

## 1 THE FUNCTION OF SUPERVISION

Supervision is one of the main functions of the Bank of Albania, whose purpose is to consistently exercise adequate control over the banks and other entities that carry out financial activities licensed by it. Pursuant to its legal responsibilities as the supervisory authority, the Bank of Albania aims to safeguard bank soundness, the banking and financial system stability, prevent crises in this sector and protect depositors.

In view of fulfilling its mission, the supervision exercises **three main functions**: licensing of financial entities, regulation of their activity and ongoing control of their activity. Specific structures have been set up in order to realize these functions and working processes have been also established to maximize their implementation in the most effective way.

**Licensing** is based on a set of minimum regulations, to be complied by the entities. These regulations are related to the object and purpose of the activity. The licensing function is also carried out during the exercise of the entity's activity for matters related to change in its activity or structures.

The **regulatory** function is based on drafting and development of the necessary regulatory framework, embodied in a wide range of bylaws. The regulatory framework aims to set out the minimum quantitative and qualitative criteria, which allow sound entities with development potential to enter the market, as well as monitoring and setting their activity on solid foundations. The regulatory framework is subject to constant amendments in response to the dynamics of the entities' activity and the environment in which they operate, as well as to adapt it to changes in the best international practices in the field of regulation and supervision.

The **control** function consists in drafting a continuous supervision cycle of the entities, which is carried out through a balanced coordination of on-site inspections and off-site analyses of the information received by them, in accordance with the nature, importance, issue and level of complexity. To realize these functions, supervision is based on the analyses of a number of quantitative indicators, for which various reference values are set, as well as on the review of the work of the governing structures of the entities in the management of daily activities. Based on the carried out assessment, the risk profile of the entity is defined, deficiencies for a sound activity are identified, recommendations for improvement are made, and, as necessary, supervision and corrective measures are taken, which are subject to on-going follow up.

