGEMENT OF BANKING ACTIVITY RISKS

6.4.1 CREDIT RISK

6.4.1.1 Lending

Total loans grew by ALL 0.9 billion or by around 0.15%, over 2017, similarly with the previous year where the trend of this portfolio was upwards. During this year, credit portfolio has been increasing in Q1 and Q3. The highest growth was reported in Q3 by ALL 10.4 billion. Meanwhile the other two quarters registered a decrease in the credit portfolio. The highest fall was reported in 2017 Q4 by ALL 6.8 billion.

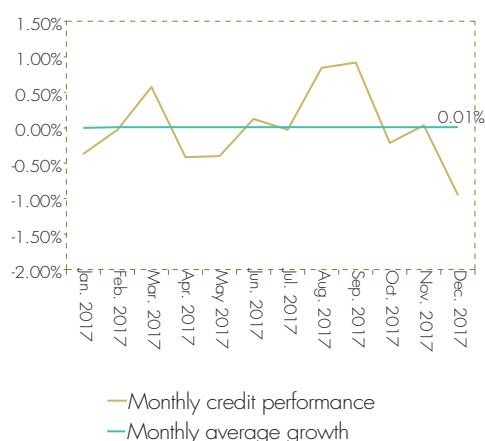
Table 9 Quarterly credit growth in 2017

Quarterly credit growth	Q I	Q II	Q III	Q IV
in ALL million	1,458.32	(4,132.87)	10,414.91	(6,821.03)
In %	0.24	(0.69)	1.74	(1.12)

Source: Bank of Albania.

In seven of the months of 2017, the monthly performance of credit was down, where the highest fall was reported in December, April and May by ALL 5.72 billion (-0.94%), ALL 2.5 billion (-0.42%) and ALL 2.37 billion (-0.40%), respectively. In the other months of the year was registered a growth of credit portfolio. The highest increase is reported in September, August and March by ALL 5.54 billion (0.92%), ALL 5.03 billion (0.84%) and ALL 3.44 billion (0.58%), respectively. The monthly average credit growth stood at 0.01% for 2016.

Chart 6 Monthly credit growth in 2017 (in %)



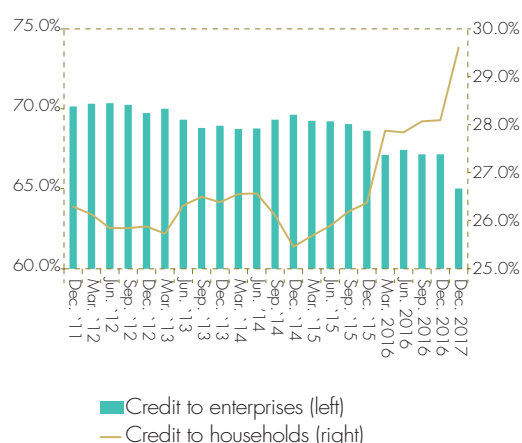
Source: Bank of Albania.



The analysis of credit by type of entity shows a higher concentration to the private sector, around 65%, down by 2.1 percentage points, while lending to this sector, during 2017, decreased by ALL 12.18 billion (-3%). Credit to households and credit to public sector increased by ALL 9.33 billion (5.5%) and ALL 3.76 billion (13.1%), respectively.

The share of loans in the domestic currency was up approximately by 2.18 percentage points, standing at 43.56%. The credit portfolio composition by borrower and respective currency⁹ shows that around 58.4% of loans to enterprises are denominated in foreign currency. Within the credit portfolio in foreign currency, euro loans accounted for around 90.46%, from 86.6% in 2016, while U.S. Dollar loans accounted for around 9.48%, from 13.3% of the portfolio.

Chart 7 Credit outstanding to enterprises and households as a percentage of total loans (in %)



Source: Bank of Albania.

The share of foreign currency household loans in total household loans stood at 43%. Within the foreign currency credit portfolio to households, the euro loans accounted for 97.9% of the total loans, while the U.S. loans accounted for only 1.7% of the total loans.

By entity and purpose of use¹⁰ the analysis shows that "overdraft" to enterprises has the major share in the total credit portfolio (23.3%), followed by "investment for real estate" to households (20.1%); loans for "investment in real estate" to enterprises (18.5%); and by "other loans" to enterprises (15.5%).

In the meantime, in 2017, lending to enterprises for "equipment purchase" reflects the highest growth (21.1%), followed by lending to households for "consumption of non-durable goods" (14.8%). While "overdraft" to households and "other loans" to enterprises showed the highest fall by 15.9% and 4.4%, respectively.

Table 10 Lending by sector and purpose of use (in ALL billion and share of each to total loans)

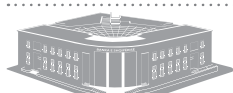
DESCRIPTION	Dec. 2015	Share in %	Dec. 2016	Share in %	Change in % Dec. 2015 - Dec. 2016	Dec. 2017	Share in %	Change in % Dec. 2016 - Dec. 2017
Total loans	529.7	100.0	530.7	100.0	0.2	533.8	100.0	0.6
Credit to enterprises	373.6	70.5	370.2	69.8	(0.9)	362.3	68.4	(2.2)
Overdraft	122.1	23.0	117.6	22.2	(3.7)	123.6	23.3	5.1
Working capital	62.6	11.8	61.8	11.6	(1.3)	51.6	9.7	(16.4)
Equipment purchase	4.9	0.9	5.9	1.1	21.1	6.9	1.3	17.2
Real estate investments	95.3	18.0	100.2	18.9	5.1	97.8	18.5	(2.4)
Other loans	88.7	16.7	84.7	16.0		82.3	15.5	(2.8)
Credit to households	156.2	29.5	160.5	30.2	2.8	171.5	32.4	6.9
Overdraft	9.4	1.8	7.9	1.5	(15.9)	8.4	1.6	5.3
Non-durable goods	18.5	3.5	21.2	4.0	14.8	24.7	4.7	16.7
Durable goods	16.0	3.0	17.5	3.3	8.8	18.9	3.6	7.9
Real estate loans	102.4	19.3	103.9	19.6	1.5	106.5	20.1	2.5
Loans for other purposes	9.8	1.9	9.9	1.9	1.5	13.1	2.5	31.4

Source: Bank of Albania.

Note: Data in the table refer only to resident customers and do not include accrued interests.

⁹ Data do not include non-residents.

¹⁰ Data do not include non-residents.



The structure of loans by **term to maturity** has changed, from the previous year, showing a fall in the share of short and medium-term loans in favour of long-term loans. As at end- 2017, long-term loans have the major share in the total loan portfolio, followed by short and medium-term loans.

Table 11 Structure of outstanding credit by term to maturity (in %)

Term to maturity	December 2013	December 2014	December 2015	December 2016	March 2017	June 2017	September 2017	December 2017
Short-term	34.0	33.7	33.9	33.1	31.3	30.6	30.5	30.6
Medium-term	17.9	17.9	18.3	44.4	20.7	20.3	19.2	18.7
Long-term	48.1	48.4	47.8	22.5	48.0	49.1	50.3	50.7

Source: Bank of Albania.

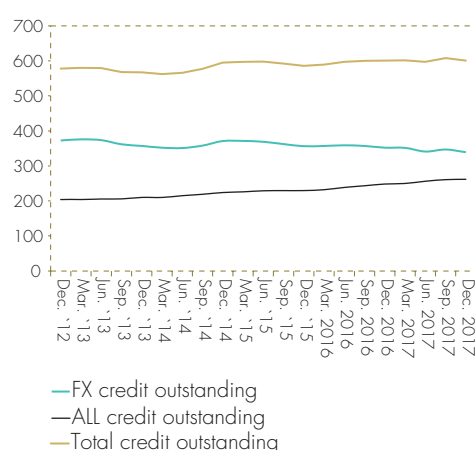
During 2017, the credit portfolio by currency shows that loans in foreign currency continue to have the highest share in total loans by 56.4%, albeit the trend has shifted from foreign currency loans to domestic currency loans, over the year. At the end of 2017, the share of loans in domestic currency to total credit portfolio increased by 0.6 percentage points, compared to the same period in the previous year.

Table 12 Structure of outstanding credit by currency (in %)

Currency	December 2013	December 2014	December 2015	December 2016	March 2017	June 2017	September 2017	December 2017
Lek	37.0	37.6	39.2	41.4	41.6	42.9	42.9	43.6
Foreign currency	63.0	62.4	60.8	58.6	58.5	57.1	57.1	56.4

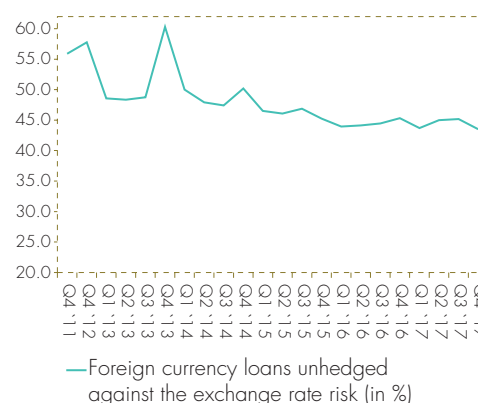
Source: Bank of Albania.

Chart 8 Volume of credit outstanding by currency (in ALL billion)



Source: Bank of Albania.

Chart 9 Share of foreign currency loans unhedged against the exchange rate risk in foreign currency loan portfolio (in %)



Source: Bank of Albania.

In 2017, the share of foreign currency loans unhedged against the exchange rate risk to total credit portfolio in foreign currency¹¹, similarly to the previous year, decreased by 1.8 p.p. standing at 43.53%.

¹¹ The credit unhedged against the exchange rate risk is defined in Bank of Albania's Regulation, No. 62, dated 14.09.2011 "On credit risk management", Article 4, paragraph 2, letter c).



The structure of credit by sectors of the economy¹² for 2017 does not show considerable changes on a year earlier. "Wholesale and retail trade" and "Repair of vehicles and motorcycles" remain the most credited sectors of the economy, sharing 22.6% in the portfolio, followed by "Processing industry" and "Construction" sharing 10.2% and 8.7% in the portfolio, respectively.

Chart 10 Lending by branches of economy (in % to total credit)

Description	December 2016		December 2017	
	In value	Share in %	In value	Share in %
Enterprises	370.3	69.8	364.3	68.6
Agriculture, Forestry, Fishing	5.2	1.0	5.4	1.0
Mining industry	7.2	1.4	7.7	1.5
Processing industry	59.6	11.2	54.1	10.2
Electrical energy, gas supply, steam and air conditioning	49.0	9.2	52.7	9.9
Water supply, treatment and management activities of residuals	0.2	0.0	0.2	0.0
Construction	47.0	8.8	46.4	8.7
Wholesale and retail trade; Repair of vehicles and motorcycles	125.8	23.7	119.8	22.6
Transport and storage	7.0	1.3	7.8	1.5
Accommodation and food services	13.7	2.6	13.6	2.6
Information and communication	4.5	0.9	3.9	0.7
Financial and insurance activities	1.7	0.3	2.8	0.5
Real estate activities	4.9	0.9	4.2	0.8
Professional, scientific and technical activities	0.9	0.2	0.8	0.2
Management and facilitating services	0.4	0.1	0.4	0.1
Public administration and defence; mandatory social security	1.6	0.3	1.7	0.3
Education	5.6	1.1	5.7	1.1
Health and social work activities	2.8	0.5	3.8	0.7
Art, entertainment and relaxation	5.2	1.0	3.0	0.6
Other service activities	24.3	4.6	28.1	5.3
Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	3.7	0.7	2.1	0.4
Activities of international organisations and bodies	0.1	0.0	0.2	0.0
Households	160.5	30.2	169.5	31.9
Total	530.8	100.0	533.8	100.0

Note: Data in the table refer only to resident customers and do not include accrued interests.

Source: Bank of Albania.

6.4.1.2 Assets quality

As at end-2017, non-performing loans stood at ALL 79.5 billion, down by ALL 30.18 billion, or 27.51% compared with the previous year. The non-performing loans indicator declined by 5.04 p.p. in annual terms, standing at 13.23% at end-2017.

¹² Data do not include non-residents.

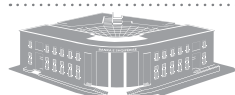
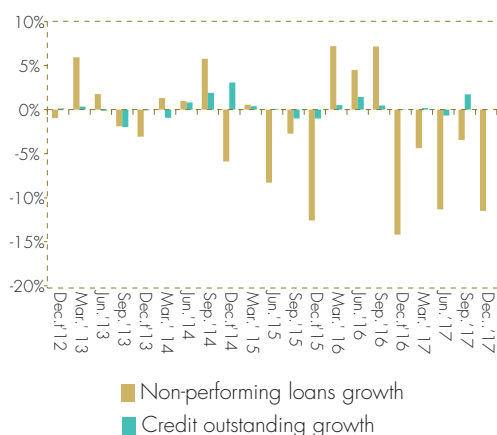
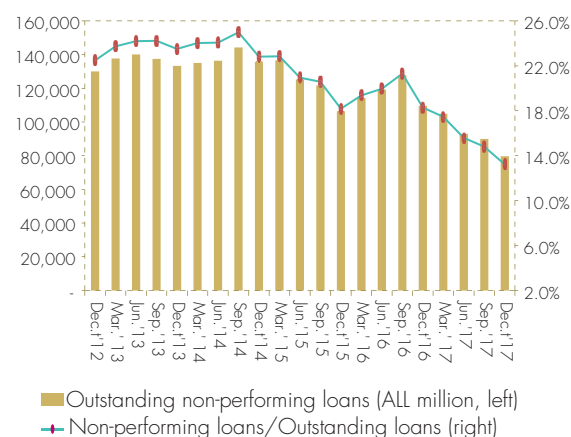


Chart 11 Performance of non-performing loans portfolio compared to the previous quarter (in %)



Source: Bank of Albania.

Chart 12 Outstanding NPLs in the banking system



Source: Bank of Albania.

Net outstanding non-performing loans to total loan portfolio stood at 3.7%, down by 1.6 percentage points from December 2016. This indicator shows the high level of non-performing loans provisioning.

The qualitative loan portfolio shows that standard loans grew by 1.65 percentage points and special-mention loans grew by 3.36 percentage points. Meanwhile, the non-performing loans portfolio shows a decrease of the three categories "substandard", "doubtful" and "lost" by 1.4 p.p., 1.06 p.p. and 2.54 p.p., respectively.

Table 13 Share of credit outstanding by category (in %)

Classification	2013				2014				2015				2016				2017			
	Q I	Q II	Q III	Q IV	Q I	Q II	Q III	Q IV	Q I	Q II	Q III	Q IV	Q I	Q II	Q III	Q IV	Q I	Q II	Q III	Q IV
Standard loans	66.8	66.3	67.3	68.4	67.6	67.0	66.1	70.0	70.6	72.6	73.5	74.4	73.7	74.0	73.4	76.4	77.6	74.3	77.0	78.1
Special mention loans	9.5	9.5	8.5	8.1	8.5	9.0	9.0	7.3	6.6	6.5	6.0	7.5	7.0	6.1	5.4	5.3	5.0	10.2	8.2	8.7
Sub-standard	9.6	9.7	9.0	7.6	8.5	7.5	8.3	6.7	6.4	5.3	5.3	4.2	4.9	6.1	6.8	4.7	4.6	4.0	3.4	3.3
Doubtful loans	6.2	5.3	4.0	4.3	3.5	4.2	4.5	4.2	4.6	4.8	4.5	4.0	4.5	3.9	4.1	3.3	2.3	2.2	2.5	2.2
Loss loans	7.9	9.2	11.1	11.6	11.9	12.3	12.1	11.8	11.8	10.7	10.7	9.9	10.0	9.9	10.4	10.2	10.6	9.3	8.8	7.7

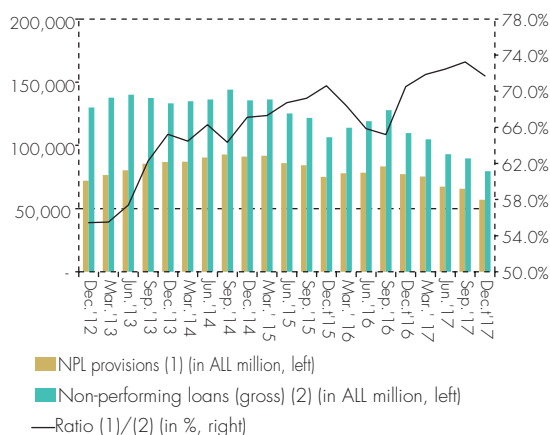
Source: Bank of Albania.

Loan loss provisions amounted to ALL 57 billion, down by around ALL 20.34 billion from the previous year. Nevertheless, the "loan loss provisions to non-performing loans" was 71.7%, around 1.2 percentage points higher.

The share of net non-performing loans to regulatory capital fell by 7.4 percentage points from the previous year, down to 15.7%, showing a significant increase in the system's capability to cover with capital the losses that may rise from loan deterioration. The improvement in this indicator was mainly due to the high decrease of non-performing loans by 30% and, to a lesser extent, by the increase of regulatory capital by 2%.

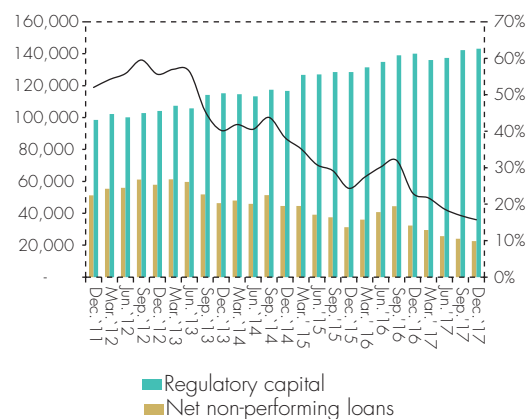


Chart 13 Loan loss provisions



Source: Bank of Albania.

Chart 14 Net non-performing loans to regulatory capital

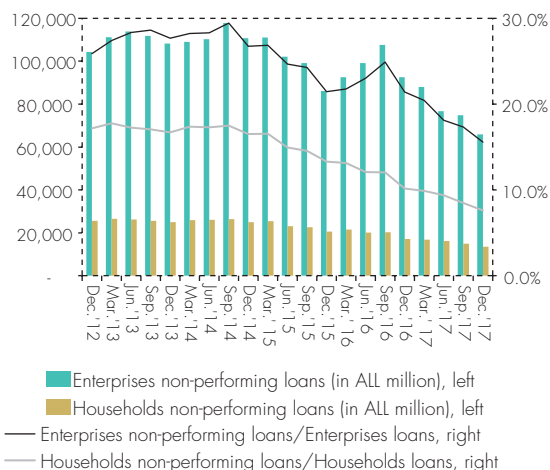


Source: Bank of Albania.

Regarding the credit quality by type of borrower, the non-performing loans indicator for enterprises decreased by 5.8 %, standing at 15.6%, while for households it decreased by 2.5 percentage points compared to the previous year, standing at 7.6%.

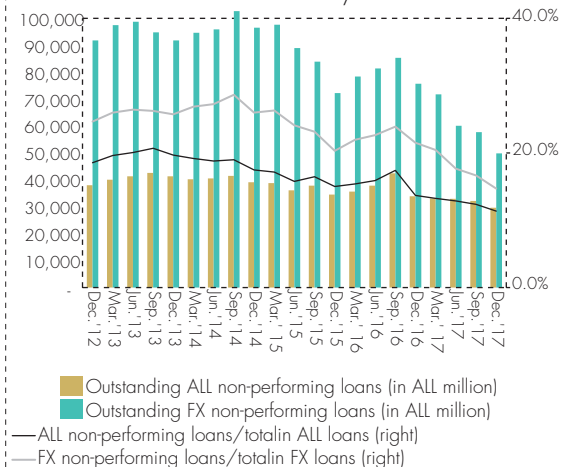
By currency, foreign currency non-performing loans portfolio had a larger

Chart 15 Credit outstanding to enterprises and households



Source: Bank of Albania.

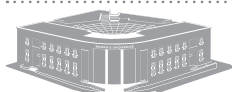
Chart 16 Outstanding non-performing loans by currency



Source: Bank of Albania.

share by 14.7% (21.5% at the end of the previous year), compared with the lek non-performing loans by 11.3% (13.7% at the end of the previous year).

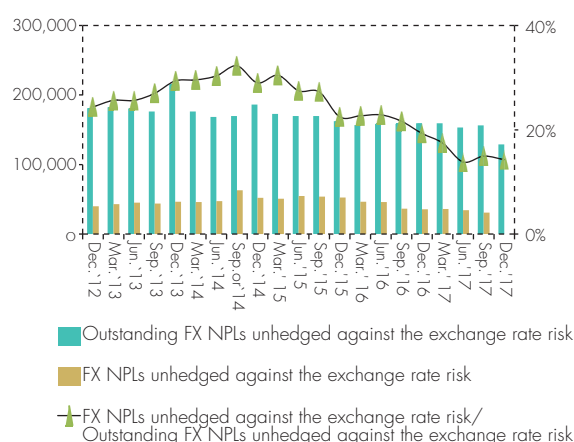
Of the foreign currency loan portfolio unhedged against the exchange



rate risk, foreign currency non-performing loans classified as unhedged against the exchange rate risk accounted for 14% or 5 percentage points lower than in December 2016. The indicator of foreign currency non-performing loans unhedged against the exchange rate risk is 38.5%, down by 8.9 percentage points from the end of 2016. This decrease was attributable to the decrease of foreign currency non-performing loans by 8.9% and the decrease of foreign currency credit outstanding unhedged against the exchange risk by 40.1%.

The major share of the loan portfolio (76.7%) was collateralized, up by 5.5 percentage points from a year earlier. By type of collateral, the largest share of loans in the system, around 54%, was collateralized by real estate. Loans to households had a higher rate of collateralization with real estate at 63% compared to loans to enterprises at 46 %.

Chart 17 Quarterly performance of foreign currency NPLs unhedged against the exchange rate risk to foreign currency credit outstanding unhedged against the exchange rate risk



Source: Bank of Albania.

Table 14 Type of collateral by sector and currency (in %)

Type of collateral	Households		Enterprises		Total	
	ALL	Foreign currency	ALL	Foreign currency	ALL	Foreign currency
Real estate	56%	73%	42%	48%	47%	54%
Cash	4%	3%	1%	2%	2%	2%
Other collateral	5%	9%	42%	24%	28%	20%
Uncollateralized loan	35%	15%	15%	27%	22%	24%
Total	100%	100%	100%	100%	100%	100%

Source: Bank of Albania.

The Bank of Albania conducts stress tests to measure a bank's capital resilience to risks facing the banking activity. Analyses show that the current level of the banking system capital is sufficient to withstand a relatively high level of losses, which may arise from exposure to credit risk. This ability of the capital to withstand any potential losses was constant in 2017.



6.4.2 LIQUIDITY RISK

In 2017, the overall liquidity situation in the banking system was adequate, showing a relatively low exposure to liquidity risk. The steady growth of deposits, as the main financing contributor to banks' activity, the rather high level of liquidity (twice higher) being calculated as a ratio of liquid assets to short-term liabilities, the low credit to deposits ratio and the ability of the system to generate liquidity in the event of materialisation of extraordinary situations form an adequate framework for protection against liquidity risk.

Liquidity indicators are significantly above the regulatory requirement set out in Bank of Albania's regulatory acts. In December 2017, the ratio of liquid assets to short-term liabilities in the banking system was 40.79%¹³, up by 0.22 percentage point from the previous year, as a result of short-term liabilities reducing (-1.34%) faster than liquid assets (-0.8%).

In December 2017, the liquidity in foreign currency, increased at 32.1%¹⁴ (from 31.4% in December 2016), owing to the higher increase of liquid assets in foreign currency and the decrease of short-term liabilities. The largest increase in liquid assets in foreign currency is due to the maturity of the "Investment Securities" with a maturity up to 1 (one) month and the channelling of these funds to "deposits with a residual term to maturity of up to 7 days with banks or financial institutions". Liquid assets in lek remain the main support of liquidity at 57 % of total liquid assets (58.2% of the total liquid assets in December 2016) and the level of the indicator in lek stood at 51.26% in December 2017, almost unchanged from the previous year.

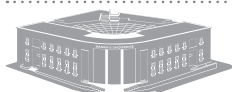
6.4.2.1 Banking system deposits¹⁵

Customer deposits remain the most important and stable source of financing for the Albanian banking system, sharing 82.27% (December 2016) of total liabilities. In December 2017, total value of deposits in the system amounted ALL 1,162 billion, recording 0.74% annual growth from the previous year. The share of the domestic currency to total deposits fell at 47.08%, from 47.2% in December 2016. The maturity structure shifted to short-term maturities, given that the share of current accounts and demand deposits increased, whereas time deposits shrank, driven by the continuous downward interest rates in the market.

¹³ The minimum required level for this indicator, as laid down by the regulatory requirements, is 20%.

¹⁴ The minimum required level for this indicator in the Albanian lek and foreign currency, as laid down by the regulatory requirements, is 15%.

¹⁵ "Deposits" refers to all sources from clients, including current accounts, time deposits, demand deposits and other accounts, except when otherwise specified.



6.4.2.2 Concentration of deposits

In December 2017, ten largest depositors accounted for 5.46% of total banking system's deposits, from 6.16% in December 2016. The other groups of larger depositors show a similar contracting performance¹⁶.

Households' deposits remain the main base of banking system's deposits, sharing 83.24% in total deposits, down by around 0.19 percentage point, from the previous year.

This behaviour is due to the combination of effects from market interest rates with external factors. During this year, business accounts grew at higher rates than households' accounts (3.27% and 0.46% respectively).

6.4.2.3 Loan to deposit ratio

The loan to deposit ratio in December 2017 was 51.55% (from 51.86% in December 2016) and reflects a structure of asset-liabilities that facilitates liquidity management and provides potential lending incentives. During 2017, the indicator fell slightly due to the different growth rates of credit portfolio and total deposits (the latter increased more). This ratio has always showed higher values in foreign currency, although during 2017, under the impact of the above-stated factors, the respective ratio in foreign currency dropped from 57.6% to 54.98%.

6.4.2.4 Liquid assets of the banking system

During 2017, liquid assets fell by ALL 3.52 billion, or 0.8%, mainly a result of the maturity of the investment portfolio in banks' securities.

Total liquid assets of the banking system amounted to ALL 436.8 billion, in December 2017. Government securities have the main share in their structure (by 51.18%, from 51.37% in December 2016).

6.4.2.5 Other financial sources

Other financial sources in the banking system have a relatively low share in total assets, about 5.31%, expanding slightly during the year (December 2016, 4.43%). Liabilities to financial institutions and repurchasing agreements had the main share in this item.

¹⁶ 20 larger depositors: 7.54% in 2017, from 8.37% in 2016.
50 larger depositors: 10.83% in 2017, from 11.68% in 2016.



6.4.2.6 Stress tests

Stress tests, which assume various scenarios of unpredictable events and factors that may have a negative impact on liquidity, have shown that all banks may successfully withstand such situations.

6.4.3 MARKET RISKS

The overall situation of the banking system exposure to market risks remained at low levels during 2017. In the framework of market risks assessment, the trading book and the banking book include the indicators (risk factors) of exposure to: change of interest rate in the banking book; exchange rate risk in the balance sheet; the position risk (in specific terms, change of interest rates in the tradable and placement portfolio) and the capital buffers to cover potential losses from these risks.

Capital requirement for market risk at the system level constitutes only 1.25% of the total capital requirement. This exposure mainly arises from the exchange rate risk as the trading portfolio is at low levels.

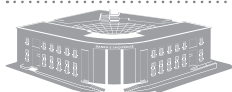
Market risk originating from exposure to interest rate risk - measured as the change of exposure value in the banking book after the standard shock in the interest rate to regulatory capital - stood at satisfactory rates, reflecting a balanced structure of repriced assets and liabilities in the banking system. In December 2017, the value of this indicator was 3.34%, compared to (4.54%) in December 2016¹⁷. Certain banks show change from the average, albeit within limits and far from the regulatory bounds, as a result of the average maturity of the loan portfolio and investments in securities.

Market risks originating from the exchange rate, assessed from the dynamic of open position in foreign currencies, continues to be low and this behaviour dominated throughout the annual period. In December 2016, banking system's exposure to exchange rate risk was "long", at ALL 9.5 billion, accounting for 6.68% of the banks' regulatory capital¹⁸. These levels are assessed as far lower compared to the regulatory limit of 30%. Referring to individual banks, two banks are exposed above the system indicators. This position is due to the structure of the balance sheet.

Market risk in the trading portfolio for the banking system is rather low showing a downward dynamic, and was assessed as such throughout the analysed annual performance. Trading portfolio at system level appears rather low to total assets (0.6% in December 2017, from 1.1% in December 2016).

¹⁷ The minimum required level for this indicator, as laid down by the regulatory requirements, is 20%.

¹⁸ The minimum required level for this indicator, as laid down by the regulatory requirements, is 30%.



Market risk, originating from interest rates in non-resident trading portfolio of placement (non-resident portfolio of placement bears market risk factors), is assessed as low against total assets.

Stress tests for the exchange rate risk, using various shock scenarios from the exchange rate, show that both the banking system as a whole and individual banks will withstand successfully such situations.

6.4.4 OPERATIONAL RISK

Exposure of the banking system to operational risk, in absolute gross value, increased from the previous year. Measured in relation to the regulatory capital of the system, this loss results at 9.61% versus 7.41% in the previous year. The increase was largely influenced by a single external fraud event, focused on the total of losses in the "Retail Banking Activity". While gross operational losses were up by 25%, the total number of occurred events fell by 38% in 2017 compared to 2016. However, this added value of losses has a low financial impact on banks since the events occurred are covered at adequate level by insurance contracts, thus transferring the major part of the risk to insurance institutions.

A specific feature of the developments during the year was the increased attention of banks in the management of operational risk. As a result of the improvement of day-to-day processes, potential issues were identified early and addressed in due time, positively contributing to the decrease of the events.

6.4.4.1 Information Technology

Continuous changes in information technology and the more diverse issues arising from the use of technology have contributed to greater attention and more investments in information security at banks. Special attention is given to increasing information security and continuous risk monitoring related to it. During 2017, a large part of these investments targeted cyber security, in line with the international trend of information technology. In this framework, during 2017, a SWIFT project (Client Security Program) was launched and aimed to increase the security of the information (payments) which are channelled and processed through this platform. The drafting and on-site implementation of business continuity plans in extraordinary events had an important impact on the reduction of information technology risk. Banks have increased their awareness regarding business continuity not only in natural or major disasters but also in the various incidents that may occur during work, especially in the incidents related to information security. The policies and procedures framework related to ICT has been continuously improving; however, due to the broad spectrum of activities it covers and the dynamic developments in this field, its completion and improvement remains a continuous process.



6.4.5 REPUTATIONAL RISK

Reputational risk, the risk that may hamper banks and financial institutions immediately, has the following key assessment elements: reasonable doubts about the involvement or use of financial institutions for money laundering / terrorist financing; lack of transparency with clients; failure to comply with working conditions contractual terms, etc.

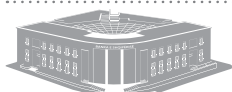
During 2017, banks and financial institutions have made positive efforts in terms of **anti-money laundering and terrorism financing**. In particular, banks have in place adequate structures and systems in this regard and have increased the effectiveness of preventive measures on money laundering and terrorism financing, driving to higher number and quality of suspicious activity reports. Yet, given the wide span of banking services and the development of electronic products that allow transactions to be carried out remotely, certain elements may take advantage of loopholes to perform or conceal illegal transactions. In this view, notwithstanding the above-stated efforts, there is always room to improve the control and analyses systems, with a view to increasing attention and identifying possible schemes used for money laundering and terrorism financing. Throughout the inspections carried out by the supervisory authority, concrete recommendations have been issued, and supervisory measures have been taken in certain cases.

Overall, on-site inspections carried out at banks during 2017, have found adequate compliance with legal and regulatory obligations, as well as effective management of risks of money laundering / terrorism financing. Thus, the institutions have:

- Drafted and implemented appropriate policies and procedures;
- Built adequate structures;
- Developed centralized systems and their functioning;
- Implemented internal audit systems;
- Drafted and implemented training programs;
- Complied with reporting requirements, the quality of suspicious activity reports (SARs) and the analysis of complex and unusual transactions that have been or are being attempted to be carried out; etc.

By decision of Supervisory Council of the Bank of Albania No 22, dated 05.04.2017, among others, in the framework of improving the risk-based supervision process, several important amendments were approved to the Regulation No 44, dated 10.06.2009, for all institutions subject to its jurisdiction (banks, non-bank financial institutions, savings and loan associations, their unions and foreign exchange bureaus) regarding anti-money laundering and financing of terrorism.

The amendments consist in additional requirements for financial institutions for reporting qualitative and quantitative data, according to a standardised form, on annual basis (including a questionnaire). The amendments, in addition



to the problems identified in the implementation of the applicable legal and regulatory framework, aimed to address the implementation of international standards and recommendations provided in the fourth round of Albania's evaluation by Moneyval's experts.

In this context, certain reporting obligations were set, which consist in reporting qualitative and quantitative information, mainly on:

- classification of clients based on risk;
- classification of transfers based on risk;
- number of reported SARs and the relevant analysis;
- responsible structure;
- training;
- problems identified by internal audits;
- internal risk assessment for AML/CTF; etc.

This framework was completed at the beginning of July 2017 with the compilation and approval of a methodology for off-site examination dedicated to the anti-money laundering and financing of terrorism (AML/F+CFT) risk, accompanied with a matrix of risk assessment in this field. The AML/CFT risk assessment methodology is an important instrument to support the risk-based approach of supervision processes and allows for a general judgement regarding the level of this risk (Low, Medium, High). This assessment further serves as a good basis for designing the priority of supervision and resources, with focus on high risk subjects and activities.

Based on data reports for 2016, the Bank of Albania, for the first time, performed the evaluation of this risk exposure of the institutions, and currently has consolidated it with the analyses for the data of 2017. The results of this evaluation shall serve to the supervisory process, focusing on institutions and activities that pose high risk in terms of AML/CFT

The analyses carried out for 2017, in accordance with this methodology, showed the following results:

The evaluation system of the risk of money laundering and financing of terrorism (ML/FT) consists in the integration of the evaluation on the quantity of risk and the evaluation on the risk management quality, to provide a final evaluation. Sixty financial institutions were subject of the evaluation (16 banks, 31 NBFIs and 13 SLAs).

The **integrated evaluation** showed: medium risk for 31 institutions (12 banks, 13 NBFIs and 6 SLAs); and high risk for 29 institutions (4 banks, 18 NBFIs and 7 SLAs), of which, 20 institutions (1 bank, 12 NBFIs and 7 SLAs) were automatically evaluated with high risk due to non-reporting.

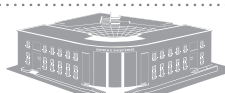


Table 15 Integrated evaluations of money laundering and terrorism financing risk

No. of institutions	No. Total institutions			Banks			NBFIs			SLAs		
	High Risk	Medium Risk	Low Risk	High Risk	Medium Risk	Low Risk	High Risk	Medium Risk	Low Risk	High Risk	Medium Risk	Low Risk
Integrated evaluation	29	31	-	4	12	-	18	13	-	7	6	-

Source: Bank of Albania.

The **integrated evaluation of transfers** by institutions (23 total institutions, of which: 16 banks and 7 NBFIs) was an integrated part of risk evaluation for AML/CFT. The integrated evaluation of transfers consists in the integration of two evaluations: evaluation of outgoing and incoming transfers, both in Albania and abroad; and the evaluation of the value of incoming and outgoing transfers, both in Albania and abroad.

The integrated evaluation of transfers, showed: low risk (L) for 3 institutions (3 NBFIs); averagely low risk for (AL) for 2 institutions (2 banks); averagely high risk (AH) for 4 institutions (4 banks); and high risk (H) for 14 institutions (10 banks and 4 NBFIs).

Table 16 Integrated evaluation of transfers for money laundering and terrorism financing risk

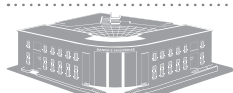
No. of institutions	No. Total institutions				Banks				NBFIs			
	L:	AL:	AH:	H:	L:	AL:	AH:	H:	L:	AL:	AH:	H:
Integrated evaluation of transfers	3	2	4	14	-	2	4	10	3	-	-	4

Source: Bank of Albania.

For this year also, the level of risks identified during the supervision process, based on the self-evaluation document of AML/CTF risk conducted by the institutions, is estimated as below:

- Low risk level for new products and services as a result of providing traditional products/services;
- Low risk level for new technologies as a result of limitations of the amount (internet banking and prepaid cards);
- Low risk level, for relations with well-known and international correspondent banks;
- Moderate level of geographic risk, especially for Internet-related transfers;
- Moderate risk level, due to strong controls by parent banks, as a result of the participation of international reputable groups.
- Moderate level for some cases of shortcomings regarding the identification of the beneficiary.

In supervising this risk, the Bank of Albania has also closely cooperated with the responsible authority, the General Directorate for the Prevention of Money Laundering, through conducting joint inspections, exchanging information, coordinating administrative measures, coordinating reporting to international organizations, etc. as well as with the Ministry for Europe and Foreign Affairs



through the distribution to licensed institutions, of UN Security Council resolutions and Council of Ministers' decisions on sanctioning and updating the list of terrorist financiers.

In 2017, the supervision was mainly focused on areas such as:

- Policies and procedures;
- Centralized structures and systems;
- Identification of the beneficial owner and the ownership structure of the client;
- Quality of suspicious activity reports (SAR) and the analysis of complex and unusual transactions that have been or are being attempted to be carried out;
- Categorizing clients and transactions according to the risk level;
- Implementation of legal obligations;
- Internal audit systems.
- Effective management of risks arising from money laundering/terrorism financing.

Types of problems identified during on-site inspections on AML/CTF in banks on Due Diligence and Enhanced Due Diligence, mainly related to:

- Justification of transactions conducted for the bank's employees;
- Discrepancy of bank data with the profile of the client and his activity;
- Provision of documents that prove the source of funds, which are mainly in the form of statement for cash transactions by clients in individual and business accounts;
- Updating the information for companies with valid identification documents;
- Possession of documentation and information about the relationships among some companies that carry out incoming transfers at high amounts in their accounts;
- Accurate identification of the ownership structure when establishing a business relationship with companies with bearer shares, when legally valid documents are not used and possible changes in the ownership structure are not monitored on on-going basis;
- Completion of data on business clients in the system, classification of clients by risk, when deficiencies were identified, in breach of the Law on AML/CTF
- The due diligence and enhanced due diligence processes for the approval practices of deciding the relationships with international financial institutions, the measures for the implementation of the internal framework of the bank by the responsible structures on anti-money laundering issues;
- Inclusion of all the banks' employees in the AML training process;
- special focus by the internal audit regarding the observation by the bank of the applicable legal framework and the regulatory framework of the Bank of Albania on these issues;
- Review of lending practices to prevent the use of credit in criminal



activities.

Types of problems identified during the on-site inspections on AML/CTF in non-bank financial institutions and savings and loan associations on Due Diligence and Enhanced Due Diligence, mainly related to:

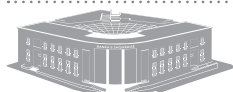
- Definition in the regulation of the person responsible for AML issues at the head office and branches.
- Definition in the regulation of the preventive measures regarding the enhanced due diligence (with high risk)
- The assignment of a responsible person as the "Administrator" and its report to the Bank of Albania and DGAML, in compliance with Article 8, paragraph 2 and paragraph 4 of the Regulation No. 44, dated 10.06.2009 of the Bank of Albania "On the prevention of money laundering and financing of terrorism",
- The compilation of an annual training plan and the training of employees;
- Collection and the correction of the information on the source of funds of the client;
- Improvement of the centralised system for the collection and analysing of data regarding the identification and the measuring of risk, by establishing a risk profile for each member.

Transparency and publication of information by licensed institutions have been at the attention of the supervisory authority during 2017 in order to guarantee transparency vis-à-vis the client as an important element of public confidence in the financial system in Albania.

Compliance with obligations of banks to report to the Bank of Albania was subject to analyses and monitoring with regard to the implementation of the regulatory framework on transparency and issues relating to fully reporting or publishing the working conditions on the banks' website. Banks' behaviour and measures relating to public transparency and disclosure of financial information have been consistently and cautiously examined through on-site and off-site supervision. The establishment of requirements on the content and manner of disclosure of pre-contractual and contractual information to the borrower, before and during the extension of mortgage loans to households, and the regulation of consumer loans have been at the focus during the day-to-day implementation of legal and regulatory requirements.

In the framework of the undertaken measures, the banking sector's commitment on matters of transparency and disclosure of information improved. Nevertheless, from on-site inspections, issues remain for the financial system to address, mostly related to:

- providing the customer with the amortization plan
- unifying the NEI's value in consumer credit documentation and making this indicator more transparent to customers;
- personalizing NEI's value in pre-contractual information on overdraft credit, personalizing pre-contractual information on consumer credit of



- the credit card and clarifying the base rate for calculating NEI;
- focusing on transparency issues during branch examinations;
- drafting a policy on transparency based on the Regulation No. 59, dated 29.08.2008, "On transparency of banking and financial products and services", as amended;
- drafting an internal methodology for calculating interest rates on loans pursuant to Article 5, paragraph 8 of Regulation No. 59, dated 29.08.2008, "On transparency of banking and financial products and services", as amended;
- reviewing all cases when penalties were applied for delinquent days on a higher interest rate than that foreseen in the contract, reimbursement of customers resulting in loss from this error and taking measures to prevent the same phenomenon from happening;
- updating credit and deposit contracts with the elements set forth in Regulation no. 59, dated 29.08.2008, "On Transparency for Banking and Financial Products and Services", as amended;
- maintaining data on customer complaints pursuant to Article 12, paragraph 3 and 4 of regulation no. 59 of the Bank of Albania etc.

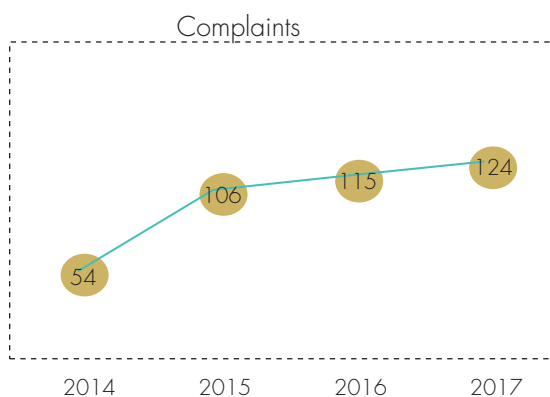
During 2017, as mentioned above, an external examination was conducted on the minimum requirements for the publication of financial reports by banks and branches of foreign banks by quarter. In spite of the positive developments in the banking system, regarding the applicability of the Bank of Albania regulatory requirements on publications, during 2017, shortcomings were also noted for which the Supervision Department has taken appropriate measures for banks to fix them. The shortcomings identified during the publication of information consist in:

- risk mitigation techniques
- bank's financial situation
- main contractual peculiarities of capital instruments, particularly in the case of subordinated debt instruments
- standard approach for the bank's capital adequacy assessment
- summary information on credit risk
- each exposure category
- counterparty credit risk
- investments in shares included in the banking book
- liquidity risk
- accounting policies.

Treatment of customers' complaint is a crucial matter in the framework of transparency and consumer protection in the financial sector. During 2017, a total of 124 complaints / requests / letters were received from individuals, businesses, natural persons and state institutions. About 95% of the complaints fall outside the realm of competence of the Bank of Albania. The charts below provide statistical data on the addressed complaints:

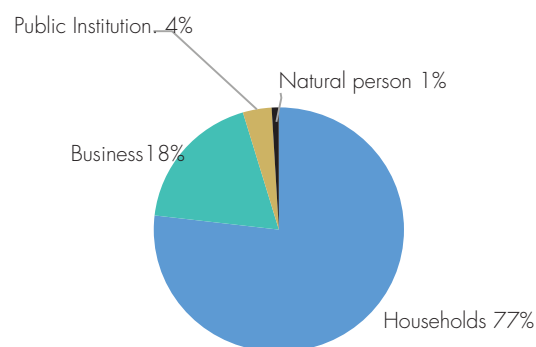


Chart 18 Number of complaints handled by the Bank of Albania over the years



Source: Bank of Albania.

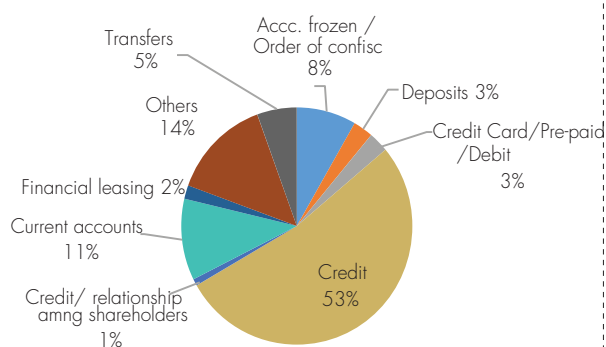
Chart 19 Share of complaints by segment of complainers



Source: Bank of Albania.

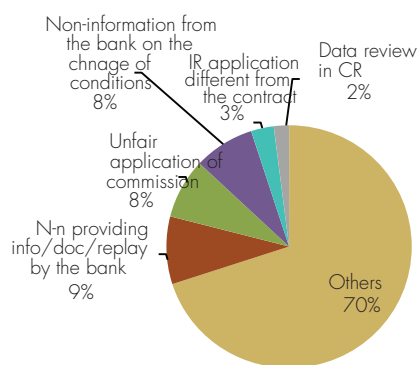
Individuals constitute for the highest number of solved complaints by 77%.

Chart 20 Share of complaints by segment of published products



Source: Bank of Albania.

Chart 21 Share of complaints by typology

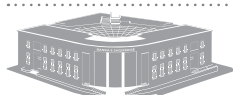


Source: Bank of Albania.

As shown below, credit products accounts for the largest share by 53%.

Some information related to the typology of claims, the manner of their drafting and the necessary documentation is provided in the following link on Bank of Albania's website:

https://www.bankofalbania.org/Supervision/Handling_complaints/



6.4.6 PROFITABILITY

6.4.6.1 Net result and its structure

The financial result was positive in 2017, at ALL 22.07 billion or ALL 12.79 billion higher than in 2016.

The first quarter contributed most to the financial result for 2017, by a net financial result around ALL 6.04 billion, trending slightly downward in the next quarters. This was mainly due to the increase in expenditures for provisions and for banking activity during the last quarters of the year. As a result of the significant increase in net result from other activities and the decrease in provision expenses, the profit for 2017 was higher than that of the previous year, even though net interest income declined.

The net result did not fluctuate significantly during 2017; it grew constantly throughout the months of the year, recording the highest growth in March by ALL 3.29 billion.

6.4.6.2 PROFITABILITY INDICATORS

Due to the higher positive financial result than in the previous year, the main profitability ratios, Return on Average Assets (RoAA) and Return on Average Equity (RoAE), increased significantly in 2017. At the end of 2017, RoAA was 1.56 per cent and RoAE was 15.71 per cent compared to 0.69 per cent and 7.15 per cent, respectively at the end of 2016.

Table 17 Main profitability indicators (in %, cumulative)

Indicators	December 2017	December 2016	December 2015	December 2014	June 2014	December 2013	June 2013	December 2012	June 2012
RoAA	1.56	0.69	1.20	0.89	0.88	0.54	0.25	0.33	0.42
RoAE	15.71	7.15	13.16	10.53	10.38	6.43	2.93	3.78	4.79

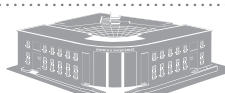
Source: Bank of Albania.

The next two tables show the banking system profitability by main activity and the dynamics of the equilibrium between the collection of interest-paying liabilities and investment in income-earning assets.

Table 18 Profitability indicators from the main activity (in %, cumulative)

	December 2017	December 2016	December 2015	December 2014	June 2014	December 2013	June 2013	December 2012	June 2012
Interest income/average earning assets (1)	3.8	5.2	5.7	6.28	3.21	7.32	7.39	7.73	7.76
Interest expenses/average earning assets (2)	0.6	1.0	1.3	2.10	1.22	3.42	3.61	3.72	3.72
Net Interest Margin (NIM)[(1) - (2)]	3.2	4.2	4.4	4.18	1.99	3.89	3.78	4.01	4.04

Source: Bank of Albania.



During 2017, banking activity based on interest-earning instruments was lower compared to the previous year. The negative result was due to interest income to average assets declining faster than interest expenses to average assets.

Table 19 Average profitability ratios (in ALL million)

Indicators	2017 Q4	2017 Q2	2016 Q4	2016 Q2	2015 Q4	2015 Q2
Average earning assets (1)	1,145,687.3	1,136,912.3	1,125,051.5	1,121,035.2	1,107,966.5	1,094,642.5
Average paying liabilities (2)	1,317,211.1	1,313,686.8	1,165,305.5	1,127,618.1	1,119,565.7	1,116,190.0
Average assets (3)	1,413,877.0	1,403,702.8	1,347,001.9	1,326,177.5	1,312,711.6	1,305,607.5
(1) / (3)	81.03%	80.99%	83.52%	84.53%	84.40%	83.84%
(2) / (3)	93.16%	93.59%	86.51%	85.03%	85.29%	85.49%

Source: Bank of Albania.

At end-2017, the ratio of average income-earning assets to average assets fell by 2.49 percentage points (from 83.52% to 81.03%), compared to end of the previous year, driven most by the average assets increasing faster (4.97% or ALL 66.92 billion) than average income-earning assets (2.69% or ALL 29.96 billion). The average expense-bearing liabilities to average assets increased by 6.65 percentage points (from 86.51% to 93.16%), compared to end of the previous year, driven by the average expense-bearing liabilities increasing faster (ALL 197.64 billion or 17.7%) than average assets.

The system efficiency indicator at the end of 2017 increased by 4.1 percentage points from the previous year as operating income dropped ALL 3.61 billion or 6.7%, while operating costs rose ALL 0.38 billion or 1.31%.

Table 20 Performance of efficiency indicator in ALL million

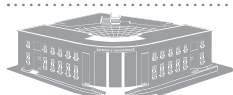
Indicators	Dec. 2017	Dec. 2016	June 2016	Dec. 2015	June 2015	Dec. 2014	June 2014	Dec. 2013	June 2013	Dec. 2012	June 2012
Operating expenses (1)	29,530.7	29,143.1	13,944.7	28,539.1	13,486.3	27,001.7	12,963.5	26,223.2	12,660.9	25,930.6	12,264.7
Operating income (2)	54,185.5	57,799.8	28,098.5	49,995.9	25,267.0	43,659.7	20,096.1	44,974.3	22,326.3	39,328.6	17,277.2
Efficiency ratio (1)/(2)	54.5%	50%	50%	57%	53%	62%	65%	58%	57%	66%	71%

Source: Bank of Albania.

6.4.7 CAPITAL ADEQUACY RATIO

6.4.7.1 Shareholders' equity

As at end-2017, the shareholder's equity of the banking system amounted to ALL 146.95 billion, up ALL 10.47 billion (or 7.67%), y-o-y, compared to the higher increase, ALL 11.3 billion (9.01%), in 2016.



Shareholder's equity decreased in 2017 Q2 (-1.04%). The growth during the rest of the year ranged between 2.07 and 3.78%. It grew most in the third quarter, and less in the first quarter.

The paid in capital provided the largest material contribution to shareholders' equity growth, up by around ALL 5.29 billion (or 4.3%) and the fall of the revaluation surplus down by around ALL 6.99 billion (or 147.60%) compared to the same period a year earlier. These developments are positive indicators for sustaining the banking activity with the necessary sources of income generated by banks.

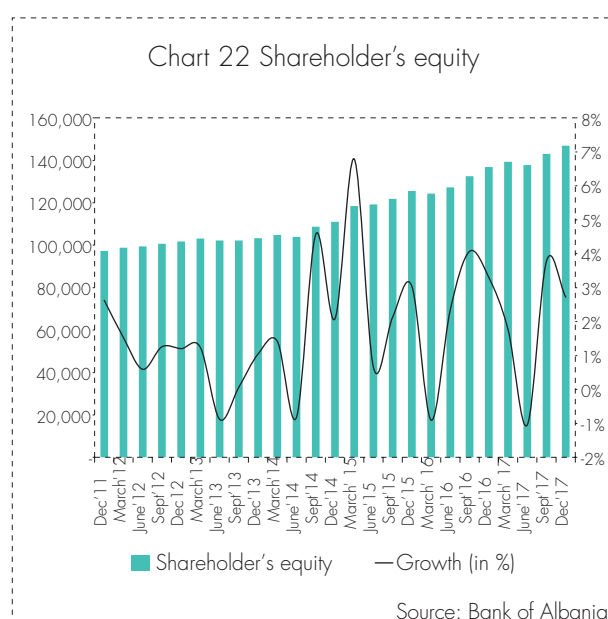


Table 21 Shareholders' equity structure and its components' performance

Indicators	December 2017		December 2016		December 2015	
	ALL million	%	ALL million	%	ALL million	%
Shareholders' equity	146,953.0	100.0	136,883.1	100.0	125,566.4	100.0
Paid-in capital	128,713.8	87.6	123,416.2	90.2	113,048.2	90.0
Share premium	6,479.8	4.4	6,259.1	4.6	5,736.5	4.6
Reserve	12,918.5	8.8	12,289.2	9.0	11,869.4	9.5
Revaluation difference	(2,255.5)	(1.5)	4,738.5	3.5	5,235.6	4.2
Earnings/retained loss	(20,977.5)	(14.3)	(19,090.1)	(13.9)	(26,051.1)	(20.7)
Earnings/loss for the period	22,073.8	15.0	9,270.1	6.8	15,727.8	12.5

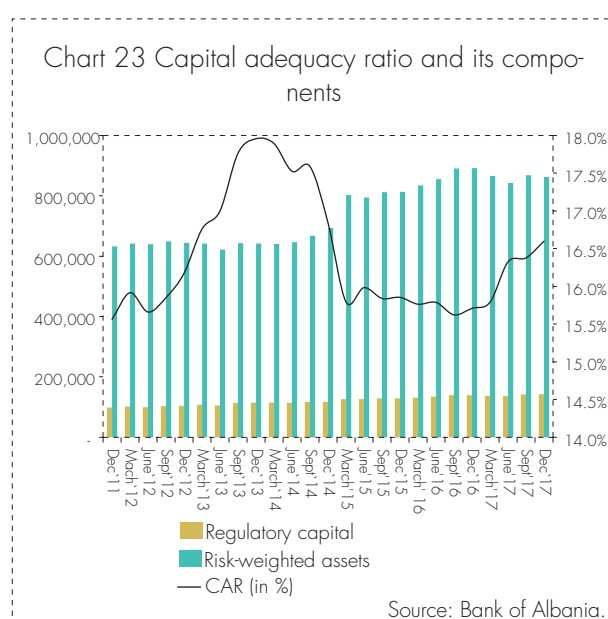
Source: Bank of Albania.

6.4.7.2 Capital adequacy ratio

Against the minimum regulatory benchmark of 12%¹⁹, the Capital Adequacy Ratio (CAR), as a key supervision indicator stood at 16.6% at end-2017. This indicator was up by 0.58 percentage point, compared to end-2016, and 0.74 percentage point compared to end-2015.

6.4.7.2.1 Regulatory capital

The banking system's regulatory capital totalled ALL 143.14 billion, up by ALL 0.8 billion (0.56%) compared to 2016.



¹⁹ For some banks, the level was required higher than the regulatory minimum.



Banking system's core capital is the main component of the regulatory capital of the system, accounting for 91.07%, up by 2.93 percentage points, compared to the previous year, hence providing evidence for a qualitatively sound and stable regulatory capital.

Supplementary capital of the system, which consists mainly of the subordinated debt, was ALL 12.78 billion, from ALL 16.97 billion at end-2016.

6.4.7.2.2 Total risk-weighted assets and off-balance sheet items

Total risk-weighted assets and off-balance sheet items fell compared to the previous year, by ALL 26.14 billion or 2.94%. Capital requirement for credit risk by 83.6% has the highest share in total risk-weighted assets and off-balance sheet items, followed by the capital requirement for operational risk by 9.65% and capital requirement for market risk by 1.66%. The additional element of the package of measures for actions with non-residents in the total of risk weighted assets accounts for 5.03% of the total.

6.5 NON-BANK FINANCIAL INSTITUTIONS AND SAVINGS AND LOAN ASSOCIATIONS

6.5.1 NON-BANK FINANCIAL INSTITUTIONS

6.5.1.1 Overview

In December 2017, there were 31 non-bank financial institutions, up by 3 institutions, compared to December 2016. Table 20 shows their categorization according to the financial activities for which they are licensed.



Table 22 Activity of non-bank financial institutions

No.	Non-bank financial institutions	Payment and Money Transfer Service Activities	Credit risk activities				Foreign exchange;	
			Lending	Microcredit	Financial leasing.	Factoring	Foreign exchange services	Foreign Exchange Advisory Services
1	Financial Union Tirana	√					√	√
2	FIRST ALBANIAN FINANCIAL DEVELOPMENT COMPANY – FAF SH.A.		√					
3	AK-INVEST	√	√				√	√
4	Fondi Besa		√					
5	NOA	√	√				√	
6	Easypay	√						
7	Posta Shqiptare	√						
8	Tranist		√		√	√		
9	M-Pay	√						
10	Platinum Investment							√
11	Raiffeisen Leasing				√			
12	FIN - AL		√		√			
13	Landeslease				√			
14	Porsche Leasing				√			
15	Albania Leasing				√			
16	Crimson Finance Fund Albania (CFFA)				√	√		
17	Mogo Albania				√			
18	AGRO & SOCIAL FUND SH.P.K.			√				
19	Capital Invest			√				
20	Micro Credit Albania		√					
21	Iutecredit Albania			√				
22	Agro Partner			√				
23	Kredo Finance			√				
24	Albanian Factoring Services					√		
25	Omnifactor					√		
26	Tirana Factoring & Lease				√	√		
27	Albanian Financial Institution		√		√	√		
28	Kastrati	√						
29	Pay & Go	√						
30	RAEA FINANCIAL SERVICES SH.P.K.	√					√	√
31	Vodafone MPesa	√					√	√

Source: Bank of Albania.

6.5.1.2 Assets of non-bank financial institutions

Total assets for non-bank financial institutions in December 2017 reached ALL 38.15 billion, increasing by ALL 3.14 billion or 8.97%. Non-bank financial institutions' assets account for about 2.6% of total banking system assets, almost unchanged from the previous year.

Table 23 Total assets of NBFIs, (in ALL billion)

	December '16	March '17	June '17	September '17	December '17
Total assets of NBFIs*	35.01	35.21	35.10	36.32	38.15

Source: Bank of Albania.

*The total of NBFIs' assets does not include data for Albanian Post Office (Posta Shqiptare) as its balance sheets presents data for other non-financial activities as well.



Credit portfolio accounts for the main share in the assets' structure of non-bank financial institutions by about 57.10%. The rest of the assets are oriented towards liquid assets (17.4%), variable-income securities (12.7%).

NBFIs are mostly financed through borrowing (52.7% of liability) and own capital (39.2% of liability). Loans consist of loans from other financial institutions - non-residents (38%), domestic - banks (36.7%) and other resident sources²⁰ (13.5%).

In 2017, most NBFIs were well capitalised.

6.5.1.3 Outstanding loan portfolio developments and activity volume

At the end of 2017, the gross portfolio of NBFIs reached ALL 24.21 billion, up by ALL 3.33 billion (or 15.9%) compared to the previous year. Credit institutions have the biggest contribution to this growth, by about ALL 2.82 billion (or 20.0%). The portfolio of factoring and leasing institutions, this year, increased by ALL 54.88 and ALL 453.66 million, respectively.

Table 24 NBFIs' loan portfolio, net and gross, December 2016-December 2017, in ALL billion

	December '16	March '17	June '17	September '17	December '17
Total loan portfolio of NBFIs (net)	19.26	19.69	20.14	20.85	21.78
Total loan portfolio of NBFIs (gross)	20.89*	21.46	21.92	22.82	24.21

Source: Bank of Albania.

* The change in value compared to the 2016 report is a result of accurate reporting by the entities

The major part of the NBFIs loan portfolio consists of credit and microcredit institutions (69.8%), followed by the portfolio of leasing institutions (27.1%) and the portfolio of factoring institutions (3.1%). The loan portfolio for these institutions accounts for 4.1% of the banking system's portfolio.

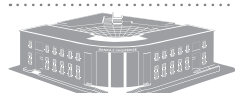
Table 25 Gross portfolio by activity, December 2016- December 2017

Financial activity	Total (all bln) December '16	Total (all bln) December '17
Lending	13.46	15.55
Financial leasing	6.10	6.56
Microcredit	0.63	1.35
Factoring	0.69	0.74
Gross Portfolio	20.89	24.21

Source: Bank of Albania.

At the end of 2017, the activities of lending and financial leasing institutions remain business-oriented, by about 78.8% and 83.9%, respectively. Meanwhile, the factoring portfolio is entirely carried out for business purposes, oriented towards the "other" sectors (57.20%).

²⁰ Albanian Government or funding from related parties.



The most financed sectors are "trade, repair of motor vehicles and household goods" (25.6%), "other" (22.4%) and "agriculture, hunting and silviculture" (19.3%). Meanwhile, for the financial leasing activity, in addition to the "trade, repair of motor vehicles and household goods" and "other" sectors, which account for 17.3% and 16.8% of the activity, the other most funded sector is "real estate, renting, etc. ", which accounts about 16.4% of this activity.

The total NBFIs portfolio is oriented toward financing in local currency (67%) and mid-term maturity (72.5%).

With regard to the object of financing, the leasing portfolio is dominated by financing for personal transport vehicles (55.1%) and work transport vehicles (26.1%). Compared to December 2016, the portfolio reached ALL 453.66 million, driven by transport vehicles for personal and work purposes.

Table 26 Financial leasing portfolio, by funded institution, December 2017

Leasing	New Equipment	Used Equipment	Total December'17 (ALL mln)
Personal transportation vehicles	2,375.92	1,241.20	3,617.12
Work transportation vehicles	1,122.03	594.46	1,716.49
Work equipment/ production lines	675.05	248.56	923.61
Real estate	36.32	94.25	130.56
Other	81.02	95.46	176.48
Total	4,290.33	2,273.92	6,564.26

Source: Bank of Albania.

The balance of factoring activity amounted at ALL 744.56 million at the end of 2017, up by ALL 54.88 million from the previous year.

The annual circulation of the factoring portfolio is realized in the domestic market at 98.9% and for guaranteed financing (98%).

Table 27 Annual factoring volume and balance in December 2017

Factoring	December 2017		
	Circulation		Outstanding portfolio
	No. of invoices	Value (ALL mln)	Value (ALL mln)
Total	1,292	3,117.79	744.56

Source: Bank of Albania.

At the end of 2017, the ratio of non-performing loans for non-bank financial institutions was largely unchanged from the previous year, though there was fluctuation (increase by about 0.1 pp). This result was influenced by the higher increase in non-performing loans by 16.6% (or ALL 412.28 million), despite the growth of the gross loan portfolio, which grew by about 15.9%, in this period.

Table 28 Indicators of loan portfolio quality for December 2017 (in per cent)

	December '16	March '17	June '17	September '17	December '17
Non-performing loans/ outstanding loans (gross)	11.92	12.63	12.44	12.54	11.98
Non-performing loans/ outstanding loans (net)	5.65	6.01	5.91	5.55	3.45

Source: Bank of Albania.



Regarding the payment services activity provided by non-bank financial institutions, in 2017 incoming transfers and outgoing payments (in terms of both volume and value) have increased. Their activity is as follows:

Table 29 Volume of annual transfers and payments 2017²¹

	2017	
	No	Volume (ALL mln)
Outgoing transfers	672,716	18,008.05
Incoming transfers	3,210,963	112,914.47
Outgoing payments	1,841,612	5,029.44

Source: Bank of Albania.

6.5.1.4 Financial Result

During 2017, non-bank financial institutions generated a positive result of ALL 1.16 billion, down by about ALL 51.92 million (or 4.3%) compared to the previous year. Credit institutions had the main contribution to this slight decrease. Meanwhile, the result of NFBIs accounts for 5.3% of the banking system's result.

6.5.2 FINANCIAL UNIONS AND SAVINGS AND LOAN ASSOCIATIONS

6.5.2.1 Structure of unions and SLAs' network

Following the consolidation of savings and loan associations (SLAs) and their unions, at the end of 2017, the structure of savings and loan associations and unions consists of 13 SLAs and 1 Union, as below:

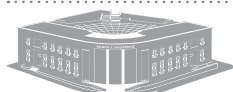
Jehona Union, after the approval from the Bank of Albania, has been transformed into the "UniFin" Savings and Loan Association. This SLA was included in the deposit insurance scheme in June 2017; in total there are six SLAs in this scheme.

Meanwhile, the Supervision Department of the Bank of Albania continues to monitor the SLAs, which are licensed but are not yet members in the deposit insurance scheme, in order to undertake relevant measures vis-à-vis them, according to legal definitions.

6.5.2.2 SLAs and unions assets

At the end of 2017, total assets of Saving and Loan Associations (SLAs), amounted to ALL 8.20 billion, up by ALL 1.63 billion from the previous year. The total SLAs assets account for only 0.57% of total assets of the banking system. With regard to the two Unions, Jehona Union completed its liquidation

²¹ The data do not include the transactions of Albanian Post.



process in July 2017, while the Albanian Savings and Loan Union continues to report the financial data.

Table 30. Unions and SLAs assets, December 2016-December 2017, in ALL billion

	December 2016	June 2017	December 2017
Unions	2.08	1.89	1.28*
SLAs	6.57	7.45	8.20

Source: Bank of Albania.

*Consists only of data from SLAs

6.5.2.3 Outstanding loan portfolio of unions and SLAs

In December 2017, the SLAs gross loan portfolio amounted to ALL 6.31 billion, increasing by ALL 786.3 million compared to the previous year. The SLAs gross loan portfolio accounts for only 1.05% of the banking system.

Table 31. Gross and Net loan portfolio, total for Unions and SLAs, December 2016- December 2017 (in ALL billion)

	December '16	December '17
Gross loans		
Unions	0.25	0.08*
SLAs	5.52	6.31
Net loans		
Unions	0.20	0.00
SLAs	5.26	6.06

Source: Bank of Albania.

*Consists only of data from SLAs

In December 2017, the ratio of non-performing loans for SLAs was at 4.60%, improving by about 0.87 pp compared to the previous year. This improvement comes as a result of the growth of the gross portfolio (14.2%) and the decline of non-performing loans (3.9%).

6.5.2.4 Financial result of unions and SLAs network

During 2017, savings and loan associations experienced a positive financial result amounting to ALL 78 million. Compared to the previous year, this result increased by about ALL 48.56 million.

6.6 CREDIT REGISTRY

December 2017 marks 10 year since the Credit Registry System started to operate. During this year, the main challenge was the start of the project "Improving the Credit Registry" after evaluating and analysing proposals and requests from representatives of reporting entities. The new system envisages an improved technical infrastructure, which will positively affect data processing, process automation, and the reduction of operational risk. Within the promotion



of transparency goal, the direct access by individuals and electronically providing the Borrower Report will be the main innovation introduced by the new system.

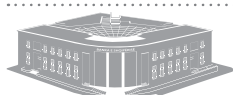
The inclusion of new reporting entities in the Credit Registry System, aiming to reduce the information asymmetry among entities operating in the banking and financial system, continued to have due attention during this year. The Credit Registry includes three new reporting entities, totalling now 42 entities, categorized as below:

Table 32 Entities that report to the Credit Registry

BANKS		NON- BANK FINANCIAL INSTITUTIONS		UNION AND SAVING AND LOAN ASSOCIATION	
No.		No.		No.	
1	RAIFFEISEN BANK SH.A.	1	FONDI BESA SH.A.	1	SLA UNIFIN
2	UNITED BANK OF ALBANIA SH.A.	2	FIRST ALBANIAN FINANCIAL DEVELOPMENT COMPANY – FAF SH.A.	2	SLA ALB-PROGRES
3	VENETO BANK	3	TRANZIT SHPK	3	SLA PARTNER PLUS
4	NATIONAL COMMERCIAL BANK SH.A.	4	NOA SH.A.	4	SLA PETRELE
5	TIRANA BANK SH.A.	5	AGRO & SOCIAL FUND SH.P.K.	5	SLA ALB CREDIT
6	INTERNATIONAL COMMERCIAL BANK SH.A.	6	CAPITAL INVEST SH.A.	6	SLA FED INVEST
7	INTESA SANPAOLO BANK ALBANIA SH.A.	7	AK-INVEST SH.A.	7	Albanian Savings and Loan Union
8	PROCREDIT BANK SH.A.	8	IUTECREDIT ALBANIA SH.A.		
9	American Bank of Investments	9	AGRO PARTNER SHPK		
10	CREDIT BANK OF ALBANIA	10	MICRO CREDIT ALBANIA SH.A.		
11	CREDINS BANK SH.A.	11	ALBANIAN FINANCIAL INSTITUTION SH.P.K.		
12	SOCIETE GENERALE BANK ALBANIA SH.A.	12	KREDO FINANCE SHPK		
13	UNION BANK SH.A.	13	RAIFFEISEN LEASING SH.A.		
14	NATIONAL BANK OF GREECE, ALBANIA SH.A.	14	LANDESLEASE SH.A.		
15	ALPHA BANK – ALBANIA SH.A.	15	FINAL SH.A.		
16	FIRST INVESTMENT BANK, ALBANIA SH.A.	16	PORSCHE LEASING SH.P.K.		
		17	ALBANIA LEASING SHA		
		18	CRIMSON FINANCE FUND ALBANIA SH.P.K.		
		19	MOGO ALBANIA SHPK		

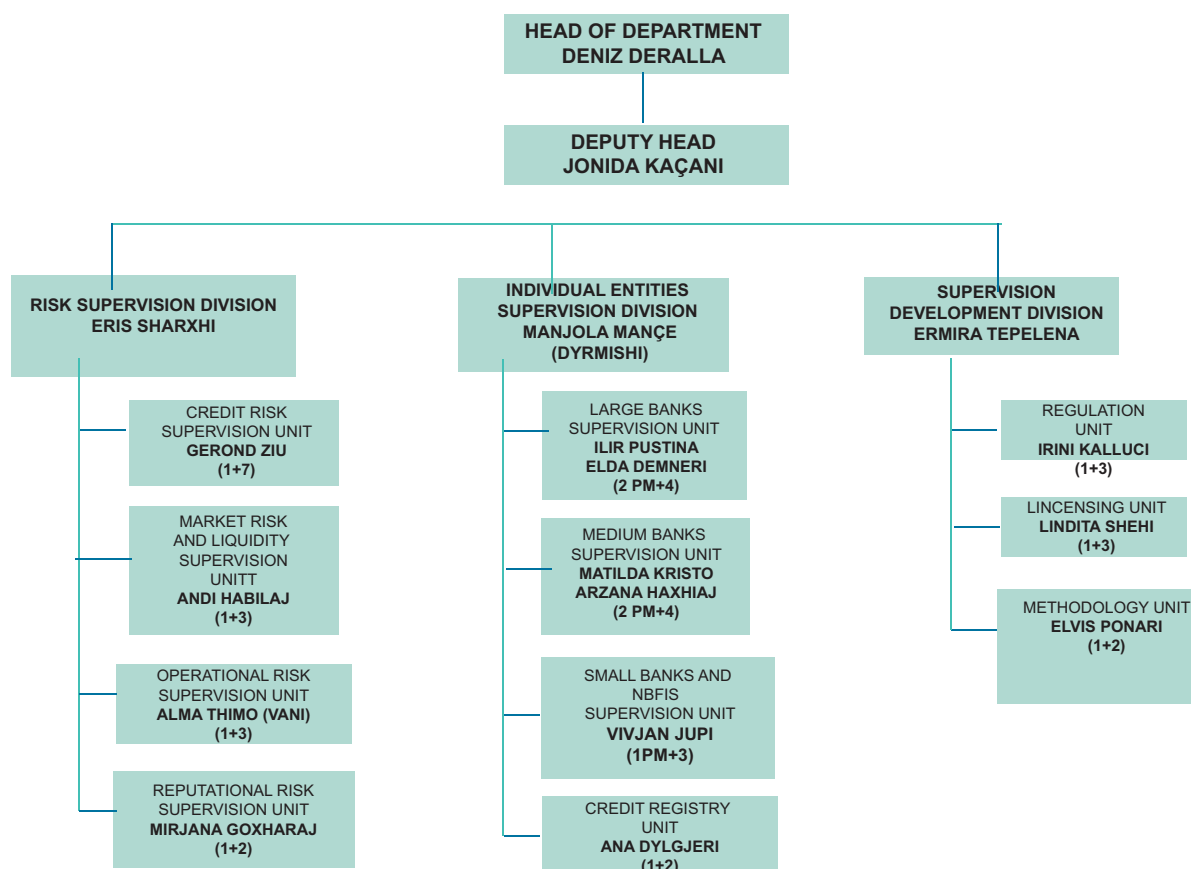
In 2017, the volume of requests increased from legal persons and individuals for the Borrower's Report and requests from special units of the Bank of Albania for information processed by the Credit Registry in order to carry out the relevant activities.

In this regard, ensuring the accuracy and completeness of the data disseminated through this system, as well as their use in accordance with the regulatory framework and legislation in force for the protection and use of personal data, continues to be a key priority.



7 ANNEXES

1- ORGANISATIONAL STRUCTURE OF THE SUPERVISION DEPARTMENT



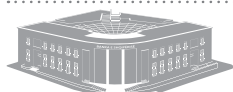
2- SHARE OF BANKS IN THE BANKING SYSTEM

December '17								
BANKS	Total balance sheet	Permanent resources	Shareholder's equity	Outstanding loans	Non- performing loans	Treasury bills	Securities	Total deposits
(Indicators in %)								
Raiffeisen Bank	17.3	20.8	18.1	16.4	21.1	20.1	19.4	17.2
United Bank of Albania	0.6	0.7	0.9	0.7	0.4	-	-	0.5
Veneto Bank	2.0	2.6	2.6	1.1	1.5	-	0.2	1.7
National Commercial Bank	27.9	24.2	26.1	21.6	13.9	32.3	36.0	27.3
Tirana Bank	5.1	5.9	6.6	4.4	9.0	6.9	2.9	5.1
International Commercial Bank	0.8	0.7	0.8	0.9	0.6	0.4	0.9	0.7
Intesa SanPaolo Bank Albania	10.6	10.5	12.1	8.1	5.5	20.3	12.6	11.0
Procredit Bank	2.4	2.7	2.6	4.0	2.6	2.2	0.1	2.1
American Bank of Investments	2.9	2.7	2.7	1.7	0.5	1.2	4.8	3.0
NBG Bank Albania	2.5	2.9	3.0	3.7	5.5	3.9	1.0	2.6
Alpha Bank Albania	5.2	5.3	4.7	5.5	4.1	0.0	4.1	5.3
First Investment Bank of Albania	1.4	1.3	1.6	1.7	1.5	1.0	1.7	1.5
Credit Bank of Albania	0.1	0.5	0.6	0.1	-	0.2	-	0.0
Credins Bank	12.5	11.9	9.4	18.3	25.6	10.0	6.4	12.9
Société Générale Albania Bank	5.6	5.0	5.7	8.6	5.5	-	5.4	5.9
Union Bank	3.2	2.2	2.5	3.2	2.8	1.6	4.4	3.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

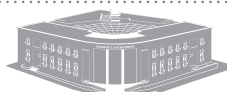


3- ASSETS AND LIABILITIES

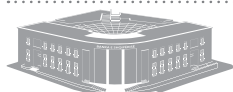
ASSETS (in ALL million)	March 2016	June 2016	September 2016	December 2016	December 2017
DESCRIPTION					
1 TOTAL ASSETS	1,327,529.96	1,329,507.73	1,366,263.40	1,407,285.86	1,445,329.85
11 TREASURY AND INTERBANK TRANSACTIONS	430,698.22	421,196.23	452,674.09	462,435.31	482,914.34
111 Cash in hand	23,451.66	24,449.25	27,263.59	25,087.50	24,176.38
112 Transactions with the central bank	132,070.27	119,417.71	115,848.29	155,366.25	149,792.09
1121 Required reserve at the central bank	97,520.22	96,566.99	98,377.91	98,002.97	97,725.32
1122 Other	34,550.06	22,850.72	17,470.39	57,363.28	52,066.77
113 Treasury bills and other eligible bills for refinancing with the central bank	67,253.43	69,210.73	65,163.78	68,573.14	64,617.63
1131 Treasury bills	67,253.63	69,210.75	65,163.78	68,593.05	64,621.58
1132 Other bills eligible for refinancing	-	-	-	-	-
1133 Reserve funds for the depreciation of bills eligible for refinancing from Central Bank	(0.20)	(0.02)	-	(19.90)	(3.94)
114 Transactions with bank, credit institutions and other financial institutions	207,922.85	208,118.54	244,398.42	213,408.41	244,328.25
1141 Current accounts	46,201.43	50,589.64	61,688.86	60,831.35	60,794.76
1142 Deposits with banks, credit institutions and other financial institutions	106,738.70	102,169.56	117,669.33	88,096.31	118,866.33
1143 Loans	52,347.01	53,079.84	63,910.42	62,011.84	63,020.16
1144 Other	2,645.01	2,289.09	1,138.69	2,473.15	1,700.49
1145 Reserve funds for currents in banks, credit institutions and other financial institutions	(9.30)	(9.58)	(8.88)	(4.24)	(53.49)
13 TRANSACTIONS WITH CUSTOMERS (Gross)	584,871.36	593,458.94	596,229.31	596,864.69	597,793.51
131 Loans to private sector and households	555,806.21	564,966.76	569,866.23	570,621.76	565,692.56
1311 Short-term loans	166,023.14	166,340.93	165,914.39	162,079.59	151,141.75
1312 Medium-term loans	107,601.19	110,907.45	115,677.55	120,404.73	108,783.72
1313 Long-term loans	174,689.60	178,884.74	180,627.29	180,850.18	195,873.85
1314 Real estate loans	105,568.16	106,932.84	105,802.55	105,368.78	107,387.72
1315 Finance lease contracts	1,924.12	1,900.81	1,844.44	1,918.49	2,505.53
132 Loans to public administration	1,970.84	1,830.04	1,812.84	1,781.00	2,903.61
1321 Current accounts	-	-	-	-	-
1322 Loans	1,970.84	1,830.04	1,812.84	1,781.00	2,902.52
1323 Other accounts	-	-	-	-	1.08
133 Other customer accounts	27,094.32	26,662.14	24,550.25	24,461.93	29,197.34
14 SECURITIES TRANSACTIONS	333,239.32	337,158.73	342,756.99	368,362.22	357,087.99
141 Fixed income securities	329,933.92	333,408.31	339,459.21	356,817.01	353,934.96
1411 Residents in Lek	224,231.56	229,628.19	238,138.88	236,944.58	247,773.52
1412 Residents in foreign currency	25,116.27	24,796.83	22,582.68	24,933.66	26,109.16
1413 Non-residents in Lek	-	-	-	-	-



1414 Nonresidents in foreign currency	80,586.10	78,983.29	78,737.65	94,938.77	80,052.28
142 Variable income securities	3,305.39	3,750.42	3,297.78	3,567.09	3,153.03
1421 Residents in Lek	-	-	-	-	-
1422 Resident in foreign currency	-	-	-	-	-
1423 Nonresident in Lek	-	-	-	-	-
1424 Nonresident in foreign currency	3,305.39	3,750.42	3,297.78	3,567.09	3,153.03
143 Securities purchased and sold under REPO	-	-	-	7,978.12	-
144 Paid collateral	-	-	-	-	-
145 Received premiums	-	-	-	-	-
146 Financial Derivatives	-	-	-	-	-
147 Quota/investment funds shares	-	-	-	-	-
15 PROVISIONS	(78,917.93)	(79,032.71)	(83,701.89)	(79,021.86)	(58,214.87)
151 Loan loss provisions (principal)	(76,874.34)	(77,374.14)	(82,003.65)	(76,266.06)	(56,331.52)
152 Loan loss provisions (accrued interest)	(1,181.83)	(1,172.18)	(1,335.92)	(1,087.94)	(676.82)
153 Investment provisions	(861.76)	(486.39)	(362.33)	(1,667.86)	(1,206.54)
16 OTHER ASSETS	30,207.84	29,778.59	30,617.90	32,115.54	37,569.18
161 Other assets	27,622.09	28,139.05	28,083.08	29,790.50	34,822.82
162 Agent transactions	1.22	35.35	32.41	59.17	61.34
163 Inter-office accounts	24.77	0.08	137.50	0.19	0.20
164 Suspense, difference and position accounts	2,337.72	1,379.56	2,171.29	2,049.46	2,589.89
1641 Suspense accounts	2,296.17	1,318.13	2,106.92	1,888.49	2,589.36
1642 Position accounts	41.55	61.42	64.37	160.97	0.53
165 Value added tax	222.04	224.56	193.63	216.22	94.93
17 FIXED ASSETS	17,118.96	17,024.12	17,439.74	17,591.66	19,829.88
171 Investment in participation equity	167.44	177.60	177.02	161.77	50.53
172 Affiliates	623.60	621.88	621.88	746.66	855.41
173 Fixed assets (net)	16,327.91	16,224.65	16,640.84	16,683.22	18,923.94
18 ACCRUED INTERESTS	10,312.18	9,923.82	10,247.26	8,938.30	8,349.81
181 Accrued interests (Class 1)	872.43	500.52	634.36	596.86	859.26
182 Accrued interests (Class 2)	4,190.00	3,995.96	4,107.11	3,502.78	3,082.05
183 Accrued interests (Class 3)	5,249.75	5,427.34	5,505.79	4,838.66	4,408.50
A Total assets in foreign currency	763,759.16	765,895.23	797,086.09	816,216.13	818,444.68
B Total assets of nonresidents	344,817.53	344,886.99	387,281.52	377,067.16	381,253.93
Net outstanding loans	506,815.20	514,912.62	512,889.75	519,510.69	540,785.18
Interest net outstanding loans	511,005.20	518,908.59	516,996.85	523,013.47	543,867.22
Interest outstanding loans (gross+accrued interest)	589,061.37	597,454.91	600,336.42	600,367.47	600,875.56



LIABILITIES (in ALL million)	March 2016	June 2016	September 2016	December 2016	December 2017
1 TOTAL LIABILITIES	1,327,529.96	1,329,507.73	1,366,263.40	1,407,285.86	1,445,329.85
11 TREASURY AND INTERBANK TRANSACTIONS	45,841.28	58,873.77	61,474.91	62,407.87	76,701.37
111 Central Bank	3,791.87	674.97	5,093.18	356.22	1,472.18
112 Treasury bills and other eligible bills	8,624.77	23,124.21	26,002.86	29,927.42	36,917.87
113 Current accounts	5,407.23	5,434.32	6,592.78	5,337.38	8,215.73
114 Deposits from banks and other financial institutions	16,167.65	18,944.24	15,945.16	20,553.26	21,237.05
115 Loans	10,462.99	9,298.45	6,463.34	6,175.86	8,058.18
116 Other	1,386.75	1,397.58	1,377.59	57.74	800.36
12 TRANSACTIONS WITH CUSTOMERS	1,104,081.29	1,094,201.23	1,122,296.71	1,153,665.07	1,162,225.94
121 Public administration	17,029.15	15,369.37	13,611.14	12,202.13	10,275.23
1211 Current accounts	9,606.61	8,637.34	9,558.93	10,530.14	8,325.52
1212 Demand deposits	6.01	6.02	6.03	6.03	6.06
1213 Time deposits	6,634.44	5,983.89	3,355.84	1,030.39	1,419.20
1214 Loans	782.09	742.12	690.34	635.56	524.44
1215 Other	-	-	-	-	-
122 Private sector	1,087,052.14	1,078,831.86	1,108,685.56	1,141,462.93	1,151,950.71
1221 Current accounts	297,319.38	305,301.13	336,019.96	363,583.85	374,888.68
1222 Demand deposits	72,337.56	76,347.21	84,764.29	91,250.35	106,561.98
1223 Time deposits	699,700.64	678,721.38	668,781.11	664,256.01	650,308.22
1224 Other	17,694.56	18,462.13	19,120.20	22,372.72	20,191.82
1225 Certificate of deposits	-	-	-	-	-
13 SECURITIES TRANSACTIONS	683.64	682.27	4,848.76	6,205.81	8,429.66
131 Debt represented by securities	-	-	-	-	-
132 Securities purchased and sold under REPO	683.64	682.27	4,848.76	6,205.81	8,429.66
133 Collateral on securities transactions	-	-	-	-	-
134 Premiums on financial instruments	-	-	-	-	-
135 Financial derivatives	-	-	-	-	-
136 Quota/shares of investment funds	-	-	-	-	-



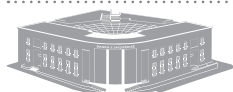
14 OTHER LIABILITIES	14,528.26	10,478.04	9,438.65	13,180.41	15,026.70
141 Other liabilities	6,605.78	4,456.63	4,647.44	6,113.23	5,520.14
142 Agent transactions	4,645.58	2,609.83	1,952.73	2,985.44	3,324.77
143 Inter-office account	6.83	7.36	6.12	(1.95)	(0.33)
144 Difference and position pending accounts	3,256.94	3,387.96	2,819.49	4,029.60	6,105.84
1441 Difference accounts	3,268.51	3,377.20	2,816.89	3,972.25	5,902.28
1442 Position accounts	(11.56)	10.77	2.59	57.35	203.56
145 Value added tax = (form. 21) 46	13.14	16.27	12.88	54.08	76.28
15 PERMANENT RESOURCES	156,487.47	159,029.85	163,564.67	167,377.41	179,079.18
151 Grants and public financing	15.52	15.67	15.58	16.27	-
152 Specific provisions	9,499.64	9,072.57	8,041.25	8,080.30	10,006.17
1521 Provisions for risk and expenses	8,461.53	8,047.32	7,012.61	7,014.87	8,413.63
1522 Specific provisions	1,038.10	1,025.25	1,028.63	1,065.43	1,592.54
153 Subordinated debt	22,579.60	22,615.67	23,000.65	22,397.79	22,120.01
154 Shareholders' equity	124,392.71	127,325.93	132,507.19	136,883.06	146,953.00
1541 Paid-in capital	118,388.11	118,525.91	122,807.83	123,416.15	128,713.81
1542 Share premiums	5,736.50	5,820.26	5,889.27	6,259.07	6,479.81
1543 Reserves	12,040.27	12,028.90	12,275.40	12,289.24	12,918.51
1544 Revaluation difference	4,810.24	4,374.10	4,148.40	4,738.51	(2,255.46)
1545 Retained earnings (loss)	(18,012.58)	(18,492.18)	(19,096.39)	(19,090.05)	(20,977.48)
1546 Current year profit (loss)	1,430.18	5,068.94	6,482.68	9,270.14	22,073.82
16 ACCRUED INTERESTS	5,908.02	6,242.57	4,639.70	4,449.28	3,867.00
161 Accrued interests (Class 1)	104.42	83.91	91.36	45.80	59.47
162 Accrued interests (Class 2)	5,348.84	5,717.37	4,322.21	4,088.06	3,453.42
163 Accrued interests (Class 3) = (form. 21) 339 + 3429	0.19	0.13	13.20	17.67	20.58
164 Accrued interests (Class 5)	454.57	441.15	212.93	297.75	333.52
A Total liabilities in FX	723,840.05	719,747.13	749,225.99	768,174.88	784,095.42
B Total liabilities of non-residents	80,454.15	81,223.89	81,773.93	84,317.78	87,501.57



4- CORE FINANCIAL INDICATORS

Indicators	in %, unless otherwise stated)		June 2013		December 2013		June 2014		December 2014		June 2015		December 2015		June 2016		December 2016		June 2017		December 2017	
	Based on capital																					
Regulatory capital to risk-weighted assets			17.00	17.96	17.52	16.84	15.98	15.85	15.79	15.71	15.79	15.71	15.85	15.79	15.71	15.71	15.71	15.71	16.33	16.60	16.60	16.60
Tier 1 capital to risk-weighted assets			15.36	14.84	14.50	13.79	13.64	13.45	13.71	13.81	13.71	13.81	13.45	13.71	13.81	13.71	13.81	13.81	14.66	15.13	15.13	15.13
Tier 1 capital to total assets			7.94	7.73	7.49	7.39	8.25	8.34	8.81	8.75	8.81	8.75	8.34	8.81	8.75	8.81	8.75	8.75	8.54	9.03	9.03	9.03
Regulatory capital to total assets			8.79	9.33	9.04	9.02	9.67	9.75	10.15	9.95	10.15	9.95	9.75	10.15	9.95	10.15	9.95	9.86	9.90	9.90	9.90	9.90
Shareholders' equity to total assets			8.49	8.37	8.29	8.58	9.09	9.53	9.58	9.73	9.58	9.73	9.53	9.58	9.73	9.58	9.73	9.89	10.17	10.17	10.17	10.17
Non-performing loans net of provisions to Tier 1 capital			62.46	48.54	48.97	46.71	36.12	28.38		26.25		26.25	28.38		26.25		26.25	20.79	17.26	17.26	17.26	17.26
Non-performing loans net of provisions to regulatory capital			56.43	40.22	40.53	38.25	30.82	24.27	30.17	23.08	30.17	23.08	24.27	30.17	23.08	30.17	23.08	18.65	15.72	15.72	15.72	15.72
Non-performing loans net of provisions to shareholders' capital			58.41	44.82	44.20	40.22	32.82	24.84	31.98	23.62	31.98	23.62	24.84	31.98	23.62	31.98	23.62	18.59	15.31	15.31	15.31	15.31
Return on equity			2.93	6.43	10.38	10.53	14.20	13.16	8.02	7.15	8.02	7.15	13.16	8.02	7.15	8.02	7.15	16.72	15.71	15.71	15.71	15.71
Open foreign currency position to regulatory Tier 1 capital			4.47	4.92	5.89	10.37	8.47	8.95	9.70	8.00	9.70	8.00	8.95	9.70	8.00	9.70	8.00	6.20	7.34	7.34	7.34	7.34
Open foreign currency position to regulatory capital			4.04	4.08	4.88	8.49	7.23	7.66	8.44	7.03	8.44	7.03	7.66	8.44	7.03	8.44	7.03	5.31	6.64	6.64	6.64	6.64
Open foreign currency position to shareholders' equity			4.18	4.54	5.32	8.93	7.70	7.84	8.87	7.20	8.87	7.20	7.84	8.87	7.20	8.87	7.20	5.54	6.51	6.51	6.51	6.51
Liquid assets to total assets			27.36	27.64	32.70	31.94	32.64	32.26	30.99	31.29	30.99	31.29	32.26	30.99	31.29	30.99	31.29	31.14	30.22	30.22	30.22	30.22
Liquid assets to short-term liabilities			33.77	34.71	41.42	40.36	42.02	41.61	39.80	40.57	39.80	40.57	41.61	39.80	40.57	39.80	40.57	41.10	40.79	40.79	40.79	40.79
Return on assets			0.25	0.54	0.88	0.89	1.27	1.20	0.76	0.69	0.76	0.69	1.20	0.76	0.69	0.76	0.69	1.64	1.56	1.56	1.56	1.56
Non-performing loans to total loans			24.16	23.45	24.07	22.75	20.94	18.17	19.96	18.27	19.96	18.27	18.17	19.96	18.27	19.96	18.27	15.58	13.23	13.23	13.23	13.23
Net interest income to gross income			131.15	112.60	105.96	113.09	108.92	108.54	119.10	119.79	119.10	119.79	108.54	119.10	119.79	119.10	119.79	89.46	86.66	86.66	86.66	86.66
Operating expenses to gross income			87.51	74.69	65.97	68.43	61.18	63.20	70.63	74.04	70.63	74.04	63.20	70.63	74.04	70.63	74.04	55.82	57.02	57.02	57.02	57.02

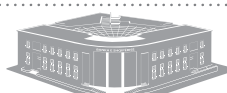
Source: Bank of Albania.



5- BANKS' SHAREHOLDERS

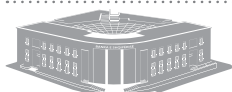
No.	Bank	Shareholders	Equity share in %	Ownership	Capital origin	Home country
1.	RAIFFEISEN BANK	Raiffeisen SEE Region Holding GmbH	100	Private	Foreign	Austria
2.	NATIONAL COMMERCIAL BANK	Çalik Finansal Hizmetler A.S.	100	Private	Foreign	Turkey
3	UNITED BANK OF ALBANIA	Banka Islamiqe e Zhvillimit (IDB)	86.70	Private	Foreign	Saudi Arabia
		Ithmaar Bank BSC	4.63	Private	Foreign	Kingdom of Bahrain
		Dallah Albaraka Holding	2.32	Private	Foreign	Saudi Arabia
		Business Fokus SDN BHD	1.47	Private	Foreign	Malaysia
		15 individuals	4.30	Private	Foreign	Saudi Arabia
		Saudi Brothers Commerce Co.	0.58	Private	Foreign	Saudi Arabia
4	INTESA SANPAOLO BANK ALBANIA	Intesa Sanpaolo S.p.A	100.00	Private	Foreign	Italy
5	TIRANA BANK	Piraeus Bank SA	98.83	Private	Foreign	Greece
		1 Individual	1.17	Private	Foreign	Greece
6	NBG BANK ALBANIA	National Bank of Greece	100.00	Private	Foreign	Greece
7	ALPHA BANK ALBANIA	Alpha Bank	100.00	Private	Foreign	Greece
8	VENETO BANK	Intesa Sanpaolo S.p.A.	100.00	Private	Foreign	Italy
9	PROCREDIT BANK	ProCredit Holding AG & CO, KgaA	100.00	Private	Foreign	Germany
10	INTERNATIONAL COMMERCIAL BANK	Financial Group ICB Holding	100.00	Private	Foreign	Switzerland
11	AMERICAN BANK OF INVESTMENTS	TRANZIT sh.p.k	100.00	Private	Domestic	Albania
12	CREDIT BANK OF ALBANIA	z. Fauzi AlKarafi	33.33	Private	Foreign	Kuwait
		z. Marzouq N.M.A. Al. Kharafi	7.3	Private	Foreign	Kuwait
		z. Bader N.M.A Al. Kharafi	7.3	Private	Foreign	Kuwait
		z. Faisal N.M.A Al. Kharafi	7.3	Private	Foreign	Kuwait
		11 individuals	44.74	Private	Foreign	Kuwait
13	CREDINS BANK	B.F.S.E. Holding B.V.	14.63	Private	Foreign	Netherlands
		SIFEM AG	2.09	Public-Private	Foreign	Switzerland
		Albanian Savings and Credit Union	2.77	Private	Domestic	Albania
		EDRO shpk	0.96	Private	Domestic	Albania
		A.F.C.	2.16	Private	Domestic	Albania
		AK - INVEST	0.96	Private	Domestic	Albania
		Prima sh.p.k.	3.22	Private	Domestic	Albania
		Renis Tërshana	24.54	Private	Domestic	Albania
		Aleksandër Pilo	16.85	Private	Domestic	Albania
		35 individuals	31.82	Private	Domestic	Albania
14	SOCIETE GENERALE ALBANIA BANK	SOCIETE GENERALE	88.89	Private	Foreign	France
		7 individuals	11.11	Private	Domestic	Albania
15	UNION BANK	European Bank for Reconstruction and Development (EBRD)	10.12	Private	Foreign	England
		Unioni Financiar i Tiranës	86.34	Private	Domestic	Albania
		2 individuals	3.54	Private	Domestic	Albania
16	FIRST INVESTMENT BANK ALBANIA	First Investment Bank	100.00	Private	Foreign	Bulgaria

Source: Bank of Albania.

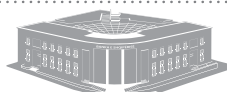


6- DATA ON SHAREHOLDERS / PARTNERS OF NON-BANK FINANCIAL INSTITUTIONS

No.	Nonbank financial institution	Partners/ Shareholders	Participation in capital in %	Owners	Origin of capital	Country of origin
1	UNION FINANCIAR TIRANË SH.A.	Edmond Leka	35	Private	Domestic	Albania
		Niko Leka	35	Private	Domestic	Albania
		Varuzhan Piranian	10	Private	Domestic	Albania
		Gjergj Misha	10	Private	Domestic	Albania
		Eduard Shima	10	Private	Domestic	Albania
2	POSTA SHQIPTARE SH.A.	Ministry of Economy, Trade and Energy	100	Public	Domestic	Albania
3	AK- INVEST SH.A.	Muhammed Kokona	35	Private	Domestic	Albania
		Ilir Adili	65	Private	Domestic	Albania
4	NOA SH.A.	NOA Holding N.V.	100% minus 1 share	Private	Foreign	Netherlands
5	FONDI BESA SH.A.	NOA Cooperatief U.A.	1 share	Private	Foreign	Netherlands
		Albanian Besa Capital Foundation	75.37%	Private	Domestic	Albania
		Bajram Muçaj	12.00%	Private	Domestic	Albania
		53 individuals	12.63%	Private	Domestic	Albania
6	FINAL SH.A.	Adrian Koni	11.45	Private	Domestic	Albania
		Ali Vishaj	8	Private	Domestic	Albania
		Balfin sh.p.k	40.43	Private	Domestic	Albania
		RIVER STYX CAPITAL sh.a.	40.12	Private	Foreign	Bulgaria
7	SHOQËRIA E PARË FINANCIARE E ZHVILLIMIT - FAF SH.A.	Ministry of Finance	100	Public	Domestic	Albania
8	RAFFEISEN LEASING SH.A.	Banka Raiffeisen sh.a.	100	Private	Domestic	Albania
9	LANDESEASE SH.A.	Banka Union sh.a.	100	Private	Domestic	Albania
10	AGRO & SOCIAL FUND SH.P.K.	Fondi Besa SH.A.	100	Private	Domestic	Albania
11	CAPITAL INVEST SH.A.	Gëzim Balisha	34.88	Private	Domestic	Albania
		Arben Zeneli	46.5	Private	Domestic	Albania
		4 individuals	18.62	Private	Domestic	Albania
		New Century Holdings XI, L.P.	35	Private	Foreign	Cayman Isl
12	TRANZIT SH.P.K.	NCH Balkan Fund, L.P.	35	Private	Foreign	Cayman Isl
		Andi Ballta	30	Private	Domestic	Albania
		Qemal Disha	52.55	Private	Domestic	Albania
13	ALBANIAN FACTORING SERVICES (AFS) SH.A.	Andi Memi	16.78	Private	Domestic	Albania
		Shpati Hoxha	17.95	Private	Domestic	Albania
		Eris Hoxha	12.72	Private	Domestic	Albania



14	M - PAY SH.P.K.	Ludovic Laventure FAB -GROUP shpk.	100	Private	Foreign	France
15	OMNIFACTOR SH.P.K.		100	Private	Domestic	Albania
16	PLATINIUM INVESTMENT SH.P.K.	Andri Kasneci	100	Private	Domestic	Albania
17	TIRANA FACTORING & LEASE SH.A.	Rolandi Manushi	40	Private	Domestic	Albania
		Ervin Aliq	40	Private	Domestic	Albania
18	PORSCHE LEASING SH.P.K.	Endrit Beqaj	20	Private	Domestic	Albania
		Porsche Bank Aktiengesellschaft (AG)	100	Private	Foreign	Austria
		slamic Corpor. for Development of Private Sector (ICD)	35.64	Private	Foreign	Arabia Saudite
19	ALBANIA LEASING SH.A.	National Commercial Bank	29.98	Private	Domestic	Albania
		ND BALKAN DOOEI, Tetovo	21.88	Private	Foreign	Macedonia
		KOLON WORLD INVESTMENT CO	12.5	Private	Foreign	Hong Kong
20	VODAFONE MPESA SH.P.K.	Vodafone Albania sh.a.	100	Private	Domestic	Albania
21	IUTECREDIT ALBANIA SH.A.	AS IUTECREDIT EUROPE	100	Private	Foreign	Estoni
22	AGRO PARTNER SH.P.K.	Arian Ilda	100	Private	Domestic	Albania
		ALBANIAN - AMERICAN DEVELOPMENT FOUNDATION (AADF)	25	Private	Foreign	USA
23	CRIMSON FINANCE FUND ALBANIA SH.P.K.	CRIMSON CAPITAL CORP	25	Private	Foreign	USA
		NORWEGIAN INVESTMENT FUND FOR DEVELOPING COUNTRIES (NORFUND)	25	Public	Foreign	Norway
		Municipality of Tirana	25	Public	Domestic	Albania
24	EASYPAY SH.P.K.	Lindita Shomo	100	Private	Domestic	Albania
25	KASTRATI SH.P.K.	Shfaqet Kastrioti	100	Private	Domestic	Albania
26	PAY AND GO SH.P.K.	Untag Community limited	100	Private	Foreign	United Kingdom
27	MICRO CREDIT ALBANIA SH.A.	Elda Ibro	100	Private	Domestic	Albania
		Arta Gurabardhi	20	Private	Domestic	Albania
28	ALBANIAN FINANCIAL INSTITUTION SH.P.K.	Besnik Leskaj	60	Private	Domestic	Albania
		Redjan Basha	20	Private	Domestic	Albania
29	RAEA FINANCIAL SERVICES SH.P.K.	Relianda Zhelegu	100	Private	Domestic	Albania
30	MOGO ALBANIA SH.A.	MOGO FINANCE S.A., Luksemburg	100	Private	Foreign	Luxembourg
31	KREDO FINANCE	Aigars Kesenfelds	100	Private	Foreign	Latvia



7- BANK BRANCHES AND AGENCIES IN ALBANIA, BY REGION

No.	Region	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	Tirana	210	210	212	218	213	203	204	207	197
2	Durrës	51	54	54	55	53	51	51	49	49
3	Fier	45	44	44	43	42	42	41	39	38
4	Elbasan	29	30	30	30	30	28	29	29	27
5	Korça	38	38	37	37	38	35	35	34	31
6	Shkodra	24	25	25	25	24	22	22	22	22
7	Vlora	39	41	41	42	41	37	37	35	32
8	Lezha	26	25	26	25	24	23	23	23	22
9	Berat	21	20	21	21	22	20	20	20	20
10	Gjirokastra	24	24	24	23	23	20	20	18	17
11	Kukës	9	9	10	9	9	9	9	8	8
12	Dibra	8	9	10	10	10	9	9	9	9
TOTAL		524	529	534	538	529	499	500	493	472

Source: Bank of Albania.

8- E-BANKING PRODUCTS APPROVED BY THE BANK OF ALBANIA

Electronic products	2008	2009	2010	2011	2012	2013	2014	2015	2016*	2017
Debit cards	3	4								1
Credit cards	2	4	1							
ATM	2	2								
POS	2	1					2	1		
Internet banking	3	2	2							
Phone banking	1									
Mobile banking / SMS banking	1	1	1	1	1	2	2			1
Prepaid Card				1						
POS Virtual (e-Commerce)						2				
PayBox								1		

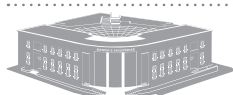
Source: Bank of Albania.

*There has been no licensing of these activities in 2016

9- E-BANKING PRODUCTS/SERVICES, BY COMMERCIAL BANKS, AS AT END OF 2017

BANKS	ATM	POS	POS Virtual	PayBox	Internet Banking	Phone banking	Mobile / SMS banking	Electronic card (debit, credit, prepaid)
RAIFFEISEN BANK	√	√	√		√		√	√
NATIONAL COMMERCIAL BANK	√	√			√		√	√
TIRANA BANK	√				√	√	√	√
NBG ALBANIA BANK	√							√
ALPHA BANK ALBANIA.	√	√			√		√	√
PROCREDIT BANK	√	√		√	√			√
FIRST INVESTMENT BANK ALBANIA	√				√			√
CREDINS BANK	√	√	√		√			√
UNION BANK	√	√			√		√	√
SOCIETE GENERALE BANK ALBANIA	√				√		√	√
INTESA SANPAOLO BANK ALBANIA	√	√			√		√	√
VENETO BANK	√	√			√			√
INTERNATIONAL COMMERCIAL BANK	√						√	√
AMERICAN BANK OF INVESTMENTS	√				√			√
UNITED BANK OF ALBANIA								√

Source: Bank of Albania.



10- LIST OF ENTITIES LICENSED BY THE BANK OF ALBANIA BY YEAR

No	Entities	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	Banks and branches of foreign banks	17	17	16	16	16	16	16	16	16	16	16	16	16
2	Non-bank financial institutions	7	6	6	7	13	17	19	21	21	22	27	28	31
3	Foreign exchange bureaus	58	60	112	189	221	284	301	322	333	356	397	428	426
4	Savings and Loan Associations	131	125	130	133	135	126	126	126	121	113	111	13	13
5	Unions of savings and loan associations	2	2	2	2	2	2	2	2	2	2	2	2	1

Source: Bank of Albania.

11- DATA ON BANKING SERVICES AS AT THE END OF 2017

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of banks	17	16	16	16	16	16	16	16	16	16	16	16
Number of employees	4,189	5,155	6,493	6,404	6,384	6,714	6,836	6,686	6,819	6,819	6,949	6,877
Number of branches/ agencies in the country	294	399	511	524	529	534	538	529	499	500	493	472
Average number of employees per												
- Bank	246	322	406	400	399	420	427	418	426	426	434	430
- Banking unit	14	13	13	12	12	13	13	13	14	14	14	15
Number of population (000)	2,982	2,958	2,936	2,919	2,907	2,902	2,899	2,896	2,893	2,886	2,876	2,870
Number of population per:												
- Bank	175,412	184,875	183,500	182,438	181,688	181,375	181,188	181,000	180,813	180,375	179,750	179,375
- Banking unit	10,143	7,414	5,746	5,571	5,495	5,434	5,388	5,474	5,798	5,772	5,834	6,081
- Bank employee	712	574	452	456	455	432	424	433	424	423	414	417

Source: Bank of Albania and INSTAT

*Population data after 2011 are calculated based on projection.

12- BANKS NETWORK AS AT THE END OF 2017

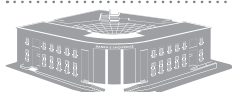
Nr.	Banks	No. of branches in Albania	No. of agencies	No. of branches abroad	Total No. of agencies
1	Raiffeisen Bank	48	28		76
2	National Commercial Bank	64	3	1	68
3	United Bank of Albania	4	2		6
4	Veneto Bank	15			15
5	Tirana Bank	36	3		39
6	NBG Albania	26	1		27
7	International Commercial Bank	5			5
8	Alpha Bank - Albania	34			34
9	Intesa Sanpaolo Bank Albania	29	3		32
10	ProCredit Bank	9	6		15
11	Amerian Bank of Investments	12	7		19
12	Credit Bank of Albania	1	1		2
13	Credins Bank	47	11		58
14	Société Générale Bank Albania	38			38
15	Union Bank	16	14		30
16	First Investment Bank Albania	1	8		9
	TOTAL	385	87	1	473

Source: Bank of Albania.



13- SUPERVISION REGULATIONS IN FORCE, AS AT 31 DECEMBER 2017

- 1- Regulation "On the bank's investments in the equity of commercial companies" Approved by the Supervisory Council Decision No. 42, dated 06.06.2001
- 2- Guideline on "Certificates of deposits" Approved by the Supervisory Council Decision No. 79 dated 03.10.2001
- 3- "Manual on corrective actions to banks and branches of foreign banks in the Republic of Albania", approved by the Supervisory Council Decision No.51, dated 26.06.2002.
- 4- Guideline "On reporting of foreign exchange operations", approved by the Supervisory Council Decision No. 69, dated 30.07.2003.
- 5- Regulation "On supervision of electronic banking transactions", approved by the Supervisory Council Decision No. 28, dated 30.03.2005
- 6- Regulation "On use of information and communication technology in entities licensed by the Bank of Albania", approved by the Supervisory Council Decision No. 32, dated 03.05.2006
- 7- Regulation "On licensing, organization and supervision of foreign exchange bureaus", approved by the Supervisory Council Decision No. 31 dated 06.06.2007 and amended by Decision No. 73 of 27.11.2007, decision no. 82, dated 14.12.2011, decision no. 31, dated 30.04.2014 and decision no. 48 dated 30.03.2016.
- 8- Regulation "On the management of risk in the activity of branches of foreign banks", approved by the Supervisory Council Decision No. 57 of 15/10/2007 and amended by Decision No. 62 of 29/08/2008.
- 9- Unified Reporting System on Branches of Foreign Banks, approved by the Supervisory Council Decision No. 58 of 15.10.2007
- 10- Regulation "On electronic payment instruments", approved by the Supervisory Council Decision No.11 of 06.02.2008 and amended by Decision no.03, dated 17.01.2013 and by Decision no. 122, dated 09.11.2016
- 11- Regulation "On transparency for banking and financial products and services" approved by the Supervisory Council Decision No. 59 of 29/08/2008 amended by Decision No. 14 of 09/03/2011 and decision no.25, dated 3.5.201
- 12- Regulation "On the minimum requirements for disclosure of information by banks and branches of foreign banks", approved by the Supervisory Council Decision No. 60, dated 29.08.2008 and amended with the Decision No. 25, dated 10.04.2015
- 13- Document on "Reporting Methodology and content of financial reports" approved by the Supervisory Council Decision No. 95, dated 24.12. 2008
- 14- Document on "Licensing policy of banking entities", approved by the Supervisory Council Decision No. 12, dated 25.02.2009
- 15- Regulation "On granting the license to banks and branches of foreign banks to



- conduct banking business in the Republic of Albania" approved by the Supervisory Council Decision No. 14, dated 11.03.2009 and amended by Decision No. 33, dated 11.05.2011, Decision No. 28, dated 16.05.2012, Decision No. 55, dated 01.10.2014 and Decision No. 15, dated 03.02.2016
- 16- Regulation "On prevention of money laundering and financing of terrorism" approved by the Supervisory Council Decision No. 44, dated 10.06.2009 and amended by Decision No. 55 dated 28.08.2013 and by decision no. 22, dated 05.04.2017
- 17- Regulation "On reporting to the Bank of Albania according to the Unified Reporting System", approved by Supervisory Council decision no. 45, dated 10.06.2009 and amended by decision no. 61, dated 06.08.2015, decision no. 80 dated 06.07.2016 and by decision no. 58 dated 03.10.2017
- 18- Regulation "On foreign exchange activity", by Supervisory Council decision no. 70, dated 30.09.2009 and amended by decision no. 07, dated 28.01.2015.
- 19- Regulation "On liquidity risk management", approved by the Supervisory Council Decision No. 71 of 14/10/2009 and amended by Decision No. 75 dated 26.10.2011 and the Decision No. 28 of 27.03.2013
- 20- Regulation "On defining the decision-making level in the supervision of banking and financial activities", approved by the Supervisory Council Decision No. 36, dated 26.05.2010 and amended by decision no. 54, dated 12.09.2012 and by decision no. 29, dated 07.06.2017.
- 21- Regulation "On the open foreign exchange positions risk management", approved by the Supervisory Council Decision No. 48, dated 14.07.2010.
- 22- Regulation "On the content of information and functioning of Credit Registry at the Bank of Albania", approved by the Supervisory Council Decision No. 67 dated 13.10.2010
- 23- Guideline "On the procedure for issuing a report on the borrower and reviewing data retained at the Credit Registry", approved by the Supervisory Council Decision No. 68 dated 13.10.2010
- 24- Decision "On the approval Fees charged with regard to the use of information retained at the Credit Registry of the Bank of Albania", approved by the Supervisory Council Decision No. 69, dated 13.10.2010
- 25- Manual "On conservatorship and liquidation", approved by the Decision of the First Deputy Governor of the Bank of Albania dated 31.12.2010
- 26- Regulation "On operational risk management", approved by the Supervisory Council Decision No. 03 dated 19.01.2011
- 27- Regulation "On authorized chartered auditors of banks and branches of foreign banks", approved by the Supervisory Council Decision No. 42 dated 15.06.2011
- 28- Regulation "On the management of credit risk from banks and branches of foreign banks" approved by the Supervisory Council Decision No. 62, dated 14.09.2011 and amended by decision no. 27, dated 27.03.2013, decision no. 22, dated 27.02.2014, decision no. 26, dated 01.04.2015 and by decision no. 50 dated 30.03.2016



- 29- Regulation "On the establishment, licensing and functioning of the bridge bank" approved by the Supervisory Council Decision No. 27 dated 16.05.2012
- 30- Regulation "On core management principles of banks and branches of foreign banks and the criteria for approving their administrators", approved by the Supervisory Council Decision No. 63, dated 14.11.2012 and amended by decision no. 73, dated 6.12.2017
- 31- Regulation "On the granting of license to non-bank financial institutions", approved by the Supervisory Council Decision No. 1, dated 17.01.2013 and amended by decision no. 47, dated 30.03.2016, by decision no. 121, dated 09.11.2016 and by decision no. 47, dated 06.09.2017
- 32- Regulation "On risk management in the activity of non-bank financial institutions", by the Supervisory Council Decision No.2, dated 17.01.2013 and amended by decision no. 46, dated 06.09.2017
- 33- Guideline "On managing interest rate risk in the banking book", approved by the Supervisory Council Decision No. 33, dated 30.04.2013
- 34- Regulation "On capital adequacy ratio", approved by Supervisory Council Decision No. 48, dated 31.07.2013, amended by Decision No. 43, dated 30.07.2014, Decision No.70, dated 18.12.2014, Decision No. 49, dated 01.07.2015 and Decision No. 91, dated 02.12.2015 and Decision No. 49, dated 30.03.2016 and decision No.5, dated 01.02.2017
- 35- The reporting system for non-bank financial institutions, approved by the Supervisory Council Decision 65, dated 30.10.2013
- 36- The document "Supervision Policies", approved by Supervisory Council Decision No. 09, dated 26.02.2014
- 37- Regulation "On managing risk arising from large exposure of banks", approved by Supervisory Council Decision No. 10, dated 26.02.2014, amended by Decision No. 20, dated 04.03.2015 and Decision No. 50, dated 01.07.2015
- 38- Regulation "On regulatory capital", approved by the Supervisory Council Decision No. 69, of 18.12.2014 and amended by the Decision No. 19, dated 04.03.2015
- 39- Document "On recognition of ECAs", approved by Order of the First Deputy Governor of the Bank of Albania. No. Prot./1883, dated 22.04.2015
- 40- Regulation "On consumer and mortgage loans to households", approved by the Supervisory Council Decision No. 48, dated 01.07.2015.
- 41- Regulation "On the internal control system", approved by the Supervisory Council Decision No. 67, dated 02.09.2015, and amended by decision no. 74, dated 06.12.2017.
- 42- Regulation "On minimum security requirements regarding premises where banking and financial activities are conducted and transportation of monetary values", approved by Supervisory Council Decision No.67, dated 01.06.2016 and amended by the Decision No. 107, dated 05.10.2016.



- 43- Regulation "On licensing and exercising of the activity of savings and loan associations and their unions" approved by Supervisory Council Decision No. 104, dated 05.10.2016
- 44- Regulation "On management of risk in the activity of savings and loan associations and their unions" approved by Supervisory Council Decision No. 105, dated 05.10.2016
- 45- The reporting system of savings and loan associations and their unions, approved by the Supervisory Council Decision No. 106, dated 05.10.2016
- 46- Regulation "On consolidated supervision", approved by Supervisory Council Decision No. 04, dated 01.02.2017
- 47- Guideline "On the internal capital adequacy assessment process", approved by Supervisory Council Decision No 26, dated 03.05.2017
- 48- Guideline "On recovery plans in banks", approved by Supervisory Council Decision No.72, dated 06.12.2017 (entry into force on 05.01.2018)



