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2020

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SUPERVISION
REPORT

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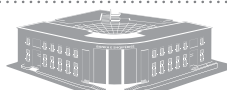
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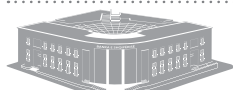
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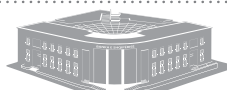
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1 THE FUNCTION OF SUPERVISION

The 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 towards successfully meeting the ultimate goal - preserving the soundness of financial entities.



2 KEY DEVELOPMENTS

STRUCTURAL DEVELOPMENTS

As at end of 2020, the banking system remains consolidated to 12 banks, 4 of which with Albanian capital and 8 with foreign capital. Of the latter, 6 originate from European Union countries. In terms of total assets, year 2020 recorded an increase in the share of banks with Albanian capital, by around 1.32 percentage points, and a decrease in the share of banks with European capital, by 0.63 percentage points. The growth in the share of banks with Albanian capital was noticed in the credit portfolio, with 1.48 percentage points, as well as in deposits, whose share grew by 0.80 pp. In December 2020, these banks accounted for 30.58 % of total assets in the banking system and 35.42% of total assets in credit portfolio.

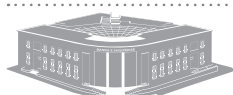
During 2020, the assets of the banking system grew by 7.22%, while credit portfolio increased by 5.76%. The credit portfolio quality improved slightly during the year, as the non-performing loans ratio fell by 0.26 percentage points, reaching at 8.11% at the end of the year.

COVID-19 PANDEMIC

Similarly to all the other aspects of the economy, the financial activity in 2020 was conducted under the strong impact of the pandemic effects. Financial institutions readopted their activity to new market developments. The Bank of Albania undertook significant regulatory changes to alleviate the possible effects to financial institutions, in order to create facilities to borrowers for the repayment of loans:

- In March 2020, the moratorium on credit repayments was undertaken through regulatory changes, which eased the mandatory classification and provisioning of loans until May 2020;
- In May, the deadline of the moratorium was extended until August 2020 and re-determining an easier framework on the classification and provisioning of restructured loans, until December 2020.

Pursuant to these regulatory amendments, the Bank of Albania conducted communication in written form with banks in order to determine certain prudential measures to be taken into consideration for managing the created situation, possible risks and conveying the right message to the market. Thus, banks were required to create adequate structures, give complete instructions



regarding them, document the entire process, assess and select the appropriate borrowers, channel the restructuring in compliance with the legal framework and reduce internal expenditures.

To protect the financial situation of banks against threats and uncertainties brought about by the situation, the following initiatives were undertaken:

- In May 2020, the Supervisory Council of the Bank of Albania decided the suspension of dividend distribution by banks of the allocated profit from the previous periods, and the profit to be realised in 2020;
- In January 2021, the Supervisory Council decided to suspend the distribution of profit dividend by banks of 2020 and 2021.

COOPERATION WITH THE EUROPEAN CENTRAL BANKS TO ENHANCE THE SUPERVISION CAPACITIES

During 2020, a large share of the work was dedicated to the development and finalisation of the twinning project with the Bank of Italy and the Bank of Germany, which started in November 2019. The project's aim was to approximate the regulatory and methodological supervisory framework with the European Union regulations, which would enhance the capacities in supervising the licensed entities.

In this regard, several changes were initiated consisting of:

- reviewing the Regulation "On capital adequacy" on credit risk, market risk, operational risk and securitisation. The amendments consisted in the revision of the calculation method of capital requirements for exposures related to these risks;
- reviewing the Guideline "On the internal capital adequacy assessment process" (ICAAP);
- drafting the new Regulation in compliance with the Directive on Payment Accounts;
- training on the actual control method of the implementation of ICAAP Guideline, as well as on the improvement of the Assessment Process and Supervision Review (APSR);
- establishing an internal methodology for assessing the borrowing capacity of enterprises related to the implementation of the international accounting standard IFRS 9.



3 ON-SITE EXAMINATIONS

During 2020, the examination plan had a significant deviation due to the pandemic situation. Thus, in the first half of the year only two full-scope examinations were conducted in banks. Whereas, in the second half of the year, 5 examinations were conducted covering the largest banks, focusing on the management of the pandemic situation and its effects, in particular on the credit portfolio. Meanwhile, partial examinations in banks were conducted, assessing the implementation of the Regulation "On liquidity coverage ratio".

In total, 27 full-scope examinations were conducted in banks and non-bank financial institutions (NBFIs), with a higher tendency towards partial examinations, given the limited number of staff members in the examination teams. During the year, considerable attention was paid to foreign exchange bureaus (FEBs), where 74 examinations were conducted.

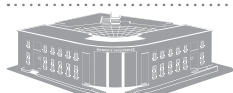
Table 1 Number of examinations by year and theme

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	28*	9	8
2019	13	13	16	13	13	14	13	13	14	13	15
2020**	2	8	15	11	2	5	5	5	88**	2	6

* In 2018, examinations on the reputational risk were carried out in 28 FEBs. While, 10 joint examinations on this risk were carried out with the General Directorate for the Prevention of Money Laundering (GDPMI).

** In 2020, examination on the reputational risk were carried out in 74 FEBs, while 14 other examination on this same risk were carried out in banks and NBFIs. Of these, examinations on this risk for 2 banks, 1 NBFI and 1 FEB, were carried jointly with the General Directorate for the Prevention of Money Laundering, while 3 joint examinations in banks were conducted with the Financial Supervision Authority (FSA).

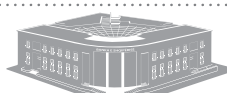
The objective of all the examinations conducted in 2020 was credit risk, which in some cases was combined with other objectives. This orientation is also in line with the approach of European supervisory authorities, dictated by the pandemic situation and respective regulatory adjustments that were implemented during 2020 (freezing of debt settlement payment, encouraging restructurings etc.). The aim was to identify potential deteriorations in credit portfolios and undertake immediate measures to create the necessary reserves in advance.



The main recommendations following the examinations are related to stress tests, factoring also the additional elements in response to the pandemic situation, as well as the careful review of business plans for the future, without neglecting the economy's need for credit support. Entities were recommended to gradually add provisions in advance, as a prudential approach against the expected developments, as well as plan an overall review of the credit portfolio, in order to identify potential changes in customer's solvency, including cases when they have not benefited from payment "freeze" or restructuring.

Regarding non-bank financial institutions, the focus in 2020 was on entities that carry out lending activity, leasing and microcredit. A good part of examinations aimed at addressing supervisory issues related to signals on fraud cases, failure to realise the supervisory recommendations or signals on market distortions. The assessment of transparency with customers is a significant part of these examinations and quite a practical issue in the case of non-bank financial institutions. The examinations have identified several issues in this regard, which have been addressed through recommendations to entities.

Based on the conclusions of the examinations, in two cases, supervisory measures were initiated: suspension of activity and revocation of the license of non-bank financial institutions.



4 LEGAL AND METHODOLOGY FRAMEWORK

The drafting of new bylaws and the review of the 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 and Basel Committee documents.

In 2020, the Bank of Albania dedicated special attention to the drafting of new regulatory acts and reviewing of those in force, in the view of the commitments of the Bank of Albania for: approximating the regulatory framework with Basel III requirements; fulfilling the requirements of the Law "On the recovery and resolution of banks in the Republic of Albania", as part of the resolution framework. Also, a major part of the regulatory amendments approved during 2020, was driven by the issues created by the pandemic.

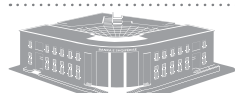
Following are listed the new regulatory acts approved and reviewed over 2020.

- I. In the framework of approximating the legal supervisory requirements of the Bank of Albania with Basel III requirements and European regulations¹, the following were approved:
 - Amendments to the Regulation "On capital adequacy ratio", (adopted with Decision No. 7, dated 5.2.2020 of the Supervisory Council of the Bank of Albania).

Amendments to this regulation aim the further approximation with Regulation (EU) 575/2013, as well as addressing certain findings identified by supervisors during its implementation. The reviews consisted in mainly presenting the method based on the assessment of credit quality by the counterparty itself, in order to determine the share of credit risk for certain exposures (to supervised institutions, public sector entities and guaranteed bonds). Also, these amendments included the review on the provisions of the regulation related to off-balance sheet items classification, by further approximating it with the requirements provided for in Annex I of the Regulation (EU) 575/2013.

- Amendments to the following regulations, with Decision No. 53 and No. 54, respectively, dated 2.9.2020 of the Supervisory Council of Albania:

¹ Regulation (EU) No 575/2013 (Capital Requirements Regulation - CRR) and Regulation (EU) 2019/876 (CRR2).



- Regulation "On the risk management from large exposures of banks"
- Regulation "On consolidated supervision"

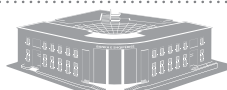
Amendments to the Regulation "On the risk management from large exposures of banks" aim the further approximation with the reviewed requirements of the EU acquis and the Basel Committee. Specifically, the main amendments consist of:

- providing more detailed provisions on the method of calculating the exposure value for the trading book items and the net positions for these items;
- reviewing exposure categories (payment in process), which are not included in the calculation of exposure, for the purpose of large exposure calculation;
- determining a more prudent maximum allowed threshold of 15% of Tier 1 capital on the exposures of one systemically-important bank toward another bank of systemic importance and the group of people related to the latter, for the purpose of managing/reducing the distribution risk between banks with a systemic influence;
- allowing up to 80% value reduction for guaranteed bonds that fulfil all the provided conditions laid down in the capital adequacy regulation;
- rewiring the allowed reduction levels for exposures towards banks or supervised institutions, which are part of the same consolidated supervision of the bank or the foreign bank or bank/financial group of which the bank is part of, differentiating between the reduction percentages based on the share of risk assigned to the counterparty;
- repealing the provision that stipulates the right to banks to reduce up to 80% of the value for exposures towards supervised institutions, which were assigned 20% risk share;
- repealing the rule for the partial exclusion/reduction (up to 50% of the collateral value) for exposures insured by commercial or residential real estate collateral, which fulfil the conditions provided for in the capital adequacy regulation with the purpose of ensuring a more prudent approach in relation with the treatment of these exposures according to the European Regulation on capital requirement, CRR²;
- reformatting banks reporting requirements, etc.

The review of the Regulation "On consolidated supervision" is in accordance with the latest amendments in Regulation "On the risk management from large exposures of banks" and the Regulation "On regulatory capital", for the purposes of the consolidated supervision.

- **The new Regulation "On the financial leverage ratio of banks" (adopted with the Decision No. 63, dated 4.11.2020 of the Supervisory Council of the Bank of Albania)**

² Regulation (EU) 2019/876.



This Regulation was drafted in the framework of the further approximation of the regulatory framework of the Bank of Albania with the requirements of Basel III on the financial leverage ratio, as well as in compliance with the revised EU regulations during 2019, and aims to determine the criteria and rules for calculating the financial leverage ratio of banks and the minimum level of this ratio. The Regulation is expected to enter into force on 1 January 2022, so banks will have sufficient time to adapt their systems and undertake the necessary measures for the implementation of the new legal requirements.

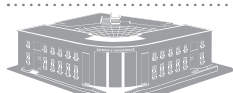
BOX 1 REGULATION "ON THE FINANCIAL LEVERAGE RATIO OF BANKS"

The financial leverage ratio, according to Basel III framework, is intended to restrict the build-up of leverage in the banking sector and to support/complement the existing capital requirements, in relation to the risk-weighted exposures, with a with a simple, non-risk based "backstop" measure. The financial leverage ratio, which takes into account exposures prior to risk weighting, ensures a higher stability of capital requirements against insecurities and risks that are difficult to model and foresee in the framework of the weighting risk factors. According to Basel III Committee requirements, the financial leverage ratio and capital requirements regarding risk-weighted exposures are considered to complement rather than substitute one another.

This ratio is defined as the ratio of Tier 1 capital to the sum of bank's exposures (which includes on-balance sheet items, derivatives, financial transactions of securities and off-balance sheet items).

In more concrete terms, the Regulation "On the financial leverage ratio" mainly sets out:

- a) *the definition of several new legal concepts, such as regular-way purchases or sales, cash pooling arrangement, written credit derivative, securities financing transactions, multi-level client structure etc.;*
- b) *the supervisory requirements on the method of calculating the leverage ratio;*
- c) *the minimum leverage ratio of 5.75%, which banks shall comply with, both on individual and consolidating basis;*
- d) *the method for calculating the exposure value for off-balance sheet items, for the purpose of calculating the financial leverage ratio, where banks must consider all items including collaterals obtained for derivatives and securities financing transactions registered on the balance sheet, but excluding derivatives on the balance sheet and assets of securities financing transactions which get a special treatment in the Regulation;*
- e) *the method for calculating the exposure value of derivative contracts, including off-balance sheet contracts and credit derivatives, in accordance with the mark-to-market method;*
- f) *the method for calculating the exposure value of written credit derivatives, where banks, in addition to calculating the derivative value, include the effective notional amount referred to for these type of derivatives;*
- g) *the method for calculating the exposure value for securities financing transactions;*
- h) *the method for calculating the exposure value of off-balance sheet items, excluding derivative contracts, credit derivatives and securities financing transactions, which are calculated according to the treatments detailed*



- i) *in the Regulation;*
- i) *reporting requirements for banks, on an individual and consolidated basis, according to the reporting forms and based on the guidelines for filling them out;*
- j) *etc.*

- The new Regulation "On the net stable funding ratio of banks" (adopted with Decision No. 70, dated 2.12.2020 of the Supervisory Council of the Bank of Albania).

The Regulation lays down the rules to calculate the net stable funding ratio of banks and the requirements of the supervision authority on the minimum level of this ratio. The drafting of the Regulation "On the net stable funding ratio of banks" partially approximates the Regulation (EU) 2019/876, which provides the requirements on the net stable funding ratio by further ensuring alignment with the Basel III requirements. The Regulation shall enter into force on 1 June 2022.

BOX 2. REGULATION "ON THE NET STABLE FUNDING RATIO OF BANKS"

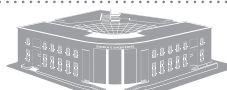
This new regulatory act aims to complete the applicable regulatory framework on liquidity risk management and complements the Regulation "On liquidity coverage ratio", which was approved by the Supervisory Council in March 2019 and entered into force in March 2020. The new indicator presented in this Regulation (net stable funding ratio) and liquidity coverage ratio complement one another. Continuing to abide by them will ensure an adequate liquidity level, even during liquidity stress situations, as well as the good management of liquidity risk.

Contrary to liquidity coverage ratio, which lays down the rules 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 net stable funding ratio of banks indicates whether the bank holds sufficient stable funding to meet its liquidity needs over an one-year horizon under both stressed and normal situations.

The Regulation determines the method for calculating the net stable funding ratio as the ratio of available stable funding of banks with the required stable funding, expressed in percentage, differentiating between banks with systemic and non-systemic importance. This is realised through presenting a simplified version to calculate the ratio for small and less complex banks, in order not to create unnecessary burdens when calculating and reporting the indicator for these banks.

More specifically, the Regulation mainly addresses:

- a. *the supervisory requirements to calculate the net ratio of stable funding of banks, on individual and consolidating basis, in the case of banking*



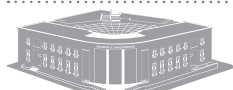
- and/or finance groups;
- b. determining the minimum level of this ratio of 100%;
 - c. determining the items composing the indicator, both for the denominator (available stable funding of banks) and the nominator (required stable funding);
 - d. the methodology for calculating the sum of available stable funding of banks that includes different types of liabilities and regulatory capital items and instruments;
 - e. the methodology for calculating the sum of required stable funding of banks, which includes different types of assets and off-balance sheet items;
 - f. determining the factors (percentages) applicable for each composing element of the available stable funding and required stable funding, based on the residual maturity, as well as on the nature of composing items;
 - g. the requirements for the simplified calculation of the net stable funding ratio of for systemically-important banks;
 - h. the reporting requirements for banks with quarterly frequency, both in individual and consolidating basis;
 - i. Etc.

II. Pursuant to the Law “On the recovery and resolution of banks”, as part of the early intervention framework, the following were approved:

- Regulation “On determining the conditions for granting the prior approval to the intra-banking group financial support agreement” (adopted with the Decision No. 6, dated 5.2.2020, of the Supervisory Council of the Bank of Albania).

This Regulation lays down the conditions for granting the prior approval to the financial support agreement that may be granted only by banks that are part of a banking group that falls under the consolidated supervision of Bank of Albania. This Regulation aims to implement the provisions of the Law No. 133/2016 “On the recovery and resolution of banks in the Republic of Albania”³, which determines, among others, the obligation of the Supervisory Authority to determine with a sub-legal act the conditions for granting the prior approval to the financial support agreement within the banking group. The Regulation details the requirements of the supervisory authority on the documents that shall be presented for approval, stages of the prior approval, assessment of the elements that shall be included in the agreement and of the risks and profitability for the banking group and offering bank, and in particular criteria/conditions are laid down, where the expectation of the support provided to

³ This Law is partially approximated with Directive 2014/59/EU of the European Parliament and the Council of 15 May 2014 on establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council.



significantly correct the financial difficulties of the banking group that receives the financing support (receiving bank), is considered reasonable/justified.

- **The new Regulation “On triggers for use of early intervention measures and on the conditions and manner of carrying out the temporary management” (adopted with Decision No. 61, dated 4.11.2020, of the Supervisory Council of the Bank of Albania)**

This regulation lays down the conditions for applying early intervention measures and the conditions and manners of carrying out the temporary administration by the supervisory authority. The Regulation aims to implement the provisions of the Law No. 133/2016 “On the recovery and resolution of banks in the Republic of Albania”⁴, which determines the obligation of the supervisory authority to determine by means of a legal-sub act the conditions when early intervention measures are implemented and the conditions and manners of carrying out the temporary administration. The Regulation mainly focuses on situations where the implementation of early intervention measures is considerably likely to correct the deteriorated situation of the bank. The Regulation also addresses the case when the bank does not apply early intervention measures required by the Bank of Albania, and the latter orders the bank to dismiss one or several bank’s administrators, members of the Steering Council and/or Directorate and appoint new administrators, when it considers that the substitution of administrators is not sufficient to improve the financial condition of the bank. This Regulation aims to further approximate with the requirements of the EU acquis, more specifically with the provisions of the Directive 2014/59/EU⁵ “On the recovery and resolution of banks”, as well as the European Banking Authority Guideline EBA/GL/2015/03 “On triggers for use of early intervention measures”⁶.

- **The new Regulation “On the establishment, licensing, supervision, functioning, and termination of the operation of the bridge bank” (adopted with the Decision No. 62, dated 4.11.2020, of the Supervisory Council of the Bank of Albania)**

This Regulation lays down the conditions for the establishment, licensing, supervision, functioning and termination of operation of the bridge bank, as a resolution tool. The Law on Resolution stipulates the obligation of the Supervisory Authority for determining by means of a sub-legal act the method of establishing the activity of the bridge bank, the licensing, supervision and cases of activity termination of the bridge bank. The Regulation is a full revision of the applicable regulation on the bridge bank, which has preserved some of the valuable provisions laid down in the existing regulation, taking into

⁴ As above.

⁵ The recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council.

⁶ EBA Guideline on triggers for use of early intervention measures.



consideration other revisions based on the best practices and experiences on the bridge bank of some regional countries and the EU. The Regulation sets forth the entire cycle of existence of the bridge bank, starting from the decision of its establishment; licensing; exercising the banking and financial activity of the bridge bank; supervision and reporting to the Bank of Albania; cases of termination of bridge bank activity; and revocation of its license.

III. In the framework of the measures taken due to the COVID-19 situation, the following were approved:

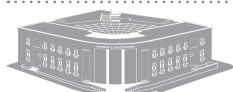
During 2020, one of the most notable engagements related to the revision of the supervisory regulatory framework, was the regulatory drafting, amendments and decision-making regarding the measures undertaken by the Bank of Albania as a result of the situation created by the COVID-19 pandemic. This engagement consists in the finalisation of important decision-making related to the facilities provided to entities for the classification and establishment of provisioning funds; the method for handling restructured loans over 2020; providing easier handling of the exposures to Albanian government securities in foreign currency, issued during 2020, for the purposes of calculating capital requirements and risk management from large exposures of banks; and suspension of profit distribution by banks, with a view to ensure the adequate capital levels of banks.

- **Two joint orders signed by the Prime Minister of Albania and the Governor of the Bank of Albania**

On 17 March 2020, the Governor of the Bank of Albania and the Prime Minister of Albania signed a joint order on the extension of the deadline of repayment of loans to enterprises and households until 31 May 2020 that may face difficulties due to the COVID-19 pandemic. Also, a second order was signed on 28 May 2020, which provided another extension of the deadline for the repayment of loans to borrowing enterprises and households that may face difficulties as a result of the COVID-19 pandemic, until 31 August 2020.

- **Amendments to the following regulations, by the circulatory decisions No.13, 14 and 15, dated 12.3.2020, respectively, of the Supervisory Council of the Bank of Albania:**
 - Regulation "On credit risk management from banks and branches of foreign banks";
 - Regulation "On risk management in the activity of non-bank financial institutions";
 - Regulation "On risk management in the activity of savings and loan associations and their Unions".

The adopted amendments to the above-mentioned regulations consist in adding a temporary provision in order to provide a relief for entities for the period March - May 2020. In case of identifying insolvency of borrowers, the



latter are not subject to the application of the requirements of these Regulations that are related primarily to the classification and establishment of provisioning funds.

- **Amendments to the following regulations, adopted by the circulatory Decisions No. 22 and 23, dated 1.4.2020, respectively, of the Supervisory Council of the Bank of Albania:**
 - Regulation "On capital adequacy ratio":
 - Regulation "On risk management from large exposures of banks".

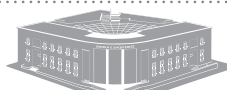
The amendments adopted to the above-cited regulations aim to facilitate the handling of exposure of banks to Albanian government debt securities in foreign currency, which will be issued during 2020, with a view to calculate the capital adequacy ratio and the maximum permitted limit of large exposures, by taking into account factors such as: owning a large amount of outstanding liquidity in Euro; complying with the liquidity coverage ratio in total for major foreign currencies, which is required to be a minimum of 50% for 2020; assessing better investment options with positive returns for banks (such as the Albanian government Eurobond), in contrast with the one offered currently by international markets that have a negative return; as well as the challenging economic and financial situation created due to the COVID-19 pandemic.

The amendments concern only for issuances made during 2020 and will have implementing powers until these securities reach maturity. The adopted amendments to the Regulation "On capital adequacy ratio" consists in handling a preferential risk weight of 0% for banks' exposure to Albanian government debt securities in foreign currency, for securities issued in 2020 until their maturity. Meanwhile, the amendment to the Regulation "On risk management from large exposures of banks" allows banks to exclude from the calculations of maximum permitted exposure the exposures to Albanian government debt securities in foreign currency, issued in 2020, until their maturity.

- **Two Decisions "On the suspension of profit distribution from Banks" adopted by circulatory Decision no. 24, dated 8.4.2020, and Decision No. 40, dated 1.7.2020, respectively.**

The first decision stipulates the temporary suspension (up to end-June 2020) of the distribution by banks of: i) the allocated profit from the previous periods, ii) the profit realised during 2019, and iii) profit realised during the first six-months of 2020. Meanwhile, the second decision extends the suspension of the distribution by banks for another six-month period, respectively of: i) the allocated profit from the previous periods; and ii) the profits realised during 2020.

The measures undertaken by the Bank of Albania in response to the COVID-19 situation, aim to preserve adequate levels of capital to hedge against potential losses in the future and liquidity in the banking sector, with a view to support the economy (households, small enterprises and corporations) with adequate



funding in order to overcome the current difficult economic and financial situation.

- Amendments to the following Regulations, adopted by the circulatory Decisions No. 33 and 34, dated 28.5.2020, respectively, of the Supervisory Council of the Bank of Albania:
- Regulation "On credit risk management from banks and branches of foreign banks";
- Regulation "On out-of-court treatment of distressed borrowers by banks".

Amendments to the Regulation "On credit risk management from banks and branches of foreign banks" aims to relieve banks mainly through: i) the temporary non-compliance with the provisions on the classification and provisioning of loans for all customer categories, and for a period up to August 2020, due to financial difficulties and insolvency brought about by the situation created; ii) the temporary suspension of reserve funds created for immovable properties acquired against debt settlement, up to December 2020; iii) handling restructured loans with more ease during the period of March-December 2020, due to the COVID-19 situation; and iv) extending the entry into force of regulatory amendments in relation to more restrictive requirements on loan restructuring for the date 1 January 2022 (forecasted to enter into force on 1 January 2021).

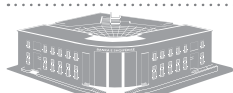
Extending the effects of the Regulation "On out-of-court treatment of distressed borrowers by banks", up to 1 January 2022, was also approved. Thus, banks will have more time to find an adequate solution for common distressed borrowers.

IV. In the framework of reviewing and improving the regulatory requirements, to adopt to the current market developments, the following were approved:

- Amendments to the Regulation "On risk management in the activity of savings and loan associations and their Unions" (adopted with Circulatory Decision No. 20, dated 26.3.2020, of the Supervisory Council of the Bank of Albania)

The drafted amendments were mainly based also on the requirements and propositions for regulatory amendments brought by savings and loan associations (SLA), to adapt to their developments during the latest years, and in each case, taking into consideration also the assessments by the Supervisory Council.

Some of the adopted amendments are: the provision for "subordinated debt" definition and the characteristics that this debt must fulfil, as well as the right of the SLA to issue subordinated debt, which will be recognized/accepted by the Bank of Albania for supervisory purposes, up to a certain amount, upon compliance with the required criteria and documentation; reduction of



the ratio for calculating reserve funds that hedge against credit losses, for the first four classification classes; revision of handling of restructured loans, which show delays in payments even after restructuring; adding investments in one-year Albanian government securities, which are among the allowed form of investments in monetary instruments of SLAs, upon compliance with some conditions; etc.

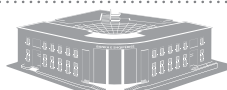
- **Amendments to the Regulation “On the reports at the Bank of Albania accordingly to the Unified Reporting System” (adopted with Decision No. 71, dated 2.12.2020, of the Supervisory Council of the Bank of Albania)**

These amendments aim at adopting the reporting system of savings and loan association and their unions with the revised requirements of the Regulation 105/2016 “On risk management in the activity of savings and loan association and their unions”, adopted by the circulatory decision No. 20, dated 26.3.2020. Also, this reporting system will provide for more information related to the off-site supervision of these entities, and more statistical data.

- **Regulation “On the functioning of Credit Registry at the Bank of Albania, and the conditions and procedures on the information, use and revision of data being administered in this Registry” (adopted with Decision No. 72, dated 2.12.2020 of the Supervisory Council of the Bank of Albania)**

This Regulation aims at regulating the functioning of the new system of Credit Registry, the type of data and the forms of their reporting, the required conditions and procedures on the information, use and revision of data, as well as the fees applied on the use of data which are reported to this system. This Decision was drafted in the framework of the project of the Bank of Albania on “Upgrade of the Credit Registry”, which was finalised in December 2020, following the full implementation of the new Credit Registry system. The Regulation aims at determining: i) the method of functioning of the Credit Registry in the Bank of Albania; ii) the type of data and the forms of their reporting; iii) the conditions and procedures on the information, use and revision of the data that are managed by this Register and iv) the usage fees.

Following the entry into force of this Regulation, the following Regulations were repealed: Regulation No. 67, dated 13.10.2010, “On the content of information and the functioning of the Credit Registry in the Bank of Albania”; Instruction No. 68, dated 13.10.2010, “On the procedure of extracting the Borrower’s Report and the revision of the data held in the Credit Registry”; Order No. 9431, dated 5.11.2010, “On the data and the type of information that is reported in the Credit Registry of the Bank of Albania”, as amended; and Decision No. 8, dated 5.2.2020, “On the approval of the fees on the use of information held in the Credit Registry of the Bank of Albania”.



During 2020, the Supervision Department 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)⁷. The law was approved by the Assembly of the Republic of Albania on 30 April 2020 and will enter into force on 2 January 2021.

Pursuant to the provisions of the Law 55/2020 "On payment services", during the last quarter of 2020, the work started on drafting the regulatory framework for the implementation of this law.

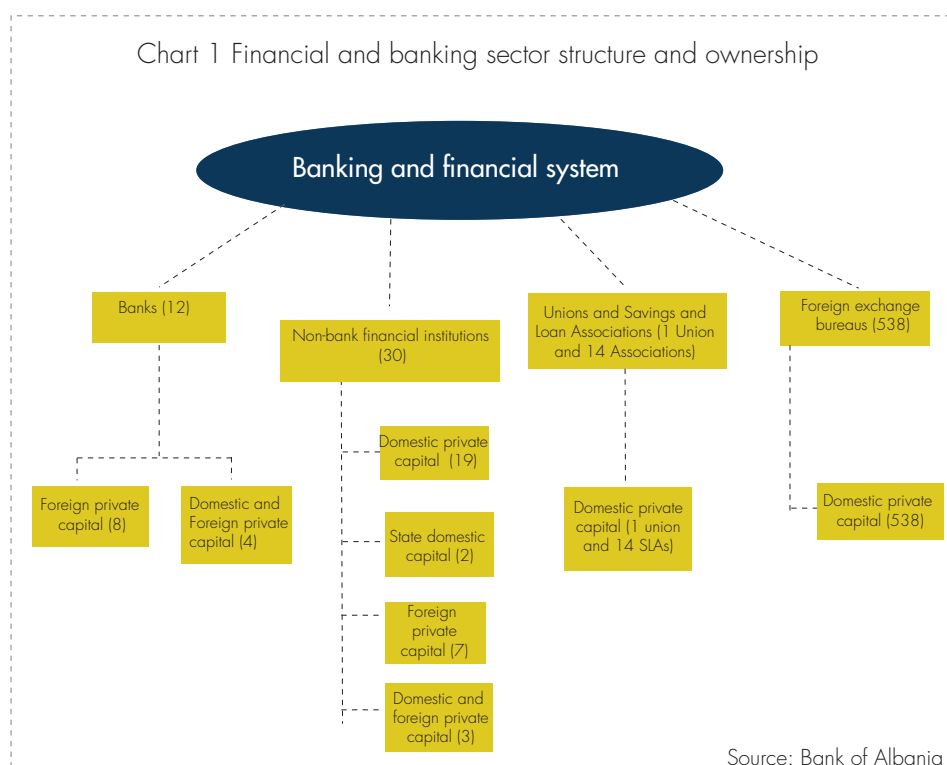
This regulatory framework aims at fulfilling and detailing the requirements of the Law No. 55/2020 and its drafting aims at approximating with the requirements of the respective EU acts. The complete regulatory framework on the providers of payment services, pursuant to the Law "On Payments Services", is expected to be drafted within 2021.

⁷ *Payment Services Directive 2.*



5 LICENSING

As at the end of 2020, the structure of the banking and financial system consisted of 12 banks, 30 non-bank financial institutions (NBFIs), 538 foreign exchange bureaus, 14 savings and loan associations (slas) and 1 union of SLAs.



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

1. Banks

During 2020, within the scope of the licensing function, the Bank of Albania has taken the following decisions:

- approval of (80% indirect) ownership control of the shares of the American Bank of Investments sh.a. by the shareholder Mr Andi Ballta;
- approval of (indirect 30% indirect) ownership of the qualifying holding in the shareholder capital of the American Bank of Investments sh.a. by



Moscopole Inc, USA;

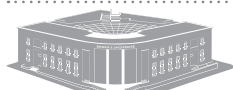
- c) approval for Credins Bank sh.a. to conduct the additional financial activities, such as derivative products (derivative instruments), including futures contract and options contract; participation in the issue of all types of securities, including the signing in and acting as an agent (both public and private one) and the conduction of services related to these issuances; intermediation for the monetary transactions such as money and portfolio management; funds management etc.;
- d) approval for Tirana Bank sh.a., to conduct the financial activity of intermediation in insurance;
- e) approval for Union Bank sh.a. to conduct the additional activity of trade on behalf of its clients of transferable securities, and of intermediation for the monetary transactions of custodial etc.;
- f) approval for American Bank of Investments sh.a. to conduct the additional activity of participation in the issue of all types of securities, including the signing in and acting as an agent (both public and private one), and the conduction of services related to these issuances;
- g) approval of 46 administrators of banks, including 16 members of steering councils, 6 members of audit committees; 3 general executive directors and 21 executive directors and directors of internal audit;
- h) approval of the expansion of the banking network with three new branches, within the territory of the Republic of Albania;
- i) approval of amendments to the statutes of National Commercial Bank sh.a., Tirana Bank sh.a., ProCredit Bank sh.a., Union Bank sh.a., Credins Bank sh.a.;
- j) approval/no-objection on the appointment/re-appointment of chartered auditors for the auditing of financial statements at the end of 2020 for all banks;
- k) approval for Credins Bank sh.a, First Investment Bank, Albania, sh.a, and Union Bank sh.a., to issue subordinated debt.

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 2020 included:

- a) granting the licence to the "Albanian Post Office sh.a." to conduct the activity as an electronic money institution;
- b) temporary revocation⁸ of the licence granted to non-bank financial institution "Platinum Investment sh.p.k.", upon its request;
- c) revocation of the license granted to non-bank financial institution "Albanian Post" sh.a., as a result of transforming into (being licenced as) an electronic money institution;
- d) revocation of the licence granted to the non-bank financial institution

⁸ For a one-year-period up to 31.3.2021.



- “Albanian Factoring Services” sh.p.k., upon its request;
- e) revocation of the licence granted to the non-bank financial institution “Pay and Go” sh.p.k., as a supervisory measure;
- f) approval of ownership by Ms Elona Muhametaj and Ms Aida Zaja of 30% and 10%, respectively, of qualifying holding in the non-bank financial institution “Capital Invest” sh.a.;
- g) approval of ownership by Mr Rezart Kastrati of 10% qualifying holding in the non-bank financial institution “Raea Financial Services” sh.p.k.;
- h) approval of ownership by Mr Andi Balta of 80% capital control in the non-bank financial institution “Tranzit” sh.p.k.;
- i) approval of ownership by Moscopole Inc. USA of 30% qualifying holding in the capital of non-bank financial institution “Tranzit” sh.p.k.;
- j) preliminary approvals on the appointment/re-appointment of 9 bank administrators, 5 members of steering councils and 4 members of audit committees of non-bank financial institutions;
- k) approval for “Albanian Post sh.a.” to conduct the additional financial activity of the insurance agent;
- l) approval for “Crimson Finance Fund Albania sh.p.k.” to conduct the additional financial activity of lending.

During 2020, structural changes in the ownership of banks and non-bank financial institutions (9 cases) consisted mainly in changes to the non-qualifying holding of shares or quota of their capital. Meanwhile, banks and non-bank financial institutions reported an increase in their paid-in capital (20 cases).

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 related to savings and loan associations and unions of savings and loan associations during 2020 consists on:

- a) approval on the re-appointment of the Chair of the steering council, the Chair of the audit committee and the administrator of SLA Petrelë;
- b) approval for SLA FDA Invest to conduct the additional financial activity of payment services and money transfers.

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 43 new foreign exchange bureaus;
- b) revoke the licence for 8 foreign exchange bureaus, mainly due to discontinuation of activity and, in one case, as a supervisory measure;
- c) refuse to grant the foreign exchange licence to 3 applicant entities

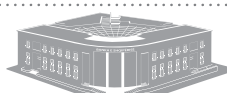
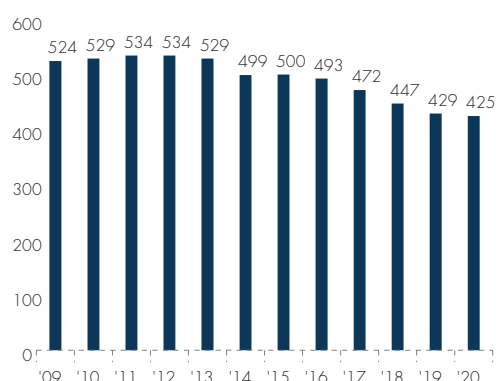
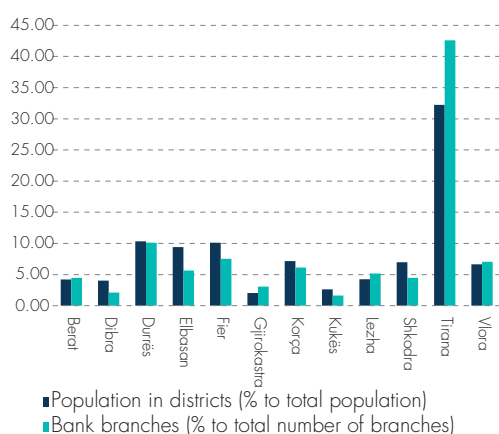


Chart 2 Number of bank branches/agencies, over years



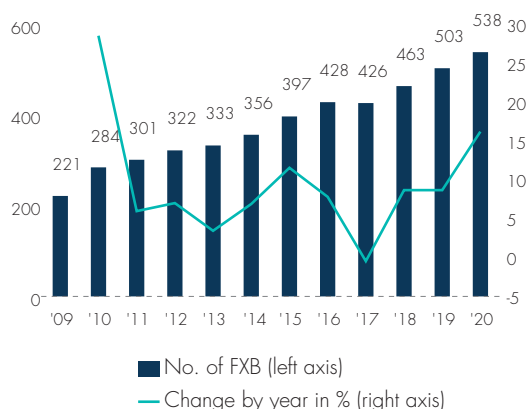
Source: Bank of Albania

Chart 3 Resident population and bank branches and agencies' network, by region in 2020 (in %)



Source: Bank of Albania and INSTAT

Chart 4 Foreign exchange bureaus, over the years



Source: Bank of Albania

due to the high risk expected from the partners of the associations by the Bank of Albania.

5. Other

As of the end of 2020, banks operate through 425 branches/agencies across the country. Chart 2 shows the number of branches and their changing trends over years.

The geographical distribution of bank branches and agencies includes almost the entire territory of Albania. The highest concentration of branches/agencies of banks is in Tirana (42.95%), where the population concentration is also greater (32.24%). Likewise, the breakdown of the presence of bank branches/agencies by prefectures is in proportion with the population.

During 2020, despite the situation created by the COVID-19 pandemic, applications to conduct foreign exchange activities continued. At the end of 2020, a total of 538 foreign exchange bureaus were operating in the foreign exchange market. During the year, 43 new licenses were granted to foreign exchange bureaus, 8 existing ones were revoked, while 3 applications were rejected.

In compliance with the requirements laid down in the legal framework in force, non-bank financial institutions and electronic 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. At the end of 2020, the number of these entities' agents was 1404. The Albanian Post conducts the activities of e-money institution, and payment and money transfer services through post offices across the country

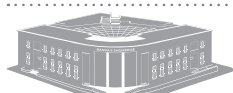
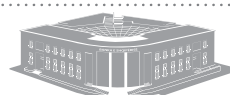


Table 2 Number of NBFIs' agents and number of e-money institutions as at end-2020

	AK-INVEST	FINANCIAL UNION TIRANA	EASYPAY	RAEA FINANCIAL SERVICES	TOTAL
Agents conducting the activity of money transfer on behalf of NBFIs	264			73	337
Agents of an e-money institution		613	454		1,067
TOTAL	264	613	454	73	1,404



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

6.1 BANKING SYSTEM HIGHLIGHTS

The most important indicator of supervision, the capital adequacy ratio (CAR), at the end of 2020, stood at 18.32%⁹. Compared to the same period in the previous year, this ratio shows a fall of 0.34 percentage points.

The non-performing loans ratio (NPLR) dropped by 0.26 percentage points, in annual terms, to 8.11% at the end of 2020. The non-performing loans reached ALL 49.4 billion as at end of 2020. Meanwhile, the loan portfolio increased by ALL 13.74 billion, or 2.39% during the year.

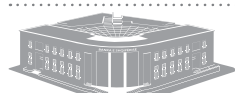
Profitability indicators – Return on Average Assets (RoAA) and Return on Average Equity (RoAE) – decreased compared to 2019. At the end of 2020, RoAA stood at 1.10% and RoAE at 10.65%, from 1.39% and 13.45%, respectively at the end of 2019.

The following are banking system highlights for 2020:

1. Net outstanding non-performing loans to total credit portfolio stood at 2.8%, down by 0.57 percentage points compared with December 2019;
2. Non-performing loans ratio dropped by 0.26 percentage points, in annual terms, to 8.11% at the end of 2020;
3. Provisioning of NPLs was 65.2%, from 59.4% a year earlier;
4. Liquidity indicators continuously appear significantly above the regulatory requirement set out in the Bank of Albania's regulatory acts. In December 2020, the ratio of liquid assets to short-term liabilities in the banking system was 47.4%¹⁰, down by 2 percentage points from the previous year.
5. Liquidity coverage ratio stood at 449% against the regulatory limit of 100%. This ratio started to be reported in March 2020;
6. In December 2020, the total value of deposits in the system amounted to ALL 1.286 billion, recording 7.8% annual growth from the previous year. The share of the domestic currency in total deposits slightly decreased to 49.5%, from 48.51% in December 2019;
7. At the end of 2020, the capital adequacy ratio – the main supervision

⁹ Data for 2020 in this Report may be different from those reported in the Annual Supervision Report 2019, due to the corrections of the data reported from banks, as a result of the auditing processes which drive to the correctness of calculations.

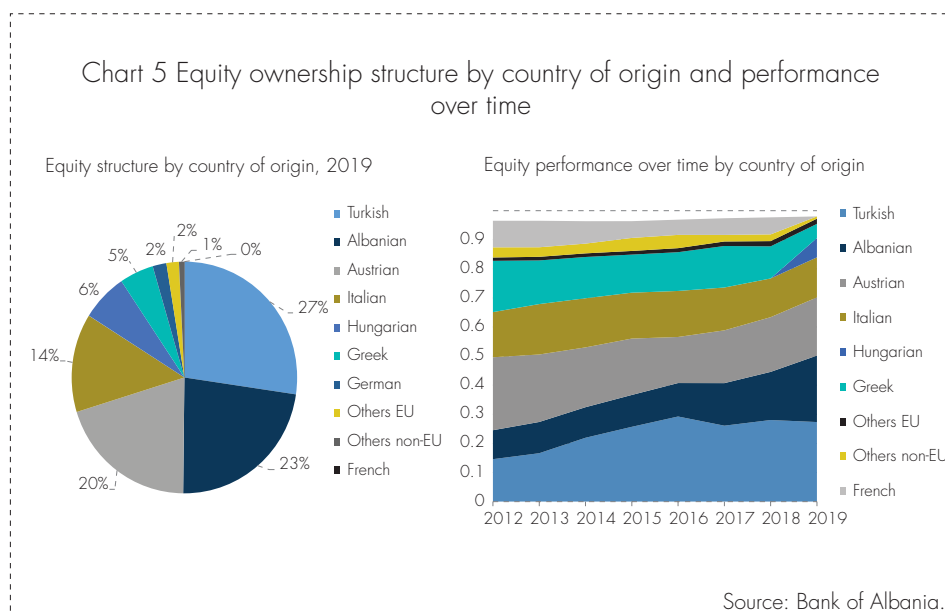
¹⁰ The minimum required level for this indicator, as laid down by the regulatory requirements, is 20%.



- indicator – was reported at 18.32%. This ratio decreased by 0.34 percentage points, compared to the same period of the previous year;
8. The banking system's profit was positive in 2020, at around ALL 16.88 billion, or ALL 3.02 billion lower than in 2019.

6.2 CAPITAL OWNERSHIP STRUCTURE BY COUNTRY OF ORIGIN

The shareholder capital of the banking system reached ALL 164.34 billion, up by around ALL 10.1 billion, or 6.56% against the previous year. Foreign capital continues to dominate the capital structure, which, at the end of 2020, accounted for around 76.04% of paid-in capital in the banking system, down by around 1.12 percentage points from the end of 2019.

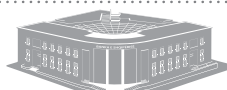


6.3 BANKING SYSTEM STRUCTURE

6.3.1 ASSETS AND LIABILITIES STRUCTURE

During 2020, banking system assets grew by around ALL 106.42 billion or 7.22%, compared to the ALL 22.1 billion or 1.52% growth of a year earlier. The loan portfolio grew by ALL 33.08 billion or 5.77%, during this year.

The share of the banking system in the economy, measured by the ratio of total assets to the Gross Domestic Product (GDP), remains high. This ratio increased by 10.43 percentage points this year, standing at 98.35%. Meanwhile, the



loan to Gross Domestic Product ratio also increased due to the decrease of GDP against the increase in the loan portfolio¹¹.

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

Indicators:	2015	2016	2017	2018	2019	2020
Total assets (in ALL billion)	1,318.13	1,407.29	1,445.33	1,453.45	1,475.55	1,581.47
Total assets/GDP (in %)	91.33	95.05	92.50	89.38	87.92	98.35
Total loans/GDP (in %)	40.61	40.55	38.46	35.71	34.31	37.87

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 1.18 billion or 0.25%, mainly arising from the decrease in transactions with other banks by ALL 49.35 billion or 20.62%, while the transactions with the Central Bank increased by ALL 48.49 billion or 37.06%. T-bill transactions fell by ALL 3.74 billion or 5.06%;
- Increase of client transactions (net) by ALL 29.53 billion (or 5.42%);
- Increase of security transactions (net) by ALL 75.17 billion (or 18.59%);
- Decrease in other assets by ALL 1.05 billion (4.07%);
- Increase in fixed assets by ALL 2.45 billion (10.39%).

Table 4 Key banking system asset items

Indicators:	December 2019			December 2020		
	Amount*	Share**	Change %***	Amount*	Share**	Change %***
1. Treasury and interbank transactions	470.1	31.9	(0.9)	468.9	29.6	(0.3)
Of which						
- Transactions with the central bank	130.8	8.9	(10.8)	179.3	11.3	37.1
T-bills	74.0	5.0	9.8	70.3	4.4	(5.1)
- Transactions with other banks	239.3	16.2	3.2	189.9	12.0	(20.6)
2. Transactions with customers (net)	573.4	38.9	6.5	574.2	36.3	0.2
3. Security transactions (net)	404.4	27.4	6.5	479.6	30.3	18.6
4. Other assets	25.7	1.7	(15.8)	24.7	1.6	(4.1)
5. Fixed assets	23.6	1.6	17.8	26.0	1.6	10.4
Total assets	1,475.6	100.0	1.6	1,581.5	100.0	7.2

Source: Bank of Albania.

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

* in ALL billion

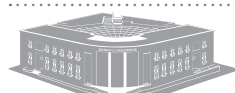
** in % to total assets

*** in % to a year earlier

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

- Increase in transactions with customers by ALL 93.04 billion (7.82%). This increase was dictated by:
- increase in private sector by ALL 90.63 billion or 7.69%;
- increase in public administration by ALL 2.4 billion or 22.57%;

¹¹ The values from previous years disclosed in this report may have undergone reviews as a result of re-reporting of banks' data after auditing processes.



- Increase in permanent resources by ALL 8.11 billion or 4.55%;
- Increase in other liabilities by ALL 4.72 billion (35.95%);
- Decrease in treasury and interbank transactions by ALL 1.02 billion or 1.17%;
- Increase of security transactions by ALL 0.92 billion or 35.01%.

Table 5 Key banking system liability items

Indicators:	December 2019			December 2020		
	Amount*	Share**	Change %***	Amount*	Share**	Change %***
1. Treasury and interbank transactions	88.0	6.0	9.7	86.9	5.5	(1.3)
2. Transactions with customers (gross)	1,189.6	80.6	1.1	1,282.7	81.1	7.8
3. Other liabilities	13.1	0.9	(7.5)	17.9	1.1	36.0
4. Permanent resources	178.4	12.1	40,212.0	186.5	11.8	4.5
Total liabilities	1,475.6	100.0	1.5	1,581.5	100.0	7.2

Source: Bank of Albania.

* in ALL billion

** in % to total liabilities

*** in % to a year earlier

During 2020, the share of off-balance sheet items in total assets of the system fell to 109.52%, from 111.82% at the end of 2019. Off-balance sheet items increased in value, but decreased as a share of total assets due to the higher increase of total assets. Table 6 shows that the annual growth during this year was driven by the increase of commitments received and commitments granted. Meanwhile, foreign currency transactions decreased. The commitments received have the main share in off-balance sheet items, accounting for 88.13%, from 87.21% at the end of 2019.

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

Indicators:	Change from previous year		Dec. '19	Change from previous year		Dec. '20
	Dec. '19			Dec. '20		
	In ALL bln	In %		In ALL bln	In %	
Total	12.3	0.8	1,649.1	83.0	5.0	1,732.1
Commitments granted	(8.4)	(4.6)	174.5	1.5	0.8	176.0
Of which:						0.0
- Financing commitments	(3.5)	(6.5)	49.9	4.3	8.6	54.2
- Guarantees	(3.3)	(8.0)	37.7	(0.8)	(2.0)	36.9
- Security commitments	(1.6)	(1.8)	86.9	(2.0)	(2.4)	84.9
Commitments received	37.8	2.7	1,438.2	88.3	6.1	1,526.5
Of which:						0.0
- Financing commitments	-3.3	-53.1	2.9	-0.1	-1.8	2.9
- Guarantees	38.0	2.7	1,432.0	85.3	6.0	1,517.3
Foreign currency transactions	-16.1	-40.6	23.5	-6.1	-25.8	17.5
Other commitments	1.1	59.5	2.9	-0.1	-4.3	2.8
Commitments for financial instruments	-2.1	-17.8	9.9	-0.6	-6.5	9.3

Source: Bank of Albania.

6.3.2 CONCENTRATION

Concentration, as measured by the Herfindahl index calculated for total assets, total deposits and loans index, registered the same level as in 2019. All three indicators show low levels.

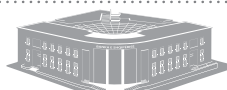


Table 7 Herfindahl* (H) Index of asset, deposit and loan concentration

Indicators	2015	2016	2017	2018	2019	2020
Index H (assets)	0.15	0.15	0.15	0.16	0.15	0.15
Index H (deposits)	0.15	0.14	0.15	0.15	0.15	0.15
Index H (loans)	0.12	0.13	0.13	0.13	0.12	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.

6.4 MANAGEMENT OF BANKING ACTIVITY RISKS

6.4.1 CREDIT RISK

6.4.1.1 Lending

Total credit grew by ALL 33.16 billion, or about 5.76% during 2020.

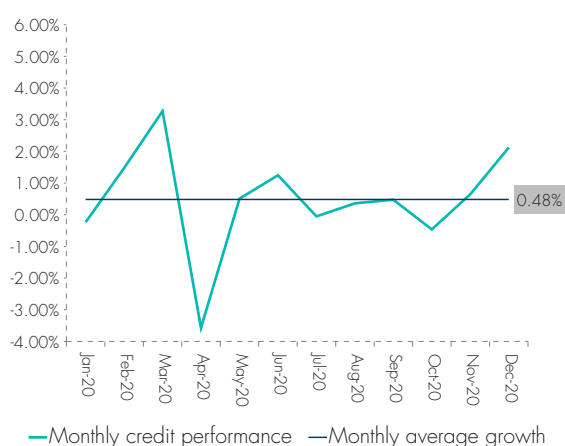
Table 8 Quarterly credit growth in 2020

Quarterly credit growth	Q I	Q II	Q III	Q IV
In million ALL	26,119.36	(11,343.31)	4,645.93	13,743.27
In %	4.54	(1.88)	0.79	2.31

Source: Bank of Albania.

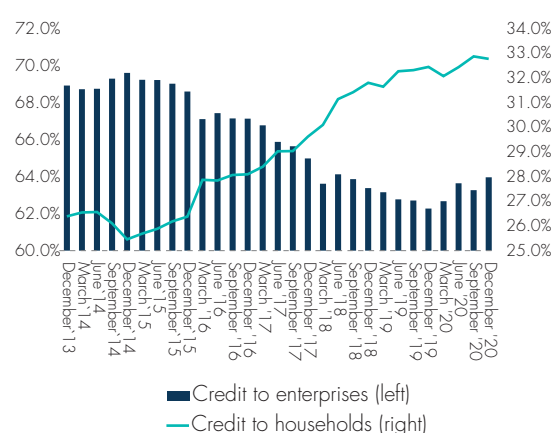
Over four months of 2020, the monthly performance of credit was down, where the highest fall was reported in January and April by ALL 1.36 billion (0.24%) and ALL 21.51 billion (3.58%), respectively. In the other eight months of the year, the credit portfolio increased, where the highest growth was reported in March and December, by ALL 19 billion (3.27%) and ALL 12.64 (2.12%), respectively. The monthly average credit growth stood at 0.48%.

Chart 6 Monthly credit growth in 2020 (in %)



Source: Bank of Albania.

Chart 7 Outstanding credit to enterprises and households to 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 63.97%, up by 1.69 percentage points, while credit to this sector, during 2020, increased by ALL 30.98 billion (8.63%). Credit to the public sector fell by ALL 10.5 billion (34.58%). While, credit to households increased by ALL 12.7 billion (6.8%), or with a share of 0.32 percentage point higher.

By entity and purpose of use¹² 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 "overdraft" to enterprises (15.9%).

During 2020, loans for "equipment purchases" to enterprises reflect the highest growth by 15.72%, followed by loans for "working capital" to enterprises by 15.37%. Meanwhile, "overdraft" to enterprises showed the highest fall by 4.51%.

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

Description	Dec. 2019	Share in %	Change in % Dec. 2018 - Dec. 2019	Dec. 2020	Share in %	Change in % Dec. 2019 - Dec. 2020
Total loans	546.6	100.0	2.5	584.6	100.0	7.0
Credit to enterprises	335.9	61.5	(7.8)	370.4	63.3	10.3
Overdraft	84.8	15.5	(31.4)	81.0	13.9	(4.5)
Working capital	62.4	11.4	20.1	72.0	12.3	15.4
Equipment purchase	88.3	16.6	(9.8)	102.2	17.5	15.7
Real estate	89.9	16.4	6.7	102.2	17.5	13.8
Other loans	-	-	-	0.4	0.1	-
Credit to households	186.5	34.1	10.2	199.1	34.1	6.8
Overdraft	7.5	1.4	1.9	7.4	1.3	(1.4)
Non-durable goods	31.2	5.7	25.3	30.8	5.3	(1.4)
Durable goods	18.8	3.5	(1.1)	21.2	3.6	13.1
Real estate loans	116.8	21.4	8.1	127.2	21.8	8.9
Loans for other purposes	10.0	1.9	-	12.3	2.1	23.3

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, showing a fall in the share of short-term and medium-term loans in favour of long-term loans. As at the end of 2020, 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	Dec. 2019	March 2020	June 2020	Sept. 2020	Dec. 2020
Short-term	23.9	23.3	22.6	21.7	20.9
Medium-term	17.7	16.6	16.7	17.3	16.0
Long-term	53.5	55.8	56.6	57.4	59.2

Source: Bank of Albania.

¹² Data do not include non-residents.

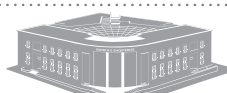
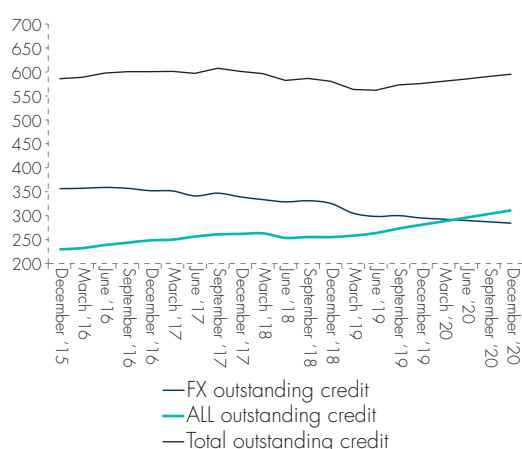
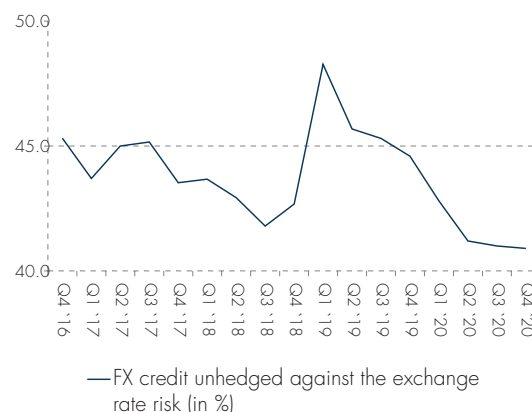


Chart 8 Volume of outstanding credit by currency (in ALL billion)



Source: Bank of Albania.

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



Source: Bank of Albania.

In 2020, the credit portfolio by currency shows that foreign currency loans continue to have the highest share in total loans by 50.3%, though the trend has shifted from foreign currency loans to domestic currency loans. At the end of 2020, the share of loans in domestic currency to total credit portfolio increased by 0.98 percentage point, compared to the same period in the previous year.

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

Currency	December 2017	December 2018	December 2019	December 2020
Lek	43.6	43.9	48.8	49.7
Foreign currency	56.4	56.1	51.3	50.3

Source: Bank of Albania.

In 2020, the share of foreign currency loans unhedged against the exchange rate risk to total credit in foreign currency¹³, compared to the previous year, fell by 3.7 percentage points, standing at 40.9%.

The structure of credit by sectors of the economy¹⁴ for 2020 shows some minor changes, reflecting a higher lending to enterprises compared to households. "Wholesale and retail trade", "Repair of vehicles and motorcycles" remain the most credited sectors of the economy, sharing 38.5% in the portfolio, followed by "Processing industry" and "Construction" sharing 16.4% and 15.8%, respectively.

¹³ 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).

¹⁴ Data do not include non-residents.

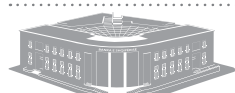


Table 12 Credit by branches of economy (by value and share to total credit)

Description	December 2019		December 2020	
	Value	Share in %	Value	Share in %
Enterprises	335.9	64.3	355.9	64.1
Agriculture, Forestry, Fishing	5.1	1.6	4.9	1.6
Extracting industry	10.2	3.2	11.6	3.7
Processing industry	48.4	15.2	52.0	16.4
Electricity, gas supply, steam and air conditioning	27.5	8.6	27.4	8.6
Water supply, waste management activities	0.3	0.1	0.2	0.1
Construction	45.3	14.3	50.1	15.8
Wholesale and retail trade; Repair of vehicles and motorcycles	119.7	37.7	122.2	38.5
Transportation and storage	9.5	3.0	9.9	3.1
Accommodation and food services	16.1	5.1	21.2	6.7
Information and communication	4.0	1.3	2.4	0.7
Financial and insurance activities	2.4	0.8	1.7	0.5
Real estate activities	5.3	1.7	5.2	1.6
Professional, scientific and technical activities	1.5	0.5	1.4	0.4
Management and supporting services	2.9	0.9	2.9	0.9
Public management and defence; Obligatory social security	0.0	0.0	0.0	0.0
Education	4.3	1.3	4.5	1.4
Healthcare and social work activities	4.7	1.5	6.1	1.9
Art, recreation and relaxation	0.9	0.3	1.0	0.3
Other service activities	27.1	8.5	29.3	9.2
Households' activities as employers; Activities of output of invariable goods and services of households for their own use	0.8	0.3	0.9	0.3
Activities of international organisations and bodies	0.0	0.0	0.9	0.3
Households	186.5	35.7	199.5	35.9
Total	522.4	100.0	555.5	100.0

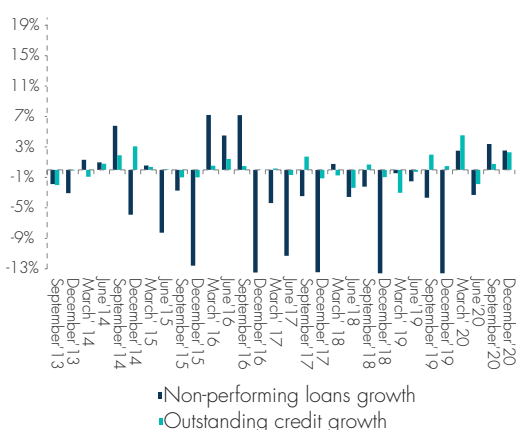
Source: Bank of Albania.

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

6.4.1.2 Assets quality

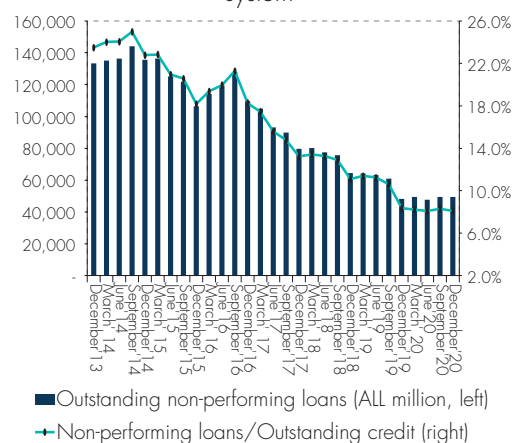
As at end-2020, non-performing loans stood at ALL 49.4 billion, up by ALL 1.22 billion, or 2.54% compared with the previous year. The ratio of non-performing loans declined by 0.25 percentage points, in annual terms, standing at 8.11% at the end of 2020, due to the increase of total loans.

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



Source: Bank of Albania.

Chart 11 Outstanding NPLs in the banking system



Source: Bank of Albania.



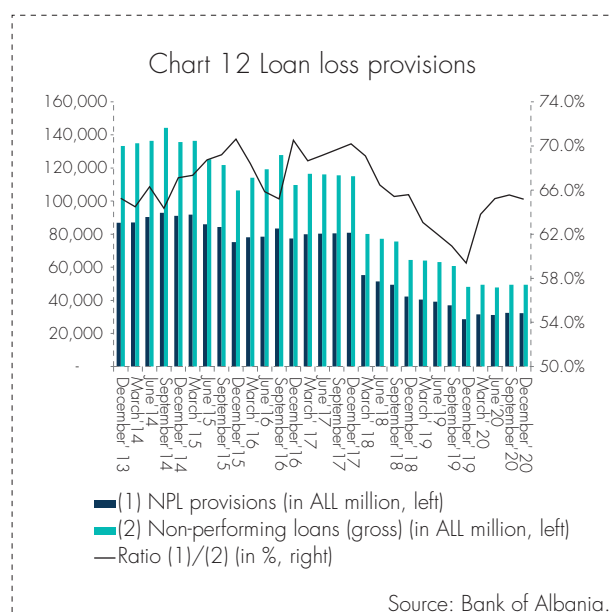
Net outstanding non-performing loans to total loan portfolio stood at 2.8%, down by 0.57 percentage point compared with December 2019.

The portfolio of performing loans shows that "standard" loans grew by 0.83 percentage point, while the share of "special-mention" loans fell by 0.6 percentage points. Meanwhile, the portfolio of non-performing loans shows a decrease in "substandard" and "doubtful" loans by 0.31 percentage points and 0.65 percentage points, respectively. While, the category of "lost" loans increased by 0.72 percentage points.

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

Classification	2019				2020			
	Q I	Q II	Q III	Q IV	Q I	Q II	Q III	Q IV
Standard loans	84.3	84.3	84.6	87.3	88.1	88.7	87.2	88.1
Special mention loans	4.6	4.7	5.0	4.5	3.8	3.4	4.7	3.9
Sub-standard	3.7	3.9	3.7	2.5	2.4	2.3	2.4	2.2
Doubtful loans	2.4	2.2	2.3	2.7	2.1	1.9	1.8	2.1
Loss loans	5.2	5.0	4.5	3.0	3.6	3.8	4.0	3.7

Source: Bank of Albania.

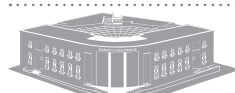
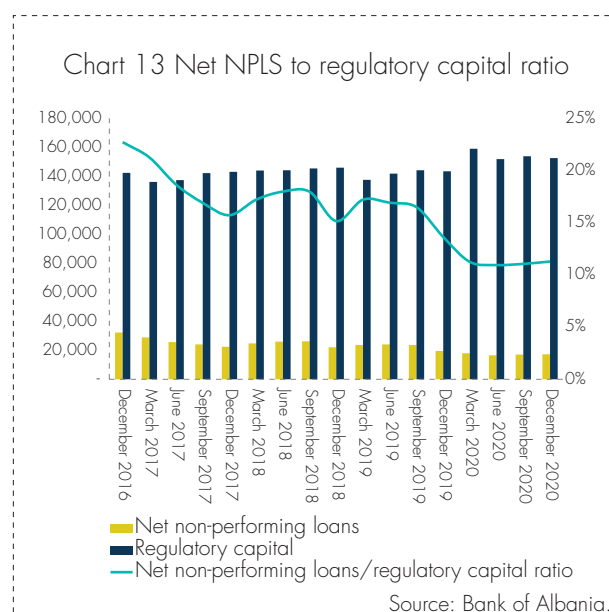


Loan loss provisions amounted to ALL 32.19 billion, up by around by ALL 3.58 billion from the previous year. Also, the "loan loss provisions to non-performing loans" was 65.2%, around 5.8 percentage points lower.

The share of net NPLs to regulatory capital fell by 2.32 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. The indicator improved due to

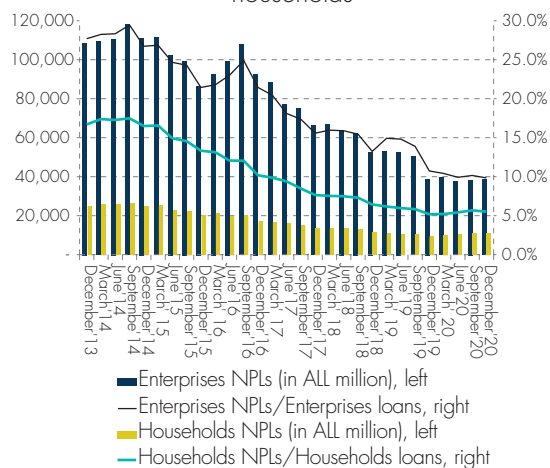
the decrease of net non-performing loans and increase of regulatory capital.

Regarding the credit quality by type of entity, the non-performing loans ratio for enterprises decreased by 0.88 percentage points,



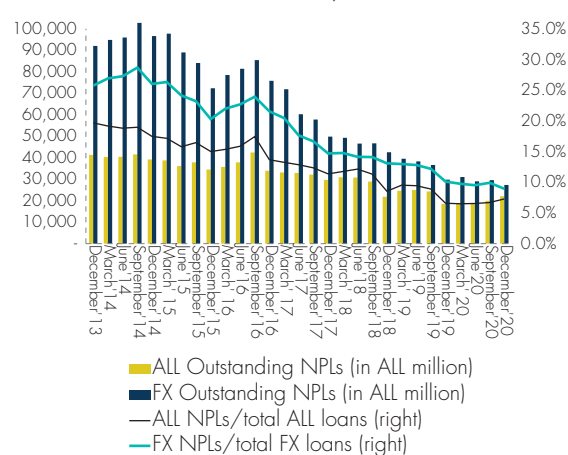
standing at 9.85%, while for households it increased by 0.34 percentage points compared to the previous year, standing at 5.52%.

Chart 14 Outstanding NPLs to enterprises and households



Source: Bank of Albania.

Chart 15 Outstanding non-performing loans by currency



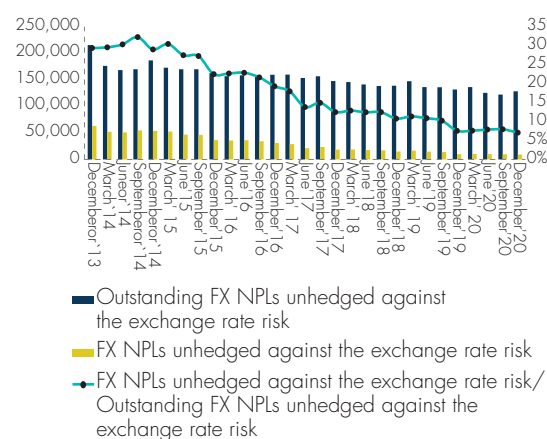
Source: Bank of Albania.

By currency, the non-performing loans portfolio ratio in lek was lower by 7.29% (6.56% at the end of the previous year) compared with the foreign currency non-performing loans portfolio by 8.93% (10.09% at the end of the previous year).

The indicator of foreign currency non-performing loans unhedged against the exchange rate risk is 7.08%, down by 0.49 percentage points from the end of 2019. This decrease was attributable to the decrease of foreign currency non-performing loans by 8.83% and the decrease of foreign currency unhedged outstanding credit against the exchange rate risk by 2.52%.

The data reported shows that 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 collateralisation with real estate, at 63%, compared with loans to enterprises, at 48%.

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



Source: Bank of Albania.

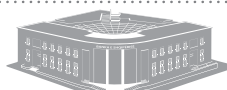


Table 14 Type of collateral by sector and currency (in %)

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%
Uncollateralised 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. These 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. The ability of the capital to withstand any potential losses was constant throughout 2020. Liquidity risk

6.4.2 LIQUIDITY RISK

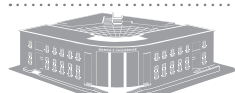
In 2020, the overall liquidity situation in the banking system continued to be stable, reflecting a relatively low exposure to liquidity risk. Steady growth of deposits, as the main financing contributor to banks' activity, a level of liquidity two times higher than the regulatory minimum (calculated as the 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, provide an adequate framework for protection against liquidity risk. The decrease was attributable to the different rate of growth between liquid assets and short-term liabilities. Liquid assets grew by 4.5%, whereas short-term liabilities by 9%.

Liquidity indicators continuously appear significantly above the ratios set out in the Bank of Albania's regulatory acts. In December 2020, the ratio of asset to short-term liabilities in the banking system was 47.4%¹⁵, down by 2 percentage points compared to the same period of the previous year. The main increase in liquid assets results in the decrease of short-term investments, such as "current accounts" and "deposits with residual maturity up to 7 days with banks or financial institutions" and orienting towards investments such as "T-bills and securities issued by the Albanian Government" and "current accounts" with the Bank of Albania.

In December 2020, the liquidity in foreign currency stood at 32.65%¹⁶ (from 38.56% in December 2019), owing to the decrease of liquid assets in foreign currency against the increase of short-term liabilities. The changes in foreign currency indicators are in the same line with the overall changes, but the

¹⁵ The minimum required level for this indicator, as laid down by the regulatory requirements, is 20%.

¹⁶ 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.



decrease in “current accounts” and “deposits with residual maturity up to 7 days” was greater than investments. Liquid assets in lek remain to be the main support of liquidity at 63.3% of total liquid assets (57.4% of total liquid assets in December 2019).

The Liquidity Coverage Ratio (LCR)¹⁷ stood at 449%, which is mainly determined by the lek indicator. Broken by currency, the indicator in lek is 476%, or several times higher than the one of significant foreign currencies, which stands at 187%. This is as a result of the structure of liquid assets that are dominated by bonds of the Albanian Government.

6.4.2.1 Banking system deposit¹⁸

Customer deposits remain the main source of financing for the Albanian banking system, sharing 81.3% (80.9% in December 2019) of total liabilities. In December 2020, the total value of deposits in the system amounted to ALL 1.286 billion, recording 7.8% annual growth from the previous year. The share of the domestic currency in total deposits slightly increased to 49.5%, from 48.51% in December 2019. The maturity structure shifted to short-term maturities, given that the share of current accounts and demand deposits increased, whereas time deposits shrank relatively, driven by the continuous downward of interest rates in the market.

6.4.2.2 Concentration of deposits

In December 2020, ten largest depositors accounted for 5.2% of total banking system's deposits, from 5.51% in December 2019. The other groups of larger depositors show a similar contracting performance¹⁹.

Households' deposits remain the main base of the banking system's deposits, with a share of 82.49% of total deposits, though down by around 1.57 percentage points, compared to the previous year. In 2020, enterprises' accounts grew faster than households' accounts (18.0% and 5.8%, respectively).

¹⁷ The indicator was officially reported for the first time in March 2020, following the entry into force of the Regulation No. 27 “On liquidity coverage ratio” approved on March 28, 2019. This indicator is calculated as a ratio between liquidity reserve (and liquid assets) and net outflow. Net outflows are calculated as the difference between incoming and outgoing flows, save that incoming flows are less than 75% of outgoing flows. If incoming flows are greater than 75% of outgoing flows, then the ceiling of inflows is applied. So, not more than 75%. The minimum regulatory limits for the LCR are 100% of the total of all currencies and 50% of significant foreign currencies.

¹⁸ “Deposits” refers to all sources from clients, including current accounts, time deposits, demand deposits and other accounts, except when otherwise specified

¹⁹ 20 large depositors: 7.19% in 2020, from 7.39% in 2019. 50 large depositors: 10.42% in 2020, from 10.47% in 2017.



6.4.2.3 Loan to deposit ratio

The loan/deposit ratio, in December 2020, was 47.33% (December 2019, 48.25%) which reflects a structure of asset-liabilities that facilitates liquidity management and provides potential lending incentives. During 2020, the indicator reduced slightly due to the different growth rates of credit portfolio and total deposits (credit portfolio grew at a slower pace against deposits). This ratio maintains a balance between domestic and foreign currencies, with a slight contraction against the previous period (foreign currency – 47.12% from 48.03%).

6.4.2.4 Liquid assets of the banking system

During 2020, liquid assets grew by ALL 23.9 billion, or 4.5%. The increase is mainly a result of the investment portfolio of banks in securities of the Albanian Government and the channelling of funds in current accounts with the Bank of Albania, including the mandatory reserve up to the size of its use.

Total liquid assets of the banking system amounted to ALL 550.4 billion, in December 2020 and the Government securities have the main share in their structure (by 54.3%, from 51.36% in December 2019).

6.4.2.5 Other financial sources

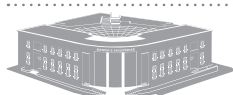
Other financial sources in the banking system have a relatively low share in total liabilities, about 6.63%, contracting slightly during the year (December 2019, 6.86%). Liabilities to financial institutions and repurchasing agreements had the main share in this item.

6.4.2.6 Stress tests

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

6.4.3 MARKET RISKS

The overall situation of the banking system's exposure to market risks remained at low levels over 2020 as well. 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; the position risk (specifically change of interest rate in the tradable and non-resident placement portfolio), and the capital buffers to cover potential losses from these risks.



The capital requirement for market risk at system level constitutes only 2.42% of total capital requirement. This exposure arises mainly from the exchange rate risk as the trading portfolio is at very low levels²⁰.

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 – during the year, reflects an averagely low risk of the structure of re-priced assets and liabilities in the banking system. In December 2020, the value of this indicator stood at 9.26%, compared to 7.32% in December 2019²¹. Certain banks show a divergence from the average, due to the changes in the average maturity of the credit portfolio and investments in securities, which however remain well within regulatory limits.

Market risk originating from exposure to the exchange rate, assessed from the dynamic of open position in foreign currencies, continues to be low and this behaviour dominated throughout the annual period. In December 2020, the banking system's exposure to exchange rate risk was "long", at ALL 12.8 billion, or 8.44% of the banks' regulatory capital²², at levels far from the regulatory limit.

Market risk in the trading portfolio for the banking system is rather low showing an upward dynamic. This risk was assessed as such throughout the analysed annual performance. Trading portfolio at system level appears rather low to total assets (0.5% in December 2020, from 0.25% in December 2019). Market risk originating from interest rate in the non-resident trading portfolio of placement (non-resident portfolio of placement bears market risk factors) is assessed at low levels against total assets.

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

6.4.4 OPERATIONAL RISK

Exposure to operational risk for the end of 2020, despite the situation created by the COVID-19 pandemic, shows an improved trend from the previous year, since operational losses have decreased. In 2020, banks reported around ALL 0.44 billion losses, compared to ALL 1.04 billion in 2019. Expenses incurred to tackle the pandemic represent around 38% of losses reported at the end of 2020. However, current improvement in the level of losses is due to the high losses of the previous year caused from robberies in

²⁰ Capital requirement consists of 1.46% exchange rate risk and 0.96% debt securities position risk.

²¹ The maximum permitted level for this indicator, in accordance with regulatory requirements, is 20%.

²² The maximum permitted level for this indicator, in accordance with regulatory requirements, is 30%.



considerable sums, representing the largest share of losses (around 77%) in the previous year.

The ratio of losses to capital requirement for operational risk has significantly improved from last year, decreasing from 16.44% in 2019, to 6.45% in 2020. The improvement of this indicator comes as a result of the decrease of operational losses from the previous year by 58% and the slight increase by 7.6% of capital allocated to operational risk. In 2020, banks have recorded a satisfactory ratio of capital losses to operational risk.

6.4.4.1 Information and communication technology

During 2020, due to the earthquakes that hit the country at the end of 2019, as well as the pandemic of 2020, special attention was paid to the evaluation of the business continuity plans in cases of disasters and the assessment of information security programmes.

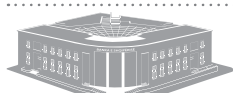
In this framework, the situation is satisfactory as regards the banking system, which has responded immediately to the present situation. Although their contingency plans included the pandemic scenario, difficulties were presented while implementing them in practice, particularly in providing a safe and complete remote access of the systems. Part of the challenge was the certification at a large extent of this equipment based on the technical solution of banks for a safe access. In spite of the difficulties presented at the initial stages of activating their business continuity plans, banks continued their activity with quality and no interruption.

Regarding the part of information security, based on unusual working conditions and distant system access, the monitoring of security incidents and events was strengthened and adequate measures were taken to prevent the misuse of their internal information. Strengthening information security consisted of staff training and increasing their awareness regarding new threats generated by the pandemic situation and the new method of safe remote access of systems.

6.4.5 REPUTATIONAL RISK

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

During 2020 as well, banks and financial entities have made positive efforts in relation to anti-money laundering and countering terrorism financing (AML/CFT). Overall, on-site inspections carried out in banks during 2020, have shown that the level of compliance with the obligations arising from legal and sub-



legal acts is satisfactory, and risks from money-laundering/terrorism financing have been managed effectively. In particular, banks have in place adequate structures and systems in this regard and have increased the effectiveness of preventive measures, which is reflected in an increase in the number and quality Suspicious Activity Reports.

For the supervision of this risk, the Bank of Albania has also closely cooperated with the responsible authority, the General Directorate for the Prevention of Money Laundering, conducting joint inspections, exchanging information, coordinating administrative measures, coordinating reporting to international organisations, trainings etc. The cooperation was also extended to the Financial Supervision Authority by conducting joint inspections and exchanging information, as well as the Ministry of Foreign Affairs through the distribution, to licensed authorities, of UN Security Council resolutions and Council of Ministers' decisions on sanctions and updates to the list of those that finance terrorism and the international sanctions.

This year supervision continued to focus mainly on the following areas:

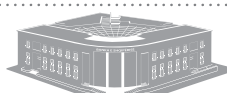
- policies and procedures;
- centralised structures and systems;
- identification of the beneficiary and the controlling ownership structure of the client;
- quality of suspicious activity reports (SAR) and the analysis of complex and unusual transactions that have been or are being attempted to be carried out;
- categorizing clients and transactions according to the risk level;
- implementation of legal obligations;
- internal audit system;
- effective management of risks arising from money laundering/ terrorism financing.

During 2020, inspections were carried out for the prevention of money laundering and terrorism financing in 88 entities, consisting of:

- o 7 banks;
- o 7 non-bank financial institution
- o 74 foreign exchange bureaus, of which 8 were follow-ups of shortcomings observed in previous inspections.

Regarding AML/CFT issues, four of the above-mentioned inspections were carried out in the framework of cooperation with the General Directorate for the Prevention of Money Laundering (GDPML), specifically:

- o 2 banks
- o 1 NBFi;
- o 1 FEB.



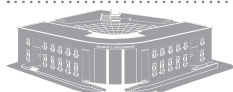
Meanwhile, three joint inspections were carried out in banks in cooperation with the Financial Supervision Authority, which focused on measures taken regarding countering the financing of terrorism (CFT) and implementation of the international sanctions.

The types of problems identified in banks, in summary, consisted mainly of:

- shortcomings in the internal regulatory framework and the need to improve it;
- relationship between the ordering and beneficiary client remains unclear;
- lack of actual information on the volume of activity or income of the business;
- 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 accounts;
- lack of documents on the source of funds and failure to report the SAR;
- lack of legal documents of the client and supporting documents of transactions;
- failure to update the changes made in the company (changes of the beneficiary manager or owner);
- incorrect classification of risk for non-resident customers and politically-exposed people (PEP);
- classification in low risk category of clients reported as SARs;
- lack of analysis on source of funds related cases;
- necessity to expand the type of cases which must be analysed, considering a higher number of risk factors and focusing especially on complex transactions, of high-value and economically unjustified;
- failure to monitor the fund destination for consumer loans with collateral, especially when the client is categorised as high-risk;
- non-compliance within the time frame of the recommendation regarding the implementation of the automatic system.

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

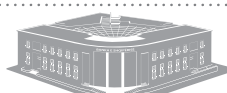
- discrepancy between the internal regulatory framework and legal/regulatory requirements;
- lack of processes for the prevention of money laundering and terrorism financing;
- absence of supporting documents related to the source of funds for certain cash transactions;
- incomplete legal data filed for the client. Failure to update the legal information. Failure to update the identification document of the client;
- lack of legal and financial documents for some companies in the shareholders' chain;
- failure to exercise the "correct vigilance" and "extended vigilance" for



- clients regarding the verification of the source of funds;
- non-disclosure of cash transaction, over the legal threshold, to the responsible authority;
- failure to assess support from third-parties;
- absence of evidence on cases suspected for the similarity of names with the declared lists and the sanction list of the UN Security Council, or proof that verification with lists were carried out;
- improvement to the centralised system as regards the categorisation of the client by risk;
- inability to identify PEP and non-resident clients;
- failure to automatically filter existing clients whenever the declared lists are updated in the system;
- inability of the centralised system to allow an automated process, when the list of PEP and declared persons is updated;
- non-integration of the local PEP list within the centralised system;
- absence of a training plan and training for AML/CFT issues;
- involvement in training programmes of employees who have direct contact with clients, additional elements and increased awareness of the staff on the ever-increasing demand for documents justifying the source of funds;
- absence of specific topics in the training programmes on the measures against financing of terrorism and implementation of the international sanctions of the UN Security Council.

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

- lack of an internal regulation with the purpose of preventing money laundering and terrorism financing (AML/CFT), when the activity is run from not fewer than three people;
- non-compliance with customer identification procedures, customer identification and verification of their identity 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;
- absence of evidence on cases suspected for the similarity of names with the declared lists and the sanction list of the UN Security Council or proof that verification with lists were carried out;
- insufficient knowledge and non-compliance with the legal obligations defined in Law No. 157/2013 "On measures against terrorist financing" and Law No. 72/2019, dated 17.10.2019, "On the international restrictive measures in the Republic of Albania", and Law No. 9917, dated 19.5.2008, "On the prevention of money laundering and financing of terrorism" and the sub-legal acts on AML/CFT);
- absence of training on the legal obligations laid down in Law No. 157/2013 "On measures against terrorist financing", Law No. 72/2019, dated 17.10.2019, "On the international restrictive



measures in the Republic of Albania", and Law No. 9917, dated 19.5.2008, "On the prevention of money laundering and financing of terrorism "and the sub-legal acts on AML/CFT);

Also, the Bank of Albania has carried out the evaluation of exposure to this risk for entities in the context of off-site analyses on the basis of reporting at the beginning of 2020. 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. 49 financial entities were subject of the evaluation (12 banks, 29 NBFIs and 8 SLAs).

The integrated evaluation showed: medium risk for 36 entities (7 banks, 22 NBFIs and 7 SLAs) and high risk for 13 entities (5 banks, 7 NBFIs and 1 SLA).

Table 15 Integrated evaluation of money laundering and terrorism financing risk

No. of entities	No. Total entities			Banks			NBFi			SLA		
	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	13	36	0	5	7	0	7	22	0	1	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.

The integrated evaluation of transfers, showed: low risk (L) for 6 institutions (6 NBFIs); averagely low risk for (AvL) for 3 institutions (3 banks); averagely high risk (AvH) for 2 institutions (2 banks); and high risk (H) for 8 institutions (7 banks and 1 NBFIs).

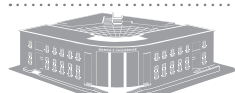


Table 16 Integrated evaluation transfers for the evaluation of money laundering and terrorism financing risk

No of entities	No of total entities				Banks				IFJB			
Evaluation	L	AvL	AvH	H	L	AvL	AvH	H	L	AvL	AvH	H
Integrated evaluation	6	3	2	8	0	3	2	7	6	0	0	3

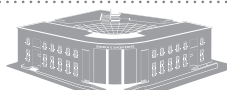
Source: Bank of Albania.

IMPLEMENTATION OF RECOMMENDATIONS OF THE EVALUATION REPORT BY MONEYVAL COMMITTEE AND ICRG/FATF ACTION-PLAN:

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 has been committed in the implementation of the national plan of measures throughout 2020. The measures undertaken for the implementation of the obligations laid down in this action plan, were reported to the designated institutions: the Office of the Prime Minister and the General Directorate for the Prevention of Money Laundering (GDPML), regarding technical issues as well as the efficiency of improving the regulatory framework and strengthening the effectiveness of the supervisory process, in order to address the primary issues identified in the report.

These obligations will continue to be fulfilled throughout 2021. In the framework of implementing the action plan, the function of reputational risk supervision, in the context of the efficiency of the supervision process during 2020, has intensified the number of on-site inspections focusing particularly on countering money laundering and financing of terrorism, having a special objective regarding the latter, and the implementation of the international sanctions, especially on NBFIs and FEB, as more vulnerable entities according to Moneyval assessment. Related to the identified violations, in addition to the recommendations for specific entities, also supervisory measures, such as "warnings" and "fines" are implemented.

In order to increase the awareness of entities (NBFIs and FEBs), which show deficiencies in implementing both measures to counter Terrorist Financing and the international sanctions, in October 2020, the Office of Reputational Risk Supervision in collaboration with the GDPML organised a two-day training on: "Measures to counter Terrorist Financing (TF) and implementation of international sanctions (TFS)," in the framework of interinstitutional collaboration and implementing the recommendations of Moneyval experts, provided during Round V of the evaluation for Albania. The training was targeted to: (i) non-bank financial institutions; (ii) savings and loan associations; (iii) Foreign Exchange Bureaus. Representatives of 33 non-bank financial institutions (NBFIs) and savings and loan associations (SLA) and of 28 Foreign Exchange Bureaus participated in the training.



Transparency and publication of information are elements that contribute to the degree of public confidence in the financial system in Albania and have continued to remain in the focus of the Bank of Albania during 2020.

In this framework, compliance with obligations of banks to report to the Bank of Albania were analysed, and issues relating to fully reporting or publishing the working conditions on the banks' website were identified.

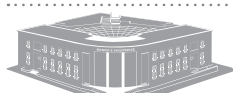
The behaviour of banks and the measures undertaken by them regarding transparency with the public and publication of financial information are continuously assessed through off-site analyses and on-site inspections.

As a result of monitoring and measures taken by the Bank of Albania, the banking sector has raised its awareness and commitment to matters of transparency and publication of information. However, there is room for further improvement towards the following issues:

- internal regulatory framework (including the methodology for calculating interest rates and commissions, the publication of information procedure);
- pre-contractual and contractual information (loan contracts) and their adaptation with regulatory requirements;
- contractual information of account/deposit (contracts) and adaptation with regulatory requirements;
- application of working conditions (e.g.: applications of commissions) not in accordance with the provisions of the contract signed between the parties;
- information published on the website;
- higher attention of internal audit in matters regarding transparency.

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

- policies and procedures (including the methodology for calculating interest rates and commissions);
- pre-contractual and contractual information for borrowers (loan contracts) and their adaptation with regulatory requirements;
- application of working conditions (e.g.: application of fees/penalties) not in accordance with the provisions of the contract signed between the parties;
- notifying the client (when the loan is having issues);
- improvement of the register of complaints;
- publication of information in the work premises and on the official website;
- reporting to the Bank of Albania in compliance with the regulatory requirements;
- etc.



In spite of on-site verifications carried out in order to assess the compliance of entities with the requirements of the regulatory acts of the Bank of Albania, off-site analyses were also conducted, related to the publication of financial reports and working conditions on the products and services offered by the licensed entities. In the framework of informing the public, transparency reports on interest rates and commissions on products and services offered by banks, have been published periodically. To this end and as an innovation of 2020, starting from September 2020, the interest rates and commissions for products and services offered to the public by the NBFIs have been processed and published on the official website of the Bank of Albania.

During 2020, the minimum requirements for publication of financial reports by banks and branches of foreign banks were monitored. Overall, the information published by banks was in compliance with the regulatory requirements of the Bank of Albania on publications. However, several shortcomings were noted for which the Supervision Department has taken appropriate measures. The shortcomings identified during the publication of information consist mainly in:

- 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 by sectors of economy or counterparty;
- amount of past due and non-performing loans by geographical distribution.

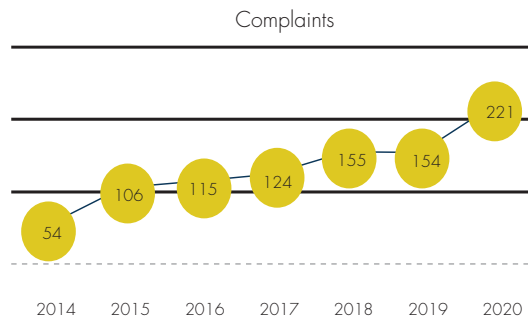
Treatment of customers' complaints has taken a significant importance in the framework of transparency and consumer protection in the financial sector. In contrast with the previous years, in 2020, a separate item consists of complaints submitted by households and enterprises affected by the pandemic situation, which were addressed to the electronic post-office: public@bankofalbania.org. The office for the supervision of reputational risk treated, in addition to information requests, a considerable number of complaints (over 350 emails of households related to their concerns on rescheduling loan payments).

Besides complaints related to the pandemic, during 2020, a total of 221 complaints/requests/letters were processed, submitted by households, enterprises, natural persons and public institutions.

The Charts below provide statistical data on the addressed complaints.

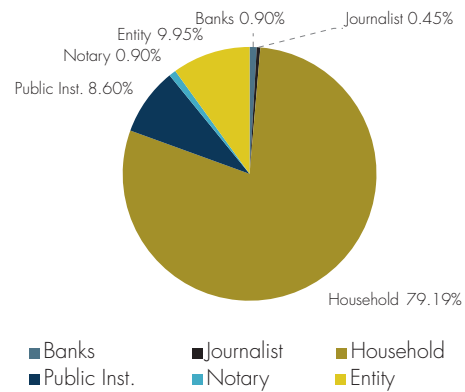


Chart 17 Number of complaints handled over the years



Source: Bank of Albania.

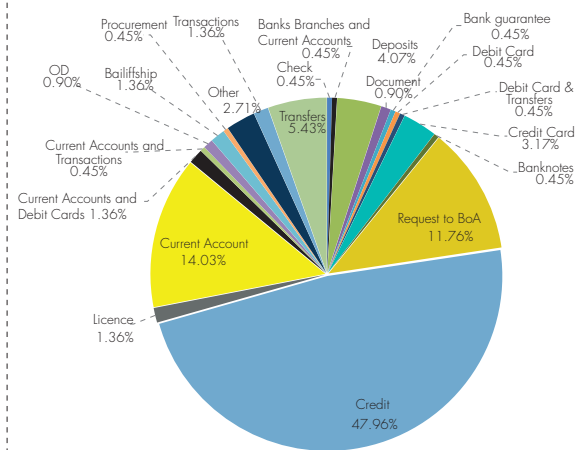
Chart 18 Share of complaints by segment of the complainants



Source: Bank of Albania.

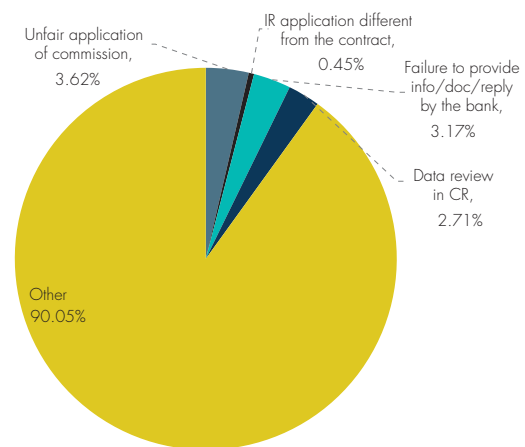
Chart 18 shows that households have the largest number of processed complaints at 79.19%.

Chart 19 Share of complaints by segment of published products



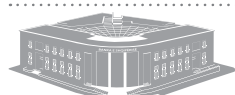
Source: Bank of Albania.

Chart 20 Share of complaints by typology



Source: Bank of Albania.

Chart 19 shows that credit products account for the largest share by 47.96%.



6.4.6 PROFITABILITY

6.4.6.1 Net result and its structure

The financial result was positive in 2020, at around ALL 16.88 billion, or ALL 3.02 billion lower than in 2019.

In 2020, the first and third quarters provided the largest contribution to the financial result, with a net financial result below the results of the same periods in the previous year, at ALL 1.46 billion and ALL 3.6 billion, respectively. The increase of provision expenses was the main element that lowered the profit in 2020 from the previous year.

6.4.6.2 Profitability indicators

Due to a lower positive financial result than in the previous year, the main profitability indicators Return on Average Assets (RoAA) and Return on Average Equity (RoAE), declined compared with 2019. At the end of 2020, RoAA was 1.10% and RoAE 10.65%, compared to 1.39% and 13.45%, respectively, at the end of 2019.

Table 17 Main profitability indicators (in %; cumulative)

Indicators	December 2020	December 2019	December 2018	December 2017
RoAA	1.10	1.39	1.32	1.56
RoAE	10.65	13.45	12.96	15.71

Source: Bank of Albania.

The following table shows the banking system profitability by main activity and the dynamics of the equilibrium between the collection of interest-paying sources and investments in income-earning assets. Their dynamic during 2020 shows an increase in the efficiency ratio of the system, as interest income increased and interest expenses decreased against the income-earning average assets.

At the end of 2020, the ratio of average income-earning assets to average assets decreased by 0.48 percentage points (from 84.76% to 84.28%), compared with the end of the previous year, driven by the increase of average assets. The average expense-bearing liabilities to average assets decreased by 0.73 percentage points (from 93.58% to 92.86), compared with the end of the previous year, affected by the increase of both average expense-bearing liabilities and average assets.

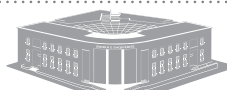


Table 18 Profitability indicators from the main activity (in %; cumulative)

	December 2020	December 2019	December 2018	December 2017
Interest income/ average earning assets (1)	4.0	3.4	3.8	3.8
Interest expenses/ average earning assets (2)	0.6	0.7	0.7	0.6
Average earning assets (3)	1,289,964.0	1,214,030.9	1,160,293.4	1,145,687.3
Average paying liabilities (4)	1,421,228.4	1,340,378.5	1,295,851.6	1,317,211.1
Average assets (5)	1,530,561.7	1,432,281.9	1,397,050.9	1,413,877.0
Net interest margin (NIM)[(1) - (2)]	3.4	2.7	3.0	3.2
(3) / (5)	84.3%	84.8%	83.1%	81.0%
(4) / (5)	92.9%	93.6%	92.8%	93.2%

Source: Bank of Albania.

Table 19 Average profitability ratios (in ALL million)

Indicators	2020 Q IV	2020 Q II	2019 Q IV	2019 Q II
Average earning assets (1)	1,289,964.0	1,286,360.2	1,214,030.9	1,201,372.0
Average paying liabilities (2)	1,421,228.4	1,392,221.5	1,340,378.5	1,328,648.8
Average assets (3)	1,530,561.7	1,509,807.3	1,432,281.9	1,425,427.7
(1) / (3)	84.28%	85.20%	84.76%	84.28%
(2) / (3)	92.86%	92.21%	93.58%	93.21%

The efficiency ratio of the system increased, which is evidenced by the decrease of the relevant indicator by 2.82 percentage points, compared with the previous year, as operating income increased by ALL 3.1 billion or 6.16%, while operating expenses increased by ALL 0.27 billion or 0.94%.

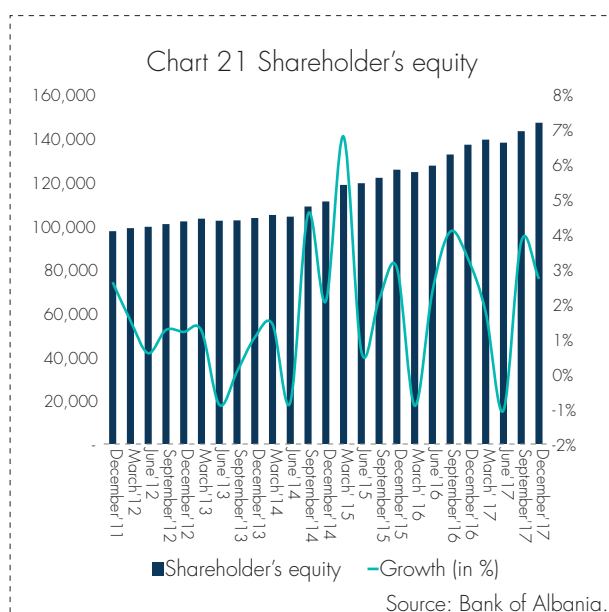
Table 20 Performance of efficiency ratio (in ALL million)

Indicators	December 2020	December 2019	December 2018	December 2017
Operating expenses (1)	29,750.8	29,474.5	30,188.7	29,530.7
Operating income (2)	54,621.2	51,451.9	53,490.6	54,185.5
Efficiency ratio (1) / (2)	54.47%	57.29%	56.44%	54.5%

Source: Bank of Albania.

6.4.7 CAPITAL ADEQUACY RATIO

6.4.7.1 Shareholders' equity



At the end of 2020, the shareholders' equity of the banking system amounted to ALL 164.34 billion, registering ALL 10.11 (6.6%) annual growth, against a lower growth of ALL 6.78 billion (4.6%) registered in 2019.

During 2020, the shareholders' equity decreased in the second quarter (2.4%). Meanwhile, the increase in the rest of the year ranged between 1.1% and 6.6%, with the highest increase during the third quarter, and the lowest in the third quarter.

The retained earnings provided the largest material contribution to the shareholders' equity growth, up by around ALL 11.69 billion, compared with the same period in the previous year.

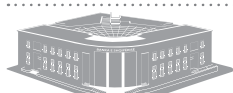


Table 21 Shareholders' equity structure and its components' performance

	Dec 2020		Dec 2019		Dec 2018		Dec 2017	
	In ALL million	%	In ALL million	%	In ALL million	%	In ALL million	%
Shareholders' equity	164,345.1	100.0	154,234.5	100.0	147,453.5	100.0	146,507.5	100.0
Paid-in capital	107,102.7	65.2	105,767.5	68.6	110,251.8	74.8	128,713.8	87.9
Share premium	7,084.1	4.3	6,991.6	4.5	6,440.5	4.4	6,479.8	4.4
Reserve	23,469.5	14.3	21,271.5	13.8	18,220.7	12.4	12,924.6	8.8
Revaluation difference	(9,005.2)	(5.5)	(6,812.3)	(4.4)	(6,994.0)	(4.7)	(2,255.5)	(1.5)
Earnings/retained loss	18,818.8	11.5	7,121.4	4.6	1,143.5	0.8	(20,983.6)	(14.3)
Earnings/loss for the period	16,875.3	10.3	19,894.8	12.9	18,391.0	12.5	21,628.4	14.8

Source: Bank of Albania.

6.4.7.2 Capital adequacy ratio

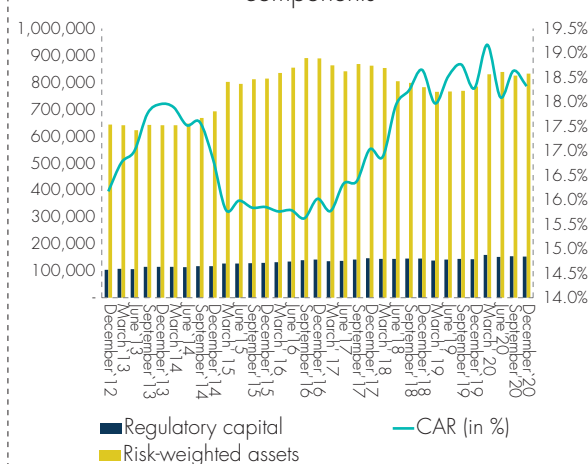
As at the end of 2020, the Capital Adequacy Ratio – the main supervision indicator – was reported at 18.32%, against the 12%²³ required regulatory minimum. The ratio slightly decreased by 0.34 percentage points compared with the same period in the previous year.

6.4.7.2.1 Regulatory capital

The banking system's regulatory capital totalled ALL 152.55 billion, up by ALL 6.13 (4.19%) compared with 2019.

The banking system's core capital is the main component of the regulatory capital of the system, accounting for around 94.02%, up by 0.41 percentage points, compared with the previous year, thus providing evidence for a qualitative stable regulatory capital.

Chart 22 Capital adequacy ratio and its components



Source: Bank of Albania.

6.4.7.2.2 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 49.9 million, or 6.11%. Capital requirement for credit risk by 87.36% has the highest share in total risk-weighted assets and off-balance sheet items, followed by capital requirement for operational risk by 10.22%, and capital requirement for market risk by 2.42%.

²³ For some banks, the level was required higher than the regulatory minimum.



6.5 NON-BANK FINANCIAL INSTITUTIONS AND SAVINGS AND LOAN ASSOCIATIONS

6.5.1 NON-BANK FINANCIAL INSTITUTIONS

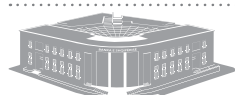
6.5.1.1 Overview

As at the end of 2020, the financial system counts 30 NBFIs. The licenses of two entities (Pay and Go and Albanian Factoring Services) were revoked during this year. At the same time, Crimson Finance Fund was licensed for lending activity, while the Albanian Post (Posta Shqiptare) was licensed as an E-money institution.

Table 22 Activity of non-bank financial institutions

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

Source: Bank of Albania.



6.5.1.2 Assets performance of NBFIs

Total assets of NBFIs in December 2020 reached ALL 59.6 billion, increasing by ALL 1.5 billion, or 3%. Assets of NBFIs accounted for 3.8% of the total banking system assets, up by 0.1 percentage points compared with the previous year. During 2020, it is observed a significant slowdown of NBFIs activity, particularly for microcredit entities, as a direct result of the pandemic effects (the quarantine period and loan moratorium). In 2020 H1, total assets of NBFIs decreased by ALL 0.6 billion, which fully recovered during the second half of the year.

Table 23 Total assets of NBFIs

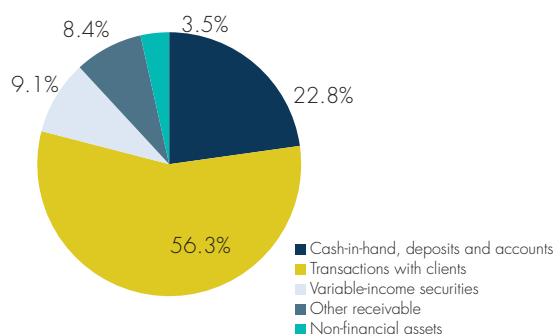
Indicator/ALL million	December 2017	December 2018	December 2019	December 2020
Total assets of NBFIs*	38.15	46.33	58.1	59.6

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 asset structure of NBFIs, by 56%. The rest is divided into liquid assets (23%), variable-income securities (9%) and other assets (including durable assets) (12%).

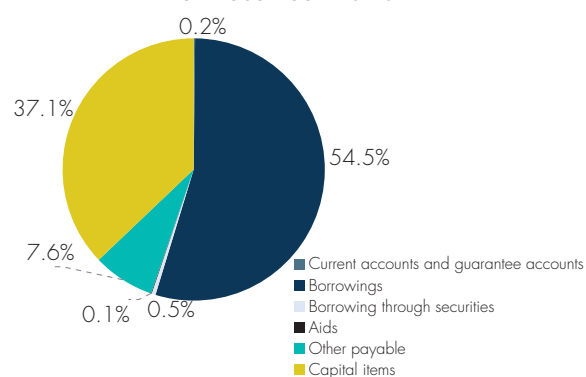
Chart 23 Assets allocation of NBFIs for December 2020*



Source: Statistics Department and staff calculations of the Supervision Department.

* Data for Albanian Post Office (Posta Shqiptare) is not included as its balance sheets also presents data for its other non-financial activities.

Chart 24 Funding sources allocation of NBFIs for December 2020*



Source: Statistics Department and staff calculations of the Supervision Department.

* Data for Albanian Post Office (Posta Shqiptare) is not included as its balance sheets also presents data for its other non-financial activities.

NBFIs are mostly financed through borrowing (54.5% of liability) and own capital (37%). Borrowing through bond issuance accounts for only 0.5%. Regarding the origin of borrowings, the balance is slightly tilted towards non-resident financial institutions (51%).



6.5.1.3 Outstanding loan portfolio developments and activity volume

At the end of 2020, the gross credit portfolio of NBFIs reached ALL 36.6 billion, up by ALL 1.1 billion (or 3%) compared with the previous year. Lending was the activity with the highest growth during 2020, in contrast with the three other categories: microcredit, financial leasing and factoring.

Table 24 Total NBFIs' loan portfolio on a net and gross basis

Indicator/ALL billion	December 2017	December 2018	December 2019	December 2020
Total loan portfolio of NBFIs (net)	21.8	26.4	33.0	33.5
Total loan portfolio of NBFIs (gross)	24.2	28.6	35.5	36.6

Source: Bank of Albania.

The major part of the NBFIs credit portfolio is held by credit and microcredit institutions (74%), followed by the portfolio of financial leasing institutions (25%) and the portfolio of factoring institutions (1%).

NBFIs credit portfolio accounted for 6% of total credit in the banking system, up by 0.3 percentage points compared with the previous year.

Table 25 Performance of gross portfolio by activity

Financial activity (ALL bln)	December 2017	December 2018	December 2019	December 2020
Lending	11.1	12.7	14.7	15.5
Microcredit	5.8	8.4	11.4	11.6
Financial leasing	6.6	6.9	8.9	9.0
Factoring	0.7	0.6	0.5	0.5
Gross Portfolio	24.2	28.6	35.5	36.6

Source: Bank of Albania.

During 2020, the activities of NBFIs remained oriented toward financing business: 76% for lending and financial leasing and 100% for factoring.

The most financed sectors in 2020 are "Other service activities" by 28%, "Trade and repair of vehicles" by 19%, and "Agriculture" by 10%.

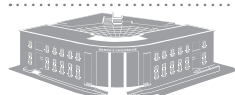
The portfolio of NBFIs remains oriented towards financing in local currency (63%) and medium-term maturity (62%).

The portfolio of financial leasing, broken down by products, is dominated by financing for personal transport vehicles (55%) and work transport vehicles (30%). Compared with December 2019, the portfolio increased by ALL 200 million, localised on the product "Work transport vehicle."

Table 26 Financial leasing portfolio, by funded subject

Financial leasing (ALL bln)	New equipment	Used equipment	Total, December 2019	New equipment	Used equipment	Total, December 2020
Personal transport vehicles	2.88	2.10	4.98	2.85	2.15	5.00
Work transport vehicles	1.61	0.87	2.48	1.66	1.03	2.68
Work equipment/production lines	0.84	0.36	1.21	0.87	0.30	1.18
Real Estate	0.03	0.09	0.12	0.02	0.08	0.10
Other	0.00	0.06	0.06	0.06	0.02	0.08
Total	5.36	3.50	8.85	5.47	3.57	9.04

Source: Bank of Albania.



At the end of 2020, the factoring portfolio maintains an outstanding balance close to the previous year, with a modest increase of ALL 40 million or 8%. However, the performance of this activity has not been positive during 2020, due to the decrease of invoice circulation by 8% in value and 20% in volume.

The activity of factoring is realised in the domestic market at 94%, and mainly for guaranteed financing (88%).

Table 27 Annual factoring volumes and balance

Factoring	December 2017	December 2018	December 2019	December 2020
Circulation				
No. of invoices	1,292	1,403	2,609	2,076
Value (ALL millions)	3.12	1.47	1.03	0.96
Outstanding portfolio (ALL bln)	0.75	0.56	0.48	0.52

Source: Bank of Albania.

6.5.1.4 Credit portfolio quality

The non-performing loans ratio has been upward during 2020, affected entirely by the micro-credit portfolio. Besides the effects of the quarantine and the economic slowdown, this indicator was also affected by the supervisory requirements, which were meticulously implemented and verified during on-site examinations and has caused an increase of the number and volume of non-performing loans.

Table 28 Indicator of credit portfolio quality

Indicator	December 2017	December 2018	December 2019	December 2020
Non-performing loans/outstanding loans (gross)	11.98	9.16	9.69	11.20
Non-performing loans/outstanding loans (net)	3.45	2.53	4.14	4.39

Source: Bank of Albania.

During 2020, payment and transfer services showed positive results, with a significant growth both in total number and volume of transactions. Their performance is as follows:

Table 29 Volume of transfers and payments on annual basis²⁴

Payment services	2019		2020	
	No.	Volume (ALL mln)	No.	Volume (ALL mln)
Outgoing transfers	631,472	10.71	807,041	12.84
Incoming transfers	1,886,005	68.56	2,459,522	97.80
Outgoing payments	5,550,589	13.07	6,610,443	24.66

Source: Bank of Albania.

6.5.1.5 Financial Result

During 2020, NBFIs generated a positive result of ALL 2.33 billion. Compared with the previous year, there is a contraction of around ALL 1.13 billion that

²⁴ The data also include transfers and payments carried out through the Albanian Post Office (Posta Shqiptare).



is, for the most part, explained by the non-distribution of dividends by banks, which stakeholders are the non-bank financial institutions. The result was also affected by the increase of provision expenses for the micro-credit portfolio. The overall result of the NBFIs consists of 14% of the banking system result. The entities, which are already consolidated, that conduct the activity of payments, showed more stability during the pandemic.

6.5.2 FINANCIAL UNIONS AND SAVINGS AND LOAN ASSOCIATIONS

6.5.2.1 Structure of the group

Savings and Loans Associations (SLAs) and their unions did not register changes during 2020. This group is composed by 14 SLAs and 1 Union, of which only 7 SLAs are included in the deposit insurance scheme.

The Albanian Savings Loan Union (ASLU) is the only union which continues to be licensed, but doesn't operate. Its liquidation process depends on the progress of the court case filed with several SLAs that were its members prior to 2016.

At the end of 2020, ASLU had total assets of around ALL 700 million, 90% of which consists of the value of the headquarter building, while the rest are liquid instruments. There is a credit exposure of around ALL 85 million remaining in its balance sheet, which is 100% provisioned.

Its resources consist of borrowing from financial institutions and the government (83%), deposits and accounts remaining from members with whom it has court proceedings (13%), as well as the net capital (ALL 18 million), which continues to corrode annually from losses (ALL 21 million only during 2020).

6.5.2.2 Performance of assets

Total assets²⁵ of the SLAs, at the end of 2020, amounted to ALL 11.6 billion, up by ALL 0.64 billion or 6% during the year. The main contribution to this growth came from large SLAs. The total SLAs' assets account for only 0.74% of total banking system assets.

In December 2020, the structure of SLAs assets continued to be oriented towards lending to members (70%) and liquid assets (23%).

²⁵ The calculation includes also those SLAs that are not part of the deposit insurance scheme, but that report to the Bank of Albania. From the SLAs that do are not part of the deposit insurance scheme, 3 of them do not report to the Bank of Albania.

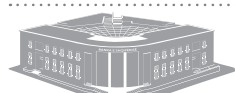


Table 30 Performance of assets (in ALL bln)

Total assets/ALL bln	December 2017	December 2018	December 2019	December 2020
SLAs	8.20	9.35	10.92	11.56

Source: Bank of Albania.

6.5.2.3 Developments in the outstanding loan portfolio

In December 2020, the SLAs gross loan portfolio amounted to ALL 8.5 billion, up by ALL 0.5 billion or 7% compared with the previous year. The SLAs gross loan portfolio accounts for only 1.4% of the banking system's credit portfolio.

Table 31 Performance of Gross and Net Loan portfolio for SLAs

SLAs indicators (ALL bln)	December 2017	December 2018	December 2019	December 2020
Gross Loans	6.31	7.2	7.96	8.49
Net Loans	6.06	6.8	7.64	8.11

Source: Bank of Albania.

In December 2020, the non-performing loan ratio for SLAs was 5.77%, increasing by 0.8 percentage points, compared with the previous year. The non-performing loans ratio during 2020 increased by over 30%, while the gross loan portfolio increased by only 7%. The highest increase of the indicator for non-performing loans occurred in June 2020, when it reached 6.03%. This period coincided with the end of the moratorium for loan payments implemented during the quarantine period. During 2020 Q2, the indicator has improved.

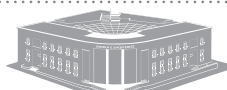
6.5.2.4 Financial result

During 2020, SLAs generated a positive financial result, amounting to ALL 293 million. This result increased by ALL 180 million, or 150%, compared with the previous year. The main contribution in this result was given by loan interest income, which increased by 13% compared with last year. The reduction of net annual expenditures for provisions had a positive impact, as well.

6.6 CREDIT REGISTRY

Throughout 2020, the primary objective of the Credit Registry Office has been the implementation of the new Credit Registry system. After an intensive period of discussions, internally and with stakeholders, the project was successfully finalised and the new system started to operate in December 2020.

Given the advanced technological infrastructure regarding the hardware and software, and in response to the contemporary technological advancements implemented by the financial institutions in Albania and other countries, the new system provides an apparent improved performance, which has enhanced its efficiency of use by all stakeholders. The new functions and the automatic exchange of information alternative have ensured the automatization of the



processes that materialise in operational risk reduction, and have also provided a more rapid response to the requests of the data reporters and users. These developments have taken place in parallel with the improvement of safety, by using safety policies as well as the best practices applied in such internet accessible systems.

For the first time since 2008, the period when the Credit Registry started operating in the Bank of Albania, in line with the initiatives undertaken for adding and promoting electronic services, the new Credit Registry system presents the Online Platform. This platform comes handy to the citizens by giving them direct access to their data, benefiting from services such as:

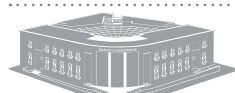
- access to their Borrower's Report;
- becoming acquainted with the data reported on their credit exposure to the financial and banking system;
- advertising their claims regarding the accuracy and completeness of the data reported directly to the reporter responsible for the data; as well as
- knowing at all times the status of their complaints.

The data reported to the new Credit Registry system have expanded and harmonised to support some central functions of the Bank of Albania, such as obtaining data for analytical purposes on the monetary policy and micro and macro-prudential supervision. In addition to the qualitative increase, in the view of broadening the fields for new indicators, in the function of requirements on internal bank use, their harmonisation and adjustments with accurate statistical definitions, is envisaged.

In parallel with putting the new system to work, special attention was paid to the further improvement of the regulatory framework. Throughout 2020, there were carried out the necessary reviews of the regulatory acts, which support the activity of the Credit Registry system.

In order to reduce data asymmetry, the number of financial institutions reporting data has increased. Currently, there are 45 financial institutions that report to the Credit Registry the data of their borrowers, as below:

List of entities that report to the Credit Registry			
1	Bank of Albania		
	BANKS		NON-BANK FINANCIAL INSTITUTIONS
1	Raiffeisen Bank	1	Agro & Social Fund shpk
2	Alpha Bank	2	AGRO Partner shpk
3	American Bank of Investments	3	Agrocredit sha
4	Credins Bank	4	Ak Invest
5	United Bank of Albania	5	Albania Leasing sh.a.
6	First Investment Bank	6	Albanian Financial Institution
7	Intesa Sanpaolo Bank	7	Antigone Financial Enterprise shpk
8	National Commercial Bank	8	Capital Invest



9	OTP Albania Bank	9	Crimson Finance Fund Albania
10	Tirana Bank	10	Final sha
11	Union Bank	11	Fondi Besa sh.a.
12	Procredit Bank	12	IUTECREDIT ALBANIA sh.a.
		13	Kredo Finance
	UNIONS AND SAVINGS AND LOAN ASSOCIATIONS	14	Landeslease sh.a.
1	SLA Fast Credit Albania	15	Micro Credit Risk
2	SLA Alb Credit	16	Microcredit Albania (MCA)
3	SLA ALB-Progres	17	Mogo Albania sh.a.
4	SLA Fed Invest	18	NOA SH.A
5	SLA Partner Plus	19	Porsche Leasing shpk
6	SLA Unifin	20	Raiffeisen Leasing sh.a.
7	SLA Tirana Invest Kredit 2000	21	Tirana Factoring and Lease
8	Albanian Savings Loan Union	22	Tranzit representative of AMCO
9	SLA Petrelë	23	Tranzit shpk

Projections for next year, regarding the further expansion of the data reporters, remain positive. The number of financial institutions which report data is expected to increase. Financial institutions that exercise factoring activity will gain special attention. This will be a gradual and meticulous process since this activity is reported for the first time to the Credit Registry system.

In parallel with the projects above, to underpin the initiatives undertaken by the Albanian Government and the Bank of Albania, throughout 2020, the necessary developments in the Credit Registry system that identified the instruments adopted to support the entities that faced financial difficulties due to the pandemic situation in Albania, were realised, such as:

- exposures guaranteed through 2 schemes (sovereign guarantee) accorded by the Ministry of Finance and Economy to support with liquidity entities which faced difficulties in wage payments, as well as to ensure credit for circulatory capital and investments;
- the identification of all loans which benefited by easing regulatory measures provided by the Bank of Albania.

Beyond the above-listed engagements, the office has started to meticulously follow the realisation of the normal duties. Throughout 2020, 1600 requests were reviewed for obtaining the Borrower's Report and some contribution went to handling complaints, as well as keeping the public regularly up-to-date, through information requests or complaints addressed to the public relationship sector.

To the function of using the Credit Registry data, within the Bank of Albania, there are ongoing collaborations between the Monetary Policy and the Financial Stability departments, which, in order to realise their duties, they use the Credit Registry data. The Supervision Department is also using the Credit Registry data in order to realise domestic examinations or external evaluations.

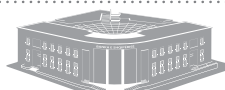
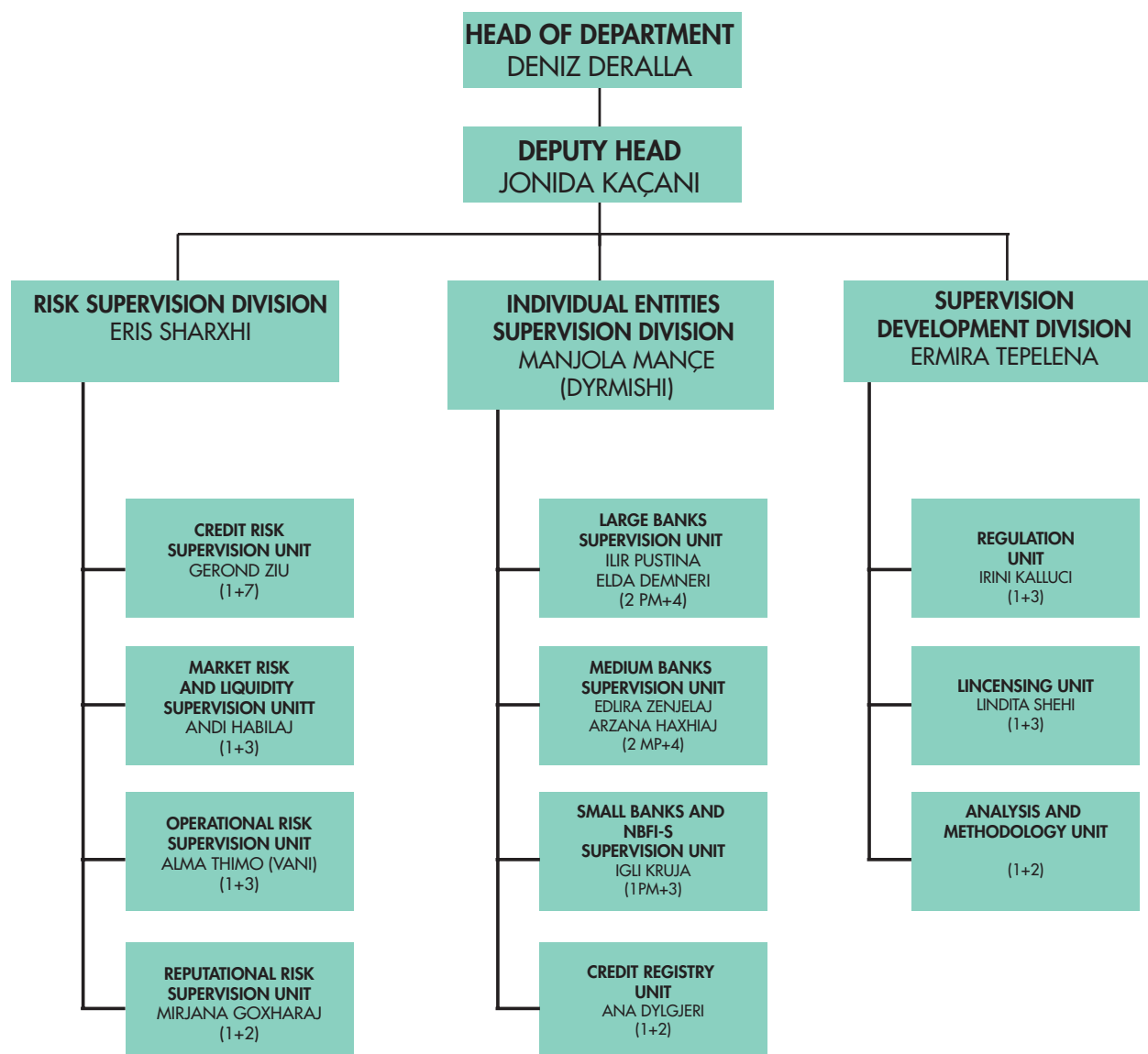


The activity of the Credit Registry for this year was characterised by a series of collaborations with domestic and foreign institutions. Among the domestic institutions, there has been intensive collaboration with the judicial bodies, which possess the legal right to become acquainted with the data reported in the Credit Registry. Among the out-of-borders institutions, special collaboration is established with the World Bank for the Doing Business report. The Bank of Albania contributed to this report through the lending indicator (Getting Credit) and primarily through its component index on the depth of credit information, which are based on the data processed by the Credit Registry system.



7 ANNEXES

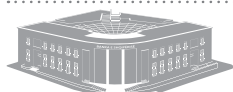
7.1 ORGANISATIONAL STRUCTURE OF SUPERVISION DEPARTMENT



7.2 SPECIFIC SHARE OF EACH BANK IN THE BANKING SYSTEM

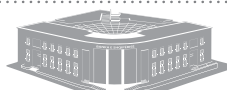
December 2020							
Total balance sheet	Permanent resources	Shareholders' equity	Outstanding loans	Non-performing loans	T-bills	Securities	Total deposits
15.3	18.3	20.1	15.6	22.0	6.5	11.6	15.4
0.6	0.7	0.7	1.0	0.7	-	-	0.6
26.4	26.2	26.3	15.7	12.4	25.2	37.6	25.5
5.3	4.9	5.2	6.2	5.9	11.9	4.3	5.3
11.9	12.7	13.6	8.7	4.6	38.7	9.3	12.4
2.3	2.4	2.0	4.4	2.5	1.8	-	1.9
5.3	4.3	4.6	5.0	7.4	0.9	6.9	5.3
4.7	5.5	4.8	5.7	3.2	1.1	3.8	4.9
2.1	2.2	2.0	3.0	2.6	0.5	1.9	2.1
15.5	13.3	10.8	19.2	26.6	12.4	15.3	16.6
6.2	6.3	6.5	10.4	7.1	-	4.3	5.7
4.5	3.3	3.3	5.1	5.0	1.1	5.0	4.3
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Albania.



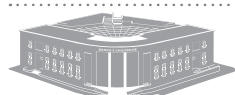
7.3 ASSETS AND LIABILITIES

ASSETS (in ALL million)					
CODE	Description	December 2017	December 2018	December 2019	December 2020
1	Total assets	1,445,329.85	1,453,451.57	1,475,550.92	1,581,466.05
11	Treasury and interbank transactions	482,914.34	474,296.67	470,059.29	468,874.53
111	Cash in hand	24,176.38	28,246.25	25,908.62	29,325.06
112	Transactions with the central bank	149,792.09	146,678.80	130,849.91	179,337.97
1121	Required reserve at the Central Bank	97,725.32	98,911.83	107,737.69	114,546.26
1122	Other	52,066.77	47,766.97	23,112.22	64,791.71
113	Treasury bills and other eligible bills for refinancing with the central bank	64,617.63	67,417.93	74,026.90	70,284.88
1131	T-bills	64,621.58	67,417.93	74,027.67	70,285.25
1132	Other eligible bills for refinancing	-	-	-	-
1133	Reserve funds for the depreciation of bills eligible for refinancing from Central Bank	(3.94)	-	(0.76)	(0.37)
114	Transactions with bank, credit institutions and other financial institutions	244,328.25	231,953.69	239,273.85	189,926.62
1141	Current accounts	60,794.76	65,322.47	64,424.19	47,460.55
1142	Deposits with banks, credit institutions and other financial institutions	118,866.33	128,410.89	144,558.86	103,828.39
1143	Loans	63,020.16	36,443.07	28,539.45	36,757.04
1144	Other	1,700.49	1,834.42	1,817.57	1,943.19
13	TRANSACTIONS WITH CUSTOMERS (gross)	597,793.51	577,911.34	573,354.55	606,434.93
131	Loans to private sector and households	565,692.56	551,004.54	547,751.81	582,990.60
1311	Short-term loans	151,141.75	135,814.55	133,729.49	126,972.42
1312	Medium-term loans	108,783.72	109,888.17	94,519.19	93,182.65
1313	Long-term loans	195,873.85	193,424.26	199,279.13	234,244.31
1314	Real estate loans	107,387.72	109,166.79	116,818.97	125,080.41
1315	Finance lease contracts	2,505.53	2,710.78	3,405.03	3,510.81
132	Loans to public administration	2,903.61	7,650.44	6,175.65	4,708.10
1321	Current accounts	-	-	-	-
1322	Loans	2,902.52	7,650.18	6,175.65	4,708.09
1323	Other accounts	1.08	0.25	-	0.01
133	Other customer accounts	29,197.34	19,256.36	19,427.09	18,736.23
14	SECURITIES TRANSACTIONS	357,087.99	384,912.95	404,408.70	479,581.13
141	Fixed income securities	353,934.96	381,441.40	400,629.26	471,229.38
142	Variable income securities	247,773.52	256,219.45	2,603.00	2,417.43
143	Securities purchased and sold under REPO	-	538.23	1,176.44	3,629.75
144	Paid collateral	-	-	-	-
145	Received premiums	-	-	-	-
15	PROVISIONS	(58,214.87)	(43,492.59)	(28,751.25)	(32,413.82)
151	Loan loss provisions (principal)	(56,331.52)	(41,536.87)	(28,020.52)	(31,628.10)
152	Loan loss provisions (accrued interest)	(676.82)	(699.35)	(591.25)	(564.78)
153	Investment provisions	(1,206.54)	(1,256.37)	(139.49)	(220.94)
16	OTHER ASSETS	37,569.18	30,551.55	25,712.73	25,712.73
161	Other assets	34,822.82	27,597.08	23,626.01	24,667.36
162	Agent transactions	61.34	18.51	114.53	1.47
163	Inter-office accounts	0.20	0.18	0.18	0.20
164	Suspense, difference and position accounts	2,589.89	2,820.67	1,876.26	1,671.15
1641	Suspense accounts	2,589.36	2,817.98	1,869.96	1,628.44
1642	Position accounts	0.53	2.69	6.30	42.71
165	Value added tax	94.93	115.11	95.75	21.79
17	FIXED ASSETS	19,829.88	20,009.48	23,562.09	26,009.67
171	Investments in participation equity	50.53	38.51	5.87	5.97
172	Affiliates	855.41	900.23	3,668.96	5,836.64



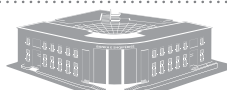
173	Fixed assets (net)	18,923.94	19,070.74	19,887.25	20,167.07
18	ACCRUED INTERESTS	8,349.81	8,736.96	7,204.81	8,312.24
181	Accrued interests (Class 1)	859.26	785.17	181.01	194.40
182	Accrued interests (Class 2)	3,082.05	2,775.60	2,391.08	2,475.95
183	Accrued interests (Class 3)	4,408.50	5,176.19	4,632.71	5,641.89
A	Total assets in foreign currency	818,444.68	798,171.05	773,921.56	811,163.14
B	Total assets of non-residents	381,253.93	385,864.63	351,271.90	333,371.93

Source: Bank of Albania.



CODE	LIABILITIES (in ALL millions)	December 2017	December 2018	December 2019	December 2020
1	TOTAL LIABILITIES	1,445,329.85	1,453,451.57	1,475,550.92	1,581,466.05
11	TREASURY AND INTERBANK TRANSACTIONS	76,701.37	80,235.87	88,013.37	86,880.03
111	Central Bank	1,472.18	6,004.19	2,072.16	1,446.82
112	Treasury bills and other eligible bills	36,917.87	32,301.08	32,686.01	32,660.52
113	Current accounts	8,215.73	8,481.73	10,748.82	11,430.92
114	Deposits from banks, inst. Financ.	21,237.05	17,570.06	20,854.99	21,675.46
115	Loans	8,058.18	12,660.36	18,492.81	17,305.04
116	Other	800.36	3,218.44	3,158.59	2,361.27
12	TRANSACTIONS WITH CUSTOMERS	1,162,225.94	1,176,537.94	1,189,632.83	1,282,671.95
121	Public administration	10,275.23	10,134.94	10,649.60	13,053.38
1211	Current accounts	8,325.52	8,677.96	8,392.78	10,334.68
1212	Demand deposits	6.06	6.09	6.12	6.16
1213	Time deposits	1,419.20	1,077.15	1,845.00	2,221.10
1214	Loans	524.44	373.73	405.70	491.43
1215	Other	-	-	-	-
122	Private sector	1,151,950.71	1,166,403.00	1,178,983.23	1,269,618.58
1221	Current accounts	374,888.68	387,944.79	403,885.17	485,063.72
1222	Demand deposits	106,561.98	124,119.83	149,422.99	173,106.25
1223	Time deposits	650,308.22	638,058.42	608,798.64	594,069.01
1224	Other	20,191.82	16,279.96	16,876.43	17,379.60
1225	Certificates of deposits	-	-	-	-
13	SECURITIES TRANSACTIONS	8,429.66	6,936.43	2,526.76	3,556.77
131	Debts represented by securities	-	-	-	-
132	Securities purchased and sold under REPO	8,429.66	6,934.62	2,526.73	3,556.77
133	Collateral on securities transactions	-	-	-	-
134	Premiums on financial instruments	-	-	-	-
135	Financial derivatives	-	1.80	0.03	-
136	Quotas/shares of investment funds	-	-	-	-
14	OTHER LIABILITIES	15,026.70	14,199.04	13,136.10	17,859.04
141	Other liabilities	5,520.14	5,610.54	6,745.97	12,732.25
142	Agent transactions	3,324.77	2,704.29	2,621.86	2,367.35
143	Inter-office accounts	(0.33)	(1.64)	(3.10)	(2.44)
144	Difference and position pending accounts	6,105.84	5,826.38	3,699.16	2,652.82
1441	Difference accounts	5,902.28	5,383.91	3,205.31	2,652.45
1442	Position accounts	203.56	442.47	493.86	0.37
145	Value added tax = (form. 21) 46	76.28	59.47	72.21	109.06
15	PERMANENT RESOURCES	179,079.18	171,525.40	178,368.66	186,476.66
151	Grants and public funding	-	-	-	-
152	Specific provisions	10,006.17	9,474.98	9,674.37	9,507.01
1521	Provisions for risk and expenses	8,413.63	7,883.69	8,407.60	8,413.71
1522	Specific provisions	1,592.54	1,591.29	1,266.77	1,093.30
153	Subordinated debt	22,120.01	13,967.48	14,459.77	12,624.57
154	Shareholders' equity	146,953.00	148,082.94	154,234.52	164,345.08
1541	Paid in capital	128,713.81	110,251.76	105,767.48	107,102.65
1542	Share premiums	6,479.81	6,440.53	6,991.62	7,084.11
1543	Reserves	12,918.51	18,892.48	21,271.51	23,469.46
1544	Revaluation difference	(2,255.46)	(6,696.50)	(6,812.32)	(9,005.23)
1545	Retained earnings or loss	(20,977.48)	782.69	7,121.41	18,818.83
1546	Current year profit (loss)	22,073.82	18,411.99	19,894.82	16,875.26
16	ACCRUED INTERESTS	3,867.00	4,016.90	3,873.19	4,021.59
161	Accrued interests (Class 1)	59.47	86.96	149.59	142.65
162	Accrued interests (Class 2)	3,453.42	3,701.47	3,538.44	3,756.76
163	Accrued interests (Class 3) = (form. 21) 339 + 3429	20.58	33.61	0.50	0.04
164	Accrued interests (Class 5)	333.52	194.87	184.67	122.14
A	Total liabilities in foreign currency	784,095.42	771,324.59	751,052.42	789,678.49
B	Total liabilities of non-residents	87,501.57	88,138.98	37,574.17	35,121.21

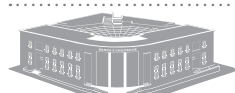
Source: Bank of Albania.



7.4 KEY FINANCIAL INDICATORS

(in %, unless otherwise stated)	December '17	December '18	December '19	December '20
Indicators				
Based on capital				
Regulatory capital to risk-weighted assets	16.60	18.24	18.28	20.97
Tier 1 capital to risk-weighted assets	15.13	17.00	17.08	19.72
Tier 1 capital to total assets	9.03	9.16	9.09	9.07
Regulatory capital to total assets	9.90	9.82	9.72	9.65
Shareholders' equity to total assets	10.17	10.15	10.45	10.39
Non-performing loans net of provisions to Tier 1 capital	26.25	16.63	14.59	16.63
Non-performing loans net of provisions to regulatory capital	23.08	15.51	13.64	12.00
Non-performing loans net of provisions to shareholders' equity	23.62	15.01	12.69	10.47
Return on equity	7.15	12.96	13.45	10.65
Open foreign exchange position to Tier 1 capital	4.59	8.34	7.95	8.97
Open foreign exchange position to regulatory capital	4.22	7.78	7.43	8.44
Open foreign exchange position to shareholders' equity	3.85	7.53	6.92	7.83
Liquid assets to total assets	31.87	34.23	35.68	34.81
Liquid assets/Short-term liabilities	42.11	46.21	49.40	47.39
Return on assets	0.69	1.32	1.39	1.10
Non-performing loans to total loans	18.27	11.08	8.37	8.11
Net interest income to gross income	119.79	92.18	80.55	90.19
Operating expenses to gross income	74.04	63.92	57.61	61.22

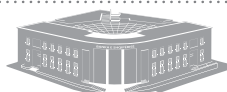
Source: Bank of Albania.



7.5 BANK'S 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	Malezia
		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.	100.00	Private	Foreign	Italy
5	TIRANA BANK SH.A.	Balfin - Balkan Finance Investment Group sh.p.k.	100.00	Private	Domestic	Albania
6	ALPHA BANK – ALBANIA SH.A.	Alpha International Holding Single Member 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.	15.21	Private	Foreign	The Netherlands
		Amryta Capital LLP	6.45	Private	Foreign	United Kingdom
		Unioni Shqiptar Kursim Kredi	2.52	Private	Domestic	Albania
		EDRO sh.p.k.	1.28	Private	Domestic	Albania
		A.F.C. sh.p.k.	3.49	Private	Domestic	Albania
		Frigo Alba sh.p.k.	0.68	Private	Domestic	Albania
		Prima sh.p.k.	2.93	Private	Domestic	Albania
		Renis Tershana	18.53	Private	Domestic	Albania
		Aleksander Pilo	8.72	Private	Domestic	Albania
		53 individë	40.19	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.



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

No.	Non-bank financial entity	Partners/Shareholders	Equity share in %	Owner-ship	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.	Minsitry of Infrastructure and Energy	100	Publik	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	66.06	Private	Domestic	Albania
		Bajram Muçaj	20	Private	Domestic	Albania
		Individuals	13.94	Private	Domestic	Albania
6	FINAL SH.A.	Arben Meskuti	100	Private	Domestic	Albania
7	"AGROKREDIT.SH.A." SH.A	Ministry of Finance and Economy	100	Publik	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.	Elona Muhametaj	30	Private	Domestic	Albania
		Ivdiqe Elezaj	30	Private	Domestic	Albania
		Gëzim Balisha	25	Private	Domestic	Albania
		Aida Zaja	10	Private	Domestic	Albania
		Arjan Sadushaj	5	Private	Domestic	Albania
12	TRANZIT SH.P.K.	Andi Balla	50	Private	Domestic	Albania
		MOSCOPOLE INC, SHBA	30	Private	Foreign	SHBA
		New Century Holdings XI, L.P.	10	Private	Foreign	Cayman Islands
		NCH Balkan Fund, L.P.	10	Private	Foreign	Cayman Islands
13	M - PAY SH.P.K.	Ludovic Laventure	100	Private	Foreign	France
14	OMNIFACTOR SH.P.K.	FAB -GROUP shpk.	100	Private	Domestic	Albania
15	PLATINIUM INVESTMENT SH.P.K.	Andri Kasneci	100	Private	Domestic	Albania
16	TIRANA FACTORING & LEASE SH.A.	Rolandi Manushi	40	Private	Domestic	Albania
		Lediana Aliaj	40	Private	Domestic	Albania
		Endrit Beqaj	20	Private	Domestic	Albania
17	PORSCHE LEASING SH.P.K.	Porsche Bank Aktiengesellschaft (AG)	100	Private	Foreign	Austria
18	ALBANIA LEASING SH.A.	Islamic Corporate for Private Sector Development (ICD)	35.64	Private	Foreign	Saudi Arabia
		Banka Kombetare Tregtare	29.98	Private	Domestic	Albania
		ND Real Estate Dooel, Tetovo	21.88	Private	Foreign	Macedonia
		KOLON WORLD INVESTMENT CO	12.5	Private	Foreign	Hong Kong
19	IUTECREDIT ALBANIA SH.A.	AS IUTECREDIT EUROPE	100	Private	Foreign	Estonia
20	AGRO PARTNER SH.P.K.	Arjan Lala	100	Private	Domestic	Albania



21	CRIMSON FINANCE FUND ALBANIA SH.P.K.	ALBANIAN – AMERICAN DEVELOPMENT FOUNDATION (AADF)	36.61	Private	Foreign	USA
		CRIMSON CAPITAL CORP	7.88	Private	Foreign	USA
		NORWEGIAN INVESTMENT FUND FOR DEVELOPING COUNTRIES (NORFUND)	25.36	Publik	Foreign	Norway
		Tirana Municipality	30.15	Publik	Domestic	Albania
22	EASYPAY SH.P.K.	Lindita Shomo	100	Private	Domestic	Albania
23	KASTRATI SH.P.K.	Shefqet Kastrati	100	Private	Domestic	Albania
24	MICRO CREDIT ALBANIA SH.A.	Elda Ibro	100	Private	Domestic	Albania
25	ALBANIAN FINANCIAL INSTITUTION SH.P.K.	Besnik Leskaj	80	Private	Domestic	Albania
		Redjan Basha	20	Private	Domestic	Albania
26	RAEA FINANCIAL SERVICES SH.P.K.	Relianda Zhelegu	90	Private	Domestic	Albania
		Rezart Kastrati	10	Private	Domestic	Albania
27	MOGO ALBANIA SH.A.	MOGO FINANCE S.A.	100	Private	Foreign	Luxemburg
28	KREDO FINANCE SH.P.K.	AS Finitera	100	Private	Foreign	Latvia
29	TIRANA CAPITAL TRADE SH.P.K.	Arta Mici	90	Private	Domestic	Albania
		Ergys Demneri	10	Private	Domestic	Albania
30	MICRO CREDIT RISK SH.P.K.	ANGELUS LEX	75	Private	Domestic	Albania
		Klei Kaçupi	25	Private	Domestic	Albania

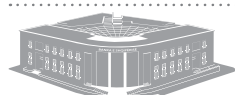
Source: Bank of Albania.



7.7 GEOGRAPHIC DISTRIBUTION OF BRANCHES AND BANKING AGENCIES BY REGION

No.	Region	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1	Tirana	210	212	218	213	203	204	207	197	190	183	181
2	Durrës	54	54	55	53	51	51	49	49	45	45	43
3	Fier	44	44	43	42	42	41	39	38	34	33	32
4	Elbasan	30	30	30	30	28	29	29	27	25	24	24
5	Korçë	38	37	37	38	35	35	34	31	30	26	26
6	Shkodër	25	25	25	24	22	22	22	22	20	19	19
7	Vlorë	41	41	42	41	37	37	35	32	31	29	30
8	Lezha	25	26	25	24	23	23	23	22	22	22	22
9	Berat	20	21	21	22	20	20	20	20	19	19	19
10	Gjirokastra	24	24	23	23	20	20	18	17	14	13	13
11	Kukës	9	10	9	9	9	9	8	8	8	7	7
12	Dibër	9	10	10	10	9	9	9	9	9	9	9
	TOTAL	529	534	538	529	499	500	493	472	447	429	425

Source: Bank of Albania.



7.8 E-BANKING PRODUCTS/SERVICES BY COMMERCIAL BANKS, AS AT END OF 2020

BANKS	ATM	POS	POS Virtual	Pay-Box	Internet Banking	Phone banking	Mobile / 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.								√

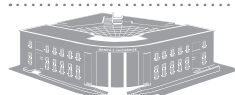
Source: Bank of Albania.



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

No.	Entities	'07	'08	'09	'21	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20
1	Banks and branches of foreign banks	16	16	16	16	16	16	16	16	16	16	16	14	12	12
2	Non-bank financial institutions	6	7	13	17	19	21	21	22	27	28	31	30	32	32
3	Foreign exchange bureaus	112	189	221	284	301	322	333	356	397	428	426	463	503	538
4	Savings and Loan Associations	130	133	135	126	126	126	121	113	111	13	13	13	14	14
5	Unions of Savings and Loan Associations	2	2	2	2	2	2	2	2	2	2	1	1	1	1

Source: Bank of Albania.



7.10 DATA ON BANKING SERVICES UP TO 2020

	2008	2009	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Number of banks	16	16	16	16	16	16	16	16	16	14	12	12
Number of employees of banks	6,493	6,404	6,714	6,836	6,686	6,819	6,819	6,949	6,877	6,738	6,383	6,563
Number of branches/agencies in the country	511	524	534	538	529	499	500	493	472	447	429	425
Average number of employees per:												
- Bank	406	400	420	427	418	426	426	434	430	481	532	547
- Banking unit	13	12	13	13	13	14	14	14	15	15	15	15
Number of population (000)	2,936	2,919	2,902	2,899	2,896	2,893	2,886	2,876	2,870	2,862	2,846	2,830
Number of population per:												
- Bank	183,500	182,438	181,375	181,188	181,000	180,813	180,375	179,750	179,375	204,459	237,167	235,812
- Banking unit	5,746	5,571	5,434	5,388	5,474	5,798	5,772	5,834	6,081	6,404	6,634	6,658
- Bank employee	452	456	432	424	433	424	423	414	417	425	446	431

Source: Bank of Albania and INSTAT.

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

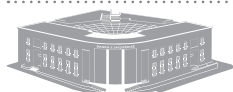


7.11 BANKS NETWORK AS AT END OF 2020

No.	Banks	No. of branches/ agencies in the country	No. of branches abroad*	No. of branches and agencies, total
1	Raiffeisen	75		75
2	National Commercial Bank	64		64
3	United Bank of Albania	6		6
4	Tirana Bank	35		35
5	Alpha Bank Albania	34		34
6	Intesa Sanpaolo Bank, Albania	35		35
7	ProCredit Bank	9		9
8	American Bank of Investments	24		24
9	Credins Bank	58		58
10	OTP Bank Albania	38		38
11	Union Bank	33		33
12	First Investment Bank	14		14
	T O T A L	425	0	425

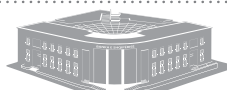
* Currently no bank exercises its activity outside the territory of the Republic of Albania

Source: Bank of Albania.

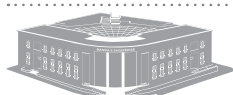


8. SUPERVISION REGULATIONS IN FORCE, AS AT 31 DECEMBER 2020

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 18.12.2019.
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. 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.
10. 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.
11. 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 Decision No. 25, dated 10.4.2015.
12. Document "Reporting methodology and content of financial reports", approved with the Decision of Supervisory Council, No 95, dated 24.12.2008.



13. Document "licensing policy of banking entities", approved by the Supervisory Council Decision No. 12, dated 25.2.2009.
14. 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.
15. 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 18.12.2019.
16. 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. 61, dated 6.8.2015, Decision No. 80, dated 6.7.2016, Decision No. 58, dated 3.10.2017, Decision No. 36, dated 2.5.2018, and Decision No. 71, dated 2.12.2020.
17. 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.
18. 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.
19. 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.
20. Regulation "On management of risk from open foreign currency positions", approved by the Supervisory Council Decision No. 48, dated 14.7.2010.
21. Manual "On conservatorship and liquidation", approved by the Decision of the First Deputy Governor of the Bank of Albania on 31.12.2010.
22. Regulation "On operational risk management", approved by the Supervisory Council Decision No. 3, dated 19.1.2011.
23. Regulation "On authorized chartered auditors of banks and branches of foreign banks", approved by the Supervisory Council Decision No. 42, dated 15.6.2011.
24. Regulation "On managing credit risk from banks and branches of foreign banks", approved by the Supervisory Council Decision No. 62, dated 14.9.2011 and amended by Decision No. 27, dated 27.3.2013, Decision No. 22, dated 27.2.2014, Decision No. 26, dated 1.4.2015, Decision No. 50, dated 30.3.2016, Decision No. 52, dated 3.7.2019, the Circulating Decision No. 13, dated 12.3.2020



- and the Circulating Decision No. 33, dated 28.5.2020²⁶.
25. 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.
 26. 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.121, dated 09.11.2016, Decision No. 47, dated 6.9.2017 and Decision No. 47, dated 3.7.2019.
 27. 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, and the Circulating Regulation No. 14, dated 12.3.2020.
 28. Guideline "On managing interest rate risk in the banking book", approved by the Supervisory Council Decision No. 33, dated 30.4.2013.
 29. 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, 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, Decision No.34, dated 2.5.2018, Decision No. , dated 5.2.2020 and the Circulating Decision No. 22, dated 1.4.2020.
 30. Document "Supervision Policy", approved by the Supervisory Council Decision No. 9, dated 26.2.2014.
 31. 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, Decision No. 50, dated 01.07.2015, the Circulating Decision No. 23, dated 1.4.2020 and Decision No. 53, dated 2.9.2020.
 32. Regulation "On regulatory capital", approved by the Supervisory 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.
 33. "On recognition of ECAs", approved by Order No. Prot./1883, dated 22.4.2015 of the First Deputy Governor of the Bank of Albania.
 34. 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.
 35. 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.

²⁶ Amendments of Article 13 of this Regulation enter into force on 1.1.2021.



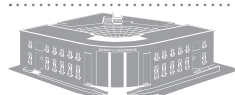
36. Regulation "On minimum security requirements regarding premises where banking and financial activities are conducted and transportation of monetary values", approved by Supervisory Council Decision No. 67, dated 1.6.2016 and amended by Decision No. 107, dated 5.10.2016.
37. Regulation "On licensing 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.
38. 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 and amended by the Circulating Decision No. 15, dated 12.3.2020 and the Circulating Decision No. 20, dated 26.3.2020.
39. Regulation "On consolidated supervision", approved by the Supervisory Council Decision No. 4, dated 1.2.2017, and amended by the Decision No. 79, dated 18.12.2019 and Decision No. 54, dated 2.9.2020.
40. Guideline "On the internal capital adequacy assessment process", approved with the Decision of Supervisory Council, No. 26, dated 3.5.2017.
41. Regulation "On banks recovery plans", approved by Supervisory Council Decision No. 72, dated 6.12. 2017.
42. Regulation "On liquidity coverage ratio", approved by Supervisory Council Decision No. 27, dated 28.3.2017.
43. Regulation²⁷ "On out-of-court treatment of distressed borrowers by banks", approved by Supervisory Council Decision No. 51, dated 3.7.2019 and amended by the Circulating Decision No. 34, dated 28.5.2020.
44. Guideline "On stress-test of banks", approved by Supervisory Council Decision No. 60, dated 4.9.2019.
45. Regulation "On determining the conditions for granting the prior approval to the intra-banking group financial support agreement" approved by Supervisory Council Decision No. 6, dated 5.2.2020.
46. Regulation²⁸ "On determining the conditions for applying early intervention measures and on the conditions and manner of carrying out the temporary administration", approved by Supervisory Council Decision No. 61, dated 4.11.2020.
47. Regulation²⁹ "On the establishment, licensing, supervision, functioning, and termination of the operation of the bridge bank" approved by Supervisory Council Decision No. 62, dated 4.11.2020.
48. Regulation³⁰ "On the financial leverage ratio of banks", approved by

²⁷ Remains into force until 1.1.2022.

²⁸ Enters into force on 30.6.2021.

²⁹ Upon entry into force of this Regulation, Regulation No. 27, dated 16.5.2012 "On the establishment, licensing and functioning of the bridge bank" shall be repealed.

³⁰ Enters into force on 1.1.2022.



Supervisory Council Decision No. 70, dated 2.12.2020.

49. Regulation³¹ "On net financial sustainability ratio of banks", approved by Supervisory Council Decision No. 70, dated 2.12.2020.
50. Regulation³² "On the functioning of the Credit Registry of the Bank of Albania, as well as the conditions and procedures for the recognition, use and review of the data administered thereon", approved by Supervisory Council Decision No. 72, dated 2.12.2020.

³¹ Enters into force on 1.6.2022.

³² Upon entry into force of this Regulation, shall be repealed: Regulation No. 67, dated 13.10.2010 "On the content of information and functioning of the Credit Registry in the Bank of Albania"; Guideline No. 68, dated 13.10.2010 "On the procedure of extracting the report on the borrower and reviewing the data in the Credit Registry"; Order No. 9431, dated 5.11.2010 "On the approval of the data and the type of information that is reported in the Credit Registry of the Bank of Albania," as amended; and Decision No. 8, dated 5.2.2020 "On the approval of the fees for using information in the Credit Registry of the Bank of Albania".



