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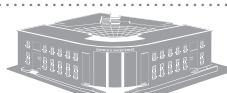
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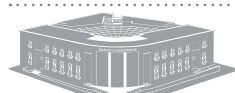
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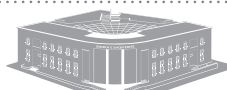
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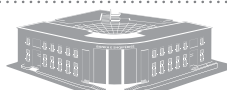
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1 THE FUNCTION OF SUPERVISION

The main objective of the Function of Supervision is early identification of main risks, such are: credit risk, liquidity risk, operational risk, interest rate risk, capital profitability risk, reputational risk, money laundering and financing of terrorism risk, but not only. The evaluation of internal control and the efficiency of corporate governance are of particular focus as important risk-mitigating factors in the whole sphere of the activity of banks in particular, also of non-bank financial institutions, and other institutions licensed by the Bank of Albania. Timely action and effective regulatory measures through ongoing supervision, arising from the assessment of banks supervision and more broadly, and their implementation remain one of the most important steps to successfully finalize the ultimate goal - to preserve the soundness of financial entities.



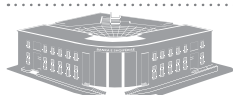
2 KEY DEVELOPMENTS

The Albanian banking system, as a whole, appears stable, well-capitalised, liquid, limited in terms of exposure to market risks and a downward dynamic of credit risk. We deem that the higher income than in the previous year are a better possibility to support the increase of the activity and cover potential losses arising from risks in the future. Capital adequacy ratio (CAR) stood 6 percentage points above the minimum level and showed stability throughout 2019, above 18%. While liquidity indicator was quite higher than the minimum required levels throughout the year.

For the first time in 10 years **the non-performing loans ratio fell** to a single digit level, reaching at 8.37% at the end of 2019. The value of non-performing loans reached ALL 48.2 billion, with an annual decline of ALL 16,2 billion, or around 25,14%, affected by the settlements, write-offs and partial restructuring of losses and non-performing loans. Nevertheless, the developments in credit portfolio quality, as the main group of banks' assets with high credit risk, will remain under supervisory attention, particularly in circumstances of possible negative impacts arising from the earthquake of 26 November 2019, and the confinement economic measures related to Covid-19 pandemic undertaken during 2020. Meanwhile, the factor of NPLs write-off is assessed to remain one of the most important contributors in the performance of the non-performing loans indicators. This performance is expected to particularly provide its effects after the regulatory amendment, which requires banks to write off the lost loans for more than two years, from three years in the previous rule. On the other hand, the annual developments in credit portfolio are summarised in an annual fall of ALL 4.9 billion or 0.9%. Hence, the dynamic of non-performing loans ratio was not supported by the performance of credit stock, which would have resulted upward of ALL 11.3 billion, or around 2% in annual level, in absence of the effect of NPLs reduction.

In 2019, the bank consolidation process, started years ago, was concluded, bringing the number of banks to 12. This process reformed the domestic banking market, which is now experiencing an increase in the presence of domestic capital, where 4 banks with a share of 29.3% in the market, are owned by this capital. In 2019, the process of ownership transfer for two banks was concluded, as well as the absorption of one bank and the self-liquidation of another. Specifically:

- The majority of the shares of Tirana Bank were transferred from Piraeus Bank to new shareholders, Balfin Group. This transfer was approved by the Supervisory Council of the Bank of Albania. The transfer of the



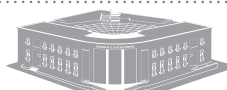
- management of the bank to the new shareholder was also concluded, through this transfer.
- The qualifying holding of the shares of the Societe Generale Bank Albania was transferred to the ownership of the shareholder of OTP Bank Nyrt, Hungary. After this approval the bank changed its name to OTP Bank.
- The process of full absorption of the International Commercial Bank by Union Bank was completed during the year after the transfer of 100% of the shares was previously approved.
- The licence of Credit Bank Albania was revoked, after the decision of shareholders on its voluntary liquidation.

The map of the representation of banks with branches in various regions of the country also underwent downward changes. This trend was due mainly to the consolidation of the banking system and the reduction of the number of banks.

Tirana Approach¹ project, having gone through a phase of intensive discussions with stakeholders, including representatives of the FinSAC project and the IMF resident advisor to the Bank of Albania, was finalised in July 2019, with the approval of respective regulatory framework which will be implemented till the end of 2020. With the aim to encourage banking industry to maximally benefit from this framework, the Supervision Department has pursued a proactive approach through a simultaneous and symmetric communication with almost all banks, bringing into attention the exposures that may be subject to be addressed by this platform. Meanwhile, we remain attentive to all developments expected to be materialised in this regard, being ready to provide our support within the spirit of the regulatory framework.

In the framework of implementing the recommendations from the Committee of Experts of CoE on the Evaluation of Anti-Money Laundering Measures and counter Terrorist Financing (MONEYVAL), the Bank of Albania was included in the implementation of the national plan of measures, throughout 2019, regarding both technical and effectiveness issues, in order to improve the regulatory framework and strengthen the effectiveness of the supervisory process, with the purpose the addressing the main problems evidenced the report, whose fulfilment will continue also during 2020. Consequently, **the assessment of the risk exposure of entities to the prevention of money laundering and combating the financing of terrorism has been a priority.** The findings and recommendations from this process were factored in the drafting of supervisory plans for the more exposed entities, such as the Foreign Exchange Bureaus. According to these plans 97 FEBs were examined for AML/CFT, for 31 of which supervisory and administrative measures for identified deficiencies were taken, and the licenses of 7 were revoked.

¹ Since the moment of drafting and presenting it up to its approval and implementation, this Regulation is called as "Tirana Approach", in the view of a parallelism with similar initiatives undertaken in other countries, but with specifics related to its objective and the economic and legal context to be implemented.



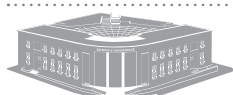
The supervision process this year was also characterised by a series of **collaborations with national and international institutions** in order to achieve the objectives of the Bank of Albania and approximating with the best international standards. Among local institutions, the Bank cooperated particularly with the General Directorate for the Prevention of Money Laundering (GDPML) for the implementation of the recommendations of Moneyval and providing relevant reports to the experts of Moneyval and FAG (Financial action group), conducting joint examinations and review of the legal and regulatory framework related to issues on the prevention of money laundering and terrorist financing. Also, BoA assisted the Albanian Financial Supervision Authority in various examinations in the banking sector, in order to fulfil the legal and regulatory obligations of this authority and continuous share of correspondences.

Cooperation with international financial institutions extended to several dimensions. During this year, participation in the supervision colleges organised by the European Central Bank was realised, in order to exchange information with some of the banks with EU origins that operate in the Albanian market. Also, in the first part of 2019, we benefited from the participation in training activities organised in the framework of a programme sponsored by the European Central Bank and led by the Deutsche Bundesbank for Strengthening the Central Bank Capacities in the Western Balkans with a view to the Integration to the European System of Central Banks. In more concrete terms, these activities were organised by the Bank of Poland, focusing in the acknowledgement and approximation with the European legislation in the field of transparency and consumer protection, and the Bank of Italy with a broad spectrum of themes in the field of supervision. This programme will also continue during 2020.

Also, in 2019 Q4, started the implementation of the twining project with Banca d'Italia and Deutsche Bundesbank in the framework of the approximation to the regulatory and legal framework in the supervision field, the best practises originating from the European System of Central Banks and the strengthening of technical capacities of staff of the Bank of Albania. This project consists in a set of intensive activities covering the review of capital requirements for various risks, the review of internal assessment process of capital, etc., to be mainly realised through experts' missions of Banca d'Italia and Deutsche Bundesbank.

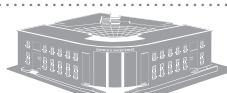
In the framework of the collaboration with international financial institution, we may mention also the communication with the National Bank of Hungary, with a focus on signing a cooperation agreement, mainly for information exchange. The preliminary agreement is expected to be ratified in 2020.

Throughout 2019, it is worthy to mention **the collaboration with international financial institutions, like the IMF and EBRD**. Cooperation with the IMF has continued in the framework of the multi-year project for the development of supervisory and institutional capacities according to a risk-based approach, part of the strategy of the Bank of Albania, in capacity of the regulatory and supervisory authority of the banking market and more broadly. This



collaboration has been materialised with the assistance of the IMF through a resident advisor at the Supervision Department. In this context, we particularly highlight the drafting of the internal methodology on the Supervision Review and Evaluation Process (known as SREP) as well as other regulations finalized and approved in 2019. The project will continue during the first part of 2020, which provides for the calibration of requirements for capital buffers of banks according to the second pillar of the Basel framework for capital adequacy, as well as the presentation in the banking industry of some revised, or new, regulations, according to best market practices. Also, cooperation with EBRD for the improvement project of the regulatory framework towards the sound governance of banks has continued, through the technical assistance and expertise of Deloitte London and Albania. Throughout 2019, it was worked on the completion of the recommendations reflected though and action plan, which will be materialised during 2020.

In 2020, the work of supervision will focus in the fulfilment of the strategic objectives in line with the medium-term development strategy of the Bank of Albania and its development plans. Special attention will be paid on the development and impacts of Covid-19 spread on the banking activity and health of entities. The Bank of Albania has undertaken some regulatory facilities related with the classification and provisioning of loans to assist banks in dealing with the consequences of the pandemic and providing room for effectively restructuring the relationships of credit with borrowers. Depending on the pandemic spread and intensity, the supervisory approach and the orientation of available human resources will be adopted from a traditional approach to a targeted and prudential approach with a final objective that of maintaining the financial stability in Albania.



3 ON-SITE EXAMINATIONS

On-site examinations, the most important process for assessing banks, are performed at an increased attention for fulfilling the supervisory mission, and have been oriented towards main risks. In 2019, 17 full-scope and partial examinations were performed, covering almost all banks, three non-bank financial institutions, one SLA and 97 Foreign Exchange Bureaus. The examinations programme also took into account the development in the structure of the banking system as well as the commitments of the Bank of Albania in the framework of fulfilling the recommendations of the experts of Moneyval.

Table 1 Number of examinations by years and theme

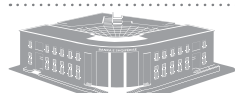
Examined institutions	Strategic Risk	Organisational Risk	Credit Risk	Liquidity Risk	Interest Rate Risk	Market Risk	Information and Communication Technology	Operational risk	Reputational Risk	Profitability	Capital
2017	9	12	13	10	10	9	11	8	11	10	11
2018	8	10	9	8	8	8	9	8	48	9	8
2019	13	13	16	13	13	14	13	13	113	13	15

Source: Bank of Albania.

The examinations on banks have as an objective the on-site assessment of all risks, thematic examination on the assessment of specific identified risks, and examinations on the follow-up of the recommendations left by previous examinations.

Thematic examinations were mainly focused on the management process of non-performing loan portfolios, to continuously decrease them. They were also used to assess the internal methodologies of banks, reported at the Bank of Albania, on the calculation of capital requirements for internally identified risks, in accordance with the guideline "On the internal assessment process of capital adequacy".

The recommendations left have identified the main risks to which banks are exposed. Their nature is related to improvement of the risk management quality through methodological improvements, the internal analyses quality of information systems, and changes in the internal regulatory and procedural framework. The objective of the recommendations has also been the improvement of bank governance, an increase in the role of the Steering Councils in bank management, as well as an increase in requirements for



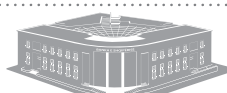
information and monitoring of executive structures. Meanwhile, for the other internal structures of banks, the strengthening of audit lines and the qualitative increase of the risk function were required.

Overall, banks have reacted positively to the recommendations, fulfilling a good part of them within the forecasted deadlines. At the same time, for those recommendations related to such aspects as quality of governance, adequate allocation of responsibilities, effectiveness of internal audit systems, and strengthening of risk and compliance units, the process of improvement is ongoing and continues in parallel with the increase of business volumes.

Regarding non-bank financial entities and savings and loan associations, attention in 2019 was focused on entities that carry out lending activity, leasing and microcredit. Examinations have evidenced the rapid development of these entities. Relevant recommendations highlight that the increase of the activity volume of these entities must also be accompanied by an increase of governance quality, information systems infrastructure and internal audit.

Other identified issues are related to the need for a more conservative classification of part of the lending portfolio, also creating relevant reserve funds, and ensuring complete transparency in the relations with the customers.

Part of the supervisory process is also the rapid reaction in cases of potential risk identification or breaches of indicators reported by bank and non-bank entities. In 2019 as well, in addition to on-site examinations, there has been frequent correspondence and contact with all entities in response to events or developments with the potential to affect their financial situation, accompanied by specific supervisory measures and requirements. The Bank of Albania has suspended, in two cases, the activity license of entities that have not maintained the minimum required capital level. As well, in one case, an order has been issued to increase capital.



4 LEGAL AND METHODOLOGY FRAMEWORK, AND LICENSING PROCESS

4.1 LEGAL AND METHODOLOGY FRAMEWORK

The drafting of new bylaws and the review of the supervisory regulatory framework in force aims at supplementing and improving it, in order to carry out more effective supervision, in compliance with legal requirements on banks and other financial entities being licensed and supervised by the Bank of Albania, through the approximation with the EU regulatory acts, the Core Principles for Effective Banking Supervision, and Basel Committee documents.

In 2019, the Bank of Albania dedicated special attention to the drafting of new regulatory acts, in the view of the commitments of the Bank of Albania for: fulfilling the recommendations of the experts of Moneyval regarding the prevention of money laundering and combating the financing of terrorism; approximating the regulatory framework with Basel III requirements; and reducing non-performing loans.

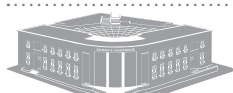
Following are listed the new regulatory acts approved and reviewed over 2019.

- **Amendments to the Regulation “On the regulatory capital of the bank”, (adopted with Decision No. 2 dated 9.1.2019 of the Supervisory Council of the Bank of Albania).**

These amendments aim the further approximation of the Bank of Albania’ requirements with Basel III requirements with the purpose the review of capital ratios laid down in this Regulation. Hence, the minimum ratio of Common Equity Tier 1 against the risk-weighted exposures, from 4.5% to 6.75%, and the minimum ratio of Tier 1 capital against risk-weighted exposures from 6% to 9%, by proportionally adapting these ratios to the required minimum capital adequacy ratio of 12%.

- **Approval of the new Regulation “On liquidity coverage ratio”, (adopted with Decision No. 27, dated 28.3.2019 of the Supervisory Council of the Bank of Albania).**

The drafting of the Regulation “On liquidity coverage ratio” aims to further approximate the regulatory framework of the Bank of Albania to the requirements of the Basel Committee and the European regulations on liquidity risk management, in compliance with the strategic objectives of the Supervision



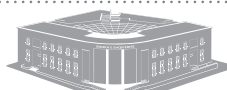
Department for the implementation of Basel III requirements. This Regulation lays down the criteria and rules on the calculation of the liquidity coverage ratio (LCR) and the requirements of the Bank of Albania, as the supervisory authority on the minimum level of this ratio (in total for all currencies and in total for major foreign currencies).

This new regulatory act aims to complete the applicable regulatory framework on liquidity risk management, through the presentation of the liquidity hedging ratio (LRC), as a new indicator, as well as the definition of banks' requirements on the creation of a liquidity reserve that in conditions of liquidity stress hedges net outflows, within a time horizon of 30 calendar days. The regulation presents the composing elements of LCR, and the criteria on the adequacy that these elements should comply with, to be classified as liquid assets, inflows or outflows of liquidity. The liquidity coverage ratio (LCR) is a dynamic indicator, different from the current liquidity indicator which aims at being a static one.

The regulation set forth the supervisory requirements for the calculation of LCR on individual and consolidate basis; general requirements, operational requirements and eligibility criteria to be met by liquid assets, for their classification to be included in the liquidity buffer, as well as requirements for the assessment of liquid assets through market value; the composition of the liquidity buffer according to assets levels, by defining the limits (minimum and maximum) for each level and the prediction on the haircuts applicable on each level of the liquid assets (level 1 assets, 2A assets and 2B, respectively); the calculation methodology of liquidity outflows and the criteria for the classification of balance sheet items or off-balance sheet items, in the category of outflows related with stable deposits and other retail deposits, with operational deposits, and of outflows which steam from liquidity and credit facilities and from products, services or other liabilities; the prediction of rates that banks shall apply to each category of outflows; the requirements on liquidity inflows and the rates applicable for their calculation; the definition of a cap for inflows; as well as the reporting and monitoring requirements.

This Regulation has entered into force on 1 March 2020.

- **Amendments to the following regulations, pursuant to the implementation of the recommendations of Moneyval experts, provided during Round V of the evaluation for Albania, regarding the prevention of money laundering and combating the financing of terrorism, approved by Decisions No. 46, 47, 48, 49 and 50, dated 03.07.2019, respectively, of the Supervisory Council of the Bank of Albania):**
- Regulation "On licensing and carrying out the activity of banks and branches of foreign banks in the Republic of Albania";
- Regulation "On licensing and activity of non-bank financial institutions";
- Regulation "On licensing and activity of savings and loan associations and their unions";

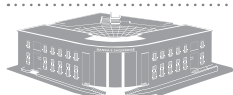


- Regulation "On licensing, organisation, activity and supervision of foreign exchange bureaus";
- Regulation "On managing risk in the activity of non-bank financial institutions".

Amendments to the licensing regulations primarily address additional requirements of the Bank of Albania for applying entities, during the licensing process (banks, non-bank financial institutions, savings and loan associations and their unions, and foreign exchange bureaus). The requirements related to the integrity of shareholders/partners (including indirect shareholders/partners and ultimate beneficiaries), also expanding the focus to persons related to shareholders/partners, if they have criminal records. Pursuant to these requirements the entities should carry out the continuous reassessment of the integrity of shareholders/partners when reporting results to the Bank of Albania at least once a year, and every time there are changes on the conditions upon which the preliminary licence is granted. These amendments also provision some cases when the Bank of Albania may refuse to grant the license, if the entity applying for the license may impinge public interest or if the shareholder/partner of the proposed entity bears a high risk, is a shell bank, is a bearer shares owner, is a nominee shareholder, or has a complex ownership structure.

The amendments to the licensing regulations to all entities, include, among others, requirements on detailed documentation and information, mainly: i) on indirect participation in the bank capital up to the last beneficiary (individual), holding no less than 5% in bank capital; ii) information about any possible family relations or close personal, working or business relationships, of the shareholders/partners of the entities, with persons with criminal convictions by a final court decision; iii) on cases when the bank applies to expand its network within the Republic of Albania and abroad regarding risks, control systems, etc.; iv) in cases of legal re-organisation of entities regarding the adequacy of the risk administration system, including the money laundering and terrorism financing risk, etc.

In particular, **amendments to the licensing regulation on non-bank financial institutions**, stipulate: i) the strengthening of the criteria for the appointment of the members of the supervisory/administration board, administrators and members of the audit committee, and the documentation to be submitted to the Bank of Albania, for the prior approval of the supervisory/administration board chairman, administrator and the audit committee chairman, as the regulation in force prior to the amendments, sets forth requirements only for the administrator; and ii) the requirement on the creation of specialized committees in supervisory/administration board level, such as the audit committee, risk(s) committee, etc., which advise/assist the board on specific issues, by taking into account the principle of proportionality based on the nature, size complexity of the activity and the risk profile of the entity).



Also, **amendments to the Regulation on granting the license to foreign exchange bureaus** stipulate: i) increase of the minimum initial capital required to entities for the purposes of obtaining a license to carry out the foreign exchange activity, after the entry into force of these regulatory amendments, from ALL 1.5 million, to ALL 2.5 million; ii) addition of the criteria applied to the administrator of the entity to hold a university diploma; iii) increase of reporting requirements regarding the documentation to be submitted at the Bank of Albania (after being granted the license), on annual basis, such are: certificate on the integrity of the shareholder/partner/administrator and relations or close personal, working or business relationship, and regarding the relations with persons convicted by a final court decision, also financial data on the performance of the entity's activity over the last year and the regular payment of fiscal obligations.

Amendments to the Regulation "On risk management and activity of non-bank financial institutions" define the requirements of an internal audit function/unit and the compliance function, as independent units and an important part of the audit system, as well as the responsibilities and obligations of these functions.

In continuation of the regulatory amendments approved in July 2019, and for implementation of the recommendations of Moneyval experts, provided during Round V of the evaluation for Albania, based also on FATF² standards, and in compliance with the reviewed provisions laid down on the particular Law "On the prevention of money laundering and financing of terrorism", in December 2019 amendments to the following regulations were approved.

- **Approval of amendments to the following regulations (adopted with decisions No. 78, 79, and 80, dated 18.12.2019, respectively, of the Supervisory Council of the Bank of Albania):**
- Regulation "On prevention of money laundering and terrorism financing";
- Regulation "On consolidated supervision";
- Regulation "On supervision of e-banking transactions".

In more concrete terms, amendments to the Regulation "On prevention of money laundering and terrorism financing" consists in further strengthening the requirements of the supervisory authority on entities, for a better risk management of money laundering and financing of terrorism, at both individual and group level. At the same time, part of regulatory amendments are some more tightened requirements on the integrity of entities' employees, and the requirements on the continuous training of the responsible persons and structure on the prevention of money laundering and financing of terrorism. Logically, in addition to the amendments in the regulation on the prevention of money laundering regarding the implementation of the enhanced due diligence, accordingly it is required the presence of the customers and their representatives before establishing a business relationship, the provision in the Regulation "On the supervision of e-banking transactions" on the physical presence of customers and their

² Financial Action Task Force.



representatives to open an e-banking account, for every business relationship, including the opening of e-banking accounts, is repealed. Amendments to the Regulation "On consolidated supervision" aim at strengthening the requirements to banking/financial entities groups, subject to the consolidated supervision by the Bank of Albania, regarding the drafting of programmes at group level from the shareholding institutions, for a better management risk on money laundering and financing of terrorism.

- **Approval of the new Regulation "On out-of-court treatment of distressed borrowers by banks" (adopted with Decision No. 51, dated 3.7.2019 of the Supervisory Council of the Bank of Albania).**

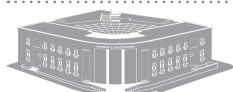
The Regulation "On out-of-court treatment of distressed borrowers by banks", differently called "Tirana Approach", was drafted with the assistance of the World Bank Group experts (FinSAC project) and aims at fulfilling the commitments undertaken by the Bank of Albania in the framework of the National Plan on Addressing Non-performing Loans, and the completion of the continuous measures undertaken by the Bank of Albania to address non-performing loans in Albania.

The Regulation aims at encouraging the treatment of distressed borrowers, through structured and efficient cooperation between banks. This Regulation is expected to serve as a cooperation platform, where banks coordinate their attempts and find solutions that reflect the nature of the borrower's difficulties by creating facilities for generation of liquidity, to continue and to recover its activity and to settle liabilities with banks. On the other hand, the solution takes into account also the exposure level and the position of each bank to the borrower. The Regulation, amid others, sets forth the requirement on signing an agreement which regulates the coordination way among banks with each other, the processes to be followed and the decision-making way on the identified solutions. Also, the Regulation sets forth a draft-agreement to be signed by all banks with the borrower and regulates the respective responsibilities and liabilities throughout the moratorium period. During such period, banks interrupt or do not undertake legal initiatives against the borrower and analyse the financial situation of the borrower and identify the appropriate solutions, with respect to the existing contractual obligations which are signed individually by each bank with the borrower.

The Regulation sets forth the criteria a borrower may be included in the agreement with banks, while it does not exclude the possibility of addressing, in the framework of this regulation, those exposures remaining outside of these stipulations.

This Regulation is foreseen to remain into force up to December 2020, with the purpose to prompt banks to undertake all the possible initiatives to address the common borrowers at a rather short time.

- **Amendments to the Regulation "On credit risk management by banks"**



and branches of foreign banks" (approved by Decision No. 52, dated 3.7.2019 of the Supervisory Council of the Bank of Albania).

Amendments to the Regulation are in line with the new Regulation "On out-of-court treatment of distressed borrowers by banks". The regulatory amendments aim to strengthen the classification criteria and provision of restructured loans, after 1 January 2021, when these amendments enter into force. This period coincides with the repeal of the regulation "On out-of-court treatment of distressed borrowers by banks". In this way, to banks it is provided the possibility to use the existing regulatory ease to restructure the borrowers up to December 2020. Also, through the regulatory amendments the write-off limit of loss loans by banks is reduced from 3 years to 2 years, with the purpose to further reduce the non-performing loans in the system.

- **Approval of the new guideline "On banks stress testing" (adopted with Decision No. 60, dated 4.9.2019 of the Supervisory Council of the Bank of Albania).**

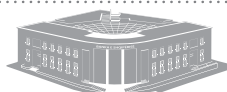
The new Guideline approximates to EBA guideline³, on the preparation of stress tests by banks, in compliance with the requirements of Basel III on risks management. The purpose of this guideline is to lay down the requirements and methodologies on banks carrying out stress tests, as part of their risk management process, particularly in the framework of the internal assessment process of capital adequacy.

Although the applicable legal framework of the Bank of Albania sets forth the requirements on the conduction of stress tests from banks on some type of risks⁴, the drafting of this special guideline, aimed at unifying the practices that banks should implement to conduct stress tests, by addressing in details various types of stress tests, according to the complexity and type of risks that banks face throughout their activity. The Guideline sets forth detailed requirements on stress tests programme, aspects of stress tests management, data aggregation infrastructure, and the reporting process within the bank, for stress tests purposes; the establishment of role and responsibilities of the bank's management structures in drafting and approving stress tests programme, also the identification of actions and measures to be taken, based on stress tests results, purpose and scope of application of stress tests, and their various types; requirements from banks on the conduction of stress tests, requirements on banks' reporting of stress tests results, accompanied with the measures being undertaken by the steering bodies of the bank, in response to these results, etc.

This Guideline has entered into force on 1 March 2020.

³ EBA/GL/2018/04 "Guidelines on institutions stress testing".

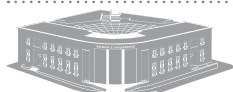
⁴ For example on credit risk, liquidity risk, interest rates risk in the bank book; etc.



Also, during 2019, **several regulatory acts were drafted and revised, considered important for banking supervision and for banks. They are expected to be adopted during 2020.** In more details, the following regulatory acts were drafted and/or revised:

- Drafting of the new regulation “On determining the conditions for granting the prior approval to the intra-banking group financial support agreement”. This Regulation lays down the conditions for granting the prior approval to the financial support agreement, which may be granted only by banks that are part of a banking group that falls under the consolidated supervision of Bank of Albania, and the requirements for documentation and its content for acquiring this approval from the Bank of Albania.
- Draft-amendments to the Regulation “On capital adequacy ratio”, which aim at further approximation with the European Regulation (CRR) 575/2013/EU “On prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012” to present the method based on the assessment of credit quality of the counterpart, on determining the shares of credit risk to some exposures (against the supervised institutions, entities of public sector and guaranteed bonds). Also, amendments to this Regulation were drafted based on the needs for review, being identified from the implementation in practice of the above stated regulation or the problems identified by the supervisors.
- Preparation of draft-amendments to the Regulation “On the risk management from large exposures of banks”, which aim at approximation with the latest amendments in 2019 to Capital Requirements Regulation (CRR)⁵ and to Basel document on large exposures regime. In 2019, impact study, took place with banks, with the aim the prior measurement of the effect of changes foreseen in fulfilling the regulatory obligations by banks. Part of the regulatory changes was also the review of banks reporting forms, with the purpose the easing of data gathering and processing as reported by banks, and the addition of some new items for reporting.
- Preparation of amendments to the Regulation “On risk management in the activity of Savings and Loan Associations and their Unions” which aim at adopting with their activity dynamisms and development in the last years.
- There has started the work for the compilation of the new draft-regulation “On the reporting of leverage ratio of banks”, while the respective work group was established the compilation of this Regulation aims at

⁵ Changed with EU regulation 2019/876/EU, CRR2.



approximating Basel III requirements based on the revised CCR2. Also, at the end of 2019, there were conducted some calculations on the prior assessment of financial leverage ratio, based on the data reported by banks in Corep reporting form. These prior calculations of this ratio were deemed necessary serving at the same time, as an initial base to further continue with the drafting of the new regulation.

In the framework of fulfilling the recommendations of Deloitte, aiming the improvement of the legal, regulatory and supervisory framework on the responsible and effective management of banks, it was compiled:

- the draft-guideline "On the internal and effective management of banks". This draft-guideline sets forth the requirements and core regulations for the improvement of the responsible and effective management in banks and foreign banks branches, through the establishment of the needed structures, individual and collective adequacy of the steering bodies' members; compilation of policies, establishment of committees and the definitions of roles and responsibilities for each committee, establishment of management culture and risk culture, and the establishment of the appropriate framework on risk appetite/tolerance;
- the drafting of proposals for amendments to the regulations "On core management principles of banks and branches of foreign banks and the criteria for approving their administrators", and "On Internal Control system"; and
- the revision of the internal manual on risk assessment.

During 2019, the Supervision Department also continued to contribute to the working group for the draft-law "On payment services", in the framework of the Bank of Albania's commitment to approximate the legal framework of the European Directive on Payment Services (PSD2)⁶.

Also the Supervision Department has contributed in the Inter-institutional Working Groups in the framework of the European Integration process for some important chapters.

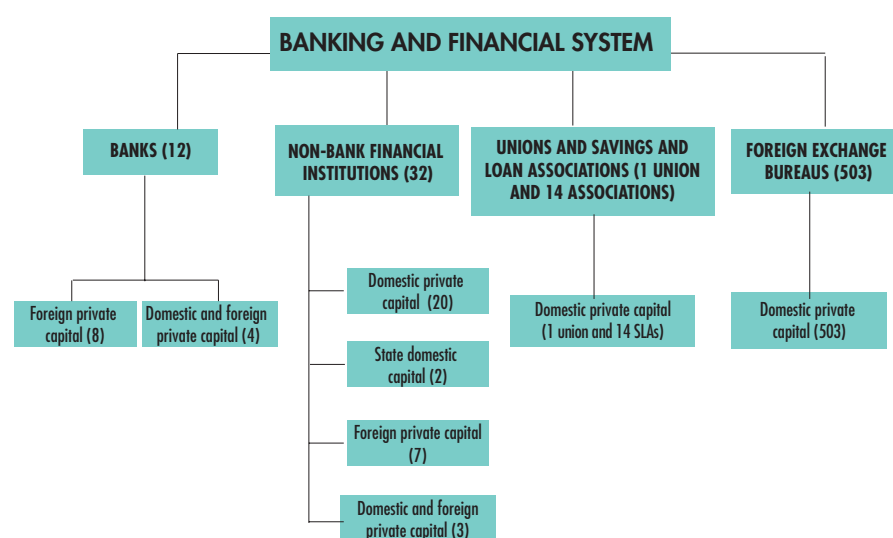
⁶ Payment Services Directive 2.



4.2 LICENSING

As at the end of 2019, the structure of the banking and financial system in Albania consisted of 12 banks, 32 non-bank financial institutions (NBFIs), 503 foreign exchange bureaus, 14 Savings and Loan Associations (SLAs) and 1 Union of SLAs.

Chart 1 Financial and banking sector structure and ownership



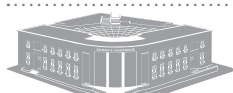
Source: Bank of Albania

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 loan associations and their unions, foreign exchange bureaus and representative offices of foreign banks.

4.2.1. BANKS

In 2019, within the scope of the licensing function, the Bank of Albania made the following decisions:

- approval of the transfer of 100% shares' ownership of the International Commercial Bank sh.a., to the Union Bank sh.a and the legal re-organisation of Union Bank sh.a., through the merger by absorption with the International Commercial Bank sh.a.;
- revocation of the licences granted to two banks: the license granted to the International Commercial Bank sh.a., as a result of conclusion of the merger by absorption by the Union Bank sh.a.; and the licence granted to Credit Bank of Albania sh.a, as this bank has started the voluntary

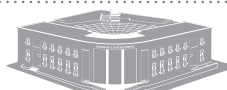


- liquidation process;
- approval for the transfer of 88.89% of the shares' ownership of Société Générale Albania Bank sh.a. to OTP Bank Nyrt;
- approval of the ownership transfer of 98.83% of shares of Tirana Bank sh.a. to Balfin sh.p.k., Albania;
- approval for the ownership of the qualifying holding (direct and indirect), by exceeding 20% of the equity of Credins Bank sh.a., to Amryta Capital LLP, United Kingdom;
- approval for the change of name of Société Générale Albania Bank sh.a. to OTP Bank Albania sh.a.;
- approval for the First Investment Bank, Albania sh.a., to conduct the financial activity of intermediation in insurance;
- approval of 64 administrators of banks, including 31 members of steering councils, 13 members of audit committees, and 15 executives and directors of internal audit;
- approval of the expansion of the banking network with five new branches, within the territory of the Republic of Albania;
- approval of amendments to the statutes of National Commercial Bank sh.a., Raiffeisen Bank sh.a., the American Bank of Investments sh.a., Credins Bank sh.a., Intesa Sanpaolo Bank Albania sh.a., OTP Albania sh.a. (Former Société Générale Bank Albania sh.a.);
- approval/no-objection on the appointment/re-appointment of chartered auditors for the auditing of financial statements at end of 2019 for all banks;
- approval for Credins Bank sh.a., First Investment Bank sh.a., and ProCredit Bank sh.a. to issue subordinated debt;
- approval for the American Bank of Investments sh.a., and ProCredit Bank sh.a., to settle the subordinate debt;
- approval for signing of agreements with third parties (outsourcing) and termination on conducting payment and transfer operations, for Raiffeisen Bank sh.a.;
- approval for ProCredit Bank sh.a and National Commercial Bank Sh.a. To provide e-banking services.

4.2.2 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 2019 included:

- a) granting a licence to a non-bank financial institution to conduct the financial activity of factoring (Tirana Capital Trade sh.p.k.) and to a microcredit financial institution (Micro Credit Risk sh.p.k.);
- b) approval for the transfer of capital quotas of the non-bank financial



institutions "Kredo Finance" sh.p.k., "Tirana Factoring & Lease" sh.a., "Final" sh.a.;

- c) approval of nine administrators of non-bank financial institutions;
- d) suspension of the license granted to non-bank financial institution "Platinum Investment sh.p.k, upon of the request of this entity.

During 2019, banks and non-bank financial institutions informed about structural changes in the capital ownership, which consisted mainly in changes to the non-qualifying holding of shares or quota of their capital. These institutions also reported an increase in their paid-in capital.

4.2.3 SAVINGS AND LOAN ASSOCIATIONS AND UNIONS OF SAVINGS AND LOAN ASSOCIATIONS

Within the scope of the licensing function the Bank of Albania's decision making on savings and loan associations and unions of savings and loan associations during 2019 consists on:

- a) licensing the Saving and Loan Association " Tirana Invest Credit 2000";
- b) the approval of the managers of micro-credit institutions, in accordance with the Law "On savings and loan associations and their unions" and of the Regulation "On licensing and activity of Savings and Loan Associations and their Unions". The approval was granted for two chairs of Steering Councils and two administrators of savings and loan associations.

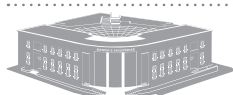
4.2.4 FOREIGN EXCHANGE BUREAUS

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

- a) license 51 new foreign exchange bureaus;
- b) revoke the license of 11 foreign exchange bureaus due to the discontinuation of the activity.

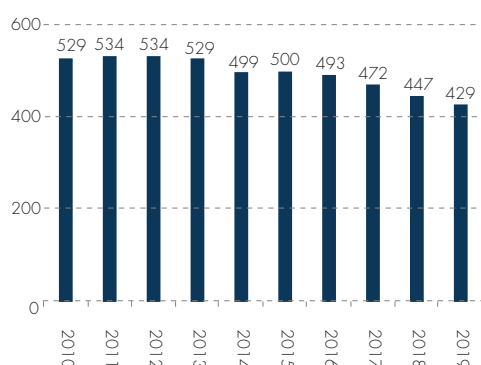
4.2.5 OTHER

As of the end of 2019, banks operated through 429 branches/agencies across the country. The developments of information and communication technology as well as a rise in public awareness and education on the use of 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



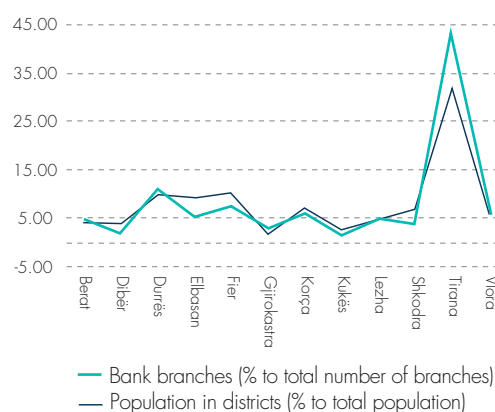
channels provide and facilitate the use and performance of banking and financial transactions in real time, 24/7, and optimise the expansion of banks' networks. The legal re-organisation of banks, through merger by absorption in the last two years, also contributed to the reduction of physical branches. Following these re-organisations, the absorbing banks have closed a number of overlapping branches.

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 2019 (in %)

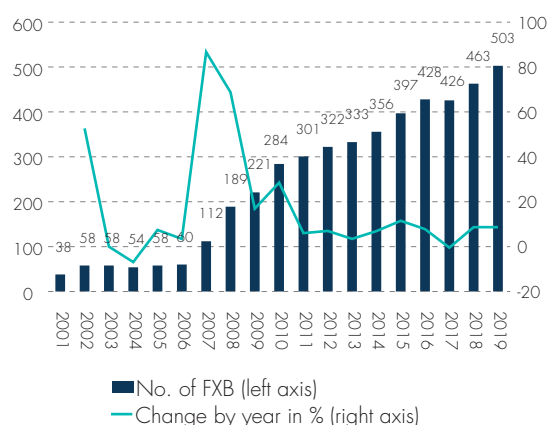


Source: Bank of Albania and INSTAT.

The geographical distribution of bank branches/agencies include almost the entire territory of Albania, while a great concentration of branches and agencies is evidenced in Tirana (42.66%), where the population concentration is greater as well (31.84%). Likewise, the breakdown of the presence of bank branches/agencies by prefectures is also in proportion with the population.

In 2019, the number of applications to conduct foreign exchange activities increased significantly. At the end of 2019, a total of 503 foreign exchange bureaus were operating in the foreign exchange market. During the year, 51 new licences for foreign exchange bureaus were granted, and 11 existing ones were revoked.

Chart 4 Foreign exchange bureaus, over the years



Source: Bank of Albania.

In compliance with the requirements laid down in the legal framework in force, 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 2019, the number of these entities' agents was 1,176. Meanwhile, the Albanian Post conducts the activities of payments and transfer of money through post offices across the country.

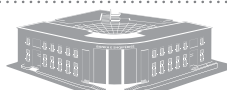
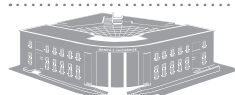


Table 2 Number of NBFIs' agents and number of e-money institutions as at end-2019

	AK-INVEST	Financial Union Tirana	EASYPAY	PAY AND GO SH.P.K.	RAEA FINANCIAL SERVICES SH.P.K.	Total
Agents conducting the activity of money transfer on behalf of NBFIs	229			92	44	365
Agents of an e-money institution		369	442			811
TOTAL	229	369	442	92	44	1,176

Source: Bank of Albania.



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), at the end of 2019, stood at 18.3%⁷. This ratio shows a fall of 0.38 percentage point, compared with the same period in the previous year.

As at end of 2019, the non-performing loans ratio (NPLR) dropped by 2.72 percentage points, in annual terms, to 8.37%. At the end of 2019, the non-performing loans ratio reached at ALL 48.18 billion, down by ALL 16.18 billion or 25.1% compared with the previous year. Meanwhile, the loan portfolio dropped by ALL 4.94 billion, or 0.85% during this year.

Profitability indicators, Return on Average Assets (RoAA) and Return on Average Equity (RoAE), respectively, increased compared with 2018. At the end of 2019, RoAA stood at 1.39% and RoAE at 13.45%, from 1.32% and 12.96%, respectively at the end of 2018.

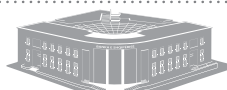
The following are banking system highlights for 2019:

1. Net outstanding non-performing loans to total credit portfolio stood at 3.4%, downward by 0.41 percentage point compared with December 2018.
2. The non-performing loans ratio (NPLR) dropped by 2.72 percentage points in annual terms, to 8.37 % at the end of 2019.
3. Provisioning of NPLs was 59,4%, from 65,6% a year earlier⁸.
4. Liquidity indicators continuously appear significantly above the regulatory requirement set out in the Bank of Albania's regulatory acts. In December 2019, the ratio of liquid assets to short-term liabilities in the banking system was 49.40%⁹, up by 3.19 percentage points from the previous year.
5. In December 2019, the total value of deposits in the system amounted to ALL 1.193 billion, recording 1.1% annual growth from the previous

⁷ Data for 2018 in this Report may be different from those reported in the Annual Supervision Report 2018, due to the corrections of the data reported from banks, as a result of the auditing processes which drive to the correctness of calculations.

⁸ 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 throughout the year.

⁹ The minimum required level for this indicator, as laid down by the regulatory requirements, is 20%.



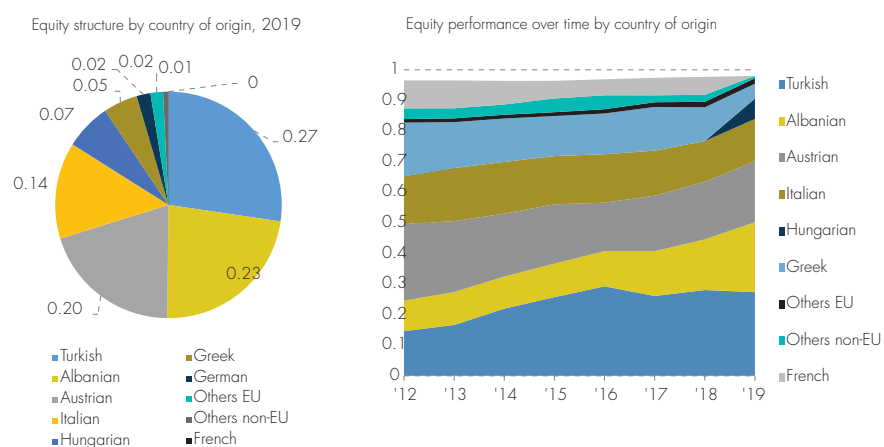
year. The share of the domestic currency in total deposits increased to 48.51%, from 46.87% in December 2018.

6. As at the end of 2019, the Capital Adequacy Ratio - the main supervision indicator – was reported at 18.3%. This ratio decreased by 0.38 percentage point, compared with the same period in the previous year.
7. The banking system's profit was positive in 2019, at around ALL 19.89 billion, or ALL 1.5 billion higher than in 2018.

5.2 CAPITAL OWNERSHIP STRUCTURE BY COUNTRY OF ORIGIN

The shareholders capital of the banking system reached ALL 154.23 billion, up by around ALL 6.77 billion, or 4.6% against the previous year. Foreign capital continues to dominate the capital structure. At the end of 2019, foreign capital accounted for around 77.16% of paid-in capital in the banking system, down by around 6.29 percentage points from the end of 2018.

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

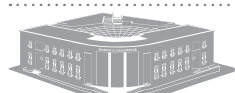


Source: Bank of Albania.

5.3 BANKING SYSTEM STRUCTURE

5.3.1 ASSET AND LIABILITY STRUCTURE

During 2019, banking system assets grew by around ALL 22.1 billion or 1.52%, compared to the ALL 8.12 billion or 0.56% fall of a year earlier. The loan portfolio fell by ALL 4.94 billion, or 0.85% during this year.



The banking system's share in the economy, measured by the ratio of total assets to the Gross Domestic Product (GDP), continues to stay at high levels. This ratio decreased by 1.43 percentage points this year, standing at 87.92%. 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	2014	2015	2016	2017	2018	2019
Total assets (in ALL billion)	1.293,72	1.318,13	1.407,29	1.445,33	1.453,45	1.475,55
Total assets/GDP (in %)	91,56	91,33	95,05	92,50	89,35	87,92
Total loans/GDP (in %)	42,12	40,61	40,55	38,46	35,71	34,31

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 4.24 billion or 0.9%, mainly arising from the decrease in transactions with the central bank by ALL 15.83 billion or 10.8%, while transactions with other banks, credit institutions and other financial institutions provided a positive impact by ALL 7.32 billion or 3.2%. The increase in T-bills transactions by ALL 6.61 billion or 9.8% provided the same impact.
- Increase of client transactions (net) by ALL 8.71 billion (or by 1.61%).
- Increase of security transactions (net) by ALL 19.5 billion (or 5.06%).
- Decrease in other assets by ALL 4.84 billion (12.88%).
- Increase in fixed assets by ALL 3.02 billion (15.24%).

Table 4 Key banking system asset items

Indicators:	December 2018			December 2019		
	Amount*	Share**	Change %***	Amount*	Share**	Change %***
1. Treasury and interbank transactions	474.3	34.8	(1.8)	470.1	31.9	(0.9)
Of which						
- Transactions with the central bank	146.7	10.1	(2.1)	130.8	8.9	(10.8)
T-bills	67.4	4.6	3.0	74.0	5.0	9.8
- Transactions with other banks	232.0	16.0	(5.1)	239.3	16.2	3.2
2. Transactions with customers (net)	538.5	37.1	(0.8)	573.4	38.9	6.5
3. Security transactions (net)	379.7	26.1	5.0	404.4	27.4	6.5
4. Other assets	30.6	2.1	(18.7)	25.7	1.7	(15.8)
5. Fixed assets	20.0	1.4	0.9	23.6	1.6	17.8
Total assets	1,452.9	100.0	0.5	1,475.6	100.0	1.6

Source: Bank of Albania.

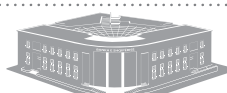
Note: Items 1, 2, 3 in this table include accrued interest.

*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 13.1 billion (1.1%). This increase was arising from the following:
 - increase in private sector by ALL 12.58 billion or 1%,
 - increase in demand deposits by ALL 25.3 billion or 20 %,
 - decrease in time deposits by ALL 29.25 billion or 5%.
- Decrease in securities transactions by ALL 4.41 billion or 63.6%.
- Increase in permanent resources by ALL 6.84 billion or 4%.
- Increase in treasury and interbank transactions by ALL 7.7 billion, or 9.7%, driven by:
 - increase in loans by ALL 5.82 billion or 46%,
 - decrease in "central bank" by ALL 3.93 billion or 65%;
 - increase in treasury bills and other accepted bills by ALL 0.8 billion or 1%;
 - increase in deposits with banks, financial institutions by ALL 3.28 billion or 19%.
- Decrease in other liabilities by ALL 1.06 billion or 7.5%.

Table 5 Key banking system liability items

Indicators:	December 2018			December 2019		
	Amount*	Share**	Change %***	Amount*	Share**	Change %***
1. Treasury and inter-bank transactions	80.2	5.5	4.5	88.0	6.0	9.7
2. Transactions with customers (gross)	1,176.5	80.9	0.9	1,189.6	80.6	1.1
3. Other liabilities	14.2	1.0	(5.5)	13.1	0.9	(7.5)
4. Permanent resources	0.4	0.0	(99.8)	178.4	12.1	40,212.0
Total liabilities	1,453.5	100.0	0.6	1,475.6	100.0	1.5

Source: Bank of Albania.

*in ALL billion

**in % to total liabilities

***in % to a year earlier

During 2019, the share of off-balance sheet items in total assets of the system fell to 111.76%, from 112.61% at the end-2018. Table 6 shows that the annual fall during this year was driven by the drop in both "commitments granted" and "transactions in foreign currency". The commitments received have increased. The commitments received have the main share in off-balance sheet items, accounting for 87.2%, from 85.6% at the end of 2018.



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

Indicators:	Change from previous year			Change from previous year		
	Dec'18			Dec'19		
	In ALL bln	In %		In ALL bln	In %	
Total	(8.5)	(0.5)	1,636.8	12.3	0.8	1,649.1
Commitments granted	(19.4)	(9.6)	182.9	(8.4)	(4.6)	174.5
Of which:						
- Financing commitments	(0.9)	(1.7)	53.4	(3.5)	(6.5)	49.9
- Guarantees	(6.1)	(13.0)	40.9	(3.3)	(8.0)	37.7
- Security commitments	(12.3)	(12.2)	88.5	(1.6)	(1.8)	86.9
Commitments received	10.4	0.7	1,400.4	37.8	2.7	1,438.2
Of which:						
- Financing commitments	-5.0	-44.2	6.3	-3.3	-53.1	2.9
- Guarantees	16.1	1.2	1,394.0	38.0	2.7	1,432.0
Foreign currency transactions	4.1	11.7	39.6	-16.1	-40.6	23.5
Other commitments	-7.3	-80.0	1.8	1.1	59.5	2.9
Commitments for financial instruments	3.8	45.2	12.0	-2.1	-17.8	9.9

Source: Bank of Albania.

5.3.2 CONCENTRATION

Concentration, as measured by the Herfindahl index calculated for total deposits, registered the same level as in 2018, while assets and loans index showed a slight decrease. All three indicators show low levels.

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

Indicators	2014	2015	2016	2017	2018	2019
Index H (assets)	0,14	0,15	0,15	0,15	0,16	0,15
Index H (deposits)	0,14	0,15	0,14	0,15	0,15	0,15
Index H (loans)	0,12	0,12	0,13	0,13	0,13	0,12

Source: Bank of Albania.

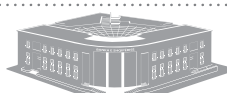
* The values of this indicator fluctuate between 0 and 1. Values closer to 0 show low levels of concentration.

5.4 MANAGEMENT OF BANKING ACTIVITY RISKS

5.4.1 CREDIT RISK

5.4.1.1 Lending

Total credit fell by ALL 4.94 billion or about 0.85% during 2019. This performance was mainly determined by the disruption of the reporting of the National Commercial Bank branch in Kosovo, after its conversion into a subsidiary. In its absence, the data show an increase in the loan portfolio by ALL 26.5 billion or 4.8%. During this year, the loan portfolio decreased in the first and the second quarters, with the largest decline reported in the first quarter



by ALL 17.43 billion. Meanwhile, the last two quarters registered an increase of the loan portfolio, where the highest increase was in the third quarter of the year by ALL 11.23 billion.

Table 8 Quarterly credit growth in 2019

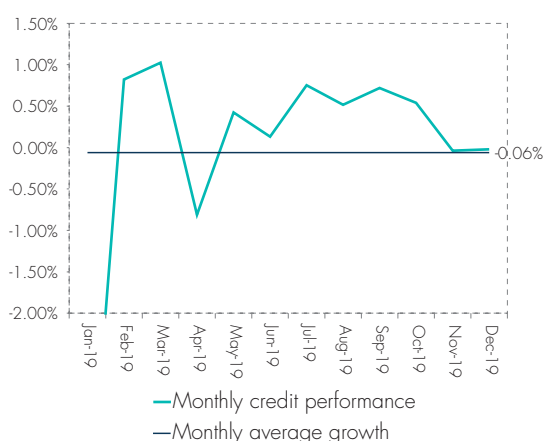
Quarterly credit growth	Quarter I	Quarter II	Quarter III	Quarter IV
in ALL million	(17,439.19)	(1,478.52)	11,230.27	2,746.13
In %	(3.00)	(0.30)	2.00	0.50

Source: Bank of Albania.

Over four months of 2019, the monthly performance of credit was down, where the highest fall was reported in January and April, by ALL 27.7 billion (4.7%) and ALL 4.57 billion (0.81%), respectively. In the other months of the

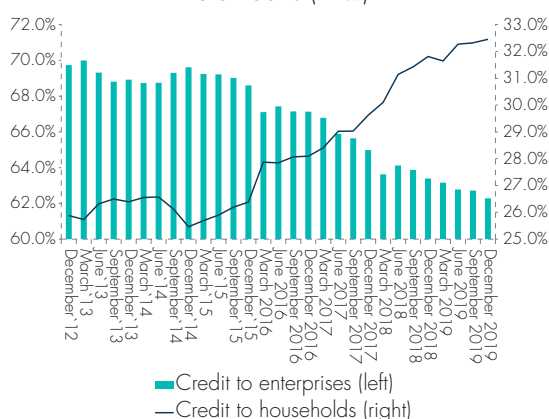
year, the credit portfolio increased, notably in March, February and July, by ALL 5.71 billion (1.03%), ALL 4.54 billion (0.82%) and ALL 4.21 billion (0.75%), respectively. The monthly average credit fall stood at 0.06%.

Chart 6 Monthly credit performance growth in 2019 (in %)



Source: Bank of Albania.

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



Source: Bank of Albania.

The analysis of credit by type of entity shows a higher concentration in the private sector, around 62.28%, down by 1.11 percentage points, while credit to this sector, during 2019, decreased by ALL 9.50 billion (2.58%). Credit to the public sector is up by ALL 2.43 billion (8.72%). Credit to households grew by ALL 2.13 billion (1.15%), or with a share of 0.64 percentage point higher.

The share of loans in the domestic currency was up approximately by 4.82 percentage points, standing at 48.75%, during 2019.

By entity and purpose of use¹⁰ the analysis shows that loans for "investment for real estate" to households have the major share in the total credit portfolio (21.9%); followed by loans for "real estate" to enterprises (16.8%); loans for "equipment purchase" to enterprises (16.6%); and loans for "overdraft" to enterprises (15.9%).

In 2019, loans for "consumption of non-durable goods" to households reflect the highest growth by 25.32%, followed by loans for "working capital" to enterprises, by 20.09%. While both "overdraft" and loans for "equipment purchase" to enterprises showed the highest fall by 31.43% and 9.76%, respectively.

¹⁰ Data do not include non-residents.

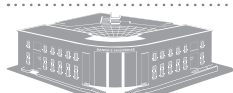


Table 9 Lending by sector and purpose of use (in ALL billion and share of each to total loans)

Description	December 2018	Share in %	Change in % December 2017 - December 2018	December 2019	Share in %	Change in % December 2018 - December 2019
Total loans	533.5	100.0	(0.1)	546.6	102.5	2.5
Credit to enterprises	364.3	68.3	0.6	335.9	63.0	(7.8)
Overdraft	123.7	23.2	0.1	84.8	15.9	(31.4)
Working capital	52.0	9.7	0.7	62.4	11.7	20.1
Equipment purchase	97.9	18.4	1,313.2	88.3	16.6	(9.8)
Real estate	84.2	15.8	(13.9)	89.9	16.8	6.7
Other loans		-			-	
Credit to households	169.2	31.7	(1.4)	186.5	35.0	10.2
Overdraft	7.4	1.4	(11.4)	7.5	1.4	1.9
Non-durable goods	24.9	4.7	0.7	31.2	5.8	25.3
Durable goods	19.0	3.6	0.8	18.8	3.5	(1.1)
Real estate loans	108.0	20.2	1.4	116.8	21.9	8.1
Loans for other purposes	10.0	1.9	(23.5)	10.0	1.9	-

Source: Bank of Albania.

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

The structure of loans by term to maturity has changed from the previous year, showing a fall in the share of short-term and medium-term loans in favour of long-term loans. As at the end of 2019, the latter have the major share in total loan portfolio, followed by short-and-medium-term loans.

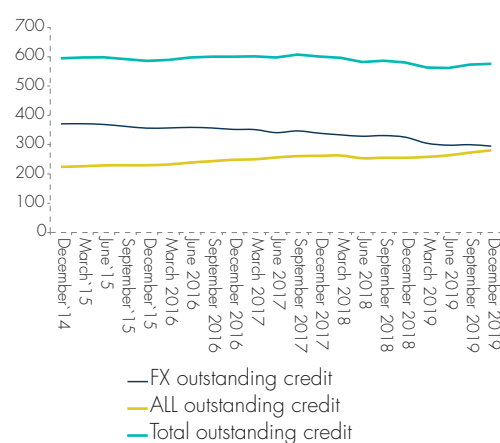
Table 10 Structure of outstanding credit by term to maturity (in %)

Term to maturity	December 2018	March 2019	June 2019	September 2019	December 2019
Short-term	28.1	23.6	23.7	23.9	23.9
Medium-term	19.6	17.8	17.7	17.8	17.7
Long-term	52.3	53.6	53.5	53.3	53.5

Source: Bank of Albania.

In 2019, the credit portfolio by currency shows that loans in foreign currency continue to have the highest share in total loans by 51.25 %, albeit the trend has shifted from foreign currency loans to domestic currency loans. At the end of 2019, the share of loans in domestic currency to total credit portfolio increased by 4.82 percentage points, compared to the same period in the previous year.

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



Source: Bank of Albania.

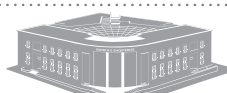
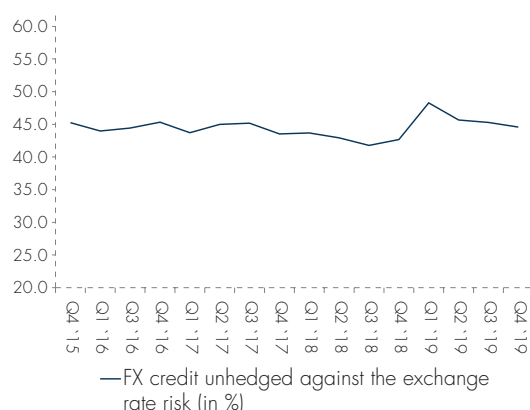


Table 11 Structure of outstanding credit by currency (in %)

Currency	September 2017	December 2017	December 2018	December 2019
Lek	42,9	43,6	43,9	48,8
Foreign currency	57,1	56,4	56,1	51,3

Source: Bank of Albania.

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



Source: Bank of Albania.

In 2019, the share of foreign currency loans unhedged against the exchange rate risk to total credit portfolio in foreign currency¹¹, compared to the previous year, increased by 1.9 percentage points, standing at 44.6%.

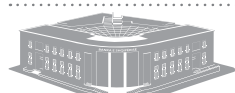
The structure of credit by sectors of the economy¹², for 2019, shows some minor changes, reflecting higher lending to households compared to enterprises. "Wholesale and retail trade" and "Repair of vehicles and motorcycles" remain the most credited sectors of the economy, sharing 37.7% in the portfolio, followed by "Processing industry" and "Construction" sharing 15.2% and 14.3% in the portfolio, respectively.

Table 12 Credit by branches of economy (by value and share to total credit)

Description	December 2018		December 2019	
	Amount	Share in %	Value	Share in %
Enterprises	317.7	64.5	335.9	64.3
Agriculture, Forestry, Fishing	4.8	1.5	5.1	1.6
Extracting industry	8.1	2.6	10.2	3.2
Processing industry	49.1	15.5	48.4	15.2
Electricity, gas supply, steam and air conditioning	15.9	5.0	27.5	8.6
Water supply, waste management activities	0.2	0.1	0.3	0.1
Construction	47.8	15.0	45.3	14.3
Wholesale and retail trade; Repair of vehicles and motorcycles	117.7	37.0	119.7	37.7
Transportation and storage	6.7	2.1	9.5	3.0
Accommodation and food services	13.3	4.2	16.1	5.1
Information and communication	2.7	0.8	4.0	1.3
Financial and insurance activities	2.9	0.9	2.4	0.8
Real estate activities	5.4	1.7	5.3	1.7
Professional, scientific and technical activities	1.0	0.3	1.5	0.5
Management and supporting services	0.7	0.2	2.9	0.9
Public management and defence; Obligatory social security	1.0	0.3	0.0	0.0
Education	5.5	1.7	4.3	1.3
Healthcare and social work activities	4.0	1.3	4.7	1.5
Art, recreation and relaxation	2.3	0.7	0.9	0.3
Other service activities	27.1	8.5	27.1	8.5

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

¹² Data do not include non-residents.



Households' activities as employers; Activities of output of invariable goods and services of households for their own use	1.3	0.4	0.8	0.3
Activities of international organisations and bodies	0.2	0.0	0.0	0.0
Households	175.1	35.5	186.5	35.7
Total	492.8	100.0	522.4	101.0

Source: Bank of Albania.

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

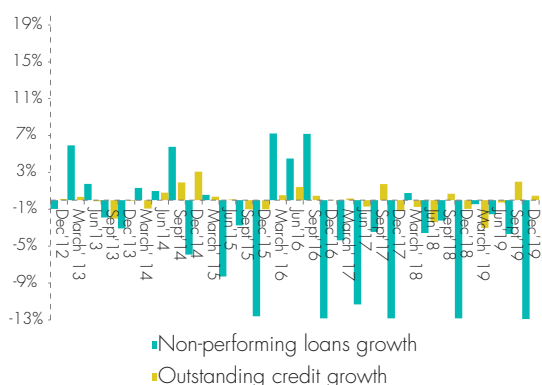
5.4.1.2 Assets quality

At the end of 2019, the non-performing loans ratio reached at ALL 48.18 billion, down by ALL 16.18 billion or 25.1% compared with the previous year. The ratio of non-performing loans declined by 2.72 percentage points in annual terms, standing at 8.37% at the end of 2019.

Net outstanding non-performing loans to total loan portfolio stood at 3.4%, down by 0.41 percentage point compared with December 2018.

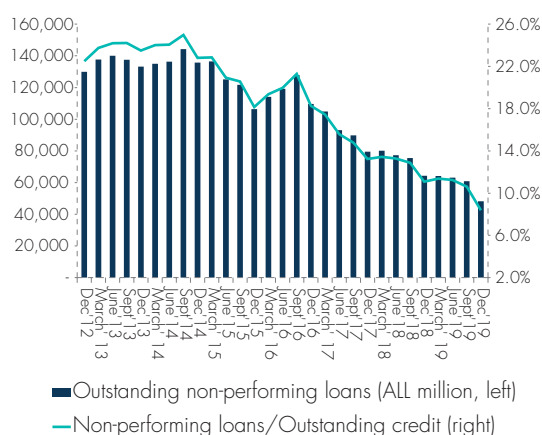
The portfolio of performing loans shows that "standard" loans grew by 3.87 percentage points while "special-mention" loans grew by 0.19 percentage point. Meanwhile, the NPLs portfolio shows a decrease in "substandard", and "lost" loans, by 0.55 percentage point and 1.99 percentage points, respectively. The category of "doubtful" loans was up by 0.24 percentage point.

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



Source: Bank of Albania.

Chart 11 Outstanding NPLs in the banking system



Source: Bank of Albania.

Loan loss provisions amounted to ALL 28.61 billion, down by around ALL 13.60 billion from the previous year. Also, the "loan loss provisions to non-performing loans" was 59.4%, around 6.2 percentage points lower.

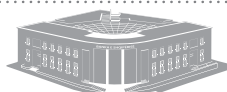


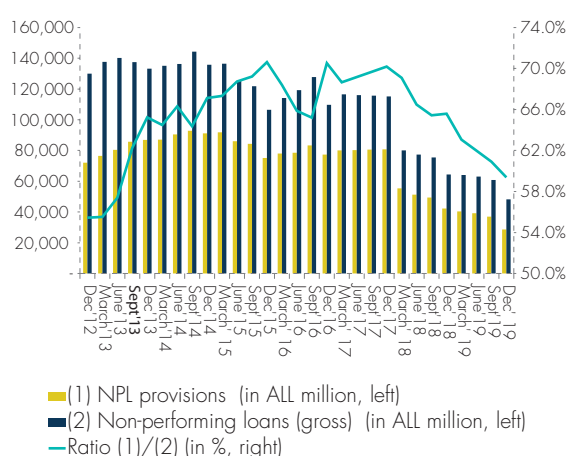
Table 13 Share of outstanding credit by category (in %)

Credit classification	2018				2019			
	Q I	Q II	Q III	Q IV	Q I	Q II	Q III	Q IV
Standard loans	79.4	82.7	84.7	84.7	84.2	84.2	84.5	87.2
Special mention loans	7.6	4.7	4.4	4.4	4.6	4.7	5.0	4.6
Sub-standard	3.7	3.5	3.3	3.2	3.7	3.9	3.7	2.5
Doubtful loans	2.9	3.2	2.6	2.5	2.3	2.2	2.3	2.7
Lost loans	6.4	5.9	5.5	5.2	5.2	5.0	4.4	3.0

Source: Bank of Albania.

The share of net non-performing loans to regulatory capital fell by 1.5 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 non-performing loans in relation to regulatory capital.

Chart 12 Loan loss provisions



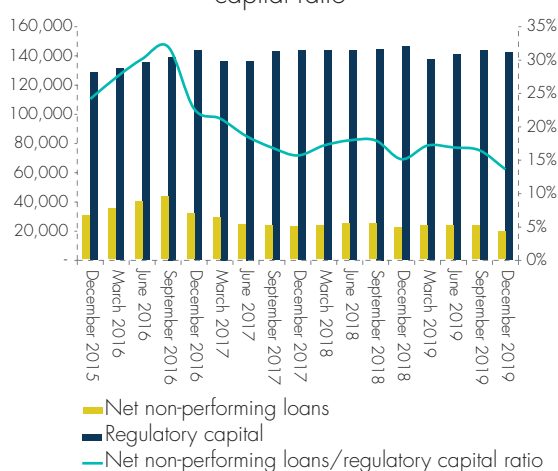
Source: Bank of Albania.

Regarding the credit quality by type of entity, the indicator of non-performing loans to enterprises decreased by 3.52%, standing at 10.73%, while for households decreased by 1.25 percentage points compared to the previous year, standing at 5.19%.

By currency, the non-performing loans portfolio ratio was lower by 6.56% (8.55% at the end of the previous year) compared with the foreign currency non-performing loans portfolio by 10.09% (13.07% at the end of the previous year).

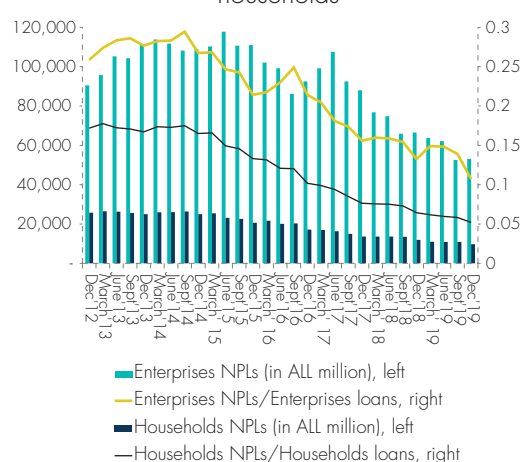
The indicator of foreign currency non-performing loans unhedged against the exchange rate risk is 22.6%, down by 8 percentage points from the end of

Chart 13 Net non-performing loans to regulatory capital ratio

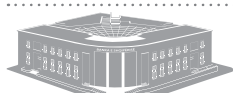


Source: Bank of Albania.

Chart 14 Outstanding credit to enterprises and households

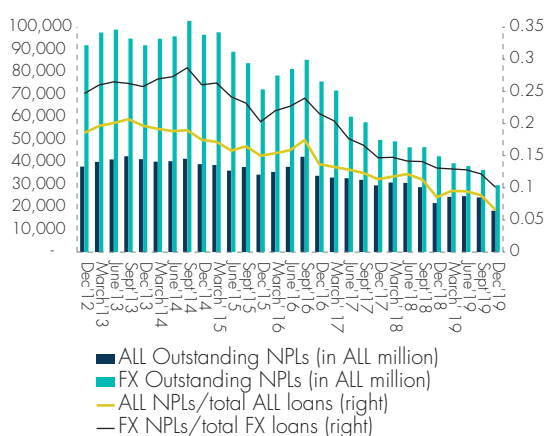


Source: Bank of Albania.



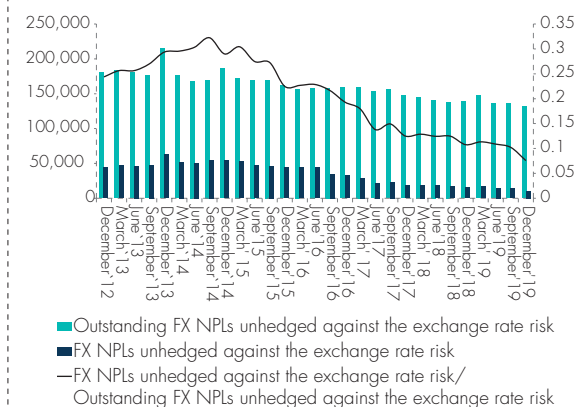
2018. This decrease was attributable to the decrease of foreign currency non-performing loans by 30.06% and the decrease of foreign currency unhedged credit outstanding against the exchange rate risk by 5.31%.

Chart 15 Outstanding non-performing loans by currency



Source: Bank of Albania.

Chart 16 Quarterly performance of foreign currency NPLs unhedged against the exchange rate risk to foreign currency credit outstanding unhedged against the exchange rate risk"



Burimi: Instat, Banka e Shqipërisë.

The major share of the loan portfolio (79.65%) was collateralized, up by 1.45 percentage points from a year earlier (78.2%). 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 %)

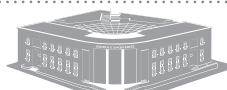
Type of collateral	Households		Enterprises		Total	
	ALL	FC	ALL	FC	ALL	FC
Real estate	56%	72%	43%	51%	53%	51%
Cash	3%	3%	1%	4%	2%	4%
Other collateral	5%	9%	43%	26%	30%	20%
Uncollateralized loan	36%	15%	13%	19%	25%	16%
Total	100%	100%	100%	100%	100%	100%

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 2019.

5.4.2 LIQUIDITY RISK

In 2019, 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 2019, the ratio of liquid assets to short-term liabilities in the banking system was 49.40%¹³, up by 3.19 percentage points from the previous year. The increase was attributable to the reduction of short-term liabilities (-0.97%) at a time when liquid assets increased (5.87%).

In December 2019, the liquidity in foreign currency, stood at 38.57%¹⁴ (from 36.82% in December 2018), owing to the higher increase of liquid assets in foreign currency and the decrease of short-term liabilities. The increase in liquid assets in foreign currency is evidenced in the increase of "current accounts with banks and other financial institutions" as well as in the increase of "deposits with residual maturity up to 7 days with banks or financial institutions". Liquid assets in lek remain the main support of liquidity at 60.75% of total liquid assets (55.99% of the total liquid assets in December 2018). The level of indicator in lek stood at 62.41% in December 2019, significantly up compared to the previous year (57.78% in December 2018). Its growth during this year is a result of the significant increase in investments in bonds of the Albanian Government (ALL 10.6 billion or 11.09%), as well as in the item "Securities of the Albanian Government (treasury bills and bonds), which meet the Bank of Albania criteria "On guarantees in credit operations of the BoA" and "On Repurchase and Reverse Repurchase Agreements" (by ALL 12.65 billion or 13.07%).

5.4.2.1 Banking system deposits¹⁵

Customer deposits remain the main source of financing for the Albanian banking system, sharing 80.86% (81.23% in December 2018) of total liabilities. In December 2019, the total value of deposits in the system amounted to ALL 1.193 billion, recording 1.1% annual growth from the previous year. The share of the domestic currency in total deposits increased to 48.51%, from 46.87% in December 2018. The maturity structure shifted to long-term maturities, (above 12 months), driven by the favourable interest rates in the market.

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

¹⁴ The minimum required level for this indicator in the Albanian lek and foreign currency, as laid down by the regulatory requirements, is 15% and 20%, respectively.

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



5.4.2.2 Concentration of deposits

In December 2019, ten largest depositors accounted for 5.51% of total banking system's deposits, from 5.3% in December 2018. The other groups of larger depositors slightly contracted. Households' deposits remain the main base of the banking system's deposits, with a share of 84.06% of total deposits, up by around 1.25 percentage points, compared to the previous year.

This behaviour comes as a result of combining the effects of the performance of market interest rates with external factors. This year, households' accounts increased while enterprises' accounts decreased (+2.62% and -7.43%, respectively).

5.4.2.3 Loan to deposit ratio

The loan / deposit ratio, in December 2019, was 48.25% (December 2018, 49.2%) which indicates a relatively good opportunity available for the system to increase lending in the country. During 2019, the indicator reduced slightly due to the different growth rates of credit portfolio and total deposits (deposits grew). This ratio has always showed higher values in foreign currency, although the ratio fell during 2019 (from 56.07% to 51.2%), under the impact of the above-stated factors for the ratio in total.

5.4.2.4 Liquid assets of the banking system

During 2019, liquid assets grew by ALL 29.17 billion, or 5.87%. The increase is mainly a result of the investment in Government securities, as well as a result of the increase in the level of time deposits up to 7 days and current accounts.

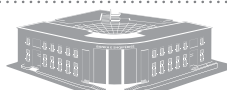
Total liquid assets of the banking system amounted to ALL 526.5 billion, in December 2019 and the Government securities have the main share in their structure (by 51.36%, from 50.32% in December 2018).

5.4.2.5 Other financial sources

Other financial sources in the banking system have a relatively low share in total liabilities, about 5.96%, expanding slightly during the year (December 2018, 5.48%). Repurchasing agreements, Liabilities to financial institutions and loans had the main share in this item. Permanent resources account for 12.1% of total liabilities, while the rest consist of other liabilities and a very small share of securities transactions.

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 throughout 2019. 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 1.55% 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 2019, the value of this indicator was 7.32%, compared to December 2018¹⁶ (6.59%). For some banks this impact is higher, but still far from the regulatory limits, due to the structure of the average maturity of the loan portfolio and investments in securities they have in the balance sheet.

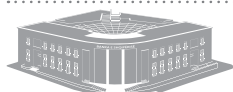
Market risks originating from exposure to the exchange rate - assessed from the dynamic of open position in foreign currencies - continues to be low and this behaviour dominated throughout 2019. In December 2019, the banking system's exposure to exchange rate risk was "long", at ALL 10.66 billion or 7.43% of the banks' regulatory capital¹⁷. These levels are far from the regulatory limit of 30%. Referring to individual banks, two banks are exposed above the system indicators. This position is due to the structure of the balance sheet.

Market risk in the trading portfolio for the banking system is rather low showing a downward dynamic. This risk was assessed as such throughout the analysed annual performance. Trading portfolio at system level appears rather low against total assets (0.25% in December 2019, from 0.1% in December 2018). Market risk originating from interest rate in non-resident trading portfolio of placement (non-resident portfolio of placement carries 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

¹⁶ The minimum required level for this indicator, as laid down by the regulatory requirements, is 20%.

¹⁷ The minimum required level for this indicator, as laid down by the regulatory requirements, is 30%.



5.4.4 OPERATIONAL RISK

The performance of exposure to operational risk for the end-2019 shows higher exposure compared to last year, when gross annual losses marked an extremely high increase mainly influenced by a single event, the robbery of cash in transit in April 2019, affecting three banks. This event has significantly led to the increase of the annual gross losses from ALL 0.2 billion in 2018 to ALL 1.04 billion in 2019. Currently, banks affected by the robbery at the airport are in the process of being reimbursed by insurance companies as the robbed quantity of cash was fully insured. The number of events also shows an increase from last year with 1,655 events from 1,375 in 2018.

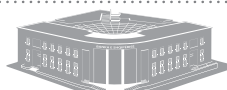
The business line with the highest losses for 2019 was "Treasury transactions", with a share of 77% against total losses, followed by the line "Retail transactions" with a share of 14%. The events that determined losses for 2019, in contrast to a year ago, were the events of "External Fraud", at 81% of the banking system losses. The change in the segmentation of losses by business lines and the type of events has come as a result of the extremely high impact of losses on the banking system from the robbery at the airport.

The ratio of losses to capital requirement for operational risk has significantly worsened from last year, increasing from 3.41% in 2018 to 16.44% in 2019, as a result of the increase in operational losses by 341%. Meanwhile, capital requirement is at the same level as last year with a slight increase of + 2%. Banks that have recorded the lowest ratio of capital losses to operational risk are those affected by the robbery at the airport.

5.4.4.1 Information technology

Following the changes and investments of 2018, in 2019 banks continued to invest towards data security. Attention is being paid to information security and to the continuous risk monitoring related to it, especially for the electronic products offered. During 2019, due to the strong earthquakes that occurred in our country, attention was paid to the revision of business continuity plans. Due to the situation, as well as the fact that some banks have seen the possibility of full or partial activation of these plans, the shortcomings that some of these plans had, emerged. These shortcomings are being reviewed aiming to make these plans as effective as possible. The policies and procedures framework related to ICT has been continuously improving, albeit due to the broad spectrum of activities it covers and the dynamic developments in this field, its completion and improvement remains a continuous process. Regarding the electronic products, banks during this period improved the products offered, as well as updated the programs that provide these services in order to facilitate their use and increase the range of services.

5.4.5 REPUTATIONAL RISK



Reputational risk, as a risk that may damage banks and financial institutions rapidly, has as its key evaluation element the possible doubts about the involvement or use of financial institutions for money laundering/terrorist financing, the lack of transparency with clients; disregard of working conditions; contract terms, etc.

During 2019, it is estimated that financial entities in general increased their attention and efforts for a more appropriate management of money laundering and terrorist financing risk (AML/CFT), compliance with legal, regulatory and internal regulatory requirements in this field. However, on-site examinations carried out during 2019 identified the issues in various processes for each entity. This year the supervision is mainly focused on areas such as:

- regulatory framework of entities
- structures, human resources and systems in function of AML/CFT risk management;
- effective management of risks arising from money laundering/terrorism financing.
- Identification of the beneficiary and the ownership structure of the client's control;
- Categorizing clients and transactions according to the degree of risk;
- The analysis of complex and unusual transactions that have been or are being attempted to be carried out;
- Implementation of legal obligations;
- Internal audit systems.

During 2019, in total, 113 on-site examinations were carried out in financial institutions under the jurisdiction of the Bank of Albania, focusing on AML/CFT issues:

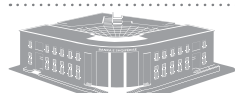
- o 12 banks;
- o 3 non-bank financial institutions;
- o 1 Saving and Loan association;
- o 97 foreign exchange bureaus.

Eight 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:

- o 5 banks;
- o 3 foreign exchange bureaus.

The types of shortcomings in the banks, in summary, consisted mainly of:

- shortcomings in the internal regulatory framework and the need to

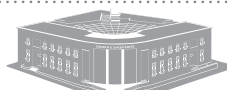


- improve it;
- cases with anomaly indicators without an in-depth analysis to conclude whether they should be reported as SARs to the responsible authority;
- the need for improvement in the annual AML/CFT risk assessment report;
- possessing/updating legal information about the client;
- lack of documents that prove the source of funds, which remain mainly in the form of statement for the conducted transactions in cash by the clients in individual and trade accounts;
- the process of establishing a business relationship with a category of clients financial institutions, which object to the legal/regulatory requirements regarding AML/CFT;
- lack of information from the bank on the volume of activity or income from the business;
- higher attention toward cash transactions;
- discrepancy of the bank data with the profile of the client and his activity;
- the lack of justification of transactions conducted for the bank's employees;
- registration in the system/identification of the beneficiary;
- incorrect classification of customers, according to risk;
- insufficient human resources (staff) for AML/CFT issues;
- trainings (their absence or insufficient frequency for the staff of the AML/CFT unit).

The types of shortcomings in non-bank financial institutions and savings and loan associations, in summary, consisted mainly of:

- discrepancy between the internal regulatory framework and legal/regulatory requirements;
- No-notice to the Bank of Albania of the responsible person;
- incomplete data in the centralized system as well as incorrect categorization of customers by risk;
- verification of the identity of customers through legally valid documents;
- analysing the client's profile and obtaining information on the source of income and the purpose of using the funds;
- job description for AML/CFT issues;
- non-compliance with legal/regulatory requirements regarding the implementation of measures against terrorist financing;
- the role of structures in the process of implementing measures against terrorist financing, as well as the authority where they should report;
- lack of or low-frequency training of PPP/CFT unit staff!;
- lack of focus from internal audit on AML/CFT issues.

The identified shortcomings in the foreign exchange bureaus consisted mainly of:

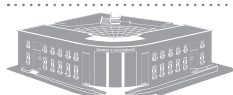


- non-compliance with customer identification procedures, customer identification and verification of their identity as a result of non-reporting to the Bank of Albania and shortcomings in maintaining supporting documents of foreign exchange operations;
- non-compliance with the requirements for taking preventive measures to establish a centralized system responsible for data collection and analysis, with elements for identifying anomalies;
- reporting over-the-limit transaction, non-reporting to the General Directorate for the Prevention of Money Laundering of Transactions in Cash (RTPF) in a value equal or greater than one million lek, performed as a single transaction or as chain-transactions within 24 hours;
- insufficient knowledge on legal/regulatory obligations to prevent money laundering and terrorist financing;
- insufficient knowledge with the legal obligations defined in law no. 157.2013 "On measures against terrorist financing".

In supervising this risk, the Bank of Albania has also closely cooperated with the responsible authority, the General Directorate for the Prevention of Money Laundering, through conducting joint inspections, exchanging information, coordinating administrative measures, coordinating reporting to international organizations, reviewing the legal framework for money laundering and terrorist financing prevention issues, etc. as well as with the Ministry for Europe and Foreign Affairs through the distribution to licensed institutions, of UN security Council resolutions and Council of Ministers' decisions on sanctioning and updating the list of people who finance terrorism.

In the framework of implementing the recommendations from the Committee of Experts of CoE on the Evaluation of Anti-Money Laundering Measures and counter Terrorist Financing (MONEYVAL), the Bank of Albania was included in the implementation of the national plan of measures, throughout the year, regarding both technical and effectiveness issues, in order to improve the regulatory framework and strengthen the effectiveness of the supervisory process, with the purpose the addressing the main problems evidenced the report, whose fulfilment will continue also during 2020. In this framework, among others things, the Supervisory Council of the Bank of Albania approved at the meeting of 18 December 2019, some amendments in regulation No. 44, dated 10.06.2009 "On the prevention of money laundering and financing of terrorism".

The amendments aim to ensure consistency with the new and amended provisions of Law No. 9917 "On the prevention of money laundering and financing of terrorism", as well as the completion of the regulatory changes package following the package of amendments in the licensing regulations, approved on 3 July 2019 by the Supervisory Council, within the commitments of the Bank of Albania, for the implementation of the recommendations of the Committee of Experts of Moneyval.



Amendments to the Law No. 44 "On the Prevention of Money Laundering and Financing of Terrorism" consist of further strengthening the requirements of the supervisory authority for entities, for a better management of the risk of money laundering and terrorism financing. At the same time, requirements for continuous training of responsible persons and structure for preventing money laundering and terrorism financing are provided.

Also, off-site examination of the exposure of this risk to entities in the context of remote analysis on the basis of reports in early 2020 has continued. This evaluation, as we have mentioned in the previous year, consists in the integration of the evaluation on the quantity of risk and the evaluation on the risk management quality, to provide a final evaluation. 57 financial entities were subject of the evaluation (12 banks, 30 NBFIs¹⁸ and 15 SLAs¹⁹).

The integrated evaluation showed: medium risk for 34 entities (7 banks, 20 NBFIs and 7 SLAs) and high risk for 23 entities (5 banks, 10 NBFIs and 8 SLAs).

Table 15 Integrated evaluation of money laundering and terrorism financing risk

No. of entities	No. Total entities			Banks			NBFIs			SLAs		
	High Risk	Medium Risk	Low Risk	High Risk	Medium Risk	Low Risk	High Risk	Medium Risk	Low Risk	High Risk	Medium Risk	Low Risk
Integrated evaluation	23	34	0	5	7	0	10	20	0	8	7	0

Source: Bank of Albania.

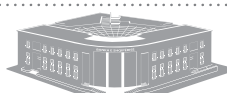
The reasons for evaluating entities with high risk are:

- The ratio of the number of clients with high risk to total number of clients;
- The ratio of account outstanding of clients with high risk to the account outstanding of total clients;
- The ratio of the number of transfers with high risk to total number of carried out transfers;
- The ratio of the value of transfers with high risk to total value of carried out transfers;
- The ratio of reported SARs to total number of clients;
- The quality of reporting to the authority to manage the risk of preventing money laundering and terrorism financing.

The integrated evaluation of transfers conducted by entities (19 total entities, of which: 12 banks and 7 NBFIs) is an integrated part of risk evaluation for AML/CFT. The integrated evaluation of transfers consist in the integration of two evaluations: evaluation of outgoing and incoming transfers, both in Albania and abroad; and the evaluation of the value of incoming and outgoing transfers, both in Albania and abroad.

¹⁸ The total number of licensed NBFIs is 32, but two entities are suspended.

¹⁹ 14 SLAs and one union.



The integrated evaluation of transfers, showed: low risk (L) for 5 institutions (5 NBFIs); averagely low risk for (AvL) for 3 institutions (3 banks); averagely high risk (AvH) for 3 institutions (3 banks); and high risk (H) for 8 institutions (6 banks and 2 NBFIs).

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

No. of entities	No. Total entities				Banks				NBFI			
	L:	AvL:	AvH:	H:	L:	AvL:	AvH:	H:	L:	AvL:	AvH:	H:
Integrated evaluation	5	3	3	8	0	3	3	6	5	0	0	2

Source: Bank of Albania.

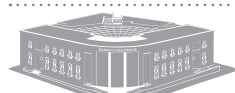
Transparency and publication of information by licensed institutions have been at the attention of the supervisory authority during 2019 as important element of public confidence in the financial system in Albania. In this framework, compliance with obligations of banks to report to the Bank of Albania was subject to analyses and monitoring with regard to the implementation of the regulatory framework on transparency and issues relating to fully reporting or publishing the working conditions on the banks' website.

Following Bank of Albania's measures undertaken, the banking sector has raised its awareness and commitment to matters of transparency and publication of information. Nevertheless, from on-site inspections, issues remain for the banks to address, mostly related to:

- internal regulatory framework (mainly in drafting the methodology for calculating commissions, complaint procedure);
- pre-contractual and loan contract information and their adaptation with regulatory requirements;
- regulatory elements in the account / deposit contract and their adaptation to regulatory requirements;
- informing customers on changes of product conditions and performing it in accordance with regulatory requirements;
- application of new working conditions (e.g.: change in the interest rate on the loan, application of commissions) not in accordance with the provisions of the contract signed between the parties and not according to regulatory requirements;
- completeness of published information;
- higher attention of internal audit in matters regarding transparency.

Meanwhile, in non-bank financial institutions and savings and loan associations, the issues that need to be addressed largely are related to:

- internal regulatory framework in terms of determining the processes / steps that will be followed in the function of transparency and customer complaints;
- loan agreement and its compliance with regulatory requirements;
- Improvement of the register of complaints;
- etc.



Referring to the publication of information and transparency with the public, during 2019, reports from banks on standard formats for commissions and interest rates on loans and deposit were monitored. This information is published in the official website of the Bank of Albania, in order to increase transparency with the public and the comparability of products' costs between banks.

Also, during 2019, the minimum requirements for the publication of financial reports by banks and branches of foreign banks were monitored. In spite of the positive developments in the banking system, regarding the applicability of the Bank of Albania regulatory requirements on publications, during 2019, shortcomings were also noted for which the Supervision Department has taken appropriate measures for banks to fix them. The shortcomings identified during the publication of information consist in:

- the progress of the bank's financial situation;
- contractual peculiarities of capital instruments, particularly in the case of subordinate debt;
- provision expenses within the classification of loans by economic sectors;
- amount of past due and non-performing loans according to geographical distribution, and provision expenses within this classification;
- Information on the form and elements of the remuneration for the steering council and the chief executive officers.

Treatment of customer complaints has taken significant importance in the framework of transparency and consumer protection in the financial sector. During 2019, a total of 154 complaints/requests/letters were processed, submitted by households, enterprises, natural persons and public institutions. The charts below provide statistical data on the addressed complaints.

Chart 18 shows that households have the largest number of processed complaints at 64%.

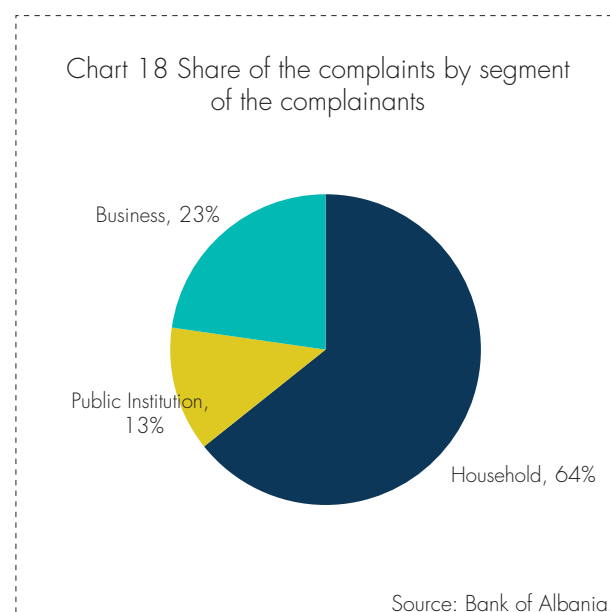
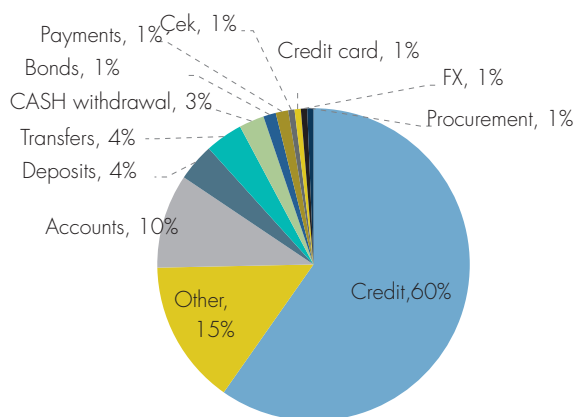
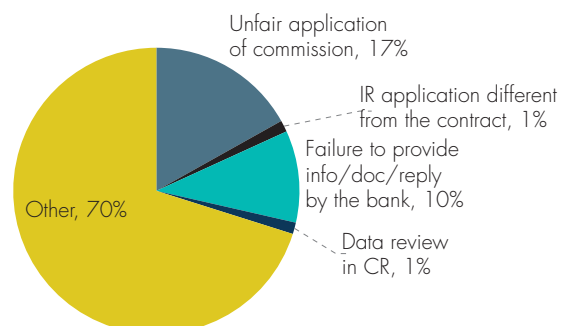


Chart 19 Share of complaints by segment of advertised products



Source: Bank of Albania.

Chart 20 Share of complaints by typology



Source: Bank of Albania.

Chart 19 shows that credit products account for the largest share by 60%.

5.4.6 PROFITABILITY

5.4.6.1 Net result and its structure

The financial result was positive in 2019, at around ALL 19.89 billion, or ALL 1.5 billion higher than in 2018.

In 2019, the second quarter provided the highest contribution to the financial result, with a net financial result of around ALL 5.48 billion, slightly decreasing in the following quarters. The increase of net income of the activity and the decrease of provision expenses increased the profit in 2019 from the previous year.

Financial result experienced some fluctuations during the months in 2019, accompanied by a constant growth throughout the months, with the highest growth in June 2019, by ALL 2.52 billion.

5.4.6.2 Profitability indicators

Due to a higher positive financial result than in the previous year, the two main profitability ratios, Return on Average Assets (RoAA) and Return on Average Equity (RoAE), increased compared with 2018. At the end of 2019, RoAA stood at 1.39% and RoAE at 13.45%, from 1.32% and 12.96%, respectively at the end of 2018.

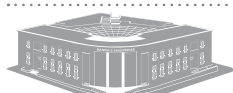


Table 17 Main profitability indicators (in %; cumulative)

Indicators	December 2019	December 2018	December 2017	December 2016
RoAA	1,39	1,32	1,56	0,69
RoAE	13,45	12,96	15,71	7,15

Source: Bank of Albania.

Tables 18 and 19 show the banking system's profitability from the main activity and the dynamics of the equilibrium between the collection of expense bearing liabilities and investment in earning assets.

Table 18 Net interest margin (in %)

	December 2019	December 2018	December 2017	December 2016
Interest income/average earning assets (1)	3,4	3,8	3,8	5,2
Interest expenses/average earning assets (2)	0,7	0,7	0,6	1,0
Net Interest Margin (NIM) [(1) - (2)]	2,7	3,0	3,2	4,2

Source: Bank of Albania.

During 2019, banking activity based on income-earning instruments slightly decreased compared to the previous year. This result is due to the increase in interest expenses to average assets.

Table 19 Average profitability ratios (in ALL million)

Indicators	2019 Q IV	2019 Q II	2018 Q IV	2018 Q II
Average earning assets (1)	1.214.030,9	1.201.372,0	1.160.293,4	1.181.021,9
Average paying liabilities (2)	1.340.378,5	1.328.648,8	1.295.851,6	1.327.402,2
Average assets (3)	1.432.281,9	1.425.427,7	1.397.050,9	1.434.738,6
(1) / (3)	84,76%	84,28%	83,05%	82,32%
(2) / (3)	93,58%	93,21%	92,76%	92,52%

Source: Bank of Albania.

At end-2019, the ratio of average income-earning assets to average assets increased by 1.71 percentage points (from 83.05% to 84.76%), compared to end of the previous year, influenced by the increase in average assets (by ALL 53.73 billion) compared to the lowest increase in average income earning assets (by ALL 35.23 billion). Average expense-bearing liabilities to average assets increased by 0.83 percentage point (from 92.76% to 93.58%), compared to the end of the previous year, influenced by the faster increase in average expense-bearing liabilities (by ALL 44.52 billion) compared to the lowest increase in average assets. The efficiency ratio of the system grew by 0.85 percentage point at end-2019 compared to the previous year, at a time when operating income decreased by ALL 2 billion or 3.81%, whilst operating expenses decreased by ALL 0.71 billion or 2.37%.

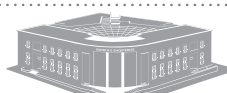


Table 20 Performance of efficiency ratio (in ALL million)

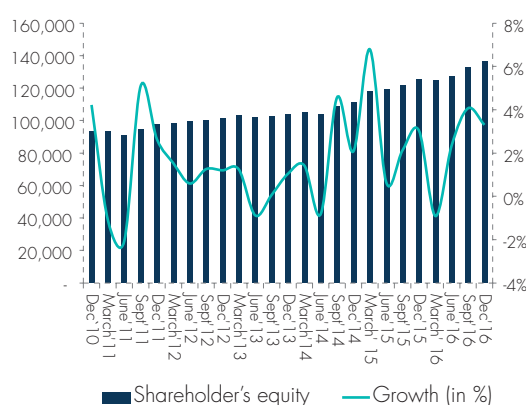
Indicators	December 2019	December 2018	December 2017	December 2016
Operating expenses (1)	29.474,5	30.188,7	29.530,7	29.143,1
Operating income* (2)	51.451,9	53.490,6	54.185,5	57.799,8
Efficiency ratio (1) / (2)	57,29%	56,44%	54,5%	50%

Source: Bank of Albania.

5.4.7 CAPITAL ADEQUACY RATIO

5.4.7.1 Shareholders' equity

Chart 21 Shareholder's equity performance



Source: Bank of Albania.

As of end-2019, the banking system's shareholders' equity amounted to ALL 154.23 billion, with an annual growth of ALL 6.15 billion (4.15%), compared to the lower growth of ALL 0.5 billion (0.34%) in 2018.

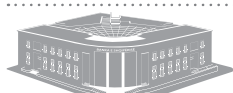
During 2019, the shareholders' equity declined in the first quarter (1.5%). The increase during the rest of the year fluctuated between 0.9% and 2.8%. The last quarter recorded the highest growth, while the third quarter recorded the lowest growth.

The increase of retained earnings by about 6.33 billion ALL (or about 9 times more), increase of reserves by ALL 2.37 billion, increase of the profit of the year by ALL 1.48 billion, provided the largest material contribution to shareholders' equity growth, whilst the paid in capital fell by about ALL 4.84 billion, compared to the same period a year earlier, followed by a decline in revaluation surplus by ALL 0.11 billion.

Table 21 Shareholders' equity structure and its components' performance

Indicators	December 2019		December 2018		December 2017		December 2016	
	In ALL million	%	In ALL million	%	In ALL million	%	mIn lek	%
Shareholders' equity	154,234.5	100.0	147,453.5	100.0	146,507.5	100.0	136,883.1	93.1
Paid in capital	105,767.5	68.6	110,251.8	74.8	128,713.8	87.9	123,416.2	84.0
Share premiums	6,991.6	4.5	6,440.5	4.4	6,479.8	4.4	6,259.1	4.3
Reserves	21,271.5	13.8	18,220.7	12.4	12,924.6	8.8	12,289.2	8.4
Revaluation difference	(6,812.3)	(4.4)	(6,994.0)	(4.7)	(2,255.5)	(1.5)	4,738.5	3.2
Earnings/retained loss	7,121.4	4.6	1,143.5	0.8	(20,983.6)	(14.3)	(19,090.1)	(13.0)
Earnings/loss for the period	19,894.8	12.9	18,391.0	12.5	21,628.4	14.8	9,270.1	6.3

Source: Bank of Albania.



5.4.7.2 Capital adequacy ratio

Against the minimum regulatory benchmark of 12%²⁰, the Capital Adequacy Ratio (CAR)- the main supervision indicator - was reported at 18.3% at end-2019. This ratio shows a fall of 0.38 percentage point, compared with the same period in the previous year.

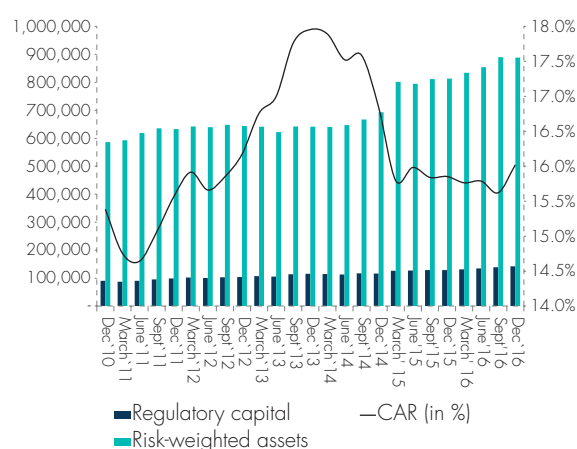
5.4.7.2.1 Regulatory capital

The banking system's regulatory capital totalled ALL 143.48 billion, down by ALL 2.53 billion (1.73%) from 2018.

The banking system's Tier I capital is the main component of the regulatory capital of the system, accounting for around 93.36%, up by 0.21 percentage point, compared to the previous year, hence evidencing a qualitatively sound and stable regulatory capital.

Tier II capital of the system, which consists mainly of subordinated debt, was ALL 14.64 billion.

Chart 22 The performance of Capital adequacy ratio and its components



Source: Bank of Albania.

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

Total risk-weighted assets and off-balance sheet items increased compared with the previous year by ALL 2.35 billion or 12.58%. Capital requirement for credit risk has the highest share in total risk-weighted assets and off-balance sheet items by 87.65%, followed by the capital requirement for operational risk by 10.07% and capital requirement for market risk by 2.27%.

5.5 NON-BANK FINANCIAL INSTITUTIONS AND SAVINGS AND LOAN ASSOCIATIONS

5.5.1 NON-BANK FINANCIAL INSTITUTIONS

5.5.1.1 Overview

In December 2019 there were 32 non-bank financial institutions (NBFIs), 2 more institutions than in 2018. The licensed institutions are Tirana Capital Trade for factoring activity and Micro Credit Risk for microcredit activity.

²⁰ For some banks, the level was required higher than the regulatory minimum.

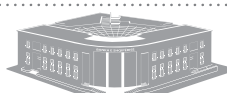


Table 22 Activity of non-bank financial institutions

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

Source: Bank of Albania.

* Financial Union Tirana and Easypay are licensed as e-money institutions.

5.5.1.2 Assets performance of NBFIs

In December 2019 total assets of NBFIs amounted to ALL 58.1 billion, up by around ALL 11.8 or 25.4%. This increase was mainly arising from the following institutions: Besa Fund (41%), Iutecredit Albania (16%), Kredo Finance (11%), NOA (8%), Raiffeisen Leasing (8%). The assets of non-bank financial institutions account for around 3.9% of total assets of the banking system, up by 0.8 percentage point compared with the previous year.

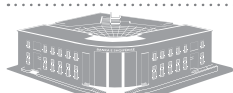


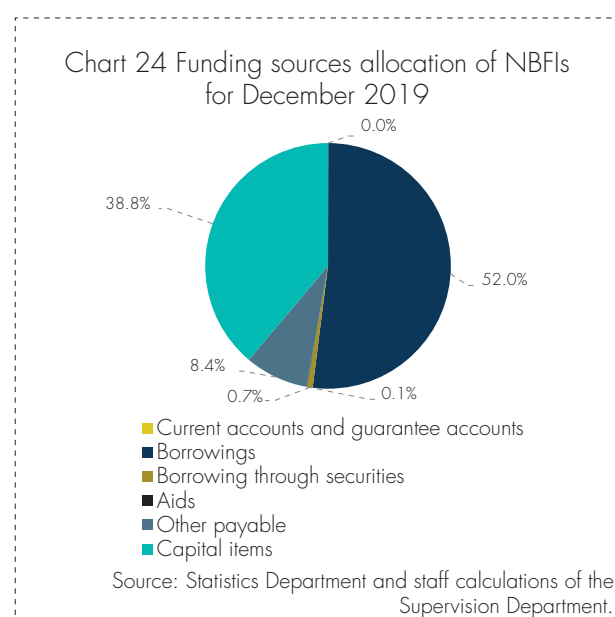
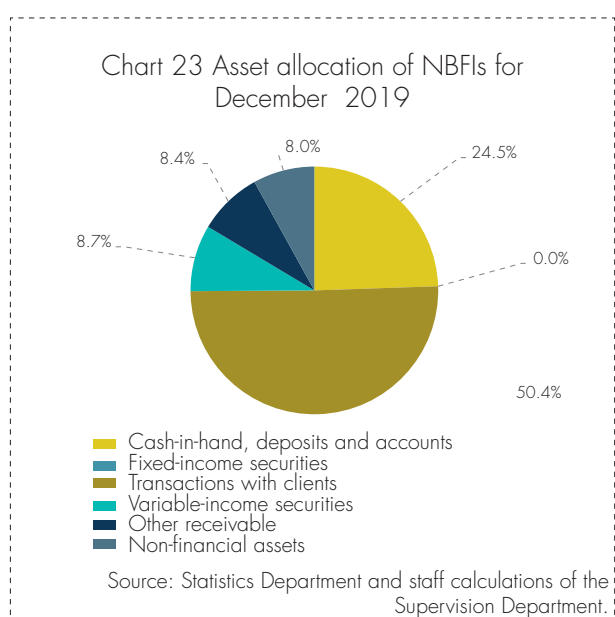
Table 23 Total assets of NBFIs, December 2018-December 2019, (in ALL billion)

	December'17	December'18	December'19
Total assets of NBFIs*	38.15	46.33	58.1

Source: Bank of Albania.

* Total assets of IFJBs do not include data for Albanian Post Office (Posta Shqiptare) as its balance sheets also presents data for its other non-financial activities.

Credit portfolio accounts for the main share in the structure of NBFIs assets, by around 50.4%. The rest of the assets is oriented towards liquid assets (24.5%) and variable-income securities (8.7%).



The main funding sources continue to be borrowings (52% of liability) and capital items (39% of liability), whereas borrowing through bond issuance constitute 0.7% of liabilities.

Most NBFIs were well-capitalised during 2019.

5.5.1.3 Outstanding loan portfolio developments and activity volume

At the end of 2019, the gross credit portfolio of non-bank financial institutions reached ALL 35.5 billion, registering an increase of around ALL 6.8 billion (or 23.7%) compared with the previous year. The main impact on this increase was given from microcredit activity with ALL 2.95 billion, while lending and financial leasing have increased by ALL 1.97 billion and ALL 1.93 billion, respectively. Factoring activity declined by ALL 61.3 million.

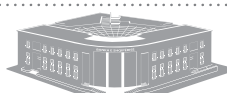


Table 24 Total NBFIs' loan portfolio on a net and gross basis, December 2018-December 2019, in ALL billion

	December '18	December '19
Total loan portfolio of NBFIs (net)	26.4	32.98
Total loan portfolio of NBFIs (gross)	28.6	35.46

Source: Bank of Albania.

Most of the exposure portfolio of non-bank financial institutions is held by lending and microcredit entities (73.5%), followed by the portfolio of financial leasing entities (25%) and the portfolio of factoring entities (1.5%).

Loan portfolio for this entities accounts for 5.7% of the banking system' portfolio.

Table 25 Performance of gross portfolio by activity, December 2018-December 2019

Financial activity	Total (all bln) December '18	Total (all bln) December '19
Lending	12.7	14,69
Financial leasing	6.9	11,39
Microcredit	8.4	8,85
Factoring	0.56	0,53
Gross Portfolio	28.6	35,46

Source: Bank of Albania.

At the end of 2019, the activities of lending and financial leasing entities remain business-oriented, with around 71% and 82%, respectively, while the factoring portfolio is carried out entirely for business purposes. Compared with 2018, there is an increase of loans to households against enterprises (29% vs 20%), which was mainly due to microcredit activity.

The most financed sectors are "Other services activities" (40%), "Trade, vehicles repair and household items" (23%) and "Agriculture, Forestry, Fishing" (14%). Whereas for financial leasing activity are listed the sectors "Other services activities" (31%), "Trade, vehicles repair and household items" (20%), "Construction" (13%) and "Real estate activities (7%).

The portfolio of NBFIs remains oriented towards financing in the domestic currency (64.4%) with medium-term maturity (61.7%).

Regarding funding, the financial leasing portfolio is constantly dominated by financing for personal transport vehicles (56.2%) and work vehicles (28%). Compared with December 2018, the portfolio registered an increase of around ALL 1.93 billion, affected by "Personal transport vehicles".

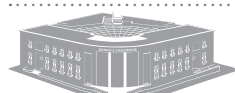


Table 26 Financial leasing portfolio, by financed object, December 2018-December 2019

Financial leasing	New equip-ment	Used equip-ment	Total December '18 (ALL mln)	New equip-ment	Used equip-ment	Total December '19 (ALL mln)
Personal transport vehicles	2.663,13	1.409,88	4.073,01	2.876,35	2.101,92	4.978,27
Work transport vehicles	1.078,91	643,65	1.722,55	1.607,81	872,07	2.479,88
Work equipment/production lines	693,47	266,99	960,45	842,49	365,25	1.207,74
Real Estate	16,74	88,53	105,27	30,23	93,37	123,60
Other	1,27	60,68	61,95	2,85	62,08	64,93
Total	4.453,51	2.469,73	6.923,24	5.359,73	3.494,69	8.854,42

Source: Bank of Albania.

The balance of factoring activity amounted to ALL 480.6 million at the end of 2019, registering a decrease of ALL 82.9 million compared with the previous year. The annual circulation in value of the portfolio decreased by ALL 0.4 billion compared with 2018. Factoring activity is realized at 91% in the domestic market and for guaranteed financing (90%).

Table 27 Annual factoring volumes and balance, December 2018- December 2019

Factoring	December'18			December'19		
	Circulation		Outstanding portfolio	Circulation		Outstanding portfolio
	No.Invoices	Value (ALL millions)	Value (ALL millions)	No. Invoices	Value (ALL millions)	Value (ALL millions)
Total	1,403	1,465.1	563.5	2,609	1,033.6	480.64

Source: Bank of Albania.

At the end of 2018, the non-performing loans ratio for financial entities increased by 0.5 percentage point. This result was influenced by the increase of non-performing loans by around 56.8% (or ALL 1.5 billion), while the increase of the funding portfolio was around 23.7%. This increase is mainly due to fraudulence happened in "Fondi Besa", as well as due to the deterioration of the quality of the portfolio in microcredit entities.

Table 28 Performance of credit portfolio quality indicators, December 2018-December 2019

	December'18	December'19
Non-performing loans/outstanding loans (gross)	9.16	9,7
Non-performing loans/outstanding loans (net)	2.53	4,1

Source: Bank of Albania.

Regarding the payment services provided by non-bank financial institutions, in 2019 there has been an increase in volume of transfers and payments. Their activity is as follows:

Table 29 Volume of annual transfers and payments 2018-2019

	2018*		2019	
	No.	Volume (ALL mln)	No.	Volume (ALL mln)
Outgoing transfers	470,132	9,856.4	631,472	10,712.08
Incoming transfers	1,784,680	62,372.8	1,886,005	68,561.57
Outgoing payments	4,337,842	11,770.7	5,550,589	13,074.33

Source: Bank of Albania.

* Data for 2018 have been revised due to reports corrected by entities.



5.5.1.4 Financial Result

During 2019, non-bank financial institutions generated a positive result of ALL 3.46 billion, up by about ALL 1.76 billion (or 103.5%) compared with the previous year. The financial result was mainly affected by the entities: "Fund Besa", "Tranzit", "Iute Credit Albania", "Tirana Financial Union" and "NOA". The result of NFBIs accounts for 15% 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

At the end of 2019, the structure of Savings and Loan Associations and Unions is composed by 14 SLAs and 1 Union. The number of SLAs included in the deposit insurance scheme reached 7. Meanwhile, the Supervision Department continues to follow the SLAs that are still licensed, but not member of the deposit insurance scheme, in order to take measures against them, in accordance with the provision of the law.

5.5.2.2 Performance of SLAs and unions' assets

At the end of 2019 SLAs registered ALL 10.9 billion total assets, up by around ALL 1.55 billion or 16.6% compared with the previous year. The main contribution to this growth came from the SLAs: "Fed Invest" (ALL 0.84 billion); "Alb Progress" (ALL 0.26 billion); "Alb Credit" (ALL 0.2 billion); and "Petrela" (ALL 0.15 billion). Compared to total assets of the banking system, total assets of SLAs constitute 0.67% of it.

In December 2019 the structure of assets in SLAs continued to be oriented towards lending to members with around 70% and treasury transactions with around 22.6%.

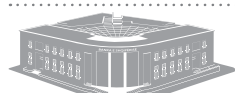
"Fed Invest" with 54.9% and "Alb-Progress" with 11.2% account for the main share of SLAs total assets.

Regarding unions, there is only the Albanian Savings and Loan Union whose data are given in the table below.

Table 30 Performance of Unions and SLAs assets, December 2017-December 2019 (in ALL bln)

	December'17	December'18	December'19
Unions	1.28*	1.1	0.7
SLAs	8.20	9.35	10.9

Source: Bank of Albania.



5.5.2.3 Developments in the outstanding loan portfolio of unions and SLAs

In December 2019, the gross loan portfolio for SLAs amounted to ALL 7.96 billion, up by around ALL 0.8 billion or 11.8% compared with the previous year. The main impact in this result came from the increase of lending activity in the SLAs: "Fed Invest (ALL 0.45 billion); "Alb Credit" (ALL 0.2 billion); and "Alb Progress" (ALL 0.16 billion). The share of SLAs of the gross loan portfolio is only 1.3% of the banking system's loan portfolio.

Table 31 Performance of Gross and Net Loan portfolio, for total Unions and SLAs, December 2017-December 2019 (in ALL billion)

	December'17	December'18	December'19
Gross Loans			
Unions	0.08*	0.08	0.08
SLAs	6.31	7.20	7.96
Net loans			
Unions	0.00	0.00	0.00
SLAs	6.06	6.8	7.6

Source: Bank of Albania.

In December 2019, the NPLs ratio for SLAs registered 4.69%, declining by 0.3 percentage point compared with the previous year. This improvement was due to the higher increase in percentage of total loans (10.5%) against the increase in percentage of the non-performing loans portfolio (4.3%).

USLAs registered a similar portfolio compared with the previous year. This portfolio is classified as entirely lost.

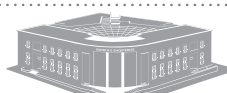
5.5.2.4 Financial result of unions and SLAs network

During 2019, SLAs generated a positive financial result, amounted to ALL 115.6 million. Compared with the previous year, this result increased by around ALL 3.2 million or 2.8%. Meanwhile the financial result for USLAs is around ALL 3.9 million.

5.6 THE CREDIT REGISTRY

In December 2019, the Credit Registry system registered its eleventh year of functioning. Throughout this year, the main challenge has been the completion of reference terms and choosing the winning candidate for the realisation of the project on "The Improvement of Credit Registry".

The new system provides an improved technical infrastructure, which will impact positively toward the elaboration of the data, the automation of processes and the reduction of the level of operational risk. At the same time the data that will be reported in it has been harmonised/regulated toward precise statistical



definition, with the reporting standards of central banks. In the framework of promoting transparency, the main innovation that the new system will bring will be direct access by individuals and the electronic presentation of the Borrower's Report.

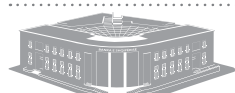
In addition, the involvement of new reporting entities, in order to reduce data asymmetry, has continued to be in the spotlight throughout this year. In the Credit Registry are included 3 new reporting entities.

Based on and for the implementation of the special agreement, it became possible to report to the Credit Registry the exposures of the former Veneto Bank Albania transferred to the company AMCO "(former SGA S.p.A). Also, the inclusion in the system of the new reporting entity of the Savings and Loan Association "Tirana Invest Credit 2000" was finalized, as well as the non-bank financial institution "Micro Credit Risk".

Table 32 List of entities that report to the Credit Registry

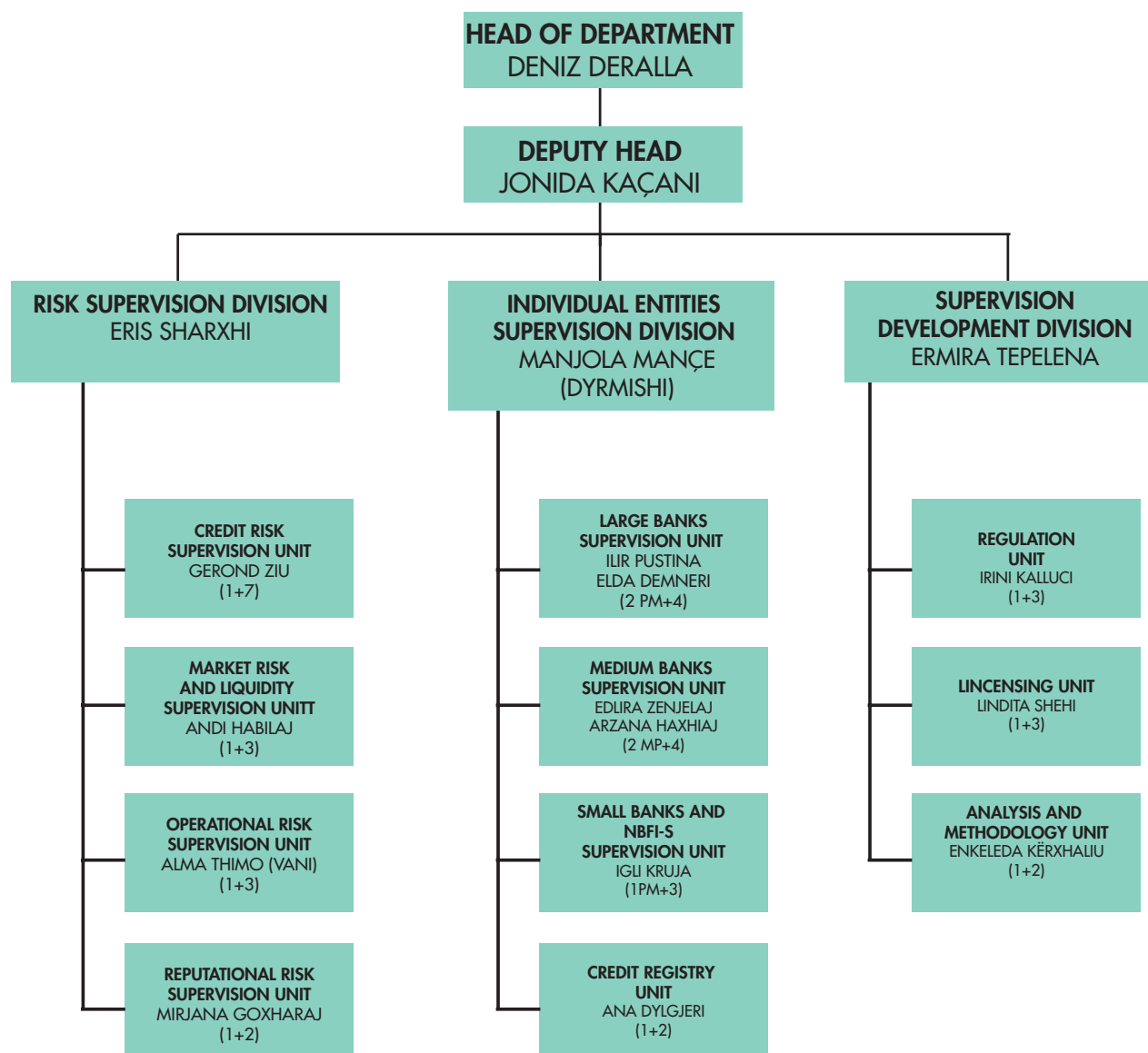
BANKS	LENDING - MICROCREDIT	SAVINGS AND LOAN ASSOCIATIONS
	FUND BESA SH.A.	Albanian Savings Loan Union
Bank of Albania	Agrocredit sha	SLA Unifin
	Tranzit SH.P.K	SLA Alb Progress
Raiffeisen Bank	NOA SH.A.	SLA Partner Plus
United Arabian Bank	Agro & Social Fund shpk	SLA Petrele
National Commercial Bank	Capital Invest	SLA Alb Credit
Tirana Bank	Ak-Invest	SLA Fed Invest
Intesa Sanpaolo Bank	IUTECREDIT ALBANIA SH.A.	SLA Tirana Invest Credit 2000
Procredit Bank	AGRO Partner Sh.P.K	
American Bank of Investments	Microcredit Albania (MCA)	
Credins Bank	Albanian Financial Institution	
OTP Bank Albania	Kredo Finance (microcredit)	
Union Bank	Tranzit representative of AMCO	
Alpha Bank	Micro Credit Risk	
First Investment Bank	FINANCIAL LEASING	
	Raiffeisen Leasing sh.a	
	Landeslease sh.a	
	Final sh.a	
	Porsche Leasing sh.p.k.	
	Albania Leasing Sh.A.	
	Crimson Fund Albania	
	Mogo Albania	

Source: Bank of Albania.



6 ANNEXES

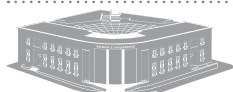
6.1. ORGANISATIONAL STRUCTURE OF SUPERVISION DEPARTMENT



6.2 SPECIFIC SHARE OF EACH BANK IN THE BANKING SYSTEM

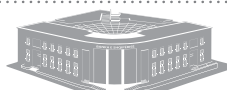
December 2019								
BANKS	Total balance sheet	Perma- nent resources	Share- holders' equity	Out- standing loans	Non-per- forming loans	T-bills	Securi- ties	Total deposits
(Indicator in %)								
RAIFFEISENBANK	15.45	18.99	20.01	17.42	22.74	10.39	13.73	15.33
UNITED BANK OF ALBANIA	0.6	0.72	0.77	0.97	0.56	0	0	0.56
NATIONAL COMMERCIAL BANK	27.05	26.73	27.34	16.47	11.35	24.13	33.3	25.86
Tirana Bank	5	4.44	4.89	5.4	7.13	13.63	4.91	5.11
INTESA SANPAOLO BANK ALBANIA	12	12.75	13.76	8.18	5.26	31.02	10.82	12.65
PROCREDIT BANK	2.22	2.38	1.99	4.08	2.61	2.58	0.09	1.81
American Bank of Investments	5.04	3.92	4.26	4.44	8.2	4.01	6.73	5.45
ALPHA BANK ALBANIA	5.17	5.55	4.87	6.29	3.61	0	4.03	5.36
FIRST INVESTMENT BANK, ALBANIA	2.05	1.78	1.78	2.68	2.78	1.97	1.79	2.11
CREDINS BANK	14.82	13.7	10.49	19.19	22.98	10.47	14.22	15.85
OTP Bank Albania	6.2	6.09	6.64	9.96	6.78	0	5.16	5.56
UNION BANK	4.4	2.96	3.2	4.91	6.01	1.8	5.23	4.35
Total	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Albania.



6.3 ASSETS AND LIABILITIES

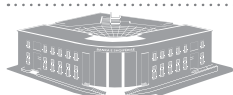
ASSETS (in ALL millions)						
CODE	Description	Dec. 2014	Dec. 2015	Dec. 2017	Dec. 2018	Dec. 2019
1	Total assets	1,293,720.84	1,317,843.09	1,445,329.85	1,453,451.57	1,475,550.92
11	Treasury and interbank transactions	409,462.01	448,619.52	482,914.34	474,296.67	470,059.29
111	Monetary means	21,661.15	20,950.99	24,176.38	28,246.25	25,908.62
112	Transactions with the central bank	109,868.76	149,561.78	149,792.09	146,678.80	130,849.91
1121	Required reserve at the Central Bank	95,682.58	96,060.07	97,725.32	98,911.83	107,737.69
1122	Other	14,186.18	53,501.71	52,066.77	47,766.97	23,112.22
113	Treasury bills and other eligible bills for refinancing with the central bank	101,499.44	73,052.67	64,617.63	67,417.93	74,026.90
1131	T-bills	101,503.63	73,052.67	64,621.58	67,417.93	74,027.67
1132	Other eligible bills for refinancing	-	-	-	-	-
1133	Reserve funds for the depreciation of bills eligible for refinancing from Central Bank	(4.19)	-	(3.94)	-	(0.76)
114	Transactions with bank, credit institutions and other financial institutions	176,432.66	205,054.08	244,328.25	231,953.69	239,273.85
1141	Current accounts	54,171.90	50,950.81	60,794.76	65,322.47	64,424.19
1142	Deposits with banks, credit institutions and other financial institutions	83,542.36	105,296.01	118,866.33	128,410.89	144,558.86
1143	Loans	37,132.03	46,019.44	63,020.16	36,443.07	28,539.45
1144	Other	1,586.36	2,787.82	1,700.49	1,834.42	1,817.57
13	TRANSACTIONS WITH CUSTOMERS (gross)	591,299.50	582,190.01	597,793.51	577,911.34	573,354.55
131	Loans to private sector and households	560,710.53	551,679.36	565,692.56	551,004.54	547,751.81
1311	Short-term loans	168,283.59	165,450.79	151,141.75	135,814.55	133,729.49
1312	Medium-term loans	105,815.83	106,081.21	108,783.72	109,888.17	94,519.19
1313	Long-term loans	174,890.80	172,676.30	195,873.85	193,424.26	199,279.13
1314	Real estate loans	111,071.29	105,660.54	107,387.72	109,166.79	116,818.97
1315	Finance lease contracts	649.01	1,810.51	2,505.53	2,710.78	3,405.03
132	Loans to public administration	2,031.34	1,975.04	2,903.61	7,650.44	6,175.65
1321	Current accounts	0.01	0.00	-	-	-
1322	Loans	2,031.33	1,975.04	2,902.52	7,650.18	6,175.65
1323	Other accounts	-	-	1.08	0.25	-
133	Other customer accounts	28,557.64	28,535.61	29,197.34	19,256.36	19,427.09
14	SECURITIES TRANSACTIONS	327,792.11	307,608.21	357,087.99	384,912.95	404,408.70
141	Fixed income securities	324,535.46	304,296.61	353,934.96	381,441.40	400,629.26
142	Variable income securities	3,256.65	3,311.60	247,773.52	256,219.45	2,603.00
143	Securities purchased and sold under REPO	-	-	-	538.23	1,176.44
144	Paid collateral	-	-	-	-	-
145	Received premiums	-	-	-	-	-
15	PROVISIONS	(92,906.40)	(76,590.75)	(58,214.87)	(43,492.59)	(28,751.25)
151	Loan loss provisions (principal)	(89,671.75)	(74,428.98)	(56,331.52)	(41,536.87)	(28,020.52)
152	Loan loss provisions (accrued interest)	(1,402.74)	(1,135.92)	(676.82)	(699.35)	(591.25)
153	Investment provisions	(1,831.91)	(1,025.85)	(1,206.54)	(1,256.37)	(139.49)
16	OTHER ASSETS	28,996.75	29,026.83	37,569.18	30,551.55	25,712.73
161	Other assets	26,718.97	27,552.62	34,822.82	27,597.08	23,626.01
162	Agent transactions	164.86	37.44	61.34	18.51	114.53
163	Inter-office accounts	0.28	0.39	0.20	0.18	0.18



164	Suspense, difference and position accounts	2,034.84	1,230.11	2,589.89	2,820.67	1,876.26
1641	Suspense accounts	2,013.93	1,132.93	2,589.36	2,817.98	1,869.96
1642	Position accounts	20.91	97.17	0.53	2.69	6.30
165	Value added tax	77.80	206.27	94.93	115.11	95.75
17	FIXED ASSETS	18,291.45	17,337.79	19,829.88	20,009.48	23,562.09
171	Investments in participation equity	99.78	166.78	50.53	38.51	5.87
172	Affiliates	838.90	632.08	855.41	900.23	3,668.96
173	Fixed assets (net)	17,352.77	16,538.92	18,923.94	19,070.74	19,887.25
18	ACCRUED INTERESTS	10,785.43	9,651.48	8,349.81	8,736.96	7,204.81
181	Accrued interests (Class 1)	1,507.65	1,199.91	859.26	785.17	181.01
182	Accrued interests (Class 2)	3,838.83	3,767.15	3,082.05	2,775.60	2,391.08
183	Accrued interests (Class 3)	5,438.95	4,684.43	4,408.50	5,176.19	4,632.71
A	Total assets in foreign currency	730,161.87	751,146.85	818,444.68	798,171.05	773,921.56
B	Total assets of non-residents	312,800.22	326,051.03	381,253.93	385,864.63	351,271.90

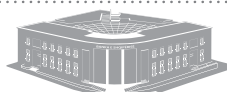
Source: Bank of Albania.

LIABILITIES (in ALL millions)						
CODE	DESCRIPTION	Dec. 2014	Dec. 2015	Dec. 2017	Dec. 2018	Dec. 2019
1	TOTAL LIABILITIES	1,293,720.85	1,317,843.09	1,445,329.85	1,453,451.57	1,475,550.92
11	TREASURY AND INTERBANK TRANSACTIONS	64,559.55	49,364.20	76,701.37	80,235.87	88,013.37
111	Central Bank	1,014.77	1,892.77	1,472.18	6,004.19	2,072.16
112	Treasury bills and other eligible bills	25,528.85	12,975.62	36,917.87	32,301.08	32,686.01
113	Current accounts	5,451.87	5,330.19	8,215.73	8,481.73	10,748.82
114	Deposits from banks, inst. Financ.	20,164.59	18,324.66	21,237.05	17,570.06	20,854.99
115	Loans	9,739.96	9,302.28	8,058.18	12,660.36	18,492.81
116	Other	2,659.51	1,538.68	800.36	3,218.44	3,158.59
12	TRANSACTIONS WITH CUSTOMERS	1,064,661.22	1,094,666.21	1,162,225.94	1,176,537.94	1,189,632.83
121	Public administration	7,401.08	9,204.79	10,275.23	10,134.94	10,649.60
1211	Current accounts	5,725.30	5,288.60	8,325.52	8,677.96	8,392.78
1212	Demand deposits	-	10.45	6.06	6.09	6.12
1213	Time deposits	945.20	3,155.79	1,419.20	1,077.15	1,845.00
1214	Loans	730.59	749.94	524.44	373.73	405.70
1215	Other	-	-	-	-	-
122	Private sector	1,057,260.13	1,085,461.43	1,151,950.71	1,166,403.00	1,178,983.23
1221	Current accounts	227,224.05	292,103.87	374,888.68	387,944.79	403,885.17
1222	Demand deposits	70,254.68	69,734.39	106,561.98	124,119.83	149,422.99
1223	Time deposits	746,045.04	704,411.87	650,308.22	638,058.42	608,798.64
1224	Other	13,736.36	19,211.29	20,191.82	16,279.96	16,876.43
1225	Certificates of deposits	-	-	-	-	-
13	SECURITIES TRANSACTIONS	5,295.21	683.68	8,429.66	6,936.43	2,526.76
131	Debts represented by securities	-	-	-	-	-
132	Securities purchased and sold under REPO	5,295.21	683.68	8,429.66	6,934.62	2,526.73
133	Collateral on securities transactions	-	-	-	-	-
134	Premiums on financial instruments	-	-	-	-	-
14	OTHER LIABILITIES	11,981.24	9,401.31	15,026.70	14,199.04	13,136.10
141	Other liabilities	5,478.25	5,039.88	5,520.14	5,610.54	6,745.97
142	Agent transactions	2,473.37	1,922.60	3,324.77	2,704.29	2,621.86
143	Inter-office accounts	(4.66)	6.67	(0.33)	(1.64)	(3.10)
144	Difference and position pending accounts	4,028.63	2,361.48	6,105.84	5,826.38	3,699.16
1441	Difference accounts	3,882.48	2,277.00	5,902.28	5,383.91	3,205.31



1442	Position accounts	146.15	84.48	203.56	442.47	493.86
145	Value added tax = (form. 21) 46	5.65	70.68	76.28	59.47	72.21
15	PERMANENT RESOURCES	139,248.59	157,706.45	179,079.18	171,525.40	178,368.66
151	Grants and public funding	20.72	15.97	-	-	-
152	Specific provisions	8,597.37	9,370.96	10,006.17	9,474.98	9,674.37
1521	Provisions for risk and expenses	7,736.22	7,577.89	8,413.63	7,883.69	8,407.60
1522	Specific provisions	861.15	1,793.08	1,592.54	1,591.29	1,266.77
153	Subordinated debt	19,659.34	22,791.59	22,120.01	13,967.48	14,459.77
154	Shareholders' equity	110,971.16	125,527.93	146,953.00	148,082.94	154,234.52
1541	Paid in capital	106,055.30	113,048.20	128,713.81	110,251.76	105,767.48
1542	Share premiums	5,205.89	5,736.50	6,479.81	6,440.53	6,991.62
1543	Reserves	11,793.81	11,859.68	12,918.51	18,892.48	21,271.51
1544	Revaluation difference	4,125.97	5,235.59	(2,255.46)	(6,696.50)	(6,812.32)
1545	Retained earnings or loss	(27,402.08)	(26,051.09)	(20,977.48)	782.69	7,121.41
1546	Current year profit (loss)	11,192.28	15,699.05	22,073.82	18,411.99	19,894.82
16	ACCRUED INTERESTS	7,975.04	6,021.24	3,867.00	4,016.90	3,873.19
161	Accrued interests (Class 1)	148.93	93.00	59.47	86.96	149.59
162	Accrued interests (Class 2)	7,565.50	5,623.83	3,453.42	3,701.47	3,538.44
163	Accrued interests (Class 3) = (form. 21) 339 + 3429	8.24	0.03	20.58	33.61	0.50
164	Accrued interests (Class 5)	252.36	304.37	333.52	194.87	184.67
A	Total liabilities in foreign currency	677,533.45	704,484.51	784,095.42	771,324.59	751,052.42
B	Total liabilities of non-residents	93,740.08	79,473.01	87,501.57	88,138.98	37,574.17

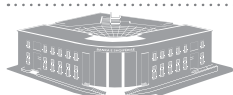
Source: Bank of Albania



6.4 KEY FINANCIAL INDICATORS

(in %, unless otherwise stated)	June '15	Dec '15	June '16	Dec '16	June '17	Dec '17	June '18	Dec '18	June '19	Dec '19
Indicators										
Based on capital										
Regulatory capital to risk-weighted assets	15.98	15.85	15.79	15.71	16.33	16.60	17.93	18.24	18.52	18.28
Tier 1 capital to risk-weighted assets	13.64	13.45	13.71	13.81	14.66	15.13	16.62	17.00	17.29	17.08
Tier 1 capital to total assets	8.25	8.34	8.81	8.75	8.54	9.03	9.33	9.16	9.30	9.09
Regulatory capital to total assets	9.67	9.75	10.15	9.95	9.86	9.90	9.92	9.82	9.96	9.72
Shareholders' equity to total assets	9.09	9.53	9.58	9.73	9.89	10.17	10.50	10.15	10.45	10.45
Non-performing loans net of provisions to Tier 1 capital	36.12	28.38	34.75	26.25	34.75	26.25	19.41	16.63	18.12	14.59
Non-performing loans net of provisions to regulatory capital	30.82	24.27	30.17	23.08	30.17	23.08	17.98	15.51	16.91	13.64
Non-performing loans net of provisions to shareholders' equity	32.82	24.84	31.98	23.62	31.98	23.62	17.32	15.01	16.13	12.69
Return on equity	14.20	13.16	8.02	7.15	8.02	7.15	7.41	12.96	14.26	13.45
Open foreign exchange position to Tier 1 capital	8.47	8.95	9.70	8.00	6.30	4.59	8.24	8.34	4.84	7.95
Open foreign exchange position to regulatory capital	7.23	7.66	8.44	7.03	5.62	4.22	7.63	7.78	4.52	7.43
Open foreign exchange position to shareholders' equity	7.70	7.84	8.87	7.20	5.52	3.85	7.35	7.53	4.31	6.92
Liquid assets to total assets	32.64	32.26	30.99	31.29	31.58	31.87	32.20	34.23	34.77	35.68
Liquid assets/Short-term liabilities	42.02	41.61	39.80	40.57	41.34	42.11	43.23	46.21	47.44	49.40
Return on assets	1.27	1.20	0.76	0.69	0.76	0.69	0.76	1.32	1.48	1.39
Non-performing loans to total loans	20.94	18.17	19.96	18.27	19.96	18.27	13.27	11.08	11.23	8.37
Net interest income to gross income	108.92	108.54	119.10	119.79	119.10	119.79	82.79	92.18	80.11	80.55
Operating expenses to gross income	61.18	63.20	70.63	74.04	70.63	74.04	55.46	63.92	55.84	57.61

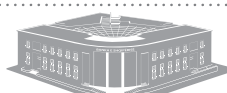
Source: Bank of Albania.



6.5 BANKS' SHAREHOLDERS

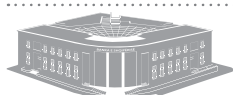
No.	Bank	Shareholders	Equity share in %	Ownership	Capital origin	Home country
1.	RAIFFEISEN BANK SH.A.	Raiffeisen SEE Region Holding GmbH	100	Private	Foreign	Austria
2.	NATIONAL COMMERCIAL BANK SH.A.	Çalik Finansal Hizmetler A.S.	100	Private	Foreign	Turkey
3	UNITED BANK OF ALBANIA SH.A.	Islamic Development Bank (IDB) Jeddah	77.70	Private	Foreign	Saudi Arabia
		EUROSIG SH.A.	9.00	Private	Domestic	Albania
		Ithmaar Bank BSC	4.63	Private	Foreign	Kingdom of Bahrain
		Dallah Albaraka Holding	2.32	Private	Foreign	Saudi Arabia
		Business Fokus SDN BHD	1.47	Private	Foreign	MaleziaMalaj:
		Saudi Brothers Commerce Co.	0.58	Private	Foreign	Saudi Arabia
		15 Individuals	4.30	Private	Foreign	Saudi Arabia
4	INTESA SANPAOLO BANK ALBANIA SH.A.	Intesa Sanpaolo S.p.A (ISP)	100.00	Private	Foreign	Italy
5	TIRANA BANK SH.A.	BALFIN sh.p.k	90.12	Private	Domestic	Albania
		KOMERCIJALNA BANKA AD SKOPJE	9.88	Private	Foreign	North Macedonia
6	ALPHA BANK – ALBANIA SH.A.	Alpha Bank S.A.	100.00	Private	Foreign	Greece
7	PROCREDIT BANK SH.A.	ProCredit Holding AG & CO, KgaA	100.00	Private	Foreign	Germany
8	American Bank of Investments	TRANZIT sh.p.k	100.00	Private	Domestic	Albania
9	CREDINS BANK SH.A.	B.F.S.E. Holding B.V.	15.38	Private	Foreign	Holland
		Amryta Capital LLP	3,078	Private	Foreign	United Kingdom
		Albanian Savings Loan Union	2.55	Private	Domestic	Albania
		EDRO sh.p.k	1.29	Private	Domestic	Albania
		A.F.C. sh.p.k.	3.19	Private	Domestic	Albania
		Frigo Alba sh.p.k.	0.68	Private	Domestic	Albania
		Prima sh.p.k.	2.97	Private	Domestic	Albania
		Renis Tershana	22.51	Private	Domestic	Albania
		Aleksandër Pilo	14.27	Private	Domestic	Albania
		46 Individuals	34.09	Private	Domestic	Albania
10	OTP BANK ALBANIA SH.A. (former SOCIETE GENERALE ALBANIA BANK)	OTP Bank Nyrt,	100.00	Private	Foreign	Hungary
11	UNION BANK SH.A.	European Bank for Reconstruction and Development (EBRD)	6.74	Private	Foreign	United Kingdom
		UNION FINANCIAR TIRANA SH.A.	89.72	Private	Domestic	Albania
		2 Individuals	3.54	Private	Domestic	Albania
12	FIRST INVESTMENT BANK, ALBANIA SH.A.	First Investment Bank S.A.	100.00	Private	Foreign	Bulgaria

Source: Bank of Albania.



6.6 DATA FOR THE SHAREHOLDERS/PARTNERS OF THE NON-BANK FINANCIAL ENTITIES

No.	Non-bank financial entity	Partners/Shareholders	Equity share in %	Ownership	Capital origin	Home country
1	UNION FINANCIAR TIRANË SH.A.	Edmond Leka	35	Private	Domestic	Albania
		Niko Leka	35	Private	Domestic	Albania
		Varuzhan Piranjan	10	Private	Domestic	Albania
		Gjergj Misha	10	Private	Domestic	Albania
		Eduard Shima	10	Private	Domestic	Albania
2	POSTA SHQIPTARE SH.A.	Ministry of Economy, Trade and Energy	100	Public	Domestic	Albania
3	AK-INVEST SH.A.	Muharrem Kokona	35	Private	Domestic	Albania
		Ilir Adili	65	Private	Domestic	Albania
4	NOA SH.A.	NOA Holding N.V.	100% minus 1 share	Private	Foreign	The Netherlands
		NOA Cooperatief U.A.	1 share	Private	Foreign	The Netherlands
5	FONDI BESA SH.A.	Albanian Besa Capital Foundation	65.89	Private	Domestic	Albania
		Bajram Muçaj	20	Private	Domestic	Albania
		Individuals	14.11	Private	Domestic	Albania
6	FINAL SH.A.	Arben Meskuti	100	Private	Domestic	Albania
7	"AGROKREDIT.SH.A." SH.A (former - First Albanian Financial Development Company – FAF SH.A.)	Ministry of Finance.	100	Public	Domestic	Albania
8	RAIFFEISEN LEASING SH.A.	Raiffeisen Bank sh.a.	100	Private	Domestic	Albania
9	LANDESLEASE SH.A.	UNION BANK SH.A.	100	Private	Domestic	Albania
10	AGRO & SOCIAL FUND SH.P.K.	FONDI BESA SH.A.	100	Private	Domestic	Albania
11	CAPITAL INVEST SH.A.	Gëzim Balisha	34.88	Private	Domestic	Albania
		Arben Zeneli	46.5	Private	Domestic	Albania
		4 Individuals	18.62	Private	Domestic	Albania
12	TRANZIT SH.P.K.	New Century Holdings XI, L.P.	35	Private	Foreign	Cayman Islands
		NCH Balkan Fund, L.P.	35	Private	Foreign	Cayman Islands
		Andi Ballta	30	Private	Domestic	Albania
13	ALBANIAN FACTORING SERVICES SH.A.	Qemal 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	Private	Foreign	France
15	OMNIFACTOR SH.P.K.	FAB -GROUP shpk.	100	Private	Domestic	Albania
16	PLATINIUM INVESTMENT SH.P.K.	Andri Kasneci	100	Private	Domestic	Albania
17	TIRANA FACTORING & LEASE SH.A.	Rolandi Manushi	40	Private	Domestic	Albania
		Lediana Aliaj	40	Private	Domestic	Albania
		Endrit Beqaj	20	Private	Domestic	Albania
18	PORSCHE LEASING SH.P.K.	Porsche Bank Aktiengesellschaft (AG)	100	Private	Foreign	Austria
19	ALBANIA LEASING SH.A.	Islamic Corporation for the Development of the Private Sector (ICD), Saudi Arabia	35.64	Private	Foreign	Saudi Arabia
		National Commercial Bank	29.98	Private	Domestic	Albania
		ND Real Estate Dooel, Tetova	21.88	Private	Foreign	North
		KOLON WORLD INVESTMENT CO, Hong Kong	12.5	Private	Foreign	Hong Kong
20	IUTECREDIT ALBANIA SH.A.	AS Iutecredit Europe, Estonia	100	Private	Foreign	Estonia
21	AGRO PARTNER SH.P.K.	Arjan Lala	100	Private	Domestic	Albania



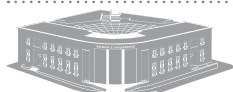
22	CRIMSON FINANCE FUND ALBANIA SH.P.K.	Albanian – American Development Foundation (AADF)	25	Private	Foreign	U.S.
		Crimson Capital Corp, USA	25	Private	Foreign	U.S.
		Norwegian Investment Fund for Devel- oping Countries (Norfund), Norway	25	Public	Foreign	Norway
		Tirana Municipality	25	Public	Domestic	Albania
23	EASYPAY SH.P.K.	Lindita Shomo	100	Private	Domestic	Albania
24	KASTRATI SH.P.K.	Shefqet Kastrati	100	Private	Domestic	Albania
25	PAY AND GO SH.P.K.	Untag Community limited	100	Private	Foreign	United Kingdom
26	MICRO CREDIT ALBANIA SH.A.	Elda Ibro	100	Private	Domestic	Albania
27	ALBANIAN FINANCIAL INSTITUTION SH.P.K.	Besnik Leskaj	80	Private	Domestic	Albania
		Redjan Basha	20	Private	Domestic	Albania
28	RAEA FINANCIAL SERVICES SH.P.K.	Relianda Zhelegu	100	Private	Domestic	Albania
29	MOGO ALBANIA SH.A.	MOGO FINANCE S.A.	100	Private	Foreign	Luxemburg
30	KREDO FINANCE SH.P.K.	AS Finitera	100	Private	Foreign	Latvia
31	TIRANA CAPITAL TRADE SH.P.K.	Arta Mici	90	Private	Domestic	Albania
		Ergys Demneri	10	Private	Domestic	Albania
32	MICRO CREDIT RISK SH.P.K.	ANGELUS LEX	60	Private	Domestic	Albania
		Dashnor Osmani	15	Private	Domestic	Albania
		Klei Kaçupi	25	Private	Domestic	Albania



6.7 GEOGRAPHIC DISTRIBUTION OF BRANCHES AND BANKING AGENCIES WITHIN THE TERRITORY OF THE REPUBLIC OF ALBANIA BY REGION

No.	Region	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1	Tirana	210	210	212	218	213	203	204	207	197	190	183
2	Durrës	51	54	54	55	53	51	51	49	49	45	45
3	Fier	45	44	44	43	42	42	41	39	38	34	33
4	Elbasan	29	30	30	30	30	28	29	29	27	25	24
5	Korça	38	38	37	37	38	35	35	34	31	30	26
6	Shkodra	24	25	25	25	24	22	22	22	22	20	19
7	Vlora	39	41	41	42	41	37	37	35	32	31	29
8	Lezha	26	25	26	25	24	23	23	23	22	22	22
9	Berat	21	20	21	21	22	20	20	20	20	19	19
10	Gjirokastra	24	24	24	23	23	20	20	18	17	14	13
11	Kukës	9	9	10	9	9	9	9	8	8	8	7
12	Dibra	8	9	10	10	10	9	9	9	9	9	9
	TOTAL	524	529	534	538	529	499	500	493	472	447	429

Source: Bank of Albania.



6.8 E-BANKING PRODUCTS/SERVICES, BY COMMERCIAL BANKS, AS AT END OF 2019

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	√				√	√	√	√
ALPHA BANK – ALBANIA SH.A.	√	√			√		√	√
PROCREDIT BANK	√	√		√	√			√
FIRST INVESTMENT BANK, ALBANIA	√				√			√
CREDINS BANK	√	√	√		√			√
UNION BANK	√	√			√		√	√
OTP BANK ALBANIA SH.A.	√				√		√	√
INTESA SANPAOLO BANK ALBANIA SH.A.	√	√			√		√	√
BANKA AMERIKANE E INVESTIMEVE SH.A.	√				√			√
UNITED BANK OF ALBANIA SH.A.								√

Source: Bank of Albania.



6.9 LIST OF ENTITIES LICENSED BY THE BANK OF ALBANIA BY YEAR

No.	Entities	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1	Banks and branches of foreign banks	17	16	16	16	16	16	16	16	16	16	16	16	14	12
2	Non-bank financial institutions	6	6	7	13	17	19	21	21	22	27	28	31	30	32
3	Foreign exchange bureaus	60	112	189	221	284	301	322	333	356	397	428	426	463	503
4	Savings and Loan Associations	125	130	133	135	126	126	126	121	113	111	13	13	13	14
5	Unions of Savings and Loan Associations	2	2	2	2	2	2	2	2	2	2	2	1	1	1

Source: Bank of Albania.



6.10 DATA ON BANKING SERVICES UP TO 2019

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Number of banks	17	16	16	16	16	16	16	16	16	16	16	16	14	12
Number of employees of banks	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	6,383
Number of branches/agencies in the country	294	399	511	524	529	534	538	529	499	500	493	472	447	429
Average number of employees per:														
- Bank	246	322	406	400	399	420	427	418	426	426	434	430	481	532
- Banking unit	14	13	13	12	12	13	13	13	14	14	14	15	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	2,846
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	204,459	237,167
- 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	6,404	6,634
- Bank employee	712	574	452	456	455	432	424	433	424	423	414	417	425	446

Source: Bank of Albania and INSTAT.

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

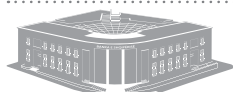


6.11 BANKS NETWORK AS AT END 2019

No.	Banks	Number of branches/agencies in the country	No. of branches abroad*	No. of branches and agencies, total
1	Raiffeisen Bank;	76		76
2	National Commercial Bank	67		67
3	United Bank of Albania	6		6
4	Tirana Bank	35		35
5	Alpha Bank - Albania	33		33
6	Intesa Sanpaolo Bank Albania	35		35
7	ProCredit Bank	9		9
8	American Bank of Investments	26		26
9	Credins Bank	58		58
10	OTP Bank Albania	37		37
11	Union Bank	33		33
12	First Investment Bank	14		14
	TOTAL	429	0	429

* Currently no bank exercises its activity outside the territory of the Republic of Albania

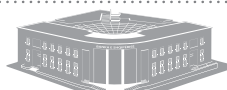
Source: Bank of Albania.



6.12 SUPERVISION REGULATIONS IN FORCE, AS AT 31 DECEMBER 2019

1. Regulation "On bank's investments in the equity of commercial companies", approved by the Supervisory Council Decision No. 42, dated 6.6.2001.
2. Guideline "On certificates of deposits", approved by the Supervisory Council Decision No. 79, dated 3.10.2001.
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 26.6.2002.
4. Guideline "On reporting of foreign exchange operations", approved by the Supervisory Council Decision No. 69, dated 30.7.2003.
5. Regulation "On supervision of electronic banking transactions", approved by the Supervisory Council Decision No. 28, dated 30.03.2005 and amended by the Decision No. 80, dated 18.12.2019²¹.
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 3.5.2006.
7. Regulation "On licensing, organization and supervision of foreign exchange bureaus", approved by the Supervisory Council Decision No. 31, dated 6.6.2007 and amended by Decision No. 73, dated 27.11.2007, Decision No. 82, dated 14.12.2011, Decision No. 31, dated 30.4.2014, Decision No. 48, dated 30.3.2016 and Decision No. 49, dated 3.7.2019.
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 29.8.2008.
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 06.2.2008, and amended by the Decision No. 03, dated 17.1.2013, by the Decision No. 122, dated 09.11.2016, and by the 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 29.8.2008 and amended by Decision No. 14, dated 9.3.2011, by Decision No. 25, dated 3.5.2017 and Decision No. 15, dated 7.2.2018.
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 29.8.2008 and amended by

²¹ The amendments approved by the Decision No. 80, dated 18.12.2019, enter into force on 8.1.2020.



Decision No. 25, dated 10.4.2015.

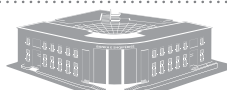
13. Document "Reporting methodology and content of financial reports", approved with the Decision of Supervisory Council, No 95, dated 24.12.2008.
14. The document "Licensing policy of banking entities", approved by the Supervisory Council Decision No. 12, dated 25.2.2009.
15. Regulation "On granting 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 11.3.2009 and amended by Decision No. 33, dated 11.5.2011, Decision No. 28, dated 16.5.2012, Decision No. 55, dated 01.10.2014, Decision No. 15, dated 03.2.2016 and Decision No. 46, dated 3.7.2019.
16. Regulation "On the prevention of money laundering and financing of terrorism" approved by the Supervisory Council Decision No. 44 of 2009 and amended by Decision No.55 of 28.8.2013, by Decision No. 22, dated 5.4.2017 and Decision No.78, dated 18.12.2019²².
17. Regulation "On Reporting to the Bank of Albania according to the Unified Reporting System", approved by Supervisory Council Decision No. 45, dated 10.6.2009 and amended by Decision No. 2015, dated 6.7.2016, as amended by Decision No.80, dated 3.10.2017
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 28.1.2015.
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 27.3.2013 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 26.5.2010 and amended by Decision No. 54, dated 12.9.2012 and Decision No. 29, dated 7.6.2017.
21. Regulation "On management of risk from open foreign currency positions", approved by the Supervisory Council Decision No. 48, dated 14.7.2010.
22. Regulation "On the content of information and functioning of Credit Registry at the Bank of Albania", approved by the Supervisory Council Decision No. 67, dated 13.10.2010.
23. Guideline "On the procedure for issuing a report on the borrower and reviewing data retained at the Credit Registry", approved by the Supervisory Council Decision No. 68, dated 13.10.2010.
24. Decision " 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.

²² The amendments approved by the Decision No. 78, dated 18.12.2019, enter into force on 8.1.2020.



26. Regulation "On operational risk management", approved by the Supervisory Council Decision No. 3, dated 19.1.2011.
27. Regulation "On authorized chartered auditors of banks and branches of foreign banks", approved by the Supervisory Council Decision No. 42, dated 15.6.2011.
28. Regulation "On internal audit system at banks and branches of foreign banks", approved by the Supervisory Council Decision No. 62, dated 14.9.2011, amended by Decision No. 27, dated 27.3.2013 and Decision No. 22, dated 27.2.2014, Decision No. 26, dated 1.4.2015, Decision No. 50, dated 30.3.2016 and Decision No. 52, dated 3.7.2019²³.
29. Regulation "On the establishment, licensing and functioning of the bridge bank" approved by the Supervisory Council Decision No. 27 of 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 17.1.2013 and amended by Decision No. 47, dated 30.3.2016, Decision No. 70, dated 09.11.2016, Decision No. 47, dated 6.9.2017 and Decision No. 47, dated 3.7.2019.
32. Regulation "On the management of risk in the activity of non-bank financial institutions", approved by the Supervisory Council Decision No. 2, dated 17.1.2013 and amended by Decision No. 46, dated 06.09.2017 and Decision No. 50, dated 3.7.2019.
33. Guideline "On managing interest rate risk in the banking book", approved by the Supervisory Council Decision No. 33, dated 30.4.2013.
34. Regulation "On capital adequacy ratio", approved by Supervisory Council Decision No. 48, dated 31.7.2013 and amended by Decision No. 43, dated 30.7.2014, Decision No. 70, dated 18.12.2014, Decision No. 49, dated 1.7.2015, Decision No. 91, dated 2.12.2015, Decision No. 49, dated 30.3.2016, Decision No. 5, dated 1.2.2017, and Decision No. 34, dated 2.5.2018.
35. The reporting system for non-bank financial institutions, approved by the Supervisory Council Decision No. 65, dated 30.10.2013.
36. Document "Supervision Policy", approved by the Supervisory Council Decision No. 9, dated 26.2.2014
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 4.3.2015 and Decision No. 50, dated 01.07.2015.
38. Regulation "On regulatory capital", approved by the Supervisory

²³ Amendments of Article 13 of this Regulation enter into force on 1.1.2021.



Council Decision No. 69, dated 18.12.2014 and amended by Decision No. 19, dated 4.3.2015, and by Decision No. 2, dated 9.1.2019.

39. "On recognition of ECAs", approved by Order No. Prot./1883, dated 22.4.2015 of the First Deputy Governor of the Bank of Albania.
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 4.4.2018.
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 6.12.2017.
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 5.10.2016.
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 5.10.2016 and amended by Decision No. 48, dated 3.7.2019.
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 5.10.2016.
45. The reporting system of savings and loan associations and their unions, approved by the Supervisory Council Decision No. 106, dated 5.10.2016.
46. Regulation "On consolidated supervision", approved by the Supervisory Council Decision No. 4, dated 1.2.2017, and amended by the Decision No. 79, dated 18.12.2019²⁴.
47. Guideline "On the internal capital adequacy assessment process", approved with the Decision of Supervisory Council, No. 26, dated 3.5.2017.
48. Regulation "On consolidated supervision", approved by the Supervisory Council Decision No. 4, dated 6.12.2017
49. Regulation "On consolidated supervision", approved by the Supervisory Council Decision No. 4, dated 28.3.2019²⁵.
50. Regulation "On extra-judicial treatment by banks, of borrowers in financial difficulties", approved by the Decision of the Supervisory Council no. 51, dated 3.7.2019²⁶.
51. Regulation "On consolidated supervision", approved by the Supervisory Council Decision No. 60, dated 4.9.2019²⁷.

²⁴ The amendments approved by the Decision No. 79, dated 18.12.2019, enter into force on 8.1.2020.

²⁵ Enters into force on 1.3.2020, with some exceptions.

²⁶ Remains into force until 31.12.2020.

²⁷ Enters into force on 1.3.2020.

