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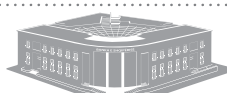
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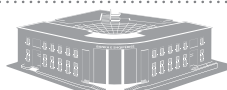
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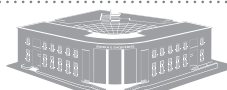
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## 1. THE FUNCTION OF SUPERVISION

The main objective of the Function of Supervision is early identification of risks along with evaluation of internal control and the efficiency of corporate governance. Risks which can be identified in this process include credit risk, liquidity risk, operational risk, interest rate risk, capital profitability risk, reputational risk and money laundering. Internal control and efficient corporate governance are important risk-mitigating factors in the activity of banks, non-bank financial institutions, and other institutions licensed by the Bank of Albania. Other steps towards successfully meeting the ultimate goal - preserving the soundness of financial institutions - include timely action and effective regulatory measures, which can be provided through continuous supervision, and through evaluation of banking supervision.



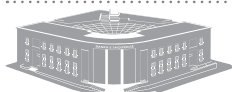
## 2. KEY DEVELOPMENTS AND PRIORITIES

The signing of the memorandum of understanding between the Bank of Albania and the European Central Bank (ECB) on banking supervision, deemed as a pivotal development among our priorities, attaches importance to the Bank of Albania establishing a more structured and formalized cooperative relationship with the most important institution of the European Union (EU). It sets out the modalities of bilateral cooperation between the two institutions, providing for exchanging information and conducting effective supervision.

In the framework of cooperation with counterpart authorities, we have participated in three supervisory colleges organized for the European-based banking groups that also operate in Albania. Even though Albania participates as an observer in the college, assessments of the activity of subsidiaries in Albania have been considered and submitted in the framework of risk management at group level. In 2018, there was also a regular flow of information related to assessment of the group recovery plan as well as the determination of capital requirements. In the framework of the coordination of supervisory activities, this year, a joint (targeted) examination was conducted with the ECB supervisors in one of the banks, whose group is based in the EU.

Due to consolidation of the structure of participants, structural developments and ownership changes took place in the banking system in 2018. This brought the number of banks to 14 and potentially to 12 with the absorption of one bank already in the process of finalization and the voluntary liquidation of another bank. These trends will be closely monitored in the period ahead. In this context, the following events have occurred or are in process:

- The merger by absorption of two banks in the system. The process was dictated by developments in the home country, rather than as a need arising in the domestic market. Consequently, the Intesa SanPaolo Bank acquired and merged with Veneto Bank, after the latter declared bankruptcy and was purchased by Intesa SanPaolo Bank in Italy.
- The American Bank of Investments acquired and merged with the NBG Bank Albania. This event was sustained by the banking system restructuring plan in Greece to reduce exposure outside Greece, in the framework of the NBG Bank's Restructuring Plan, and in line with its commitments to the European Commission.
- Union Bank acquired the International Commercial Bank. This event was determined by the decision of its shareholders to leave the Albanian market, but also by the Union Bank's earlier ambition to expand in the domestic market through the absorption of an existing bank.





- Tirana Bank, formerly part of the Piraeus Group, for the same reasons as the NGB Bank, concluded the sale of its shares to Balfin Group shpk and Banka Komercijalna A.D. Skopje. This transaction was approved by the Supervisory Council of the Bank of Albania in February 2019.
- Societe Generale Albania Bank realized the sale to the Hungarian OTP Bank Nyrt as part of the parent bank's strategy to withdraw in general from the Balkan region.
- Lastly, the shareholders of the Credit Bank of Albania decided on the voluntary liquidation of the bank, which is expected to be finalized during the first half of 2019.

The aforementioned events are a realization of trends shown in recent years for the consolidation of the banking market. The most significant changes to be expected have already occurred. As a result of these changes, the share of domestic capital has increased, and it is expected to boost banking activity. Supervision will hence be focused on preserving the quality of risk management and financial soundness indicators.

**Exposure to credit risk** - identified as the most significant risk, based on the volume and share of activity, the impact on a bank's financial position and the dominant capital requirement declined considerably. The primary ratio, non-performing loans to total loan portfolio, reached 11.08% at the end of 2018, thus approaching the level of similar periods a decade ago. This ratio decreased by 2.15 p.p., as the NPLs decreased by approximately ALL 15.2 billion or around 19%, mainly as a result of events related to write-off of NPLs and other solutions.

Despite continuous reduction of the risk to this category of exposure, as part of its approach to addressing issues in a sustainable and inclusive manner - *identified as a supervisory priority for 2018* - the Bank of Albania remains committed to providing best solutions and to realizing all its commitments under the national plan for the reduction of NPLs. For this purpose, the Bank of Albania prepared a **draft-regulation on out-of-court settlements for borrowers**, which was discussed in several meetings with banks during the year and in written communication. Exchanging opinions and reflecting them in the draft-regulation took some time for all the stakeholders due to the complex nature of establishing a viable and well-coordinated form of cooperation between banks. Meanwhile, important issues regarding credit risk management were discussed during the meetings organized with the banks, such as the use of borrowers' official financial statements and a study of Deloitte on financial sustainability of the largest enterprises in the country. This study was funded by the World Bank FinSAC project.

The Bank of Albania is part of the discussion process for establishing the **Credit Bureau**, of which the European Bank for Reconstruction and Development and the Albanian Association of Banks are a part. Discussions between the parties



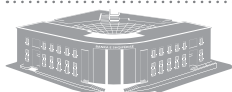
began in 2016 and in the last year several meetings were held to discuss the main issues regarding models that could be applied for the establishment of this Bureau, its institutional positioning, the governing structure and means of financing. The final stand regarding the issues under discussion is expected to be clarified in 2019.

One of the supervisory novelties, which was presented in the last year's report as well, was the inclusion, in 2018, of reporting by banks of internal assessment of capital under the framework of an **"Internal Capital Adequacy Assessment"** document. Review and concluding analysis of these reports, including **"Recovery Plans"**, has been a particular challenge, requiring a relatively long period of time and a comprehensive focus. These two documents represent a complete self-evaluation of bank's capabilities to control and cope with risk levels that arise during ordinary business, and to recover from a difficult financial situation. Specifically,

- The first assessment of this document evidenced the quantitative effects calculated by banks, compliance with regulatory requirements and some shortcomings of a wider and more qualitative inclusion of risks with potential effects on capital requirements. This assessment showed that the information contained in these documents was not sufficient for the Bank of Albania to agree on a minimum capital adequacy ratio for banks, which is expected to be the end result of this process. The identified issues were presented to banks in the framework of a formalized written communication at the beginning of 2019, which is expected to be ongoing in order to enhance the quality of preparation of this document in the future.
- During 2018, recovery plans have been subject to enhanced regulatory requirements, and assessed through close communication with banks, as well as with the World Bank's valuable assistance. While the quality of the drafted plans has increased, there are still elements that need to be improved for more complete integration with the internal risk management framework as well as with the strategies and objectives at individual and group level.

**In terms of improving supervision processes**, a development process as defined in previous reports, we are in the final phase of finalizing two projects assisted by EBRD and WB. Specifically,

- With the assistance of the European Bank for Reconstruction and Development (EBRD), an assessment of internal supervision of risk assessment procedures was carried out, mainly of organizational and credit risk. In addition, the relevant regulatory framework was assessed, accompanied by concrete proposals for change. Based on these assessments, a plan for their implementation was drafted, including training for employees of banks and of the Supervision Department.



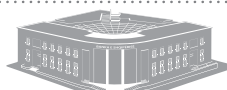
- With the assistance of the World Bank and Grant Thornton, a draft document for communication and exchange of information and evaluation of external auditors was prepared, to improve the quality of control for both banks and auditors. Defining guidelines and preparing for the implementation of international standards of reporting in the field of banking supervision and reporting is another objective of this project, which remains to be evaluated during 2019.

In the first half of this year, the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) **completed the fifth round of evaluation of Money Laundering and the Financing of Terrorism**, a process that was launched and has been reported on since 2017. The evaluation, where the Bank of Albania has played a special supporting role as the supervisor of most institutions in the financial market, was concluded in July 2018, with the adoption of the evaluation report in the Moneyval's plenary session. According to this report, financial institutions were assessed at the "substantial/significant" level of effectiveness, at which banks present a good understanding of the risks of money laundering and financing of terrorism, legal obligations, and generally have taken proper measures proportionate to the estimated risk level for the prevention of money laundering and of the financing of terrorism.

The evaluation process was accompanied by several recommendations and a subsequent plan of measures to address the main issues identified in the report, whose fulfilment will continue throughout 2019. In this context, the Bank of Albania has drafted its own action plan, and is committed to achieving necessary improvements in the regulatory framework and strengthening the effectiveness of the supervisory process by May 2019. Also, co-operation with the General Directorate for the Prevention of Money Laundering continued intensively during the year. In the framework of Moneyval's evaluation process this cooperation took the form of joint inspections as well as contributions to reviewing the legal framework on anti-money laundering issues.

In view of fulfilling the priorities set for 2018, the Bank of Albania has drafted the regulatory framework envisaged in accordance with Basel III and has also carried out the process of equivalence. More detailed information about these elements is provided in the following sections of this document.

Lastly, in support of its mission, the Bank of Albania, through the Supervision Department, continued its normal activity of monitoring the financial system, mainly banks. This was done through **on-site inspections and off-site analyses**, assessing the measure of exposure against individual risks and the control environment for their management as well as **reviewing/improving the regulatory framework and licensing of entities and other activities**.



## 2.1 ON-SITE EXAMINATIONS

Full-scope and partial examinations were conducted in 7 banks, 10 non-bank financial institutions and 31 foreign exchange bureaus during 2018. The main focus was placed on the examination of banks, which have the main share of financial market activity. Special attention has been paid to banks that are in acquisition/merging processes, or banks with high growth rates. From the above-mentioned, examinations of 5 banks, 7 non-bank financial institutions and 8 foreign exchange bureaus were conducted in cooperation with the General Directorate of the Prevention of Money Laundering. Examination of one bank was conducted jointly with the Financial Supervisory Authority.

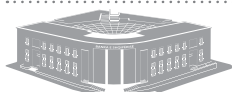
Table 1 Number of examinations by year of institution and topic

Examined institutions	Strategic Risk	Organisational Risk	Credit Risk	Liquidity Risk	Interest Rate Risk	Market Risk	ICT Risk	Operational Risk	Reputational Risk	Profitability Risk	Capital Risk
2016*	6	7	8	6	7	7	7	7	8	6	8
2017	9	12	13	10	10	9	11	8	11	10	11
2018	8	10	9	8	8	8	9	8	48	9	8

\* In 2016, 14 joint examinations were carried out with the Deposit Insurance Agency (DIA) in Savings and Loan Associations where the Bank of Albania was present to support the DIA.

The areas in which the examination recommendations were focused during 2018 can be summarized as follows:

- Increasing the role of the Steering Council during the drafting of strategic plans (including planning of capital needs), as well as overseeing their implementation;
- Ensuring a proper balance between dependent and independent members of the Steering Council;
- Adapting and completing organizational structure in accordance with the pace of activity growth and providing appropriate incentive and reward systems;
- Strengthening internal control systems, increasing work quality and independence of control structures;
- Careful implementation of investment policies by avoiding complex instruments that have no known ratings;
- Diligent treatment of borrower groups, as well as strengthening of eligibility criteria during financial analysis of loans; reclassification of borrowers and creation of additional provisions;
- Deepening analysis related to liquidity risk and interest rate risk;
- Increasing ICT support, strengthening security programs, regular risk assessment, revision of business continuity plans, staff increases;
- Accurate application of regulatory requirements for calculating capital indicators;



- Increased attention to AML measures, application of automated control systems, staff training.

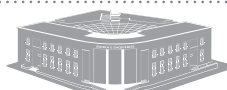
Banks generally reacted in a timely manner to recommendations, taking appropriate measures to ensure compliance at all times with regulatory requirements.

With regard to **non-bank financial institutions**, the attention of 2018 has been on those institutions that are part of banking groups, in order to comprehensively assess these groups. Overall, the results were positive, evidencing a careful management of risks across the group, in line with regulatory restrictions for related parties. The supervisory focus of this year was also on micro-credit and on payment institutions. Issues identified during the examinations relate to the re-classification of loan portfolios and respective effects in financial statements, risk management from open foreign exchange positions, improvement of internal governance frameworks, internal control systems. The on-site supervisory process for these entities focused also on assessing the level of transparency with customers. It has been concluded that those institutions with consolidated experience in the market generally provide a higher level of transparency and attention to customer complaints. However, newer institutions, albeit compliant with legal and regulatory requirements, still have room to improve the level of transparency. Recommendations have been left at the end of the examinations for any necessary improvements.

The supervisory process also includes monitoring the implementation of recommendations as well as rapid response in case of potential risks or infringement of indicators reported by banks and non-bank financial institutions. In 2018, besides the on-site examinations, we had frequent correspondence and communication with all institutions in response to events or developments that could potentially affect their financial situation. These were coupled with specific supervisory measures and requirements. The Bank of Albania has also been heedful to international developments, notably the crises in Turkey; restrictive and preventive measures have been taken for banks with exposures to this country.

## 2.2 PRIORITIES PLANNED FOR 2019

The 2018 developments in **bank consolidation** changed the landscape of market actors by heralding innovation in banking developments. Other changes are expected in the upcoming year in relation to banks' shareholders. At this phase of the process, attention will be paid to adopting notified changes as well as monitoring and closely supervising them to assess development strategies and their implementation, reviewing risk management strategies and internal processes, in order to ensure compliance with regulatory and supervisory expectations.



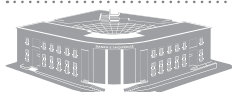
Despite the continuous decline of **non-performing loans**, this risk remains the main focus of supervision. Measures taken by the Bank of Albania in cooperation with other governmental authorities have provided sufficient impact to mitigate this phenomenon. Banks have also been active in relation to individual solutions for borrowers, yet the current risk level remains high. During the current year, the regulatory framework coming into force for the treatment of common borrowers in financial distress will be added to the supervision of banks' plan for the reduction of non-performing loans, and the monitoring of risk management processes. This cooperation platform is expected to bring a new unified way to treat borrowers and to improve the effectiveness of solutions.

The **Screening Report** in the context of the *Acquis Communautaire* is one of the national developments that involves many institutions. On its basis, the European Commission will assess Albania to determine whether capacities are in place to launch negotiations on the relevant chapters. The Bank of Albania is responsible for some of the chapters and based on the outcome of the Report it will review the approximation of regulatory acts related to the activity of credit institutions (banks), and other relevant institutions.

**Approximation of the regulatory framework** remains a continuous process because of the need and objectives to achieve the best standards and because of constant changes in European reference acts. Approximation with Basel III will be a novelty of the current year with primary attention being given to regulatory acts related to liquidity indicators, large exposures and the stress tests that banks have to carry out.

Fulfilment of **Moneyval Committee recommendations** will concern technical aspects (improvement of the legal and regulatory framework), effectiveness related to a number of issues in the field of legal and regulatory framework implementation, and inter-institutional cooperation. In this framework, in pursuance of the national action plan for the implementation of Moneyval's recommendations, the Bank of Albania's duties, in addition to those that arise for all institutions that have a specific role under the law, envisage a considerable number of activities dedicated only to on-site assessment of the governing framework of financial institutions and their effectiveness. Activities are intended to be carried out primarily in cooperation with the GDPML by maximizing synergies and effectiveness, but also independently.

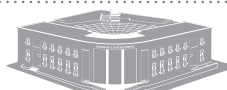
**The Supervisory Review and Evaluation Process** will be reviewed in the light of regulatory changes and, for the first-time, introduction by banks in 2018 of the internal assessment of capital adequacy. This is also one of the most important supervisory references, as defined by the Basel Committee. This year's work will consist in increasing the quality of their evaluation to give due attention to all risks to which banks are exposed. Meanwhile, recovery plans will be reviewed under a new perspective when they are expected to be prepared by banks based on the capital assessment document. For this process, as well as for those aforementioned, we will rely on the assistance



of the International Monetary Fund for a full implementation of international practices.

During the year, review of the supervisory manual will be completed by updating it to reflect issues of **corporate governance** which had been identified in the project supported by the European Bank for Reconstruction and Development and with the assistance of Deloitte. These reviews of the risk assessment manual foresee a deeper review of corporate governance issues in banks and consequently their full assessment. Likewise, all regulatory acts affected by these changes will be reviewed.

At the end of a project supported by the World Bank and with assistance from Grant Thornton, the supervision process will be enriched with an internal document that will methodically guide the **communication process between supervisors and auditors**. This process creates opportunities for improving and increasing the level of control of banks, including, to a greater extent, external auditors in the function of supervisory interests.



### 3. REGULATORY FRAMEWORK

The drafting and review of the supervisory regulatory framework aims at supplementing and improving it, in order to carry out more effective supervision, in compliance with legal requirements and aims for approximation with latest developments in EU regulatory acts and Basel documents.

Banks or other institutions licensed and supervised by the Bank of Albania played an important role in the process of drafting and reviewing regulatory supervision acts, contributing with their comments and suggestions on these regulatory changes.

During 2018, the Supervision Department also contributed to the working group for the draft-law "On payment services", in the framework of the Bank of Albania's efforts to approximate the legal framework of the European Directive on Payment Services (PSD2).

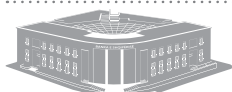
Special attention was paid to drafting new regulatory acts or revising existing ones, in the light of the approximation of the regulatory framework with the requirements of Basel III. This resulted in the production of the draft-regulation "On the Liquidity Coverage Ratio", which aims at introducing a new liquidity indicator in the regulatory framework of the Bank of Albania, the draft-guideline "On bank stress tests", review of the regulation "On regulatory capital of the bank" and drafting of new acts on early interventions, in accordance with the provisions of the law on recovery and resolution in banks.

- **Approval of amendments to the regulation "On consumer credit and mortgage credit" (approved by decision no. 27, dated 4.4.2018, of the Supervisory Council of the Bank of Albania)**

Regulatory changes aimed at further approximation with the requirements of the Directive 2014/17/EU, which regulates consumer and mortgage credit agreements for individuals through increased supervision requirements regarding consumer protection. The following Box presents in greater detail the changes made to this regulation.

- **Adoption of amendments to the regulation "On capital adequacy ratio" (approved by decision no. 34, dated 2.5.2018, of the Supervisory Council of the Bank of Albania)**

Amendments to this regulation consisted in the repeal of one of the counter-cyclical measures imposed on banks in 2013, which established additional





capital requirements, in the case of increased net investment by banks, in non-resident financial institutions.

#### **BOX 1 CHANGES TO THE REGULATION "ON CONSUMER CREDIT AND MORTGAGE CREDIT"**

*The Bank of Albania approved amendments to the regulation "On Consumer Credit and Mortgage Credit", by the Supervisory Council's Decision No 27, dated 4.4.2018.*

*The amendments to this Regulation were aimed at further approximation with the requirements of the Directive 2014/17 / EU (On credit agreements relating to residential immovable property), which regulates consumer credit and mortgage credit agreements for households, whilst ensuring a high level of consumer protection, and driven by the Bank of Albania's initiative to reduce the level of euroization in the Albanian financial system.*

*More concretely, the main amendments to the regulation "On consumer credit and mortgage credit" consist of:*

- a) *The introduction of the definition of: "bundling practice" and "tying practice", as well as the stipulation for prohibiting tying practices such as those practices that are not in their interest and for allowing bundling practices that can be beneficial to consumers in terms of providing products/services that are less costly and that facilitate or ensure the credit repayment process;*
- b) *Provision of the requirement that the reference indicator used by the bank when calculating the variable interest rate should be clear, usable, objective and verifiable in each case by the parties to the credit agreement;*
- c) *the addition of some requirements for inclusion in pre-contractual information and loan contracts:*
  - i. *The right of the consumer to replace used collateral, with another collateral, as well as articulation of the requirements to be met in order to be entitled to this right. This right that is now offered to the customer provides more flexibility for him by allowing different collaterals for the bank during the lifetime of the loan, conditional to the fulfilment of terms previously set by the bank in the credit agreement;*
  - ii. *Provision by the bank of options (if available) for the mitigation of exchange rate risk, to which the consumer is exposed, when the currency of the loan is different from the currency in which the consumer generates his income.*
- d) *Providing the consumer's right to demand conversion of the credit in the currency in which he generates his income, and this conversion can only be realized based on the bank's analysis or evaluations, as well as on the bank's obligation to notify the consumer if, as a result of the exchange rate change, the loan instalment equivalent increases by more than 20% from the value that would result if it was to use the exchange rate of the date of signing the contract and the consumer's right to convert the loan in the currency in which he generates his income; the addition of these provisions to the regulation aims to increase transparency and enhance consumer protection, particularly*

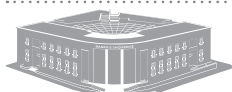


- in cases where significant fluctuations of exchange rate occur, which would lead to an increase of the consumer's exposure to the bank, expressed in terms of the local currency.*
- e) *an increase in the demand for the bank to provide an illustrative example for the consumer as part of the pre-contractual information, when the consumer applies for loans in a currency that is different from his income currency, aiming for his awareness regarding exchange rate risk that accompanies such a loan and of the effect of exchange rate fluctuations in the amount of instalments payable by the consumer.*

During 2018, several new regulatory acts were drafted and considered important for banking supervision and for banks. Other regulations that are expected to be adopted in 2019 were also partly revised. In more detail, the following regulatory acts were drafted and/or revised:

- Drafting of the new draft regulation "On liquidity coverage ratio", in the framework of further approximation of Bank of Albania's requirements with the requirements of the Basel Committee and European regulations on liquidity risk management and fulfilment of strategic objectives of the Department of Supervision for the implementation of Basel III requirements. The liquidity coverage ratio (LCR), presented in the new draft-regulation, is a dynamic indicator that measures the bank's short-term liquidity over a 30-day forecasted time-horizon in liquidity stress situations. In order to be able to calculate the LCR, liquid assets ought to meet strict criteria, before they get qualified to be included in the banks' liquidity reserve, as well as calibrated rates for liquidity inflows or outflows, based on the European experience during the global financial crisis. The drafting of this regulatory act has also considered the important contribution of the banking system through the transmission of information and data in support of the study / analysis of the impact for this indicator, as well as through the comments and suggestions, or through discussions with banks representatives during the meetings held by the Bank of Albania.
- Preparation of some draft-amendments to the regulation "On bank regulatory capital" aimed at approximating Bank of Albania's regulatory requirements for capital ratios, proportionally with Basel III requirements.
- Preparing the draft-guideline "On Bank's Stress Tests", which provides requirements and methodologies for conducting stress tests by banks as an important tool of the risk management process in general and specifically, the Internal Capital Adequacy Assessment Process, in order to unify the practices that banks need to pursue for carrying out stress tests.

In addition, following the completion of sub-legal acts for early intervention pursuant to the Law on recovery and resolution in banks, the following drafts of regulatory acts were finalized, in consultation with experts from the World Bank (FINSAC project):



- draft-regulation "On determining the conditions for granting prior approval to the financial support agreement within the banking group", which sets out the requirements of the supervisory authority related to the conditions for granting prior approval to the agreement on financial support within the banking group and requirements for documentation and its content, in order for the offering bank to obtain BoA's approval;
- draft-regulation "On determining the conditions when the early intervention measures are used and the conditions and the way of performing temporary administration", which sets out conditions for when early intervention measures by the supervisory authority are to be applied and the conditions and modalities of temporary administration of banks;
- draft-amendments to the regulation applicable to the bridge bank, in order to ensure consistency with the requirements of this law.

In the framework of the Bank of Albania's initiative to increase the use of the national currency and to reduce the use of foreign currencies (de-euroization) in the Albanian financial system, two amendments were approved in the supervisory regulations in 2018.

- **Approval of amendments to the regulation "On Liquidity Risk Management" (approved by Decision no. 14, dated 7.2.2018, of the Supervisory Council of the Bank of Albania)**

Amendments to this regulation consisted of an increase in the minimum required level (from 15% to 20%), for the liquidity indicator measured through the ratio of liquid assets to short-term liabilities of foreign currency, in order to deter the use of foreign currencies. The minimum level of this indicator remains unchanged, for the national currency, at 15% and for the total, at the minimum of 20%.

- **Approval of amendments to the regulation "On the transparency for banking and financial products and services" (approved by Decision no. 15, dated 7.2.2018 of the Supervisory Council of the Bank of Albania)**

The amendments consisted of the addition of regulatory requirements for banks to provide alternative and comparable loans in the currency of their income, to consumers who apply for loans in a currency different to the currency of their income, in cases when banks deem clients' capacities as insufficient to hedge against exchange rate risk. Also, a requirement has been added to the regulation for cases when it is the first time that banks are granting or restructuring a loan - they should provide an illustrative example to the borrower to raise their awareness regarding the risk that accompanies lending in foreign currency, especially in cases when his income is in the national currency and in the future there may be adverse exchange rate fluctuations and/or interest rate rises, as a result of the increase of a reference indicator.

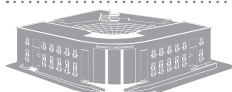


Finally, the self-assessment of the Bank of Albania's regulatory framework pertaining to supervision vis-à-vis the CRD directive<sup>1</sup> and the European regulation on capital requirements CRR<sup>2</sup> for the activity of credit institutions were finalized. It was done in analogy to the "Assessment of the equivalence with the European regulatory and supervisory requirements framework", carried out by the European Commission (EC) based on the questionnaire of the European Banking Authority (EBA). The self-assessment of the Supervision Department, as determined by the purpose of the process itself, aims to identify "gaps" in the regulatory framework of supervision, compared to the EU framework, and to draft a mid-term and long-term plan for drafting and reviewing legal and regulatory acts, which regulate banking activity in order to ensure compliance with the Acquis Communautaire. The Bank of Albania's self-assessment showed that regulatory acts in force comply to a large extent with the CRD and the CRR. The self-assessment was accompanied by a mid-term roadmap of plans for approximation of the Bank of Albania's regulatory and supervisory framework with the EU regulatory framework.

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<sup>1</sup> Capital Requirements Directive.

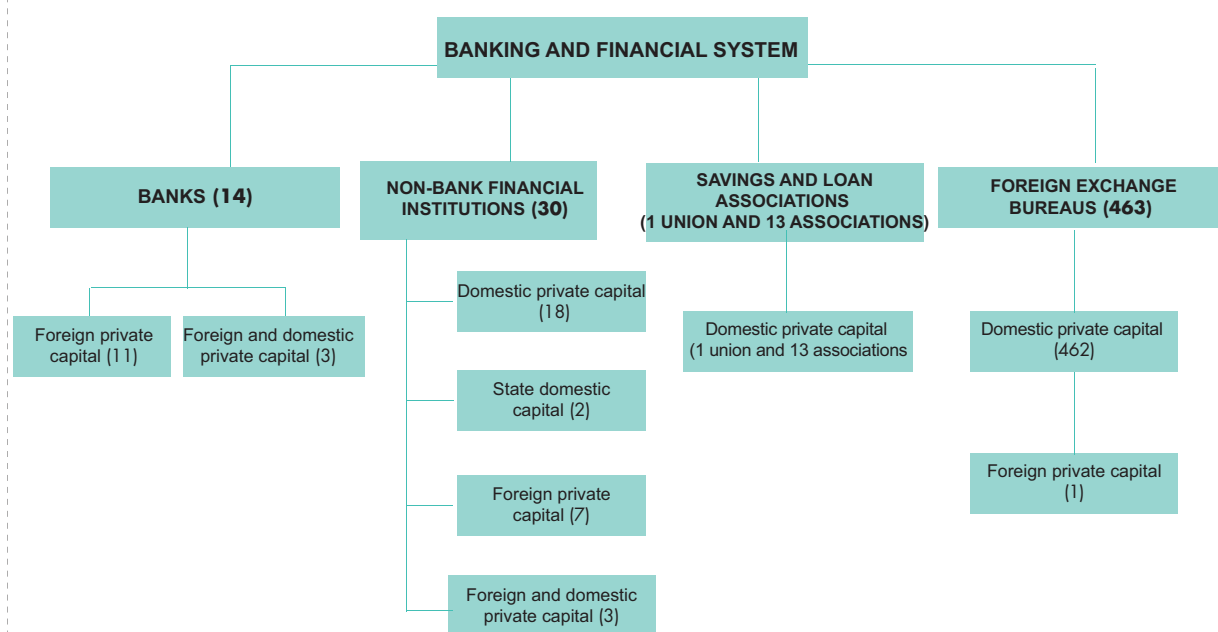
<sup>2</sup> Capital Requirements Regulation.



## 4. LICENSING

As at the end of 2018, the structure of the banking and financial system in Albania consisted of 14 banks, 30 non-bank financial institutions (NBFIs), 463 foreign exchange bureaus, 13 Savings and Loan Associations (SLAs) and 1 Union of SLAs.

Chart 1 Financial and banking sector structure and ownership



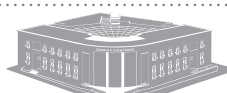
Source: Bank of Albania.

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, NBFIs, savings and loans associations and their unions, foreign exchange bureaus and representative offices of foreign banks.

### 4.1 BANKS

In 2018, within the scope of the licensing function, the Bank of Albania made the following decisions:

- approval of the transfer of 100% ownership of the shares of the NBG Bank Albania sh.a., to the American Bank of Investments sh.a.;
- approval of legal re-organisation for the merger by absorption of NBG Bank Albania sh.a. (the absorbed company) by the American Bank of



- Investments sh.a. (the absorbing company)
- approval of legal re-organisation for the merger by absorption of Veneto Banka sh.a. (the absorbed company) by Intesa Sanpaolo Albania sh.a. (the absorbing company);
- revocation of the licence granted to the NBG Bank Albania sh.a. and of the licence granted to Veneto Bank sh.a., as a result of their absorption by the American Bank of Investments sh.a. and Intesa Sanpaolo Bank Albania sh.a., respectively.
- approval to open a subsidiary of Credins Bank sh.a. in the Republic of Kosovo;
- approval for Union Bank sh.a. to conduct the additional financial activity of trade of securities;
- approval of 59 administrators of banks, including 31 members of steering councils, 13 members of audit committees, and 15 executives;
- approval of the expansion of the banking network with five new branches, within the territory of the Republic of Albania;
- approval for select banks to issue subordinated debt and to settle subordinated debt;
- approval of amendments to the statutes of International Commercial Bank sh.a., ProCredit Bank sh.a., National Commercial Bank sh.a., Alpha Bank Albania sh.a., the American Bank of Investments sh.a.;
- approval for signing of agreements with third parties (outsourcing) and termination on conducting payment and transfer operations, for ProCredit Bank sh.a.;
- approval/no-objection on the appointment/re-appointment of chartered auditors for the auditing of financial statements at end of 2018 for all banks.

## 4.2 NON-BANK FINANCIAL INSTITUTIONS, MICROCREDIT FINANCIAL INSTITUTIONS AND ELECTRONIC MONEY INSTITUTIONS

The Bank of Albania's decisions relating to non-bank financial institutions, microcredit financial institutions and electronic money institutions during 2018 included:

- granting a licence to "Financial Union Tirana", sh.a., to conduct activity as an electronic money institution. In addition to the issue of electronic money, "Financial Union Tirana", sh.a. continues to carry out the payment services and money transfer, foreign exchange, advisory, intermediation and other facilitating activities;
- based on regulatory requirements, following licensing as an electronic money institution, the licence given to the "Financial Union of Tirana" sh.a., as a non-bank financial institution was revoked;



- revocation of the licence of "Vodafone M-Pesa sh.p.k." electronic money institution license, upon its request;
- preliminary approval for the 100% ownership of capital shares of the non-bank financial institution "Final" sh.a. by the new shareholder "Iutecredit Albania" sh.a., which is a microcredit financial institution, licensed by the Bank of Albania;
- preliminary approval for the non-bank financial institution "Tirana Factoring & Lease" sh.a. to conduct the additional activity of foreign exchange and for "Ak-Invest" sh.a. to conduct the additional activities of granting guarantees and taking commitments, of factoring, of providing advisory services, intermediation and other auxiliary activities to those listed in the annex of the licence and intermediation in securities, , and for the electronic money institution "Easypay" sh.p.k to conduct the additional activity of foreign exchange, and advisory activities, and to provide intermediation and other auxiliary services to those listed in the annex of the licence and the activity of intermediation in insurances;
- preliminary approval of the administrators of the NBFIs "Porsche Leasing" sh.p.k., "NOA" sh.a., "Kredo Financë" sh.p.k., "Shoqëria e Parë Financiare e Zhvillimit – FAF" sh.a., "Posta Shqiptare" sh.a., "Micro Credit Albania" sh.a., "MOGO Albania" sh.a., "Final" sh.a., "Albanian Financial Institution" sh.p.k., and "Omnifactor" sh.p.k.

During 2018, structural changes in the ownership of banks and non-bank financial institutions consisted mainly in changes to the non-qualifying holding of shares or quota of their capital. The Bank of Albania was notified of these changes. These institutions also reported an increase in their paid-in capital.

### 4.3 FOREIGN EXCHANGE BUREAUS

Within the scope of the licensing function, in relation to foreign exchange bureaus, the Bank of Albania decided to:

- License 58 new foreign exchange bureaus.
- Revoke the licenses of 21 foreign exchange bureaus. Revocation in 11 cases was taken due to their inactive status in the commercial register at the National Business Centre, suspension of activity for more than two months and failure to report to the Bank of Albania. The license was revoked for 10 foreign exchange bureaus upon their request due to discontinuation of activity.

### 4.4 OTHER

As of the end of 2018, banks operated through 447 branches/agencies across the country. The development of information and communication technology as well as a rise in public awareness and education on the use of

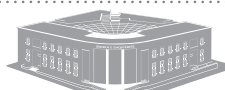
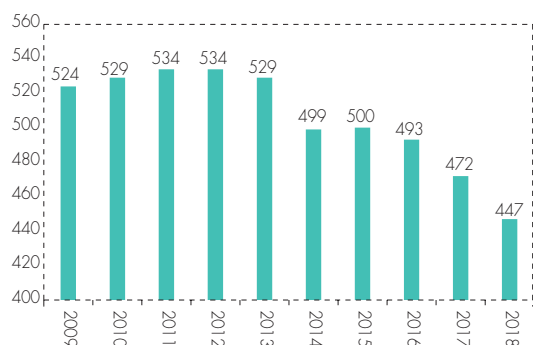
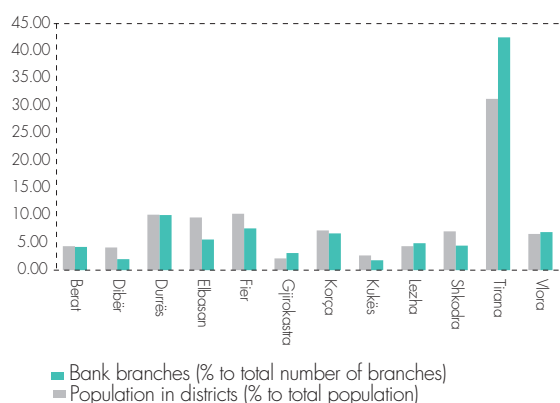


Chart 2 Number of bank branches/agencies, over years



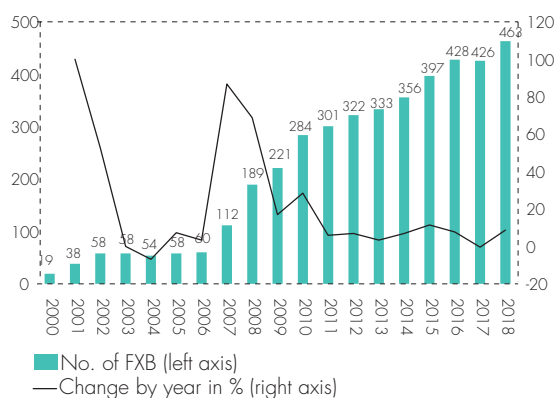
Source: Bank of Albania.

Chart 3 Resident population and bank branches and agencies network, by region in 2018 (in %)



Source: Bank of Albania and INSTAT.

Chart 4 Foreign exchange bureaus, over the years



Source: Bank of Albania.

banking and financial applications through means of remote communication (smart phones, mobile phones, and websites) have contributed to a downward trend in the number of physical bank branches. These remote communication channels provide and facilitate the use and performance of banking and financial transactions in real time, 24/7, and optimise the expansion of banks' networks. The legal re-organisation of banks, through merger by absorption during 2018, also contributed to the reduction of physical branches. Following these re-organisations, the absorbing banks have closed a number of overlapping branches.

While bank branches/agencies are present across almost the entire territory of Albania, they are most concentrated in Tirana (42.5%), where the population concentration is also greater (31.2%). Likewise, the breakdown of the presence of bank branches/agencies by prefectures is also in proportion with the population.

In 2018, the number of applications to conduct foreign exchange activities increased significantly. At the end of 2018, a total of 463 foreign exchange bureaus were operating in the foreign exchange market. During the year, 58 new licences for foreign exchange bureaus were granted, and 21 existing ones were revoked.

In compliance with the requirements laid down in the legal framework in force, NBFIs and e-money institutions may conduct the activity of payment and money transfer services and/or funds distribution and repayment. In the case of e-money institutions this may be done even through agents. As of the end of 2018, the number of these entities' agents was 998. Meanwhile, the Albanian Post conducts the activities of payments and transfer of money through post offices across the country.

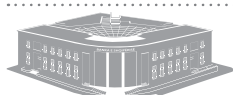




Table 2 Number of NBFIs' agents and number of e-money institutions as at end-2018

	AK-INVEST	UNION FINANCIAR TIRANË	EASYPAY	PAY AND GO	RAEA FINANCIAL SERVICES	TOTAL
Agents conducting the activity of money transfer on behalf of a NBF	198			92	10	300
Agents of an e- money institution		368	330			698
<b>TOTAL</b>	<b>198</b>	<b>368</b>	<b>330</b>	<b>92</b>	<b>10</b>	<b>998</b>

Source: Bank of Albania.

In the category of Savings and Loan Associations (SLAs), no new licenses were granted in 2018. As at end 2018, there were 13 SLAs and 1 Union of SLAs.



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

### 5.1 BANKING SYSTEM HIGHLIGHTS

The most important indicator of supervision, the capital adequacy ratio (CAR), has been considerably upward and stable over 2018, reaching around 18.2%, from 17% at the end of 2017. The non-performing loans ratio (NPLR) dropped by 2.15 percentage points, to 11.08% at the end of the year, in spite of a 3.36% fall in loans portfolio during the year. Profitability indicators, although lower than in 2017, remain at good levels to provide support in capital. RoA stood at 1.32% at the end of 2018, from 1.56% at the end of 2017, while RoE stood at 12.96%, from 15.71% a year earlier.

The NPLR continued to trend downward, in line with the trend recorded in recent years, standing at 11.8% in December 2018, from 13.23% a year earlier. This decrease was due to the 19% fall of NPLs, affected to almost the same degree by loans write offs and solutions provided by banks to borrowers, including restructuring forms combined with both total and partial payments by the borrowers. At the same time, the credit portfolio dropped by 3.36%, mainly due to depreciation of the exchange rate of foreign currencies against the Albanian lek.

The following are banking system highlights for 2018:

1. Outstanding credit in the banking decreased by 3.36%, against the around 0.15% increase in the previous year.
2. NPLR stood at 11.08%, down by 2.15 percentage points during 2018, from 13.23% at the end of 2017. The value of NPLs fell by ALL 15.14 billion or 3.36%, affected by write offs of ALL 8.4 billion and by other solutions for loans in collaboration with borrowers.
3. Provisioning of NPLs was high, standing at 65.6%, albeit downward compared to 71.7% a year earlier;<sup>3</sup> as a result of this provisioning, net NPLR from these provisions was only 3.8% from 4.2% a year earlier;
4. The banking system's liquidity situation remains satisfactory. The liquidity indicator stood at 46.2%, from 40.79% at the end of 2017;
5. Deposits in the system grew by around ALL 1.18 billion in 2018, compared to the growth of around ALL 8.5 billion in 2017;
6. The CAR stood at 18.2% against the regulatory minimum of 12%, showing an annual growth of around 1.65 percentage points;

<sup>3</sup> This fall is not a negative development, as it is due to the improvement of non-performing loans structure while the share of loan loss which is 100% provisioned has been down. This development is proportional to net non-performing loans ratio, which has been downward during the year.



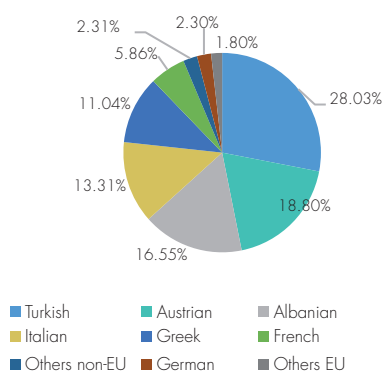
7. The banking system's profit was positive in 2018, at ALL 18.39 billion or ALL 3.68 billion lower than in 2017. RoA and RoE were positive, standing at 1.32% and 12.96%, respectively, down from the previous year.

## 5.2 CAPITAL OWNERSHIP STRUCTURE BY COUNTRY OF ORIGIN

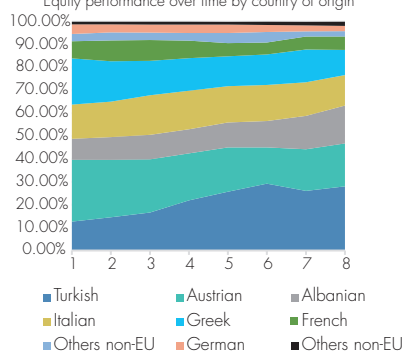
The shareholders capital of the banking system reached ALL 147.45 billion, up by around ALL 0.5 billion, or 0.34% against the previous year. Foreign capital continues to dominate the capital structure, though the presence of the domestic capital increased. At the end of 2018, foreign capital accounted for around 83.46% of paid-in capital in the banking system, considerably down by around 4.92 percentage points from the end of 2017.

Chart 5 Equity ownership structure by country of origin and performance over time

Equity structure by country of origin, 2018



Equity performance over time by country of origin



Source: Bank of Albania

## 5.3 BANKING SYSTEM STRUCTURE

### 5.3.1 ASSET AND LIABILITY STRUCTURE

During 2018, banking system assets grew by around ALL 7.6 billion or 0.5%, compared to the ALL 38.04 billion or 2.7% growth of a year earlier. The loan portfolio fell by ALL 20.2 billion, or 3.4% during this year.

The banking system's share in the economy, measured by the ratio of total assets to the Gross Domestic Product (GDP), remains high. This ratio decreased by 3.15 percentage points this year, standing at 89.35%. Meanwhile, the loan to Gross Domestic Product ratio fell due to the growth of GDP against the decrease in the loan portfolio.



Table 3 Banking system total assets and loan portfolio's share in GDP

Indicators	2013	2014	2015	2016	2017	2018
Total assets (in ALL billion)	1,234.32	1,293.72	1,318.13	1,407.29	1,445.33	1,452.93
Total assets/GDP (in %)	91.13	91.56	91.33	95.05	92.50	89.35
Total loans/GDP (in %)	41.88	42.12	40.61	40.55	38.46	35.71

Source: Bank of Albania.

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

- Decrease in treasury and interbank transactions by ALL 8.62 billion or 1.8%, mainly arising from the decrease in transactions with other banks, credit institutions and other financial institutions by ALL 12.37 billion or 5.1%, and the decrease in transactions with the Central Bank by ALL 3.1 billion or 2.1%. Meanwhile, the increase in T-bill transactions by ALL 1.94 billion or 3% provided a positive impact.
- Decrease of client transactions (net) by ALL 4.21 billion or by 0.8%.
- Increase of security transactions (net) by ALL 18.24 billion (or 5%).
- Decrease in other assets by ALL 7.02 billion or 18.7%.
- Increase in fixed assets by ALL 0.18 million or 0.9%.

Table 4 Key banking system asset items

Indicators:	December 2017			December 2018		
	Amount*	Share**	Change %***	Amount*	Share**	Change %***
1. Treasury and interbank transactions	482.9	34.3	4.4	474.3	32.6	(1.8)
Of which						
- Transactions with the central bank	149.8	10.6	(3.6)	146.7	10.1	(2.1)
- T-bills	65.5	4.7	(4.5)	67.4	4.6	3.0
- Transactions with other banks	244.3	17.4	14.5	232.0	16.0	(5.1)
2. Transactions with customers (net)	542.7	38.6	2.3	538.5	37.1	(0.8)
3. Security transactions (net)	361.5	25.7	(2.7)	379.7	26.1	5.0
4. Other assets	37.6	2.7	17.0	30.6	2.1	(18.7)
5. Fixed assets	19.8	1.4	12.7	20.0	1.4	0.9
Total assets	1,445.3	100.0	2.7	1,452.9	100.0	0.5

Source: Bank of Albania.

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

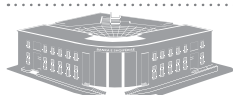
\*in ALL billion

\*\*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 14.3 billion (1.2%). This increase was mainly arising from the following:
  - increase in private sector by ALL 14.5 billion or 1.3%;
  - increase in current account by ALL 0.35 billion or 4.2%;
- Decrease in permanent resources by ALL 8.1 billion or 4.5%;
- Increase in treasury and interbank transactions by ALL 2.8 billion, or 3.8%, mainly driven by:
  - increase in loans by ALL 4.6 billion or 57.13%;
  - increase in "central bank" ALL 4.5 billion or 307.8%;
  - decrease in treasury bills and other accepted bills, by ALL 5.2 billion or 14.3%;



- decrease of deposits with banks, financial institutions by ALL 3.6 billion or 17.3%;
- decrease in other liabilities by ALL 0.77 billion or 5.1%.

Table 5 Key banking system liability items

Indicators:	December 2017			December 2018		
	Amount*	Share**	Change %***	Amount*	Share**	Change %***
1. Treasury and interbank transactions	76.8	5.3	22.9	79.6	5.5	3.7
2. Transactions with customers (gross)	1,165.7	80.7	0.7	1,176.5	81.0	0.9
3. Other liabilities	15.0	1.0	14.0	14.3	1.0	(5.1)
4. Permanent resources	179.4	12.4	7.0	170.9	11.8	(4.7)
Total liabilities	1,445.3	100.0	2.7	1,452.9	100.0	0.5

Source: Bank of Albania.

\*in ALL billion

\*\*in % to total liabilities

\*\*\*in % to a year earlier

During 2018, the share of off-balance sheet items in total assets fell to 112.7%, from 113.8% at the end-2017. Table 6 shows that the annual fall during this year was driven by the fall in "commitments granted". The commitments received and foreign currency transactions grew by ALL 16.1 billion and ALL 4.1 billion, respectively. Meanwhile, other items were down. The commitments received have the main share in off-balance sheet items, accounting for 85.6%, from 84.5% at the end of 2017.

Table 6 Change in off-balance sheet items compared to the previous year

Indicators:	Change from previous year		December 17	Change from previous year		December 18
	December 17			December 18		
	In ALL bln	In %	In ALL bln	In %		
TOTAL	78.4	5.0	1,645.2	(8.5)	(0.5)	1,636.8
Commitments granted	15.3	8.2	202.3	(19.4)	(9.6)	182.9
Of which:			0.0			
- Financing commitments	(4.0)	(6.9)	54.4	(0.9)	(1.7)	53.4
- Guarantees	5.7	13.7	47.1	(6.1)	(13.0)	40.9
- Security commitments	13.7	15.7	100.8	(12.3)	(12.2)	88.5
Commitments received	65.0	4.9	1,390.0	10.4	0.7	1,400.4
Of which:			0.0			
- Financing commitments	-3.9	(25.6)	11.3	-5.0	-44.2	6.3
- Guarantees	69.1	5.3	1,377.8	16.1	1.2	1,394.0
Foreign currency transactions	-8.3	-19.0	35.4	4.1	11.7	39.6
Other commitments	-0.7	-7.4	9.2	-7.3	-80.0	1.8
Commitments for financial instruments	7.1	611.2	8.3	3.8	45.2	12.0

Source: Bank of Albania.

### 5.3.2 CONCENTRATION

Concentration, as measured by the Herfindahl index calculated for total deposits and loans, registered the same level as in 2017, while assets showed a slight increase. All three indicators show low and stable levels over the years.

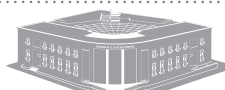


Table 7 Herfindahl\* (H) Index of asset, deposit and loan concentration

Indicators	2015	2016	2017	2018
Index H (assets)	0.15	0.15	0.15	0.16
Index H (deposits)	0.15	0.14	0.15	0.15
Index H (loans)	0.12	0.13	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.

## 5.4 MANAGEMENT OF BANKING ACTIVITY RISKS

### 5.4.1 CREDIT RISK

#### 5.4.1.1 Lending

Total credit fell by ALL 20.18 billion or about 3.36% during 2018, unlike the previous year when this portfolio was up by around ALL 0.5 billion. This performance was mainly determined by developments in the exchange rate. As a result of depreciation of both the euro and the US dollar, by 7.16% and 2.95%, respectively, against the Albanian lek, the credit portfolio, converted into lek, fell by around ALL 22.94 billion. In the absence of these developments the credit portfolio would have grown by around ALL 2.76 billion.

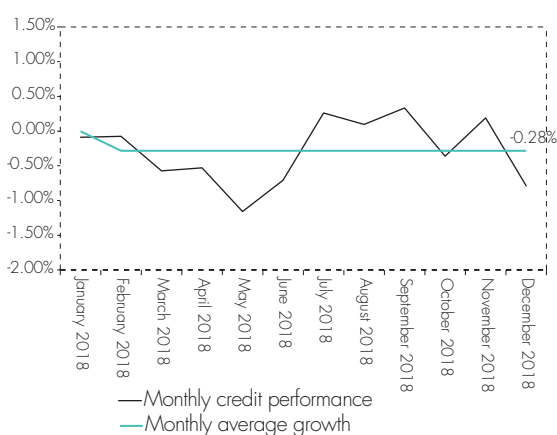
During 2018, the credit portfolio increased only in Q3. The highest fall was reported in Q2 by ALL 14.17 billion.

Table 8 Quarterly credit growth in 2018

Quarterly credit growth	Quarter I	Quarter II	Quarter III	Quarter IV
In ALL million	(4,409.10)	(14,170.28)	4,026.91	(5,636.15)
In %	(0.73)	(2.38)	0.69	(0.96)

Source: Bank of Albania.

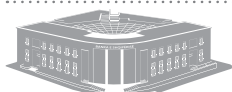
Chart 6 Monthly credit growth in 2018 (in %)



Source: Bank of Albania.

Over eight months of 2018, the monthly performance of credit was down, where the highest fall was reported in May, December and June by ALL 6.8 billion (1.2%), ALL 4.6 billion (0.8%) and ALL 4.1 billion (0.7%), respectively. This portfolio also fell considerably in March and April. In the other months of the year the credit portfolio increased, notably in September, July and November by ALL 1.94 billion (0.33%), ALL 1.51 billion (0.26%) and ALL 1.1 billion (0.19%), respectively. The monthly average credit fall stood at 0.28% for 2018.

The analysis of credit by **type of entity** shows a higher concentration in the private sector, around 63.4%, down by 1.6 percentage points, while credit to this sector, during 2018, decreased by



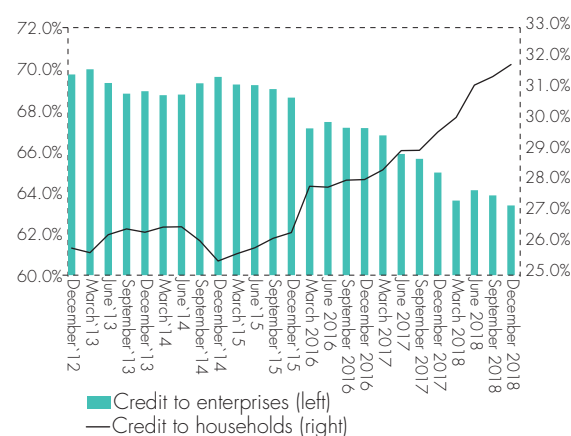
ALL 22.39 billion (5.7%). The share of credit to the public sector also fell by 0.6 percentage point, while credit to this sector decreased by ALL 4.51 billion (13.9%). Credit to households grew by ALL 6.72 billion (3.8%), or 2.2 percentage points higher.

The share of loans in the domestic currency was up approximately by 0.37 percentage point, standing at 43.93%. Within the credit portfolio in foreign currency, euro loans accounted for around 90.29%, from 90.46% in 2017, while U.S. Dollar loans accounted for around 9.66%, from 9.48% of the portfolio.

By entity and purpose of use<sup>4</sup> the analysis shows that loans for “investment for real estate” to households have the major share in the total credit portfolio (21.4%); followed by “overdraft” to enterprises (21.1%); loans for “equipment purchase” to enterprises (18.5%); and loans for “investment in real estate” to enterprises (15.6%).

In 2018, loans for “consumption of non-durable goods” reflects the highest growth, followed by loans for “consumption of durable goods” to households, by 12% and 4%, respectively. “Overdraft” and loans for “working capital” to enterprises showed the highest fall by 12.3% and 12%, respectively.

Chart 7 Outstanding credit to enterprises and households, in % to total credit



Source: Bank of Albania.

Table 9 Credit by sector and purpose of use (in ALL billion and share of each to total loans)

DESCRIPTION	December 2017	Share in %	Change in % December 2016 - December 2017	December 2018	Share in %	Change in % December 2017 - December 2018
Total loans	533.8	100.0	0.6	504.3	100.0	(5.5)
Credit to enterprises	362.3	68.4	(2.2)	329.2	65.3	(9.1)
Overdraft	123.6	23.3	5.1	108.5	21.5	(12.2)
Working capital	51.6	9.7	(16.4)	45.7	9.1	(11.5)
Equipment purchase	6.9	1.3	17.2	94.7	18.8	1,267.0
Real estate investments	97.8	18.5	(2.4)	80.3	15.9	(17.9)
Other loans	82.3	15.5	(2.8)	-	-	-
Credit to households	171.5	32.4	6.9	175.1	34.7	2.1
Overdraft	8.4	1.6	5.3	7.6	1.5	(9.0)
Non-durable goods	24.7	4.7	16.7	27.8	5.5	12.5
Durable goods	18.9	3.6	7.9	19.6	3.9	3.9
Real estate loans	106.5	20.1	2.5	110	21.8	3.3
Loans for other purposes	13.1	2.5	31.4	10.1	2.0	(22.7)

Source: Bank of Albania.

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

<sup>4</sup> 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 the end of 2018, the latter have the major share in the total loan portfolio, followed by short and medium-term loans.

Table 10 Structure of outstanding credit by term to maturity (in %)

Term to maturity	December 2016	December 2017	March 2018	June 2018	September 2018	December 2018
Short-term	33.1	30.6	30.1	29.0	28.4	28.1
Medium-term	44.4	18.7	18.4	18.8	19.2	19.6
Long-term	22.5	50.7	51.5	52.2	52.4	52.3

Source: Bank of Albania.

In 2018, the credit portfolio **by currency** shows that foreign currency loans continue to have the highest share in total loans by 56.1%, though the trend has shifted from foreign currency loans to domestic currency loans. At the end of 2018, the share of loans in domestic currency to total credit portfolio increased by 0.4 percentage point, compared to the same period in the previous year.

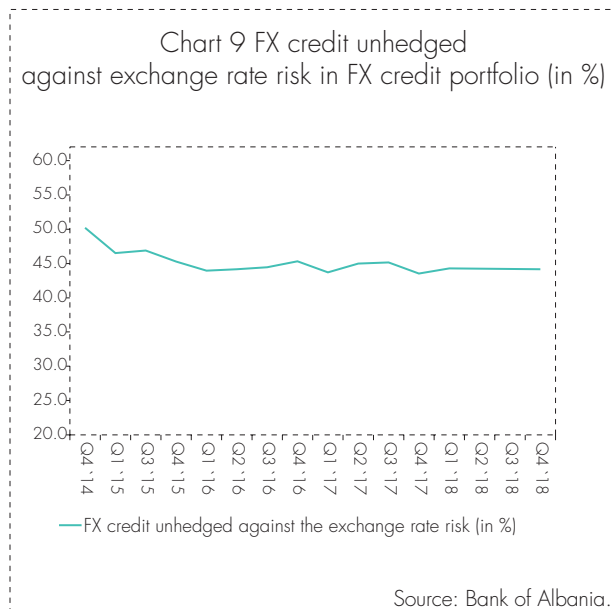
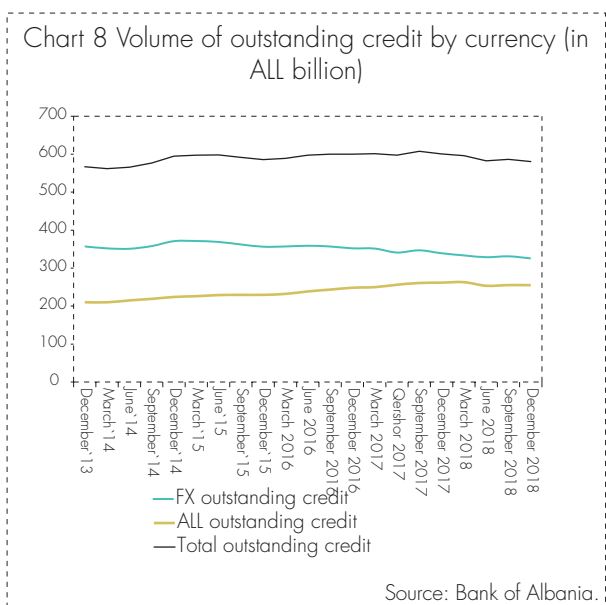


Table 11 Structure of outstanding credit by currency (in %)

Currency	December 2016	March 2017	June 2017	September 2017	December 2017	December 2018
Lek	41.4	41.6	42.9	42.9	43.6	43.9
Foreign currency	58.6	58.5	57.1	57.1	56.4	56.1

Source: Bank of Albania.

In 2018, the share of foreign currency loans unhedged against the exchange rate risk to total credit in foreign currency<sup>5</sup>, compared to the previous year, increased by 0.7 percentage point, standing at 44.2%.

<sup>5</sup> 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 (c).





The structure of credit by sectors of the economy<sup>6</sup> for 2018 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 37% in the portfolio, followed by "Processing industry" and "Construction" sharing 15.5% and 15% in the portfolio, respectively.

Table 12 Credit by branches of economy (in % to total credit)

Description	December 2017		December 2018	
	Amount	Share in %	Amount	Share in %
Enterprises	364.3	68.6	317.7	63.2
Agriculture, Forestry, Fishing	5.4	1.0	4.8	1.5
Extracting industry	7.7	1.5	8.1	2.6
Processing industry	54.1	10.2	49.1	15.5
Electricity, gas supply, steam and air conditioning	52.7	9.9	15.9	5.0
Water supply, waste management activities	0.2	0.0	0.2	0.1
Construction	46.4	8.7	47.8	15.0
Wholesale and retail trade; Repair of vehicles and motorcycles	119.8	22.6	117.7	37.0
Transportation and storage	7.8	1.5	6.7	2.1
Accommodation and food services	13.6	2.6	13.3	4.2
Information and communication	3.9	0.7	2.7	0.8
Financial and insurance activities	2.8	0.5	2.9	0.9
Real estate activities	4.2	0.8	5.4	1.7
Professional, scientific and technical activities	0.8	0.2	1.0	0.3
Management and supporting services	0.4	0.1	0.7	0.2
Public management and defence; Obligatory social security	1.7	0.3	1.0	0.3
Education	5.7	1.1	5.5	1.7
Healthcare and social work activities	3.8	0.7	4.0	1.3
Art, recreation and relaxation	3.0	0.6	2.3	0.7
Other service activities	28.1	5.3	27.1	8.5
Households' activities as employers; Activities of output of invariable goods and services of households for their own use	2.1	0.4	1.3	0.4
Activities of international organisations and bodies	0.2	0.0	0.2	0.0
Households	169.5	31.9	184.7	36.8
Total	533.8	100.0	502.4	100.0

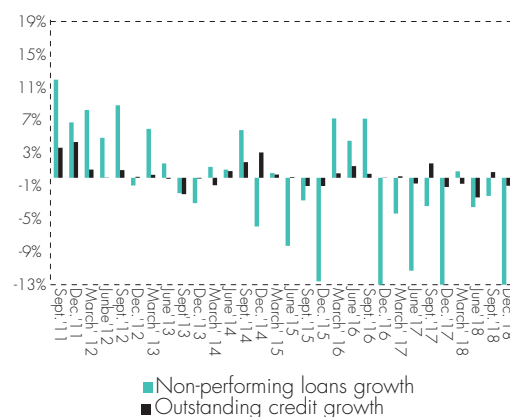
Note: Data in the table refer only to resident customers and do not include accrued interests.

Source: Bank of Albania

### 5.1.1.1 Credit quality

As at the end of 2018, non-performing loans stood at ALL 64.36 billion, down by ALL 15.14 billion, or 19% compared with the previous year. The ratio of non-performing loans declined by 2.15 percentage points in annual terms, standing at 11.08% at the end of 2018.

Chart 10 NPLs and credit portfolio compared to the previous quarter (in %)

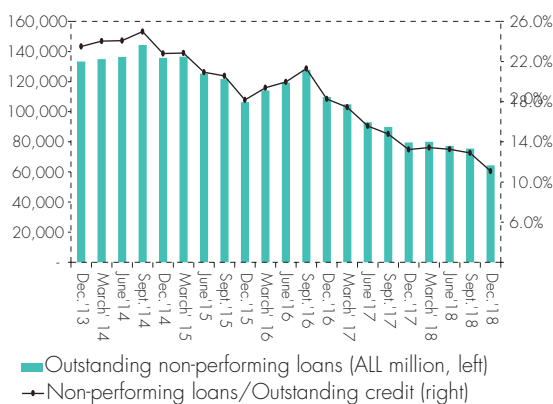


Source: Bank of Albania.

<sup>6</sup> Data do not include non-residents.



Chart 11 Outstanding NPLs in the banking system



Source: Bank of Albania.

The level of NPL provisioning is high and net outstanding non-performing loans to total loan portfolio stood at 3.81%, slightly up by 0.07 percentage point from December 2017.

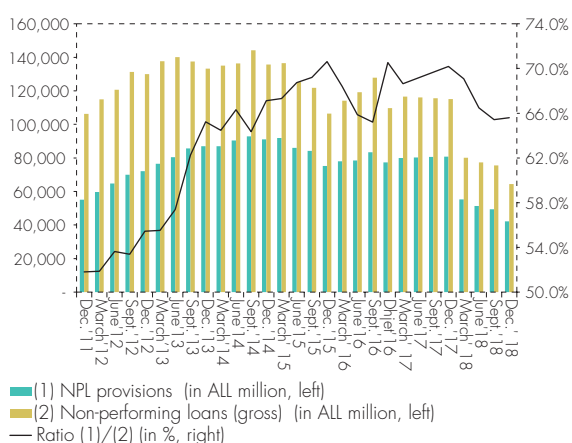
The portfolio of performing loans shows that “standard” loans grew by 1.66 percentage points, while “special-mention” loans fell by 4.16 percentage points. Meanwhile, the NPL portfolio shows a decrease in “substandard”, and “lost” loans by 0.07 percentage point and 2.38 p.p., respectively. The category of “doubtful” loans was up by 0.31 percentage point.

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

Classification	2017				2018			
	Q I	Q II	Q III	Q IV	Q I	Q II	Q III	Q IV
Standard loans	77.6	74.3	77.0	78.1	72.7	74.2	77.9	79.7
Special mention loans	5.0	10.2	8.2	8.7	9.0	7.8	4.8	4.5
Sub-standard	4.6	4.0	3.4	3.3	3.6	3.7	3.5	3.2
Doubtful loans	2.3	2.2	2.5	2.2	2.6	3.0	3.3	2.6
Loss loans	10.6	9.3	8.8	7.7	7.2	6.6	6.1	5.3

Source: Bank of Albania.

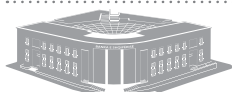
Chart 12 Loan loss provisions



Source: Bank of Albania.

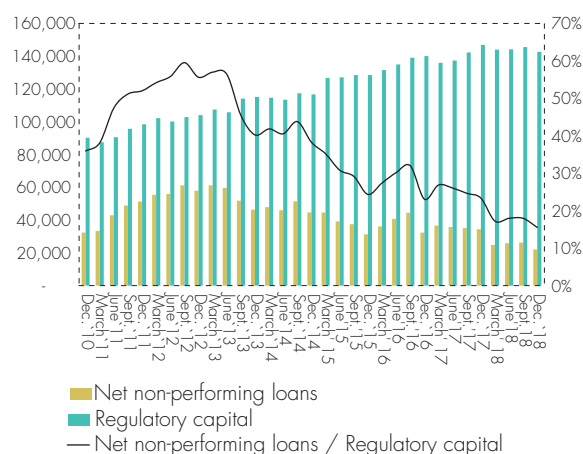
Loan loss provisions amounted to ALL 42.23 billion, down by around ALL 14.77 billion from the previous year. Also, the “loan loss provisions to non-performing loans” was 65.62%, around 6 percentage points lower.

The share of net NPLs to regulatory capital fell by 7.85 percentage points compared to the previous year, showing an increase in the system’s capability to cover with capital the losses that may rise from loan deterioration. This indicator improved mainly due to the high decrease of NPLs in relation to regulatory capital.



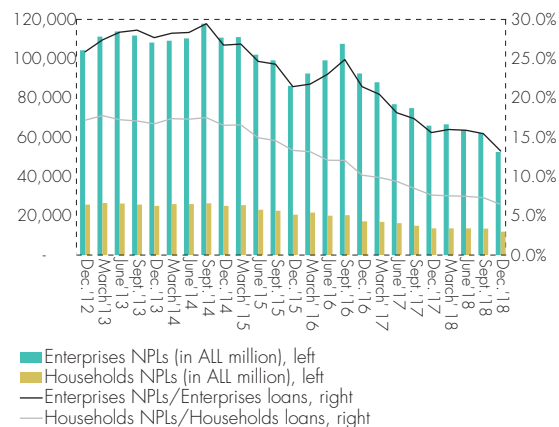
Regarding the credit quality by type of borrower, the NPLR for enterprises decreased by 2.3 %, standing at 13.3%, while for households it decreased by 1.2 percentage points compared to the previous year, standing at 6.4%.

Chart 13 Net NPLs to regulatory capital ratio



Source: Bank of Albania.

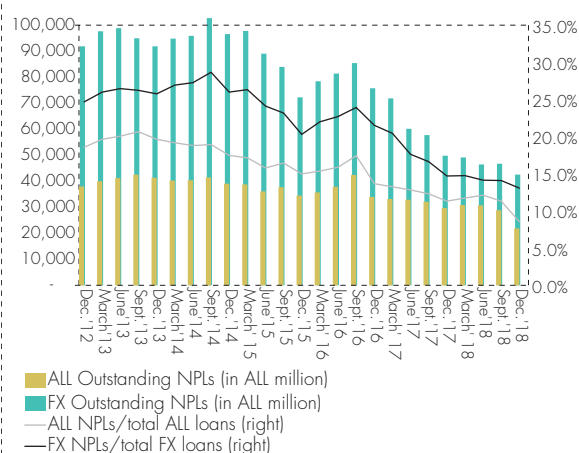
Chart 14 Outstanding NPLs to enterprises and households



Source: Bank of Albania.

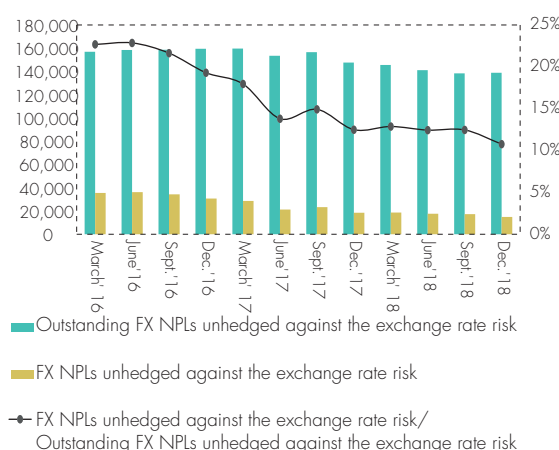
By currency, the NPL ratio in lek was lower, at 8.5% (11.3% at the end of the previous year), compared with foreign currency NPLs by 13.1% (14.7% at the end of the previous year).

Chart 15 Outstanding NPLs by currency



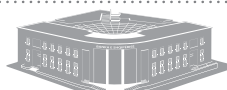
Source: Bank of Albania.

Chart 16 Quarterly unhedged foreign currency NPLs to unhedged foreign currency outstanding credit



Source: Bank of Albania.

Within the portfolio of unhedged foreign currency loans against the exchange rate risk, unhedged NPLs against the exchange rate risk accounted for 11% or 1 percentage point lower than in December 2017. The foreign currency NPLs, unhedged against the exchange rate risk, stood at 30.6%, down by 3.1 percentage points from the end of 2017. This decrease was attributable to



the decrease of foreign currency NPLs by 17.1% and the decrease of foreign currency unhedged outstanding credit against the exchange risk by 23.3%.

The major share of the loan portfolio (78.2%) was collateralized, up by 1.45 percentage points from a year earlier. By type of collateral, the largest share of loans in the system, around 53%, 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 48 %.

*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%	72%	43%	52%	48%	56%
Cash	3%	3%	2%	4%	3%	4%
Other collateral	5%	9%	42%	22%	26%	19%
Uncollateralized loan	36%	15%	13%	23%	23%	21%
Total	100%	100%	100%	100%	100%	100%

Source: Bank of Albania.

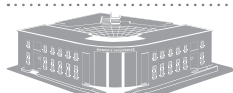
The Bank of Albania conducts stress tests to measure a bank's capital resilience to risks facing the banking activity. Analyses show that the current level of the banking system capital is sufficient to withstand a relatively high level of losses, which may arise from exposure to credit risk. This ability of the capital to withstand any potential losses was constant throughout 2018.

#### 5.4.2 LIQUIDITY RISK

In 2018, the overall liquidity situation in the banking system continued to be stable, showing a relatively low exposure to liquidity risk. Steady growth of deposits, as the main financing contributor to banks' activity, a level of liquidity two times higher than the regulatory minimum (calculated as a ratio of liquid assets to short-term liabilities), a low credit to deposits ratio and the ability of the system to generate liquidity in the event of materialisation of extraordinary situations, all provide an adequate framework for protection against liquidity risk.

Liquidity indicators continuously appear significantly above the regulatory requirement set out in the Bank of Albania's regulatory acts. In December 2018, the ratio of liquid assets to short-term liabilities in the banking system was 46.2%<sup>7</sup>, up by 5.42 percentage points from the previous year, mainly as a result of liquid assets' growth by 13.87%. The main increase in liquid assets is mainly attributable to investments in "Deposits and current accounts with banks and other financial institutions", followed by investments in "securities of the Albanian Government" and investments in "tradable securities/ placement issued by central governments classified by international credit rating agencies at the equivalent S&P classification, not less than A+".

<sup>7</sup> The minimum required level for this indicator, as laid down by the regulatory requirements, is 20%.



In December 2018, the liquidity in foreign currency, stood at 36.8%<sup>8</sup> (from 32.1% in December 2017), owing to the higher increase of liquid assets in foreign currency against the decrease of short-term liabilities. The largest increase in liquid assets in foreign currency is due to the channelling of funds to “deposits with a residual term to maturity of up to 7 days, and the current accounts with banks or financial institutions” and the increase of investments in “Tradable securities/placement issued by central governments classified by international rating agencies equivalent to S&P classification, not less than A+”. Liquid assets in lek remain the main support of liquidity at 56% of total liquid assets (57% of the total liquid assets in December 2017) and the level of the indicator in lek stood at 57.8% in December 2018 (51.3% in December 2017).

#### 5.4.2.1 Banking system deposits<sup>9</sup>

Customer deposits remain the main source of financing for the Albanian banking system, sharing 81.23% (80.40% December 2017) of total liabilities. In December 2018, the total value of deposits in the system amounted to ALL 1.180 billion, recording 1.25% annual growth from the previous year. The share of the domestic currency in total deposits fell slightly to 46.87%, from 47.08% in December 2017. The maturity structure shifted to short-term maturities, given that the share of current accounts and demand deposits increased, whereas time deposits shrank relatively, driven by the continuous downward interest rates in the market.

#### 5.4.2.2 Concentration of deposits

In December 2018, the ten largest depositors accounted for 5.30% of the banking system's total deposits, from 5.46% in December 2017. The other groups of larger depositors show a similar contracting performance.

Households' deposits remain the main base of the banking system's deposits, with a share of 82.81% of total deposits, down by around 0.43 percentage points, compared to the previous year. Households' accounts grew faster than enterprises' accounts (0.59% and 0.15%, respectively) during 2018.

#### 5.4.2.3 Loan to deposit ratio

The loan to deposit ratio in December 2018 was 49.2% (51.55% in December 2017) and reflects a structure of asset-liabilities that facilitates liquidity management and provides potential lending incentives. During 2018,

<sup>8</sup> The minimum required level for this indicator in the Albanian lek and foreign currency, as laid down by the regulatory requirements, is 15% and 20%, respectively.

<sup>9</sup> “Deposits” refers to all sources from clients, including current accounts, time deposits, demand deposits and other accounts, except when otherwise specified.



the ratio reduced slightly due to the different growth rates of credit portfolio and total deposits (credit portfolio fell, while deposits grew). This ratio has always shown higher values in the foreign currency segment, albeit there was a fall in the ratio during 2018, from 51.92% to 57.6%, under the impact of the above-stated factors, for the ratio in total.

#### *5.4.2.4 Liquid assets of the banking system*

During 2018, liquid assets grew by ALL 60.6 billion, or 13.87%. mainly as a result of the investment portfolio of banks in securities of the Albanian Government and the channelling of funds in deposits and current accounts with banks or other financial institutions.

Total liquid assets of the banking system amounted to ALL 497.3 billion, in December 2018. Government securities have the main share in their structure (by 50.33%, from 51.18% in December 2017).

#### *5.4.2.5 Other financial sources*

Other financial sources in the banking system have a relatively low share in total assets, about 5.48%, expanding slightly during the year (5.31% in December 2017). Liabilities to financial institutions and repurchasing agreements had the main share in this item.

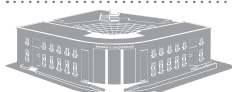
#### *5.4.2.6 Stress tests*

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.

### **5.4.3 MARKET RISKS**

The overall state of the banking system's exposure to market risks remained at low levels over 2018. For the assessment of market risks, the trading book and the banking book include indicators (risk factors) of exposure to: change of interest rate in the banking book; exchange rate risk in all the balance sheet items; the position risk (specifically change of interest rate in the tradable and placement portfolio); and the capital buffers to cover potential losses from these risks.

The capital requirement for market risk at system level constitutes only 1.51% of the total capital requirement. This exposure arises mainly from the exchange rate risk as the trading portfolio is at very low levels.



Market risk originating from the 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 stable levels during the year, reflecting a balanced structure of re-priced assets and liabilities in the banking system. In December 2018, the value of this indicator was 6.59%, from 3.34% in December 2017<sup>10</sup>. Certain banks show a divergence from the average, albeit within limits and far from regulatory bounds, due to changes in the average maturity of the credit portfolio and investments in securities, which however remain well within regulatory limits.

Market risks originating from exposure to 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 2018, the banking system's exposure to exchange rate risk was "long", at ALL 11.1 billion, accounting for 7.78% of the banks' regulatory capital<sup>11</sup>. These levels are far from the regulatory limit of 30%.

Market risk in the trading portfolio for the banking system is rather low showing a downward dynamic. This risk was assessed as such throughout the analysed annual performance. Trading portfolio at system level appears rather low to total assets (0.1% in December 2018, from 0.6% in December 2017). Market risk originating from interest rate in non-resident trading portfolio of placement (non-resident portfolio of placement bears market risk factors) is assessed at low levels 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 would be able to successfully withstand such situations.

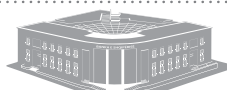
#### 5.4.4 OPERATIONAL RISK

Exposure to operational risk for 2018 shows an improved trend from the previous year, with gross annual losses trending downward. The ratio of losses against capital requirement improved, declining from 9.61% in 2017 to 3.41% in 2018, driven by a drop in operational losses of 67%, while capital requirement remained at the same levels as in the previous year. Like in 2017, the events that determined losses were mainly "Execution, distribution and management of processes" and "External fraud".

During 2018, the attention of banks to operational risk management increased. As a result of the improvement of daily processes, potential issues have been identified early, and the response for addressing them has been

<sup>10</sup> The maximum permissible level for this indicator, in accordance with regulatory requirements, is 20%.

<sup>11</sup> The maximum permissible level for this indicator, in accordance with regulatory requirements, is 30%.



timely. This phenomenon has contributed positively to a decrease in the number of occurrences.

#### 5.4.4.1 Information technology

Similarly to 2017, in 2018 particular attention was paid to the increase of measures taken by financial institutions towards data security, affected also by relevant international trends. In this framework, the implementation of a SWIFT project (Client Security Program) continued throughout 2018. This project aims to increase the security of information (payments) channelled and processed through this platform. The project was completed at the end of December 2018.

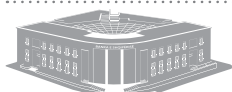
The implementation and updating of data security programmes, such as realisation of penetration testing, had an important impact on reducing and maintaining acceptable levels of information technology risk. The policies and procedures framework related to ICT has been continuously improving. Yet, due to the broad spectrum of activities it covers and dynamic developments in this field, it will be subject to continuous improvement.

#### 5.4.5 REPUTATIONAL RISK

Reputational risk - as a risk that may harm banks and financial institutions immediately – uses, among other things, reasonable doubts about the involvement or use of financial institutions for money laundering/terrorism financing; lack of transparency with clients; failure to comply with working conditions; and contractual terms as the main elements for assessment.

**Anti-money laundering and terrorism financing.** During 2018, banks and financial institutions have made positive efforts in relation to anti-money laundering and terrorism financing. Overall, on-site inspections have shown that the level of compliance with obligations arising from legal and sub-legal acts is satisfactory and risk from money laundering/terrorism financing has been managed effectively. In particular, banks have in place adequate structures and systems in this regard and have increased the effectiveness of preventive measures, which is reflected in an increase in the number and quality of Suspicious Activity Reports. However, based on the broad scope of banking services and the development of electronic products that allow remote transactions, there is a risk of opportunities that may be potentially used to perform or concealing illicit activities.

For the supervision of this risk, the Bank of Albania has also closely cooperated with the responsible authority, the General Directorate for the Prevention of Money Laundering, conducting joint inspections, exchanging information, coordinating administrative measures, coordinating reporting to international organizations, 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 sanctions and updates to the list of those that finance terrorism.

This year supervision continued to focus mainly on areas, such as:

- policies and procedures;
- centralized structures and systems;
- identification of the beneficiary and the controlling ownership structure of the client;
- 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;
- 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.

Also, the Bank of Albania has carried out assessment of exposure to this risk for entities that it supervises in the context of off-site analyses on the basis of reporting at the beginning of 2019. As in previous periods, exposure to this risk is assessed according to the methodology that integrates the quantitative indicator of this risk with its qualitative one. The quantitative indicator considers the number and value of money transfers, number of clients categorized as with risk and the situation of their accounts, the number of SARs, etc. Meanwhile, the qualitative indicator considers the implemented standard of internal policies and procedures for efficient management of this risk by institutions. During this year, 54 financial institutions were subject to the evaluation (16 banks, 30 NBFIs and 8 SLAs).

Evaluation, according to the integrated method, showed that policies, procedures, controls, training and infrastructure should be appropriate to manage a high level of risk for 19 entities (6 banks, 12 NBFIs and 1 SLA) and an average level of risk for 35 entities (10 banks, 18 NBFIs and 7 SLAs).

The calculation for this evaluation of the entities includes a series of quantitative and qualitative indicators, such as the:

- ratio of the number of clients with high risk<sup>12</sup> to total number of clients;
- ratio of outstanding account of clients with high risk to the outstanding account of total clients;
- ratio of the number of transfers with high risk<sup>13</sup> to total number of carried out transfers;
- ratio of the value of transfers with high risk to total value of carried out transfers;

<sup>12</sup> By law definition, as clients with high risk are considered PEPs; NGOs; households and non-resident companies etc.;

<sup>13</sup> As transfers with high risk are considered transfers toward high risk countries (countries declared by UN) and transfers carried out by clients categorized with high risk;



- ratio of reported SARs to total number of clients;
- quality of the supplementary documentation required according to Regulation No 44, dated 10.06.2009, "On the prevention of money laundering and financing of terrorism", as amended.

During 2018, in total, 49 on-site inspections were carried out in financial institutions under the jurisdiction of the Bank of Albania, focusing on AML/CFT issues:

- 7 banks;
- 11 non-bank financial institutions;
- 31 foreign exchange bureaus.

Twenty on-site inspections were carried out within the framework of cooperation with the General Directorate for the Prevention of Money Laundering (GDPML), specifically in the following:

- 5 banks;
- 7 non-bank financial institutions;
- 8 foreign exchange bureaus.

#### BOX 2 EVALUATION BY THE MONEYVAL COMMITTEE

*During 2018, the Fifth Round Mutual Evaluation Report for Albania by the CoE Moneyval Committee on issues related to anti-money laundering, financing of terrorism, legal compliance, effectiveness, etc. was finalized. From the assessments of this report, the following are shown:*

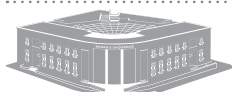
- *Financial entities, especially banks, have a good understanding of ML/TF risks and AML/CFT obligations and apply mitigating measures in a manner that is mostly commensurate to the assessed level of risk.*
- *Banks are effective in fulfilling reporting obligations on proceeds suspected to be derived from criminal activities.*
- *The sector has a constructive relationship with both the Bank of Albania and GDPML, characterized by strong communication, including the Albanian Association of Banks.*

*As a result, financial entities are evaluated at the "substantial" level, while the supervisory authorities provided by law have been rated "moderate", mainly as follows:*

- *The Bank of Albania is evaluated for the rigorous enforcement of legal and regulatory acts to prevent the entry of shareholders and managers of licensed entities suspected for or involved in money laundering and terrorism financing activities, but the legal provisions governing prior approvals to shareholders and managers of financial institutions are in some cases unclear and inconsistent;*
- *All the Supervisory Authorities have applied limited sanctions for violations of AML/CFT obligations. Most of the improving actions taken by the Bank of Albania and the Albanian Financial Supervision Authority are limited to recommendations.*

*For more details on the report, refer to the link below:*

*<https://www.coe.int/en/web/moneyval/jurisdictions/albania>*



**Transparency and publication of information** by licensed entities have been a focus of attention for the supervisory authority throughout 2018 as an important element contributing to public confidence in the financial system in Albania. The issues of transparency and publication of financial information have been assessed consistently and cautiously through off-site analyses and on-site inspections.

As a result of monitoring and measures taken by the Bank of Albania, the banking sector has raised its awareness and commitment to matters of transparency and publication of information. However, despite the above-mentioned efforts and achievements, on-site verification of the implementation of regulatory provisions shows there is room for further improvement towards the following:

- providing information on the frequency of changes of the components of the interest rate in credit agreements for consumers;
- providing an example of the calculation of the effective interest rate (EIR) in pre-contractual information,
- providing the customer with personalized pre-contractual information;
- drafting the regulatory framework on transparency based on the Regulation No 59, dated 29.08.2008, "On transparency for banking and financial products and services", as amended;
- drafting the methodology of commissions and penalties as well as updating the regulatory internal procedures/actions;
- upgrading credit and leasing agreements in accordance with the requirements of Regulation No 59, dated 29.08.2008 "On transparency for banking and financial products and services", as amended and Regulation No 49, dated 01.07.2015, "On consumer credit and mortgage credit to households", as amended;
- notifying the client when the loan instalment changes;
- drafting the regulatory framework on complaints in accordance with Article 12 of the Regulation "On transparency for banking and financial products and services";
- quality of information disclosed by entities;
- raising awareness on issues related to transparency and disclosure of information.

Throughout 2018, reports from banks on standard forms for commissions and interest rates on loans and deposit were monitored. This information is published on the official website of the Bank of Albania, in order to increase transparency with the public and enable a comparison of costs across banks.

Regarding the publication of information and transparency with the public, throughout 2018, financial institutions have been continuously assessed through off-site and on-site supervision analyses. Overall, institutions have complied with the regulatory requirements of the Bank of Albania on publication, but there is room for further improvement towards the completeness of the disclosed information, namely:

- information on changes in loan loss provisions during the period,
- information on the value of NPLs, by sectors of economy or

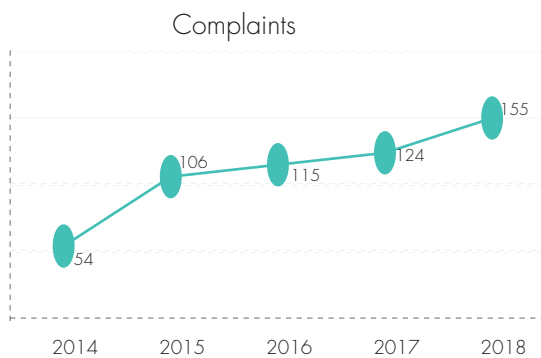


counterparty, geographical distribution and provision expenses within this classification,

- qualitative and quantitative information on remuneration policies,
- information on the form and elements of remuneration for Board Directors and CEOs.

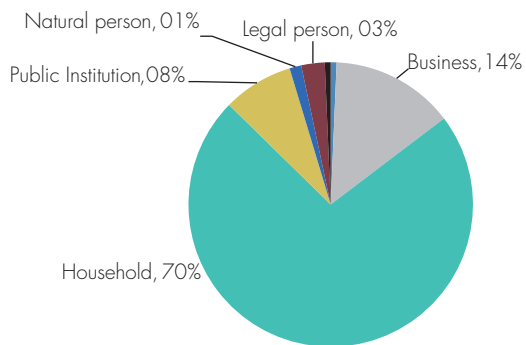
**Treatment of customer complaints** has taken significant importance in the framework of transparency and consumer protection in the financial sector. During 2018, a total of 155 complaints/requests/letters were processed, submitted by households, enterprises, natural persons and public institutions. Charts 17-20 provide statistical data on the addressed complaints.

Chart 17 Number of complaints handled over the years



Source: Bank of Albania.

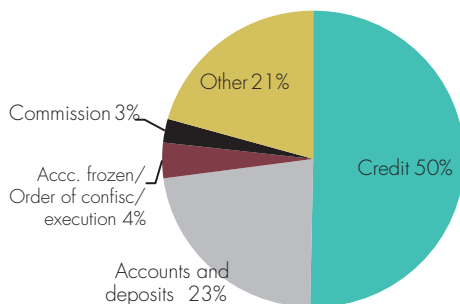
Chart 18 Share of complaints category



Source: Bank of Albania.

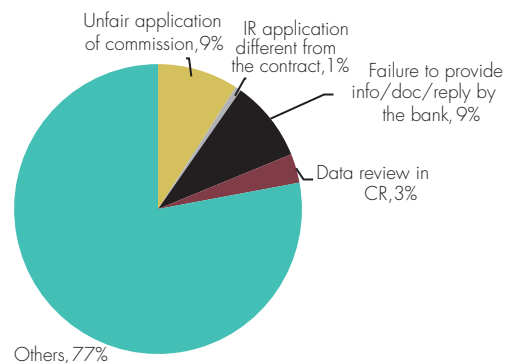
Chart 18 shows that households have the largest number of processed complaints at 70%. Chart 19, shows credit products account for the largest share by 53%.

Chart 19 Share of complaints by segment of published products



Source: Bank of Albania.

Chart 20 Share of complaints by typology



Source: Bank of Albania.



The information related to the typology of claims, the manner of their drafting and the necessary documentation is provided in the following link on the website of the Bank of Albania: [https://www.bankofalbania.org/Supervision/Handling\\_complaints/](https://www.bankofalbania.org/Supervision/Handling_complaints/)

## 5.4.6 PROFITABILITY

### 5.4.6.1 Net result and its structure

The financial result was positive in 2018, at around ALL 18.39 billion, or ALL 3.23 billion lower than in 2017.

In 2018, the first and second quarters provided the highest contribution to the financial result, with a net financial result of around ALL 6.08 billion, decreasing in the following quarters. The fall of net interest income and the increase of provision expenses lowered the profit in 2018 from the previous year.

### 5.4.6.2 Profitability indicators

Due to a lower positive financial result than in the previous year, the main profitability indicators Return on Average Assets (RoAA) and Return on Average Equity (RoAE), declined compared with 2017. At the end of 2018, RoAA was 1.32% and RoAE 12.96%, compared to 1.56% and 15.71%, respectively, at the end of 2017.

Table 15 Main profitability indicators (in %, cumulative)

Indicators	December 2018	December 2017	December 2016	December 2015
RoAA	1.32	1.56	0.69	1.20
RoAE	12.96	15.71	7.15	13.16

Source: Bank of Albania.

Tables 16 and 17 show the banking system profitability by main activity and the dynamics of the equilibrium between the collection of interest-paying sources and investments in income-earning assets.

Table 16 Profitability indicators from the main activity (in % cumulative)

	December 2018	December 2017	December 2016	December 2015
Interest income/average earning assets (1)	3.8	3.8	5.2	5.7
Interest expenses/average earning assets (2)	0.7	0.6	1.0	1.3
Net interest margin NIM[(1) - (2)]	3.8	3.2	4.2	4.4

Source: Bank of Albania.

During 2018, the banking activity based on interest-earning instruments was slightly lower compared with the previous year. This result is due to the increase



of interest expenses to average assets in an economic environment with low interest rates.

Table 17 Average profitability ratios (in ALL million)

Indicators	2018 Q 4	2018 Q2	2017 Q4	2017 Q2
Average earning assets (1)	1,160,293.4	1,181,021.9	1,145,687.3	1,136,912.3
Average paying liabilities (2)	1,295,851.6	1,327,402.2	1,317,211.1	1,313,686.8
Average assets (3)	1,397,050.9	1,434,738.6	1,413,877.0	1,403,702.8
(1) / (3)	83.05%	82.32%	81.03%	80.99%
(2) / (3)	92.76%	92.52%	93.16%	93.59%

Source: Bank of Albania.

At the end of 2018, the ratio of average income-earning to average assets increased by 2.02 percentage points (from 81.03% to 83.05%), compared with the end of the previous year, affected by the increase of average income-earning assets and the decrease of average assets. The average expense-bearing liabilities to average assets decreased by 0.41 percentage point (from 93.16% to 92.76%) compared with the end of the previous year, affected by the decrease of both average expense-bearing liabilities and average assets.

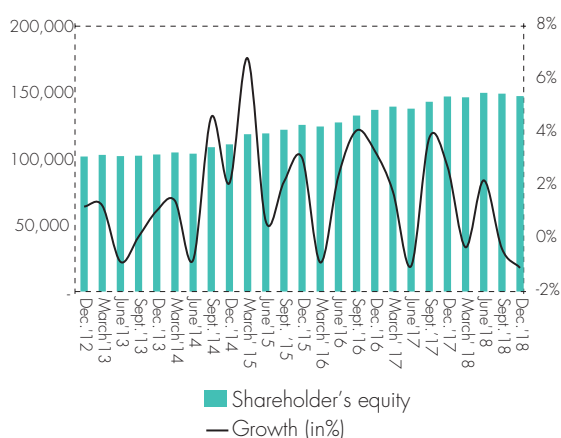
The system's efficiency ratio, at the end of 2018, increased by 1.9 percentage points compared with the previous year as operating income dropped by ALL 0.69 billion or 1.3%, while operating expense increased by ALL 0.66 billion or 2.2%.

Table 18 Performance of efficiency ratio (in ALL mln)

Indicators	December 2018	December 2017	December 2016	June 2016
Operating expenses (1)	30,188.7	29,530.7	29,143.1	13,944.7
Operating income* (2)	53,490.6	54,185.5	57,799.8	28,098.5
Efficiency ratio (1) / (2)	56.44%	54.5%	50%	50%

Source: Bank of Albania.

Chart 21 Shareholder's equity



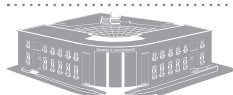
Source: Bank of Albania.

## 5.4.7 CAPITAL ADEQUACY RATIO

### 5.4.7.1 Shareholders' equity

At the end of 2018, the shareholders' equity of the banking system amounted to ALL 147.45 billion, registering ALL 0.5 billion (0.3%) annual growth, against a higher growth - ALL 10.47 billion (7.67%) - registered in 2017.

In 2018, the shareholders' equity increased in the second quarter (2.2%). Meanwhile, the decrease in the rest of the year ranged between -0.37% and -1.1%, with the highest decline in the last quarter, and the lowest in the first quarter.



The paid-in capital provided the largest material contribution to the shareholders' equity growth, down by around ALL 18.46 billion (or 14%) with a fall of the revaluation surplus by around ALL 4.73 billion (or 210%)<sup>14</sup>, compared with the same period in the previous year.

Table 19 Shareholders' equity structure and its components

Indicators	December 2018		December 2017	
	ALL million	%	ALL million	%
Shareholders' equity	147,453.5	100.0	146,507.5	100.0
Paid-in capital	110,251.8	74.8	128,713.8	87.9
Share premium	6,440.5	4.4	6,479.8	4.4
Reserve	18,220.7	12.4	12,924.6	8.8
Revaluation difference	(6,994.0)	(4.7)	(2,255.5)	(1.5)
Earnings/retained loss	1,143.5	0.8	(20,983.6)	(14.3)
Earnings/loss for the period	18,391.0	12.5	21,628.4	14.8

Source: Bank of Albania.

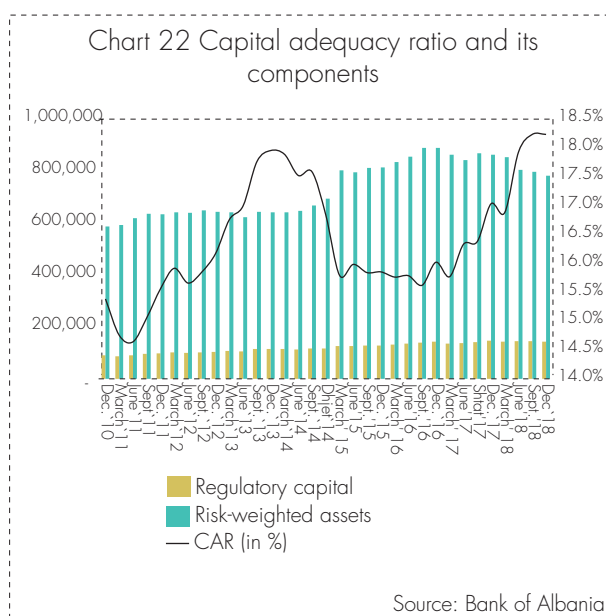
#### 5.4.7.1.1 Regulatory capital

The banking system's regulatory capital totalled ALL 142.72 billion, down by ALL 0.42 billion (0.3%) compared with 2017. The banking system's core capital is the main component of the regulatory capital of the system, accounting for around 93.16%, up by 2.09 percentage points, compared with the previous year, thus providing evidence for a qualitatively stable regulatory capital.

The supplementary capital of the system, which consists mainly of the subordinated debt, was ALL 9.76 billion, compared with ALL 12.78 billion at the end of 2017.

#### 5.4.7.2 Capital adequacy ratio

As at the end of 2018, the Capital Adequacy Ratio - the main supervision indicator – was reported at 18.2%, against the 12% required regulatory minimum<sup>15</sup>. This ratio increased by 1.2 percentage points compared with the same period in the previous year, and 2.2 percentage points compared with the end of 2016.



#### 5.4.7.2.1 Total risk-weighted assets and off-balance sheet items

Total risk-weighted assets and off-balance sheet items fell compared with the previous year, by ALL 79.7 billion, or 9.2%. Capital requirement for credit risk

<sup>14</sup> This development is related to depreciation of the exchange rate during 2018, since part of banks' capital is held in euro.

<sup>15</sup> For some banks, this required level is higher than the regulatory minimum.



by 87.9% has the highest share in total risk-weighted assets and off-balance sheet items, followed by capital requirement for operational risk by 9.9%, and capital requirement for market risk by 2.2%. In 2018, the package of macro-prudential measures for operations with non-residents was repealed, which has affected the decrease of risk-weighted assets.

## 5.5 NON-BANK FINANCIAL INSTITUTIONS AND SAVINGS AND LOAN ASSOCIATIONS

### 5.5.1 NON-BANK FINANCIAL INSTITUTIONS

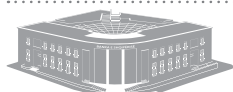
#### 5.5.1.1 Overview

As at the end of 2018, the financial system included 30 non-bank financial institutions (NBFIs). During 2018, Vodafone M-Pesa's license was revoked, upon its request, on 27.04.2018. The license of Financial Union Tirana has changed (licensed as an E-money institution on 16.02.2018), whereas AK-Invest was licensed to carry out the factoring activity as well.

Table 20 Activities allowed to non-bank financial institutions

No.	Non-bank financial institutions	Payment and Money Transfer Service Activities	E-money	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	Tranzit			√		√	√		
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				√				
19	Capital Invest				√				
20	Micro Credit Albania			√					
21	Intecredit Albania				√				
22	Agro Partner				√				
23	Kredo Financë				√				
24	Albanian Factoring Services						√		
25	Omnifactor						√		
26	Tirana Factoring & Lease					√	√	√	
27	Albanian Financial Institution			√		√	√		
28	Kastrati	√							
29	Pay & Go	√							
30	Raea Financial Services	√						√	√

Source: Bank of Albania.





### 5.5.1.2 Assets of non-bank financial institutions

Total assets of NBFIs in December 2018 reached ALL 46.33 billion, increasing by ALL 8.2 billion, or 21%. Assets of NBFIs accounted for 3.1% of total banking system assets, up by 0.5 percentage point compared with the previous year.

Table 21 Total assets of NBFIs, December 2017 - December 2018

Indicator/ALL bln	December '17	March '18	June '18	September '18	December '18
Total assets of NBFIs*	38.15	37,92	40,21	42,17	46.33

Source: Bank of Albania.

\* The total assets of NBFIs do not include data for the Albanian Post as its balance sheet presents data for other non-financial activities as well.

Credit portfolio accounts for the main share in the asset structure of NBFIs, by 57%. The rest is divided into liquid assets (19.5%), variable-income securities (12.4%) and other assets (including durable assets).

NBFIs are mostly financed through borrowing (54% of liability) and own capital (40%). During 2018, most NBFIs appeared as well capitalized. Regarding origin, borrowings are dominated by non-resident financial institutions at 44%, followed by domestic institutions (banks at 41% and the Albanian government or related parties with entities at 15.2%).

Borrowing through bond issuance remains at modest levels (only 1.1% of total liabilities), but the interest of entities for this instrument has trended upwards.

### 5.5.1.3 Outstanding loan portfolio developments and activity volume

At the end of 2018, the gross credit portfolio of NBFIs reached ALL 28.6 billion, up by ALL 4.4 billion (or 18.3%) compared with the previous year. Microcredit and lending, registered the highest growth at ALL 2.6 billion and ALL 1.6 billion, respectively. Financial leasing registered a modest growth by ALL 360 million (around 5%), while factoring decreased by ALL 181 million (around 24%).

Table 22 Total NBFIs' credit portfolio, net and gross

Indicator/ALL bln	December 2017	March 2018	June 2018	September 2018	December 2018
Total credit portfolio of NBFIs (net)	21.8	22	23.7	24.4	26.4
Total credit portfolio of NBFIs (gross)	24.2	24.7	26.1	27.3	28.6

Source: Bank of Albania.

The major part of NBFIs credit portfolio is held by credit and microcredit institutions (74%), followed by the portfolio of financial leasing institutions (24%) and the portfolio of factoring institutions (2%).



NBFIs' credit portfolio accounted for 4.9% of total credit in the banking system, up by 0.8 percentage point compared with the previous year.

*Table 23 Gross credit portfolio by NBFIs' activities*

Financial activities (in ALL bln)	December 2017	December 2018
Lending	11.1	12.7
Financial leasing	6.6	6.9
Microcredit*	5.8	8.4
Factoring	0.74	0.56
Gross Portfolio	24.21	28.6

Source: Bank of Albania.

\* Compared with the previous year, the methodology of the classification of loans has changed.

During 2018, the activities of NBFIs remained oriented toward financing business: 80% for lending, 85% for financial leasing, and 100% for factoring.

The most financed sectors are "Trade" by 24%, "Agriculture" by 12%, and "Real Estate and Construction" by 11%.

The portfolio of NBFIs remains oriented towards financing in local currency (60.3%) and medium-term maturity (67%).

The portfolio of financial leasing, broken down by products, is dominated by financing for personal transport vehicles (59%) and work transport vehicles (25%). Compared with December 2017, the portfolio increased by ALL 360 million, localized on the product "personal transport vehicle".

*Table 24 Financial leasing portfolio by financed object*

Financial leasing (ALL bln)	New equipment	Used equipment	Total December '17	New equipment	Used equipment	Total December '18
Personal transport vehicle	2.38	1.24	3.62	2.66	1.41	4.07
Work transport vehicle	1.12	0.59	1.72	1.08	0.64	1.72
Work equipment/production lines	0.68	0.25	0.92	0.69	0.267	0.96
Real estate	0.04	0.09	0.13	0.02	0.09	0.11
Other	0.08	0.10	0.18	0.00	0.06	0.06
Total	4.29	2.27	6.56	4.45	2.47	6.92

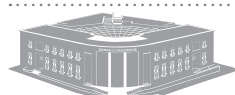
Source: Bank of Albania.

The balance of the factoring portfolio amounted to ALL 563 million at the end of 2018, down by ALL 181 million compared with the previous year. The annual circulation of the factoring portfolio registered a significant decrease by ALL 1.6 billion compared with 2017. The activity of factoring is realized in the domestic market at 96.4%, and mainly for guaranteed financing (97%).

*Table 25 Annual factoring volumes and balance*

Factoring	December 2017	December 2018
Circulation		
No. of invoices	1,292	1,403
Value (ALL mln)	3,117.79	1,465.1
Outstanding portfolio (ALL mln)	744.56	563.45

Source: Bank of Albania.



The non-performing loans ratio fell by 2.8 percentage points during 2018. The growth of gross credit portfolio by 18.3% provided the main impact in the reduction of this ratio. Meanwhile, non-performing loans dropped by around ALL 242 million or 8.5%.

Table 26 Indicator of credit portfolio quality

Indicators	December 2017	March 2018	June 2018	September 2018	December 2018
Non-performing loans/ outstanding loans (gross)	11.98	13.18	11.62	12.26	9.16
Non-performing loans/ outstanding loans (net)	3.45	3.98	3.92	3.29	2.53

Source: Bank of Albania.

Payment services provided by NBFIs grew both in volume and number during 2018. Their performance is as follows:

Table 27 Volume of transfers and payments on annual basis<sup>16</sup>

Payment services	Year 2017*		Year 2018	
	No.	Volume (ALL mln)	No.	Volume (ALL mln)
Outgoing transfers	488,326	9,020.95	468,500	9,948.34
Incoming transfers	1,698,690	58,267.5	1,783,049	62,328.92
Outgoing payments	1,841,612	5,029.44	4,337,842	11,770.6

Source: Bank of Albania.

\* Data are revised due to corrected reports by entities

#### 5.5.1.4 Financial Result

During 2018, NBFIs generated a positive result of ALL 1.7 billion, up by ALL 372 million or 27.8%, compared with the previous year. The main impact in generating this result came from lending institutions. Overall, NFBIs account for 9.3% of the banking system's result.

### 5.5.2 FINANCIAL UNIONS AND SAVINGS AND LOAN ASSOCIATIONS

#### 5.5.2.1 Structure of unions and SLAs' network

Savings and Loan Associations (SLAs) and their unions did not register changes during 2018. This group is composed by 13 SLAs and 1 Union. During 2018, no new SLAs were included in the deposits insurance scheme.

#### 5.5.2.2 Performance of SLAs and unions' assets

Total assets of the SLAs amounted to ALL 9.35 billion, up by ALL 1.15 billion or 14% during 2018. The total SLAs' assets account for only 0.64% of total banking system assets.

<sup>16</sup> The data do not include the transactions of Albanian Post.



In December 2018, the structure of SLAs assets continued to be oriented towards lending to members (73.8%) and liquid assets (23%).

Fed Invest and Unifin have the highest share in the SLAs group, owning 55% and 13% of the total assets of the group, respectively.

The Albanian Savings and Loan Union (ASLU) is the only union that continues to be licensed, but its level of activity is minimal.

*Table 28 Unions and SLAs assets (in ALL bln)*

Entities	December '17	June '18	December '18
Unions	1.28	1.27	1.1
SLAs	8.20	8.76	9.35

Source: Bank of Albania.

### 5.5.2.3 Developments in the outstanding loan portfolio of unions and SLAs

In December 2018, the SLAs gross loan portfolio amounted to ALL 7.2 billion, up by ALL 0.9 billion or 14% compared with the previous year. The SLAs gross loan portfolio accounts for only 1.2% of the banking system's credit portfolio.

*Table 29 Gross and net loan portfolio, SLAs and unions*

Indicators (in ALL bln)	December 2017	December 2018
Gross loans		
Unions	0.08	0.08
SLAs	6.31	7.2
Net loans		
Unions	0.00	0.00
SLAs	6.06	6.8

Source: Bank of Albania.

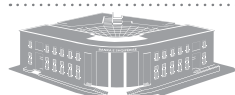
In December 2018, the NPL ratio for SLAs was 4.97%, increasing by 0.4 percentage points, compared with the previous year. The NPLs during 2018 increased 23.3%, which exceeds the growth pace of the credit portfolio.

The ASLU registered a similar portfolio, compared with the previous year. This portfolio is classified entirely as lost and 100% provisioned.

### 5.5.2.4 Financial result of unions and SLAs network.

During 2018, SLAs generated a positive financial result, amounting to ALL 112.4 million. This result increased by ALL 34.4 million, or 44%, compared with the previous year.

The financial result for the ASLU remains negative (ALL -112.5 million), since the level of activity is minimal and fails to generate sufficient income to cover administrative expenses.



## 5.6 CREDIT REGISTRY

Throughout 2018, due to the merger by absorption of two banks<sup>17</sup>, the number of financial institutions reporting the data of their borrowers to the Credit Registry decreased to 41 from 43 (including the Bank of Albania) registered in the previous year. The list of financial institutions that report to the Credit Registry database is presented in the following table.

Table 30 List of entities that report to the Credit Registry

BANKS		NON-BANK FINANCIAL INSTITUTIONS		UNIONS AND SAVINGS AND LOAN ASSOCIATIONS	
No		No		No	
1	Raiffeisen Bank;	1	Fondi Besa	1	SLA Unifin
2	United Bank of Albania	2	First Albanian Financial Development FAF	2	SLA Alb Progress
3	National Commercial Bank	3	Tranzit shpk	3	SLA Partner Plus
4	Tirana Bank	4	Opportunity Albania	4	SLA "PETRELË"
5	International Commercial Bank	5	Vision Fund	5	SLA Alb Credit
6	Intesa Sanpaolo Bank Albania	6	Capital Invest	6	SLA FED Invest
7	ProCredit Bank	7	Ak-Invest	7	Albanian Savings Loan Union
8	American Bank of Investments	8	Iute Credit		
9	Credit Bank of Albania	9	Agro partner		
10	Credins Bank	10	Raiffeisen Leasing sha		
11	OTP Bank Albania	11	Landeslease sha		
12	Union Bank	12	Fin Al sha		
13	Alpha Bank, Albania	13	Porsche Leasing sh.p.k.		
14	First Investment Bank	14	Albania Leasing		
		15	Porsche Leasing sh.p.k.		
		16	Albania Leasing		
		17	Crimson Fund Albania		
		18	MOGO ALBANIA SHA		
		19	Tirana Factoring & Lease		

For the Borrower's Report, there has been a high volume of requests from legal entities and individuals; requests in the framework of fulfilling a legal obligation, as well as the requests from various departments of the Bank of Albania. In this context, complaints from borrowers were given priority and the public has been continuously informed.

The main challenge remains the project for upgrading the Credit Registry. Transition to the new system is designed as a short-term project of the Bank of Albania. The new system provides an improved technical infrastructure which will help in the processing of data, the automation of processes and reduction of the level of operational risk.

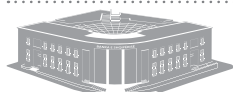
In addition to anticipated improvements in the technological infrastructure of the system, the aim is to develop and harmonize - with the international standards of credit reporting - for the statistical use of Credit Registry data for decision-making purposes.

<sup>17</sup> Banka Veneto with Intesa Sanpaolo Bank as well as NBG Albania Bank with American Bank of Investments.



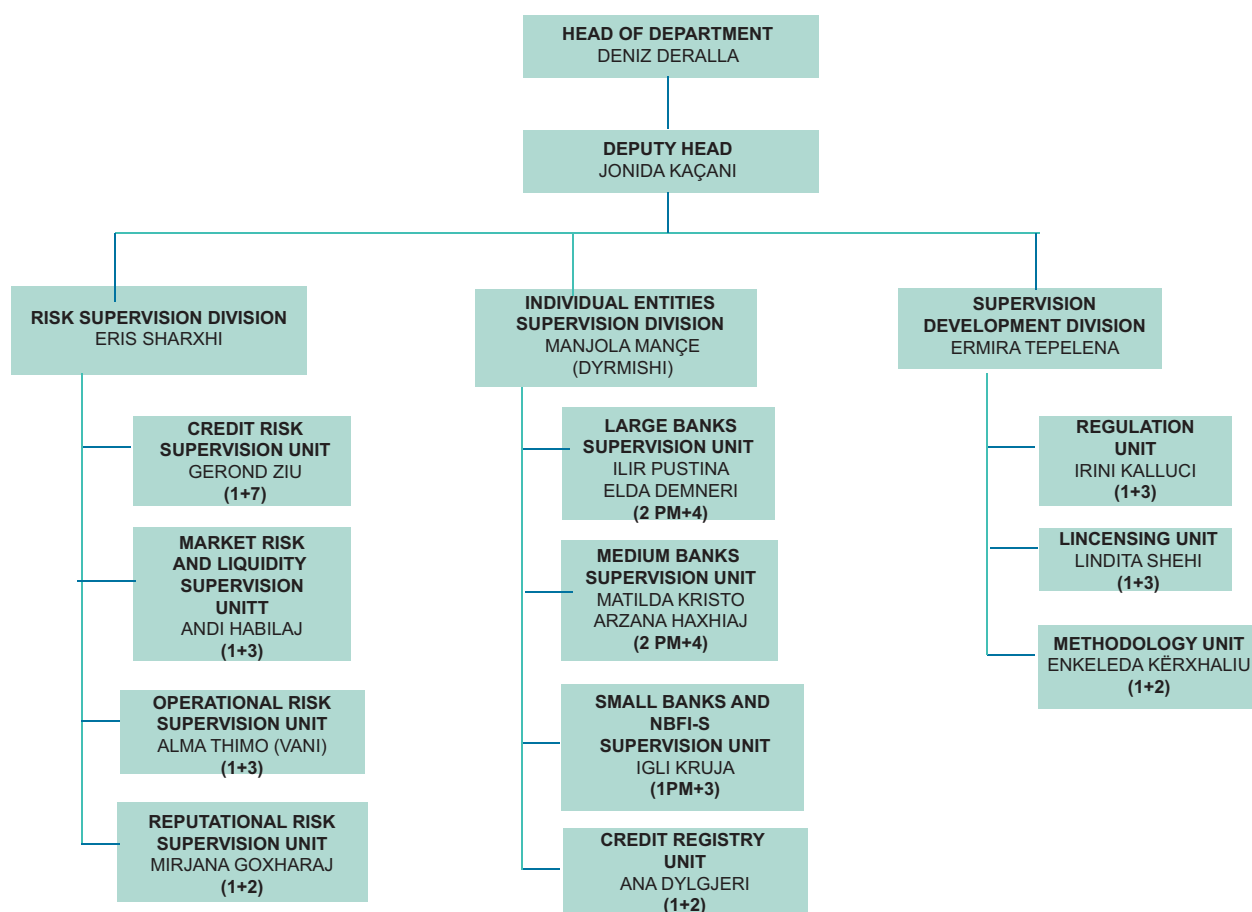
In a more statistical conception, development aims to establish a pooling of analytical data on each credit line in a harmonized database that will support some central functions of the Bank of Albania, such as monetary policy decision-making and micro and macro-prudential supervision.

In addition to the qualitative increase, in view of broadening the fields for new indicators, the harmonization/adjustment with central banks' reporting standards, in terms of accurate statistical definitions, is envisaged.



## ANNEXES

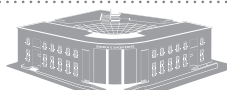
## 1- ORGANISATIONAL STRUCTURE OF THE SUPERVISION DEPARTMENT



## 2- SPECIFIC SHARE OF EACH BANK IN THE BANKING SYSTEM

December '18								
BANKS	Total balance sheet	Permanent resources	Shareholders' equity	Outstanding loans	Non-performing loans	T-bills	Securities	Total deposits
(in %)								
RAIFFEISEN BANK	15.5	18.0	18.8	16.4	20.6	14.7	16.8	15.5
UNITED BANK OF ALBANIA	0.6	0.8	0.8	0.8	0.4	-	-	0.5
VENETO BANK	-	-	-	-	-	-	-	-
NATIONAL COMMERCIAL BANK	29.4	27.4	28.0	22.2	15.2	26.3	35.7	28.6
TIRANA BANK	4.9	5.9	6.5	4.1	9.2	13.4	3.7	4.8
INTERNATIONAL COMMERCIAL BANK	0.7	0.7	0.8	0.9	0.7	0.2	0.8	0.7
INTESA SANPAOLO BANK ALBANIA	11.8	12.5	13.3	8.3	7.6	26.7	11.8	12.3
PROCREDIT BANK	2.3	2.5	2.3	4.1	2.3	1.9	0.1	1.8
AMERICAN BANK OF INVESTMENTS	5.2	4.1	4.2	4.5	7.9	3.3	6.7	5.6
NBG BANK ALBANIA	-	-	-	-	-	-	-	-
ALPHA BANK ALBANIA	5.2	5.4	4.6	6.3	4.9	-	4.2	5.2
FIRST INVESTMENT BANK ALBANIA	1.7	1.6	1.8	2.1	2.0	0.2	1.8	1.7
CREDIT BANK OF ALBANIA	0.1	0.6	0.7	-	-	-	-	0.0
CREDINS BANK	13.5	12.6	9.5	17.5	20.2	11.5	9.4	14.2
SOCIETE GENERALE BANK ALBANIA	5.8	5.4	5.9	8.9	5.9	-	4.8	5.7
UNION BANK	3.5	2.6	2.9	3.8	3.2	1.9	4.4	3.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Albania.



## 3- ASSETS AND LIABILITIES

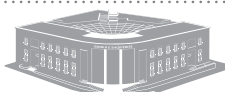
ASSETS (in ALL million)		December 2013	December 2014	December 2015	December 2017	December 2018
CODE	DESCRIPTION					
1	TOTAL ASSETS	1,234,320.87	1,293,720.84	1,317,843.09	1,445,329.85	1,452,926.36
11	TREASURY AND INTERBANK TRANSACTIONS	401,391.72	409,462.01	448,619.52	482,914.34	474,296.67
111	Cash in hand	21,268.60	21,661.15	20,950.99	24,176.38	28,246.25
112	Transactions with the central bank	108,915.92	109,868.76	149,561.78	149,792.09	146,678.80
1121	Required reserve at the central bank	93,876.48	95,682.58	96,060.07	97,725.32	98,911.83
1122	Other	15,039.44	14,186.18	53,501.71	52,066.77	47,766.97
113	Treasury bills and other eligible bills for refinancing with the central bank	94,080.39	101,499.44	73,052.67	64,617.63	67,417.93
1131	Treasury bills	94,081.20	101,503.63	73,052.67	64,621.58	67,417.93
1132	Other bills eligible for refinancing	-	-	-	-	-
1133	Reserve funds for the depreciation of bills eligible for refinancing from Central Bank	[0.82]	[4.19]	-	[3.94]	-
114	Transactions with bank, credit institutions and other financial institutions	177,126.81	176,432.66	205,054.08	244,328.25	231,953.69
1141	Current accounts	23,581.73	54,171.90	50,950.81	60,794.76	65,322.47
1142	Deposits with banks, credit institutions and other financial institutions	120,642.91	83,542.36	105,296.01	118,866.33	128,410.89
1143	Loans	31,742.63	37,132.03	46,019.44	63,020.16	36,443.07
1144	Other	1,159.54	1,586.36	2,787.82	1,700.49	1,834.42
13	TRANSACTIONS WITH CUSTOMERS (Gross)	563,099.64	591,299.50	582,190.01	597,793.51	577,911.34
131	Loans to private sector and households	531,239.57	560,710.53	551,679.36	565,692.56	551,004.54
1311	Short-term loans	159,391.81	168,283.59	165,450.79	151,141.75	135,814.55
1312	Medium-term loans	100,480.22	105,815.83	106,081.21	108,783.72	109,888.17
1313	Long-term loans	159,172.83	174,890.80	172,676.30	195,873.85	193,424.26
1314	Real estate loans	111,569.06	111,071.29	105,660.54	107,387.72	109,166.79
1315	Finance lease contracts	625.66	649.01	1,810.51	2,505.53	2,710.78
132	Loans to public administration	1,655.74	2,031.34	1,975.04	2,903.61	7,650.44
1321	Current accounts	0.06	0.01	0.00	-	-
1322	Loans	1,655.69	2,031.33	1,975.04	2,902.52	7,650.18
1323	Other accounts	-	-	-	1.08	0.25
133	Other customer accounts	30,204.33	28,557.64	28,535.61	29,197.34	19,256.36





14	SECURITIES TRANSACTIONS	302,410.53	327,792.11	307,608.21	357,087.99	384,912.95
141	Fixed income securities	289,846.11	324,535.46	304,296.61	353,934.96	381,441.40
142	Variable income securities	3,917.26	3,256.65	3,311.60	247,773.52	256,219.45
143	Securities purchased and sold under REPO	8,647.16	-	-	-	538.23
144	Paid collateral	-	-	-	-	-
145	Received premiums	-	-	-	-	-
15	PROVISIONS	(88,027.33)	(92,906.40)	(76,590.75)	(58,214.87)	(43,492.59)
151	Loan loss provisions (principal)	(85,750.17)	(89,671.75)	(74,428.98)	(56,331.52)	(41,536.87)
152	Loan loss provisions (accrued interest)	(1,176.50)	(1,402.74)	(1,135.92)	(676.82)	(699.35)
153	Investment provisions	(1,100.65)	(1,831.91)	(1,025.85)	(1,206.54)	(1,256.37)
16	OTHER ASSETS	25,450.91	28,996.75	29,026.83	37,569.18	30,551.55
161	Other assets	23,949.20	26,718.97	27,552.62	34,822.82	27,597.08
162	Agent transactions	411.42	164.86	37.44	61.34	18.51
163	Inter-office accounts	0.31	0.28	0.39	0.20	0.18
164	Suspense, difference and position accounts	1,012.51	2,034.84	1,230.11	2,589.89	2,820.67
1641	Suspense accounts	934.92	2,013.93	1,132.93	2,589.36	2,817.98
1642	Position accounts	77.59	20.91	97.17	0.53	2.69
165	Value added tax	77.47	77.80	206.27	94.93	115.11
17	FIXED ASSETS	18,597.73	18,291.45	17,337.79	19,829.88	20,009.48
171	Investment in participation equity	101.41	99.78	166.78	50.53	38.51
172	Affiliates	370.08	838.90	632.08	855.41	900.23
173	Fixed assets (net)	18,126.24	17,352.77	16,538.92	18,923.94	19,070.74
18	ACCRUED INTERESTS	11,397.66	10,785.43	9,651.48	8,349.81	8,736.96
181	Accrued interests (Class 1)	2,444.83	1,507.65	1,199.91	859.26	785.17
182	Accrued interests (Class 2)	4,059.89	3,838.83	3,767.15	3,082.05	2,775.60
183	Accrued interests (Class 3)	4,892.94	5,438.95	4,684.43	4,408.50	5,176.19
A	Total assets in foreign currency	696,171.68	730,161.87	751,146.85	818,444.68	798,171.05
B	Total assets of non-residents	285,709.46	312,800.22	326,051.03	381,253.93	385,864.63

Source: Bank of Albania.

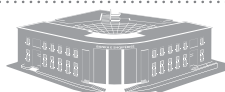


LIABILITIES (in ALL million)		December 2013	December 2014	December 2015	December 2017	December 2018
CODE	DESCRIPTION					
1	TOTAL LIABILITIES	1,234,320.87	1,293,720.85	1,317,843.09	1,445,329.85	1,452,926.36
11	TREASURY AND INTERBANK TRANSACTIONS	67,835.34	64,559.55	49,364.20	76,701.37	79,590.26
111	Central Bank	4,650.51	1,014.77	1,892.77	1,472.18	6,004.20
112	Treasury bills and other eligible bills	21,116.89	25,528.85	12,975.62	36,917.87	31,655.48
113	Current accounts	3,367.55	5,451.87	5,330.19	8,215.73	8,481.73
114	Deposits from banks and other financial institutions	22,183.92	20,164.59	18,324.66	21,237.05	17,570.06
115	Loans	14,335.34	9,739.96	9,302.28	8,058.18	12,660.36
116	Other	2,181.14	2,659.51	1,538.68	800.36	3,218.44
12	TRANSACTIONS WITH CUSTOMERS	1,013,522.15	1,064,661.22	1,094,666.21	1,162,225.94	1,176,537.94
121	Public administration	6,010.56	7,401.08	9,204.79	10,275.23	10,134.94
1211	Current accounts	4,512.07	5,725.30	5,288.60	8,325.52	8,677.96
1212	Demand deposits	-	-	10.45	6.06	6.09
1213	Time deposits	828.03	945.20	3,155.79	1,419.20	1,077.15
1214	Loans	670.46	730.59	749.94	524.44	373.73
1215	Other	-	-	-	-	-
122	Private sector	1,007,511.59	1,057,260.13	1,085,461.43	1,151,950.71	1,166,403.00
1221	Current accounts	165,241.63	227,224.05	292,103.87	374,888.68	387,944.79
1222	Demand deposits	55,104.95	70,254.68	69,734.39	106,561.98	124,119.83
1223	Time deposits	774,977.42	746,045.04	704,411.87	650,308.22	638,058.42
1224	Other	12,187.60	13,736.36	19,211.29	20,191.82	16,279.96
1225	Certificate of deposits	-	-	-	-	-
13	SECURITIES TRANSACTIONS	667.06	5,295.21	683.68	8,429.66	7,582.03
131	Debt represented by securities	-	-	-	-	-
132	Securities purchased and sold under REPO	667.06	5,295.21	683.68	8,429.66	7,580.23
133	Collateral on securities transactions	-	-	-	-	-
134	Premiums on financial instruments	-	-	-	-	-



14	OTHER LIABILITIES		9,955.13	11,981.24	9,401.31	15,026.70	14,256.47
141	Other liabilities		5,185.05	5,478.25	5,039.88	5,520.14	5,664.42
142	Agent transactions		1,651.13	2,473.37	1,922.60	3,324.77	2,704.29
143	Inter-office account		7.98	(4.66)	6.67	(0.33)	(1.64)
144	Difference and position pending accounts		3,100.65	4,028.63	2,361.48	6,105.84	5,829.92
1441	Difference accounts		2,978.65	3,882.48	2,277.00	5,902.28	5,387.46
1442	Position accounts		122.01	146.15	84.48	203.56	442.47
145	TValue added tax = (form. 21) 46		10.32	5.65	70.68	76.28	59.47
15	PERMANENT RESOURCES		129,891.98	139,248.59	157,706.45	179,079.18	170,942.75
151	Grants and public financing		18.31	20.72	15.97	-	-
152	Specific provisions		8,484.81	8,597.37	9,370.96	10,006.17	9,521.81
1521	Provisions for risk and expenses		7,549.57	7,736.22	7,577.89	8,413.63	7,930.52
1522	Specific provisions		935.23	861.15	1,793.08	1,592.54	1,591.29
153	Subordinated debt		18,051.19	19,659.34	22,791.59	22,120.01	13,967.48
154	Shareholders' equity		103,337.67	110,971.16	125,527.93	146,953.00	147,453.46
1541	Paid-in capital		102,774.72	106,055.30	113,048.20	128,713.81	110,251.76
1542	Share premiums		5,205.89	5,205.89	5,736.50	6,479.81	6,440.53
1543	Reserves		11,887.39	11,793.81	11,859.68	12,918.51	18,220.71
1544	Revaluation difference		1,263.53	4,125.97	5,235.59	(2,255.46)	(6,993.98)
1545	Retained earnings (loss)		(24,357.86)	(27,402.08)	(26,051.09)	(20,977.48)	1,143.48
1546	Current year profit (loss)		6,564.00	11,192.28	15,699.05	22,073.82	18,390.96
16	ACCRUED INTERESTS		12,449.20	7,975.04	6,021.24	3,867.00	4,016.90
161	Accrued interests (Class 1)		136.71	148.93	93.00	59.47	86.24
162	Accrued interests (Class 2)		12,046.82	7,565.50	5,623.83	3,453.42	3,701.47
163	Accrued interests (Class 3) = (form. 21) 339 + 3429		0.25	8.24	0.03	20.58	34.32
164	Accrued interests (Class 5)		265.43	252.36	304.37	333.52	194.87
A	Total liabilities in FX		651,740.90	677,533.45	704,484.51	784,095.42	771,328.91
B	Total liabilities of non-residents		91,469.33	93,740.08	79,473.01	87,501.57	88,138.00

Source: Bank of Albania.



## 4- KEY FINANCIAL INDICATORS

		(in %, unless otherwise stated)						
		Indicators						
		Based on capital						
Regulatory capital to risk-weighted assets		June 2016	December 2016	June 2017	December 2017	June 2018	December 2018	
Tier 1 capital to risk-weighted assets		13.71	13.81	14.66	15.13	16.62	17.00	
Tier 1 capital to total assets		8.81	8.75	8.54	9.03	9.33	9.16	
Regulatory capital to total assets		10.15	9.95	9.86	9.90	9.92	9.82	
Shareholders' equity to total assets		9.58	9.73	9.89	10.17	10.50	10.15	
Non-performing loans net of provisions to Tier 1 capital		34.75	26.25	34.75	26.25	19.41	16.63	
Non-performing loans net of provisions to regulatory capital		30.17	23.08	30.17	23.08	17.98	15.51	
Non-performing loans net of provisions to shareholders' capital		31.98	23.62	31.98	23.62	17.32	15.01	
Return on equity		8.02	7.15	8.02	7.15	7.41	12.96	
Open foreign currency position to regulatory Tier 1 capital		9.70	8.00	6.30	4.59	8.24	8.34	
Open foreign currency position to regulatory capital		8.44	7.03	5.62	4.22	7.63	7.78	
Open foreign currency position to shareholders' equity		8.87	7.20	5.52	3.85	7.35	7.53	
Liquid assets to total assets		30.99	31.29	31.58	31.87	32.20	34.23	
Liquid assets to short-term liabilities		39.80	40.57	41.34	42.11	43.23	46.21	
Return on assets		0.76	0.69	0.76	0.69	0.76	1.32	
Non-performing loans to total loans		19.96	18.27	19.96	18.27	13.27	11.08	
Net interest income to gross income		119.10	119.79	119.10	119.79	82.79	92.18	
Operating expenses to gross income		70.63	74.04	70.63	74.04	55.46	63.92	

Source: Bank of Albania.



## 5- BANKS' SHAREHOLDERS

No.	Bank	Shareholders	Equity share in %	Ownership	Capital origin	Home country
1.	RAIFFEISEN BANK SH.A.	Raiffeisen SEE Region Holding GmbH	100.00	Private	Foreign	Austria
2.	NATIONAL COMMERCIAL BANK SH.A.	Çalik Finansal Hizmetler A.Ş.	100.00	Private	Foreign	Turkey
3	UNITED BANK OF ALBANIA SH.A.	Islamic Development Bank (IDB) Jeddah	86.70	Private	Foreign	Saudi Arabia
		Itihmar 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
4	INTESA SANPAOLO BANK ALBANIA SH.A.	Saudi Brothers Commerce Co.	0.58	Private	Foreign	Saudi Arabia
5	TIRANA BANK SH.A.	Intesa Sanpaolo S.p.A (ISP)	100.00	Private	Foreign	Italy
10	CREDIT BANK OF ALBANIA SH.A.	Piraeus Bank SA	98.83	Private	Foreign	Greece
		1 Individual	1.17	Private	Foreign	Greece
		Alpha Bank	100.00	Private	Foreign	Greece
		ProCredit Holding AG & CO, KgaA	100.00	Private	Foreign	Germany
		Financial Group ICB Holding	100.00	Private	Foreign	Switzerland
		TRANZIT sh.p.k	100.00	Private	Domestic	Albania
		Mr Fauzi AlKarafi	28.28	Private	Foreign	Kuwait
		Loay J. M. A. Al. Kharafi	18.97	Private	Foreign	Kuwait
		Mr Marzouq N.M.A. Al. Kharafi	6.2	Private	Foreign	Kuwait
		Mr Bader N.M.A Al. Kharafi	6.2	Private	Foreign	Kuwait
11	CREDINS BANK SH.A.	Mr Faisal N.M.A Al. Kharafi	6.2	Private	Foreign	Kuwait
		11 Individuals	34.15	Private	Foreign	Kuwait
		B.F.S.E. Holding B.V.	16.49	Private	Foreign	The Netherlands
		Amyra Capital LLP	2.51	Private	Foreign	United Kingdom
		Albanian Savings Loan Union	2.74	Private	Domestic	Albania
		EDRO shpk	0.95	Private	Domestic	Albania
		A.F.C.	2.18	Private	Domestic	Albania
		AKINVEST	0.95	Private	Domestic	Albania
		Prima sh.p.k.	3.18	Private	Domestic	Albania
		Renis Tereshana	23.18	Private	Domestic	Albania
		Aleksander Pilo	15.30	Private	Domestic	Albania
12	SOCIETE GENERALE BANK ALBANIA SH.A.	39 Individuals	32.54	Private	Domestic	Albania
13	UNION BANK SH.A.	SOCIETE GENERALE	88.89	Private	Foreign	France
		7 Individuals	11.11	Private	Domestic	Albania
		European Bank for Reconstruction and Development (EBRD)	10.12	Private	Foreign	United Kingdom
14	FIRST INVESTMENT BANK ALBANIA SH.A.	Financial Union Tirana	86.34	Private	Domestic	Albania
		2 Individuals	3.54	Private	Domestic	Albania
		First Investment Bank, Bulgaria	100.00	Private	Foreign	Bulgaria

Source: Bank of Albania.



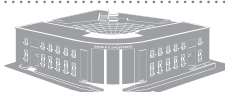
## 6- DATA FOR THE SHAREHOLDERS/PARTNERS OF NBFIS

No.	Non-bank financial entity	Partners/ Shareholders	Equity share in %	Ownership	Capital origin	Home country
1	UNION FINANCIAR TIRANË SH.A.	Edmond Leka	35.00	Private	Domestic	Albania
		Niko Leka	35.00	Private	Domestic	Albania
		Varuzhan Piranian	10.00	Private	Domestic	Albania
		Gjergj Misha	10.00	Private	Domestic	Albania
		Eduard Shima	10.00	Private	Domestic	Albania
2	POSTA SHQIPTARE SH.A.	Ministry of Economy, Trade and Energy	100.00	Public	Domestic	Albania
3	AKINVEST SH.A.	Muhammed Kokona	35.00	Private	Domestic	Albania
		Ilir Adili	65.00	Private	Domestic	Albania
4	NOA SH.A.	NOA Holding N.V.	100% minus 1 share	Private	Foreign	The Netherlands
5	FONDI BESA SH.A.	NOA Cooperatief U.A.	1 share	Private	Foreign	The Netherlands
		Albanian Besa Capital Foundation	65.69	Private	Domestic	Albania
		Bajram Muçaj	20.00	Private	Domestic	Albania
		53 Individuals	14.31	Private	Domestic	Albania
		lureCredit Albania sh.a., Albania	100.00	Private	Domestic	Albania
6	FINAL SH.A.					
7	First Albanian Financial Development Company – Faf Sh.A.	Ministry of Finance.	100.00	Public	domestic	Albania
8	RAIFFEISEN LEASING SH.A.	Raiffeisen Bank sh.a.	100.00	Private	Domestic	Albania
9	LANDESELEASE SH.A.	UNION BANK SH.A.	100.00	Private	Domestic	Albania
10	AGRO & SOCIAL FUND SH.P.K.	FONDI BESA SH.A.	100.00	Private	Domestic	Albania
11	CAPITAL INVEST SH.A.	Gëzim Balisha	34.88	Private	Domestic	Albania
		Arben Zeneli	46.50	Private	Domestic	Albania
		4 Individuals	18.62	Private	Domestic	Albania
12	TRANZIT SH.P.K.	New Century Holdings XI, L.P.	35.00	Private	Foreign	Cayman Islands
		NCH Balkan Fund, L.P.	35.00	Private	Foreign	Cayman Islands
		Andi Balla	30.00	Private	Domestic	Albania
13	ALBANIAN FACTORING SERVICES SH.A.	Gemal Disha	52.55	Private	Domestic	Albania
		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		100.00	Private	Foreign	France
15	OMNIFACTOR SH.P.K.	FAB-GROUP shpk.		100.00	Private	Domestic	Albania
16	PLATINIUM INVESTMENT SH.P.K.	Andri Kasneci		100.00	Private	Domestic	Albania
17	TIRANA FACTORING & LEASE SH.A.	Rolandi Manushi		40.00	Private	Domestic	Albania
		Ervin Aliqj		40.00	Private	Domestic	Albania
		Endrit Beqaj		20.00	Private	Domestic	Albania
18	PORSCHE LEASING SH.P.K.	Porsche Bank Aktiengesellschaft (AG)		100.00	Private	Foreign	Austria
		Islamic Corporation for the Development of the Private Sector (IICD), Saudi Arabia		35.64	Private	Foreign	Saudi Arabia
19	ALBANIA LEASING SH.A.	National Commercial Bank		29.98	Private	Domestic	Albania
		ND BAIKAN DOOEL, Tetovo		21.88	Private	Foreign	North Macedonia
		KOLON WORLD INVESTMENT CO, Hong Kong		12.50	Private	Foreign	Hong Kong
20	IUTECREDIT ALBANIA SH.A.	AS Iutecredit Europe, Estonia		100.00	Private	Foreign	Estonia
21	AGRO PARTNER SH.P.K.	Arjan Lala		100.00	Private	Domestic	Albania
		Albanian – American Development Foundation (AADF), Albania		25.00	Private	Foreign	U.S.A
22	CRIMSON FINANCE FUND ALBANIA SH.P.K.	Crimson Capital Corp, USA		25.00	Private	Foreign	U.S.A
		Norwegian Investment Fund for Developing Countries (Norfund), Norway		25.00	Public	Foreign	Norway
		Tirana Municipality		25.00	Public	Domestic	Albania
23	EASYPAY SH.P.K.	Lindita Shomo		100.00	Private	Domestic	Albania
24	KASTRATI SH.P.K.	Shefqet Kasrati		100.00	Private	Domestic	Albania
25	PAY AND GO SH.P.K.	Untag Community limited		100.00	Private	Foreign	United Kingdom
26	MICRO CREDIT ALBANIA SH.A.	Elda Ilbro		100.00	Private	Domestic	Albania
27	ALBANIAN FINANCIAL INSTITUTION SH.P.K.	Arta Gurabardhi		20.00	Private	Domestic	Albania
		Besnik Leskaj		60.00	Private	Domestic	Albania
		Redjan Basha		20.00	Private	Domestic	Albania
28	RAEA FINANCIAL SERVICES SH.P.K.	Relianda Zhelegu		100.00	Private	Domestic	Albania
29	MOGO ALBANIA SH.A.	MOGO FINANCE S.A., Luxembourg		100.00	Private	Foreign	Luxembourg
30	KREDO FINANCE	Aigars Kesenfelds		100.00	Private	Foreign	Latvia

Source: Bank of Albania.



## 7- BANK BRANCHES AND AGENCIES IN ALBANIA BY REGION

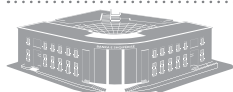
No.	Region	2010	2011	2012	2013	2014	2015	2016	2017	2018
1	Tirana	210	212	218	213	203	204	207	197	190
2	Durrës	54	54	55	53	51	51	49	49	45
3	Fier	44	44	43	42	42	41	39	38	34
4	Elbasan	30	30	30	30	28	29	29	27	25
5	Korça	38	37	37	38	35	35	34	31	30
6	Shkodra	25	25	25	24	22	22	22	22	20
7	Vlora	41	41	42	41	37	37	35	32	31
8	Lezha	25	26	25	24	23	23	23	22	22
9	Berat	20	21	21	22	20	20	20	20	19
10	Gjirokastra	24	24	23	23	20	20	18	17	14
11	Kukës	9	10	9	9	9	9	8	8	8
12	Dibra	9	10	10	10	9	9	9	9	9
TOTAL		529	534	538	529	499	500	493	472	447

Source: Bank of Albania.

## 8- E-BANKING PRODUCTS/SERVICES, BY COMMERCIAL BANKS, AS AT END OF 2018

BANKS	ATM	POS	POS Virtual	PayBox	Internet banking	Phone banking	Mobile banking / SMS banking	Electronic (Debit, Credit) Cards
RAIFFEISEN BANK SH.A.	✓	✓	✓		✓		✓	✓
NATIONAL COMMERCIAL BANK SH.A.	✓	✓			✓		✓	✓
TIRANA BANK SH.A.	✓				✓	✓	✓	✓
ALPHA BANK – ALBANIA SH.A.	✓	✓			✓		✓	✓
PROCREDIT BANK	✓	✓		✓	✓			✓
FIRST INVESTMENT BANK, ALBANIA	✓				✓			✓
CREDINS BANK SH.A.	✓	✓	✓		✓			✓
UNION BANK SH.A.	✓	✓			✓		✓	✓
SOCIETE GENERALE BANK ALBANIA SH.A.	✓				✓		✓	✓
INTESA SANPAOLO BANK ALBANIA SH.A.	✓	✓			✓		✓	✓
INTERNATIONAL COMMERCIAL BANK SH.A.	✓						✓	✓
AMERICAN BANK OF INVESTMENTS SH.A.	✓				✓			✓
UNITED BANK OF ALBANIA SH.A.								✓

Source: Bank of Albania.





## 9- 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	2018
1	Banks and branches of foreign banks	17	17	16	16	16	16	16	16	16	16	16	16	16	14
2	Non-bank financial institutions	7	6	6	7	13	17	19	21	21	22	27	28	31	30
3	Foreign exchange bureaus	58	60	112	189	221	284	301	322	333	356	397	428	426	463
4	Savings and Loan Associations	131	125	130	133	135	126	126	126	121	113	111	13	13	13
5	Unions of Savings and Loan Associations	2	2	2	2	2	2	2	2	2	2	2	2	1	1

Source: Bank of Albania.

## 10- DATA ON BANKING SERVICES UP TO 2018

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of banks	17	16	16	16	16	16	16	16	16	16	16	16	14
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	6,738
Number of branches/agencies in the country	294	399	511	524	529	534	538	529	499	500	493	472	447
Average number of employees per:													
- Bank	246	322	406	400	399	420	427	418	426	426	434	430	481
- Banking unit	14	13	13	12	12	13	13	13	14	14	14	15	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	2,862
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	204,429
- 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	6,403
Bank employee	712	574	452	456	455	432	424	433	424	423	414	417	425

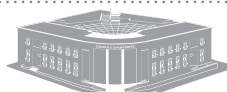
Source: Bank of Albania and INSTAT.

\*Population data after 2011 are calculated based on the projection.

## 11- BANKS NETWORK AS AT THE END OF 2018

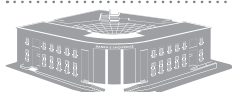
No.	Banks	No. of branches in the country	No. of agencies	No. of branches abroad	No. of branches and agencies, total
1	Raiffeisen Bank	48	28		76
2	National Commercial Bank	64	3		67
3	United Bank of Albania	4	2		6
4	Tirana Bank	36	2		38
5	International Commercial Bank	6			6
6	Alpha Bank - Albania	33			33
7	Intesa Sanpaolo Bank Albania	31	3		34
8	ProCredit Bank	4	5		9
9	American Bank of Investments	34	6		40
10	Credit Bank of Albania	1	1		2
11	Credins Bank	48	11		59
12	Société Générale Albania	35			35
13	Union Bank	16	14		30
14	First Investment Bank	1	11		12
	<b>TOTAL</b>	<b>361</b>	<b>86</b>		<b>447</b>

Source: Bank of Albania.



## 12- SUPERVISION REGULATIONS IN FORCE, AS AT 31 DECEMBER 2018

1. Regulation "On 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 for 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, dated 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, dated 15.10.2007 and amended by Decision No. 62, dated 29.08.2008.
9. Unified Reporting System for branches of foreign banks, approved by the Supervisory Council Decision No. 58, dated 15.10.2007.
10. Regulation "On electronic payment instruments", approved by the Supervisory Council Decision No. 11, dated 06.02.2008 and amended by the Decision No.03, dated 17.01.2013, Decision No. 122, dated 09.11.2016, and by Decision No.17, dated 7.2.2018
11. Regulation "On transparency for banking and financial products and services", approved by the Supervisory Council Decision No. 59, dated 29.08.2008 and amended by Decision No. 14 of 09.03.2011, Decision No. 25, dated 03.05.2017 and Decision No. 15, dated 07.02.2018.
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 by Decision No. 25, dated 10.04.2015.
13. "Reporting methodology and content of financial reports", a Document approved by the Decision of Supervisory Council, No 95, dated 24.12.2008.
14. "Licensing policy of banking entities", a Document approved by the Supervisory Council Decision No. 12, dated 25.02.2009.
15. Regulation "On granting the licence 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 the 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 the 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 No61, dated 06.08.2015, Decision no 80, dated 06.07.2016, and Decision No.58, dated 03.10.2017
18. Regulation "On foreign exchange activity", approved by the 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, dated 14.10.2009 and amended by Decision No. 75, dated 26.10.2011, Decision No. 28, dated 27.03.2013 and Decision No. 14, dated 7.2.2018.
  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 Decision No. 29, dated 07.06.2017.
  21. Regulation "On management of risk from open foreign currency positions", approved by the Supervisory Council Decision No. 48 of 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 of 13/10/2010.
  24. Decision "Fees for using information in the Credit Registry of the Bank of Albania", approved with the Decision of Supervisory Council, 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 on 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 internal audit system at banks and branches of foreign banks", approved by the Supervisory Council Decision No. 62, dated 14.09.2011, amended by Decision No. 27, dated 27.03.2013 and Decision No. 22, dated 27.02.2014, Decision No. 26, dated 01.04.2015 and 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 granting the 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, Decision No 121, dated 09.11.2016, and Decision No. 47, dated 06.09.2017.
  32. Regulation "On the management of risk in the activity of non-bank financial institutions", approved 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 and amended by Decision No. 43, dated 30.07.2014, Decision No.70, dated 18.12.2014, Decision No. 49, dated 01.07.2015, Decision No. 91, dated 02.12.2015, Decision No. 49, dated 30.03.2016, Decision No. 5, dated 01.02.2017 and Decision No.34, dated 02.05.2018.
  35. The reporting system for non-bank financial institutions, approved by the Supervisory Council Decision No. 65, dated 30.10.2013.
  36. "Supervision Policy", a Document approved by the 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 and 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, dated 18.12.2014 and amended by Decision No. 19, dated 04.03.2015.
39. "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 and amended by Decision No. 27, dated 04.04.2018.
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 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 the Supervisory Council Decision No. 4, dated 01.02.2017
47. Guideline "On the internal capital adequacy assessment process", approved with the Decision of Supervisory Council, No. 26, dated 03.05.2017.
48. Regulation "On consolidated supervision", approved by the Supervisory Council Decision No. 72, dated 06.12.2017

