

**BANK OF ALBANIA
SUPERVISORY COUNCIL**

**Bank of Albania Statement
“On the financial system stability in Albania”**

Pursuant to the requirement of the Law No.8269, “On the Bank of Albania”, dated 23 December 1997, and the obligation to draw the attention of the institutions in the country, of the financial market and its operators, as well as of the public, on the potential risks which may threaten the stability of the financial system, in particular of the Albanian banking system, the Bank of Albania publishes the present statement.

The Bank of Albania states that the banking system displays satisfactory indicators of liquidity and capitalization at the end of the first semester of 2006. The banking system continues to realize a profitable activity, creating the grounds for its expansion in the future. Credit to economy has maintained its rapid growth rates, although its annual growth rate results to be lower than over 2005. The banking system has further expanded its network throughout the Albanian territory.

The main indicators of the banking system by the end of the first semester of 2006 were as follows:

Indicator	December '05	June '06¹
Capital adequacy	18.90%	17.38%
Shareholder capital (in millions of ALL)	34,506.50	36,162.87
Net outcome (in millions of ALL)	6,626.70	3,239.42
Net non-performing loan / net loan	0.83%	1.98%
Gross non-performing loan / total balance	0.55%	1.1%

The expansion of the banking system activity and the credit growth are a natural result of enhancement of efficiency in using the financial resources. The rapid expansion in a competitive environment has increased the banks' pressure to operate by the adopted standards, as far as the audit and monitoring systems of their business are concerned. The developments over the first semester 2006 show that

¹ Operative data for June.

the rapid rates of financial resources investments in instruments which provide a higher profitability have led to a further decrease of the capital adequacy rate and the increase of non-performing loans indicators. Although these indicators fully comply with the requirements of the supervisory regulative framework, the Bank of Albania requires the commercial banks' governing structures to formulate more rational and balanced development policies and to consolidate the analyzing capacities of the business risks. The Bank of Albania will, in the short-term, take several measures which address the aforementioned issues. These measures relate to amendments to the regulative framework, as well as the enhancement of banking supervision, aiming at maintaining the good capitalization of the banking business and the assets' quality, in particular of credit portfolio. In the long-term, the Bank of Albania believes that the standards of banking business operations will improve upon the adoption of the draft "On banks in the Republic of Albania".

The Bank of Albania draws the attention of authorities on the effect the fiscal policy exerts on the liquidity performance in the interbank market. We deem as necessary the enhancement of communication for a broader and duly discussion of issues through the maximal use of formal inter-institutional structures.

In conclusion, the banking system continues to be well-capitalized and to credit the economy in the country. These positive developments are expected to continue in the future. However, the rapid expansion rate of the banking system activity, under a competitive environment, should be accompanied with a greater attention, with a view to maintain the assets' quality. The Bank of Albania, in cooperation with the commercial banks, will soon take several measures, which aim at smoothing the elements of risk following the rapid expansion of the banking business.