

B a n k o f A l b a n i a

SUPERVISION
ANNUAL REPORT

2 0 0 5

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Published by : Bank of Albania, Sheshi "Skënderbej", No.1, Tirana, Albania
Tel : 355-4-222230; 235568; 235569;
Fax : 355-4-223558*

www.bankofalbania.org

*For enquiries relating to this publication, please contact:
Publications Section,
Foreign Relations, European Integration and Communication Department
e-mail: public@bankofalbania.org*

*Printed by: Printing House of the Bank of Albania
Printed in: 1000 copies*

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SUPERVISION MISSION

The supervision function is exercised by the Bank of Albania, the central bank of the country, according to the Law "On the Bank of Albania", No. 8269 of 23.12.1997 and the Law "On the Banks in the Republic of Albania", No. 8365 of 02.07.1998.

SUPERVISION MISSION

In compliance with its mission and its legal responsibility, the Bank of Albania, being the supervisory authority of the banks and other financial institutions licensed by it, intends to:

- Ensure a sound banking activity that is in good harmony with the Bank of Albania laws, rules and regulations, in order to protect depositors and prevent financial crises;
- Safeguard the banking system stability and even broader, by monitoring the market developments and recommending adequate measures, so that banks adapt to these developments and are continuously managed according to best principles;
- Strengthen the banking system credibility and promote a healthier market discipline by demanding higher transparency in the system;
- Provide a fair competition in the banking system and beyond, and ensure equal treatment of entities licensed by the Bank of Albania and their clients;
- Initiate continuous and professional communication with the financial operators in the market and other institutions which influence the activity of the Bank of Albania, in the framework of improving the functioning of the financial market and its operators.

The Bank of Albania will accomplish its supervisory mission through:

- a) Establishment and continuous improvement of the supervisory regulatory framework which aims to be in harmony with the best international principals.
- b) On-site inspections and analysis of licensed institutions, as well as by undertaking corrective measures for several problems.
- c) Focus of the supervision process toward the identification of risks faced by licensed institutions and their proper corrections.

- d) Implementation of policies which focus toward a development-oriented banking system;
- e) Co-operation with financial institutions under supervision, and with other financial institutions, as well as with international supervisory authorities;
- f) Continuous improvement of the Bank of Albania's supervisory capacities.

The Bank of Albania, in compliance with the main objectives of the Supervision Department, aims to achieve the highest levels of integrity, professionalism, efficiency, and transparency.

A- SUPERVISION DURING 2005

1- CHANGES AND DEVELOPMENTS IN THE LEGAL AND REGULATORY FRAMEWORK

During 2005, some changes took place in the regulatory framework of supervision, with the purpose to complete it and approximate it to international banking supervision standards. The main changes were as follows:

1- Decision No. 03 of 26.01.2005 approved the rise of the minimum level of the required and paid-in capital for opening a bank, from ALL 700 million to ALL 1 billion, changing the Regulation "On granting a license to conduct banking business in the Republic of Albania".

The change was dictated by the indispensability of increasing the security for institutions requiring to be licensed as a bank, under the conditions of increased competition in the banking market. The above decision of the Supervisory Council was followed by a second one¹, which aimed at defining the terms of meeting the requirement for raising the required capital for the existing banks. This element is important for keeping balances in the market among the newly licensed banks and the existing ones operating in the market. For all the banks that are licensed after the coming into force of the Supervisory Council decision No. 3, the minimum required capital is ALL 1 billion, whereas for the existing banks the fulfilment of the new required level should be done within a three-year period, according to terms specified in this decision.

2- With the decision No. 32, dated 27.04.2005, the Supervisory Council approved "the reporting system for non-bank institutions conducting financial activity". The drafting of the reporting system for non-bank institutions aims at approximating it to international reporting standards for meeting the supervision and monetary policy requirements. This decision was followed by relevant changes in the Regulation "On supervision rates of non-bank institutions"² specifying the obligation of reporting at the Bank of Albania

according to adopted reporting system, not later than 40 days after the closing of the quarter.

3- During this year some changes were made even in the Guideline "On the regulatory capital"³. The changes are intended to define accurately the concept of end-year financial profit, taking into account the experience from the implementation of this guideline, and the accuracy in the form of reporting the relevant discounting part of fixed tangible assets from the regulatory capital.

4- The change in the Regulation "On capital adequacy" was intended to define the list of OECD countries. Simultaneously, the changes have included even the net weighting of some off-balance sheet items pledged by cash collateral.

5- The change in the Regulation "On licensing the non-bank institutions" was aimed at complying this regulatory by-law issued by the Bank of Albania Supervisory Council, with the Law No. 9396, dated 12.05.2005 "On financial leasing" and the bylaws issued in its implementation, excluding from the licensing and supervision perimeter the associations that exercise only financial leasing.

Some new regulatory acts are presented in the following:

1- The Regulation "On consolidated supervision" fulfils the regulatory framework of banking supervision and is set up according to international and regulatory standards for carrying out the consolidated supervision. It is composed of two parts: the first part defines the scope of consolidated supervision; the second part defines the instrument for carrying out the consolidated supervision, including the cooperation agreements with supervisory authorities and/or the decision-making and management authorities of the consolidated group. The Regulation consists of three main pillars – a- consolidated accounting, b- quantitative supervision and c- qualitative supervision.

Consolidated supervision is a fundamental element of supervision, particularly of banking. In simpler terms, it is a response to the fact that banks frequently manage parts of their activity- in some cases the fundamental part – through affiliates and participants. This approach of supervision estimates the powers of a group as a whole, taking into account all risks that may affect a bank, notwithstanding whether these risks are in bank-books or in entities related to it as members of the same group. A bank, which in itself is an affiliate within a larger business group, may be exposed to risks deriving from the activity of its owners or from "parallel" entities within the group. For these reasons the supervisors should monitor banks on consolidated bases, a compulsory requirement for all supervisory authorities and for banks operating in member countries of the European Union, and in other developed countries such as Australia, Canada, and United States of America.

Consolidated supervision is an additional element of banking supervision on solo basis and frequently the supervisors may apply the same techniques of financial evaluation and regulations, either on consolidated or non-consolidated bases.

2- The Guideline "On minimum technical and security terms of work premises at the entities licensed by the Bank of Albania". The purpose of this guideline is to complete the regulatory framework on minimum conditions the entities licensed by the Bank of Albania should meet in terms of technical security while carrying out their business.

These minimum terms relate to the need that entities should have adopted procedures for protecting the physical inviolability of objects, premises, computer systems they use, and how to apply these procedures into practice. At the same time, the Guideline has provided some requirements regarding the configuration of bank premises, where customer operations take place, where monetary and physical values are administered, and the way these premises will be monitored from the security viewpoint. Currently, the commercial banks apply many of these requirements dictated by banking practice, parent bank's practices, etc. These requirements will be part of the licensing process of new entities, when they wish to extend their network with branches, agencies, or when they change address.

3- Regulation "On supervising e-banking transactions". This regulation is approved at a moment when e-banking transactions are becoming a normal bank activity. The purpose of its approval is to enhance the security in carrying out e-banking transactions and in maintaining the bank's database. These are treated either from the viewpoint of the software quality used in e-banking transactions, or from the ability of human resources covering these transactions.

E-banking is a summarized term for the process in which the client may carry out banking transactions via the electronic way, without being necessary to be at the institution personally. In such case, the operations may be carried out through a personal computer and a dedicated network, internet and telephone. The rapid development of e-banking conveys in itself risk and benefits. The Basel Committee on banking supervision requires that this risk be known, addressed and managed by banking institutions in a prudent way, taking into account its specific characteristics, which relate mainly to the high speed of development of technology and client service, its presence all over the world, and the global nature of electronic networks. The continuous technological improvement and competition between banking institutions have allowed the provision of a wide range of banking products and services to clients through electronic distribution channels. The operation via these electronic channels evidences new forms of appearance of some traditional risks that relate to banking activity, particularly to strategic, operational, legal and reputation risks, impacting on the whole profile of bank's risk.

To facilitate these developments, the Basle Committee has identified fourteen principles for managing e-banking risk to assist supervisory and

implementing institutions to extend their existing policies and processes of risk supervision for covering this activity. These principles are considered and reflected as part of this regulation, which is designed in the following parts: a) organizational conditions, conditions related to the personnel, and the technical ones for carrying out e-banking service; b) requirements for Bank of Albania's authorization for e-banking activity, and c) principles of e-banking risk management. Due to peculiarities of this activity, the satisfying of some preliminary requirements by banks is required, relating to technical, personnel conditions, control of this activity, transactions list, instruments, contracts with support computer companies, etc.

4- Approval of the Regulation "On supervising the savings-loans associations and their unions". This regulation is an entire revising of the previous regulation, given the new developments in microfinance sector. The savings-loans associations are providing real banking products and services for that part of population with relatively low income or placed mainly in rural areas, where direct banking services are not yet provided.

One of the most important changes of this revising is the new possibility given to associations for granting loans in foreign currency, thus creating better financing possibilities for using additional resources, either through their members (related to emigration) or through donations or soft/commercial loans by foreign entities. This Regulation previews also the dynamic reviewing of lending policies, without violating the portfolio quality, accepting even the credit restructuring case by case. This Regulation enables the Savings – Loans Associations (SLAs) and their Unions to monitor the foreign currency operational risk at individual limits for each foreign currency and for all foreign currencies as a whole.

Reviewing of the Regulation "On supervising the savings-loans associations and their unions" enabled the review of the reporting system, in compliance with the new contents of the Regulation. The system is not only in line with the reporting standards, but also serves the purposes of financial analysis and supervision of associations. This Regulation was prepared with the foreign technical assistance as well.

5- Also, with Decision No. 87, dated 16.11.2005, the Supervisory Council abrogated its Decision No.26, dated 29.03.2000 on "Excluding some entities from the implementation of the provisions of the Law No. 8365, dated 02.07.1998 "On Banks in the Republic of Albania" pursuant to Article 1, Section 2 of this Law. The abrogation of this decision enables the entities that continue to exercise lending activity and that are excluded from this decision, to be subject to procedures for receiving a license pursuant to the Regulation "On licensing the non-bank institutions".

2. ON-SITE SUPERVISION

The Bank of Albania, implementing its legal responsibilities as the supervisory authority of banks and non-bank financial institutions, of savings-

loans associations and foreign exchange bureaus that carry out financial activities (licensed also during 2004), has tried, through onsite and offsite examinations, to provide a safe banking activity, by ensuring the banking system stability and consolidating the public confidence in it.

In 2005, the supervision process has undergone constant improvements, being oriented according to certain institutions' risk. So, attention has been paid to banks and non-bank institutions having a higher risk profile. This attention has been conditioned by the fostering of conditions in the market competition. Significant increase of lending by banks gave rise to requirements for a more qualified analysis of the borrowers. Due to significant rise of loan portfolio in particular, and increased competition in the overall banking system, the effects they have provided on capital adequacy, on interest rates, on exchange rates, on strengthening of control systems of commercial banks, are followed prudentially, giving recommendations for maintaining a good capitalization of activity, strengthening of management, of the audit systems and of internal analysis, improvements in information technology systems, etc.

The Supervision process during 2005 was also improved in terms of communicating with bank's leading structures. So, many meetings with banks' leading structures, with audit committees and their executive managers were held during 2005. In most of these meetings special presentations have been submitted on the bank's situation "from the supervisory viewpoint".

During 2005, more attention was paid to the cooperation with supervisory authorities of the countries from which foreign investments come to Albania and from region countries. Hence, meetings were held with the Payments Authority of Kosovo, and cooperation agreements were signed with the National Bank of the Republic of Macedonia and with the Central Bank of Montenegro. Also, general information on banking system composition was exchanged, and work contacts were established, as well as information was exchanged with the Bank of Italy. A very fruitful cooperation started with the Supervisory Authority of the Financial Market in Austria. Also, the relations with the Bank of Greece, with the Supervisory Authority of Turkey and with the National Bank of Bulgaria were revived.

During 2005 the bank assessment system was CAMELS rating system. Based on this system, assessment of capital, asset quality, management, earnings, liquidity, sensitivity to market risks and overall assessment was made. Based on the above rating system, the overall assessment of the banking system during 2005 is estimated at almost the same level with the overall assessment of 2004. Capital and asset quality are among the elements that have changed in the negative side of the rating during 2005. However, as emphasized earlier, during 2005 more effective risk-oriented supervision was required, identifying and taking corrective measures for its improvement.

During 2005 the following examinations were conducted:

Banks	15 full-scope examinations
	14 partial examinations
Non-bank institutions	7 full-scope examinations
	7 partial examinations
Savings and Loan Associations	2 full-scope examinations
	2 partial examinations
Foreign exchange bureaus	41 examinations

2.1 BANKS

During 2005, there were carried out 29 bank examinations (full-scope and partial ones), excluding here examinations conducted for verifying technical conditions for performing banking business at premises of bank branches and new agencies, and examinations carried out for client complaints or other requests. The main goal was to ensure a healthy activity in the business of banks and non-bank institutions. The recommendations given by the Bank of Albania also served this function.

Problems observed during full-scope examinations

Problems observed by on-site examinations may be divided into the following:

Problems related to senior management (Board of Directors and Audit Committee). Recommendations of examinations were aimed at enhancing the responsibility of these bodies, bringing to their attention problems considered as critical for ensuring a safe and sound activity of banks. The recommendations were also aimed at banks' completion with sufficient policies and procedures for their safe and sound activity, preventing the boards of directors or audit divisions (in parent banks) from confusion or slowness in decision-making, establishment of fair relations with parent bank's structures, etc. Increased presence of audit committees in banks, closer cooperation with internal audit, increased responsibility about the presented problems, etc., were also required. Recommendations have also included the timely fulfilment of the documentation by senior managers, who should receive the preliminary consent by the Bank of Albania. Frequently, the delivery of this documentation was delayed. Banks' boards of directors in general have positively responded to these recommendations. In view of increasing the cooperation between them and the Bank of Albania, as highlighted earlier, meetings and contacts between both parties have taken place.

Problems related to internal regulatory framework of banks. Upon extension of activity and increased complexity of banking services, the need for constantly enriching and improving the internal regulatory framework arises. This problem is more tangible for new banks; therefore special attention has been paid to

them, through conducting frequent examinations to assess the fulfilment of internal policies and procedures, and their quality. Even in this direction, banks have generally reacted well, but internal policies and procedures should also be approved by boards of directors. Regarding the implementation of internal regulatory framework, some deviations were observed in some banks. In this context, increased responsibility and quality of the internal audit's and audit committee's work is recommended.

Problems related to implementation of regulations. Though banks have tried to better implement the regulatory framework of the Bank of Albania, yet there are noticed cases of non-implementation of regulations or violation of the specified limits, or even repetition of violations. They are mostly noticed in the following regulations:

- a. Regulation "On Credit Risk Management". Credit rating and addition of provisions for re-rated loans has been one of the most debated issues between inspectors and bank managers. Deeper financial analyses of borrowers, on-site visits, and completion of files with necessary documentation are some of the recommendations for the bank lending process.
- b. Regulation "On Open Foreign Exchange Positions".
- c. Regulation "On Controlling Significant Risks". Surpassing of concentration limits for a beneficiary has been noticed, mainly for placements with banks (particularly with foreign bank branches) and for some borrowers.
- d. Regulation "On Foreign Exchange Activities". Remarks on implementation of this regulation generally relate to documenting the transfers by means of customs clearance documents. Staff training on formats and validity elements of customs clearance documents accepted as justifying documents for commercial transfers is recommended in many banks.
- e. Regulation "On Money Laundering Prevention". Rigorous implementation of the requirements of this regulation on the assignment of bank's responsible persons for money laundering prevention, in terms of customer identification and reporting of transactions according to specified limits, in terms of staff training for preventing money laundering.

Problems related to technology and information systems. During 2005, thanks to trainings organised by Norwegian specialists and new experience gained from them, the on-site examination procedures for the information technology system were improved. During the controls carried out according to this new methodology on each banks, a number of problems were found out almost for each of them, related to lack of a complete strategy in information technology area and the drafting of procedures for implementation of this strategy. Also, the risk assessment of information technology and its documentation, establishment of necessary organizational structures for ensuring the quality of information technology and its audit, drafting of a recovery plan in cases of a disaster, automatic generation of necessary information, entry of specialised

modules for various areas of activity, division of access for entering data and authorizing operations, etc., should be made.

In the audit reports of 2005 the banks' response to given recommendations was assessed. It is noted that most of these problems continue to exist. Due to high costs going with necessary changes in these systems, bank's reaction is relatively slow.

Problems related to accounting. Problems related to implementation of accounting manual spring from the fact that banks are allowed to hold the capital in foreign currency. Some banks continue to hold the profit and fixed assets in foreign currency, contrary to banking accounting manual. The solution of this problem will be deemed in compliance with the legal stipulations of the new law on accounting.

Other problems. Other problems evidenced during the examinations have to do with the perfection in terms of achieving the objectives set forth in the budget-plan, addition of staffs and their training, improvements concerning employee salaries, staff leaving in some banks, etc.

Partial examinations

Partial examinations were aimed at:

Assessing the fulfilment of recommendations of full-scope examinations. During 2005 many partial examinations were carried out for verifying the meeting of recommendations of full-scope examinations, from which it resulted that banks, non-bank institutions or savings and loan associations and their unions have generally reacted positively to these recommendations.

Assessing loan portfolio quality. In October of 2005 a horizontal examination was carried out on eight banks that have the largest share of credit in the system, to assess the policies and procedures, organization, analysis, monitoring, internal control and loan portfolio quality. It resulted out of these examinations that banks should improve their policies and procedures in terms of lending, should organize the credit departments better in terms of analyses and monitoring, should raise the efficiency of internal audit and should pay more attention to implementation of the Regulation "On credit risk management" for loans classification and especially for the creation of credit provisions. It came out of these examinations that the Bank of Albania examination manual and the regulatory framework should also be improved.

2.2 NON-BANK INSTITUTIONS

During 2005 all non-bank financial institutions (seven institutions) were audited:

Problems evidenced during the examinations of non-bank institutions are presented in the following:

Violation of prudential regulations and reporting. Such violations have to do with non-performing loan rates (for both institutions extending loans), liquidity and capital rates. Also, the reporting of these institutions is not always regular and on due time. Recently the format and the reporting line have been defined. This will help the establishment of a database for each institution, their comparison and aggregation, better follow-up of reporting and early identification of violation of prudential regulations.

Violation of licensing conditions. The evidenced violations of licensing conditions are provided below:

- a Opening of customer accounts by institutions. In such cases, there is required the explicit stipulation of the purpose of account opening in the agreement signed by both parties (only for activities permitted by the license).
- b Provision of overdrafts (the immediate interruption of this activity is required).
- c Reduction of capital below the limit permitted for receiving a license as a result of losses. Addition of capital in the license level is required.

Problems of information recording systems. Some of these institutions have started their activity at modest levels and the capital and their transactions are not complex. Therefore, the systems used for the book-keeping and the maintaining of information are manual. Upon growth of activity and assets, which need prudential monitoring for maintaining information in compliance with legal stipulations, these systems do no longer meet the requirements. In such cases, the ensuring of a proper and automated information system is recommended, to record all the operations accurately and to generate the necessary information for reporting to the Bank of Albania and to other authorities. On the other hand, these institutions should know better and apply rigorously the Banking Accounting Manual (those parts that cover their licensed activity).

Other recommendations. Other recommendations were aimed at increasing measures for monitoring the activity risks and for hedging against them, preventing money laundering, improving the structure and internal regulatory framework, implementing rigorously the Regulation "On foreign exchange activities", etc.

2.3 SAVINGS-LOANS ASSOCIATIONS

During 2005 two full-scope examinations and two partial ones were organized on two unions of savings and loan associations, which collect deposits from their members and extend loans to them. The examinations found out that the activity of the union and its members generally was in accordance

with the law and the regulatory framework approved so far. For some savings and loan associations, which deviated from prudential regulations, the task assigned was to observe the prudential regulations within a specified time frame. Other recommendations have to do with improvement of structures and internal framework, introduction of computer systems for improving the work in the future. It resulted out of the examinations that the senior management of both "The Albanian Savings – Loans Union" and the "Jehona Union", have shown proper commitment to carry out the recommendations given.

2.4 FOREIGN EXCHANGE BUREAUS

Currently there exist 57 licensed foreign exchange bureaus, 7 of which were licensed during 2005. About 41 foreign exchange bureaus have been examined, and among the main problems evidenced, we may highlight the non-keeping of accounting in compliance with the law, non-maintaining of invoices (copies) for each foreign exchange activity, irregular reporting to the Bank of Albania. Relevant recommendations have been given about these problems and measures have been taken for some more problematic exchange offices.

B. FINANCIAL POSITION OF THE BANKING SYSTEM DURING 2005

1. ECONOMIC ENVIRONMENT OVER 2005

The world economy continued to expand over 2005, being influenced mainly by the positive developments of the American economy and Asian economies, and by the world trade growth. However, the economic activity growth in 2005 was slower than in 2004. The slow-down of economic growth is estimated to have included almost all economies of the regions, though less in the Euro area than in the United States of America.

- *Euro Area Economy*

Economic growth rate for 2005 is estimated to 1.6 percent in the full, 25 countries of the European Union and 1.3 percent in the Euro area. Annual inflation rate in harmonized terms was 2.2 percent in December, standing above the European Central Bank's target.

The recent changes of administered prices and indirect taxes, significant monetary growth and increased volume of lending under the conditions of ample liquidity, as well as the possibility of making concrete the indirect effect of soaring oil price on other price index items, strengthen the likelihood of rising inflationary pressures in the Euro area. Such pressures on price stability, which were identified during 2005, encouraged the ECB to raise the key interest rate by 0, 25 per cent, in December of this year, leading it to 2.25 percent. This was the first time the ECB has changed its monetary policy stance from the

lowest historical levels, since mid of 2003. The monetary policy stance of the ECB is considered to have had a positive effect on the sustainable economic growth and on gradual reduction of unemployment rate during 2005.

The current account until October recorded a deficit of Eur 9 billion, compared to a surplus of Eur 43 billion recorded over the previous year. This shifting is owing to significant growth in the value of imports as compared to that of exports, caused mainly by import price rise.

- *American Economy*

During 2005, the economic growth of the United States of America has slowed down its rate to 3.5 percent, from 3.75 per cent it was in the previous year. The annual inflation rate in December was 3.4 percent, from 3.3 percent it was in the previous year. The economic growth has also helped in the creation of new jobs. The unemployment rate in December was 4.9 percent, from 5.4 percent it was in the previous year, recording the lowest levels in the developed countries. In the meantime, the budget deficit of 2005 is estimated at 3.5 percent of GDP.

The Federal Reserve continued its tightening monetary policy during 2005. The key interest rate was increased 8 times during 2005, reaching to 4.25 percent at end of the year. The American economy has benefited from the accumulated depreciation of the dollar that has helped exports and from continuous growth of profitability during 2005. However, the economic growth slowdown in the fourth quarter, owing to high oil prices and damages caused by hurricanes, has raised doubts about maintaining economic growth in the same paces for 2006.

- *Economic environment in Albania*

According to Bank of Albania estimates, during 2005 the macroeconomic consolidation process of the Albanian economy was reflected in the economic growth, while macroeconomic sustainability is maintained. So, low and stable inflation rates, a positive balance of payments, and a good intermediation of the economic activity from the banking system were maintained throughout the year. The country's economy is estimated to have grown by 5.5 percent in real terms during 2005, associated with inflation under control around the level of 3 percent – within the targeted rate of the Bank of Albania.

During 2005, macroeconomic developments were under the pressure of some shock domestic and international factors. The long post-electoral situation after political elections for the new Parliament, the electricity crisis the economy underwent in the last quarter of the year, and the oil price rise in international markets have impacted on the reduction by 0.5 percentage point of the forecasted economy growth rates. These factors influenced also the fluctuation of the banking system liquidity and the Treasury bill interest rates.

During 2005 the investments performance has been similar to that of 2004; the ratio of investments to Gross Domestic Product (GDP) was increased by

0.4 percentage point, reaching to 24.2 percent and maintaining the same average level of 4 last years. Low interest rates have encouraged investments rise, while they have reduced the incentive for savings, reducing the ratio of savings to GDP by 1.4 percentage point compared to the previous year. Both public and private investments were increased at the same extent, by 0.2 percentage point over 2005, which is assessed as satisfactory. Public investments rise was backed up even by financial sector development and, particularly by rapid growth of lending to the economy.

Fiscal indicators. Fiscal authorities have pursued a prudent budgetary policy during 2005, based on the Mid-term Budget Program for 2005-2007. Budget revenues were increased during 2005, being realized at 97 or 8.9 percent more than in the previous year, and constitute 23.4 percent of GDP. The growth of tax revenues as the main constituent of total revenues is the administration's priority. Budget expenditures were realized at 92 percent, or 2.7 percent more than in the previous year, and their share to GDP was 26.7 percent. The growth of total expenditures of this year is obviously lower than the average growth rate of this indicator over seven last years. During 2005 the budget deficit had a share of 3.2 percent of GDP and decreased by 27 percent compared to 2004, recording the largest reduction of eight last years.

External sector of the economy. During 2005 the growth of merchandise imports was faster than that of exports, leading to trade deficit deepening. Concretely, high oil price rise in international markets and rise of lending activity have led to rise of imports, by about 16 percent. In consequence, the current deficit was also deepened in this year and is estimated to have reached 5.5 percent of GDP, from 3.8 percent of GDP in 2004. However, capital inflows have generally been sufficient for compensating the current deficit, thus enabling an overall positive balance sheet. According to balance of payments statistics for 2005, external trade in services was evidenced during 2005 as a very important activity for the Albanian economy.

Inflation. The annual inflation rate resulted 2.0 percent at end of 2005, while the average annual inflation rate was 2.4 percent, fluctuating around the lower limit of the target. Annual inflation stayed within the 2 – 4 percent band along the major part of the year. The revival of economic activity during 2005, prudent macroeconomic policies, and exchange rate stability have all contributed to inflationary pressures control. Some factors of shock nature, such as oil price rise and grave electricity situation influenced on inflation rise during the second half of the year, but without compromising the observance of inflation target and the long-term price stability perspective.

Monetary policy. The monetary policy of the Bank of Albania generally had a neutral stance over 2005. The key interest rate was cut only once, by 0.25 percentage point at end of the first quarter, and was held unchanged, at 5 percent over the rest of the year.

Lending to the economy, which has grown at high paces and has compensated the government borrowing reduction, was the main source

of monetary expansion during this period. The Bank of Albania limited its intervention in the money market in withdrawing liquidity during the first half of the year, while over the second half it purchased foreign currency almost throughout the whole period, mitigating the appreciating pressures on the exchange rate and injecting liquidity into the market. In the meantime, the annual appreciating dynamics of the lek, particularly the lek's appreciation against the euro and the stable inflation rates in partner trading countries of Albania have facilitated imported inflation pressures.

Exchange rate. After a three-year period, when the lek had maintained appreciating trends against the main foreign currencies, this trend was weakened during 2005. Against the previous year, the lek was depreciated on average by 9.25 percent against the USD and was appreciated on average by 3.32 percent against the euro. Appreciating tendencies were observed stronger during the first half of the year and then they started to fall, and the lek's exchange rate remained more stable during the second half of the year. This performance was mainly due to reduced spread of the lek-foreign currency interest rates and the higher demand for foreign currency as a result of tourism activity growth of Albanians abroad. Even the foreign currency interventions of the Bank of Albania, concentrated on the purchasing side, have mitigated the lek's appreciating tendencies.

2. ALBANIAN BANKING SYSTEM STRUCTURE

2.1 NUMBER OF BANKS

Year 2005 was characterized by continuation of the dynamic development of the banking system in Albania. This dynamics, in the sense of licensing banks and other non-bank financial institutions, is reflected in new applications for a banking license, in sale and change of the bank shareholders' structure and in a powerful extension of the existing banks' network in various areas of the country.

At the beginning of 2005, a preliminary license was granted to Union Bank, Jnt.Stk., an association with Albanian capital, for commencing banking business. The definitive license was granted to this bank by the Supervisory Council on December 2005. Upon licensing of the Union Bank, the number of banks with entirely Albanian capital goes to three and the total number of banks operating in Albania goes to 17.

Also over 2005 the First Investment Bank – Bulgaria, an entity with foreign capital, applied for transforming the branch of the First Investment Bank, Tirana, into an affiliate of the First Investment Bank.

Albanian banking system underwent a striking development over 2005 in terms of its network extension within the territory of the Republic of Albania. In 2005, 48 new branches and agencies were opened throughout Albania, with Tirana having the major share. 23 new branches and agencies opened

in Tirana have extended their activity in its whole territory, covering with banking services even the periphery areas and areas where business activity of production, trade and service are focused.

Foreign capital interest in investing in the Albanian banking system has increased. So, in June of 2005, a 100 percent of the Dardania Bank's stock capital was sold (currently the Italian Development Bank) to Italian investors. Also the process of selling the Albanian State's shares to the Italian Albanian Bank has advanced⁴. Simultaneously, the application for changing the share ownership of the National Commercial Bank's capital was submitted⁵. These changes were adopted by the Supervisory Council of the Bank of Albania over the first half of 2006, under the terms that the Bank of Albania approves or rejects the ownership transfer on shares, when this transfer constitutes 10 percent or more of the bank capital.

During 2005 no applications have been submitted by banks for increasing the level of capital, which relates with the rise of permitted financial activities.

The Bank of Albania has been informed about the changes in the banks' statutes related to paid-in capital, shareholders' structure and ownership on shares at 10 percent of the bank's capital, etc. These changes are reflected in the banks' registers held at the Bank of Albania.

- *Creation of non-bank institutions, foreign exchange bureaus, and savings and loan associations.*

In 2005 the Bank of Albania: a) licensed six foreign exchange bureaus and revoked the license of 2 other foreign exchange bureaus; b) It licensed 3 new savings and loan associations and revoked the license of 7 other associations. The savings and loan associations, whose license was revoked, then united on the basis of three existing savings and loan associations.

At end of 2005, after the changes that had occurred, the list of entities licensed by the Bank of Albania by years is presented as follows:

No.	Entities	2000	2001	2002	2003	2004	2005
1	Banks and branches of foreign banks	13	13	14	15	16	17
2	Non-bank financial institutions	2	4	5	7	7	7
3	Foreign exchange bureaus	19	38	58	58	54	58
4	Savings and loan associations			113	131	130	131
5	Unions of savings and loan associations			2	2	2	2

Table 1 List of licensed entities

- *Financial analysis*

The banking system analysis for 2005 focuses not only on the overall banking system performance, but also on the comparison of various bank performances within the same period, according to some specified criteria. For these purposes, the banking system is divided into peer groups. This division is based on the assets volume criterion. Thus, we distinguish three main peer groups:

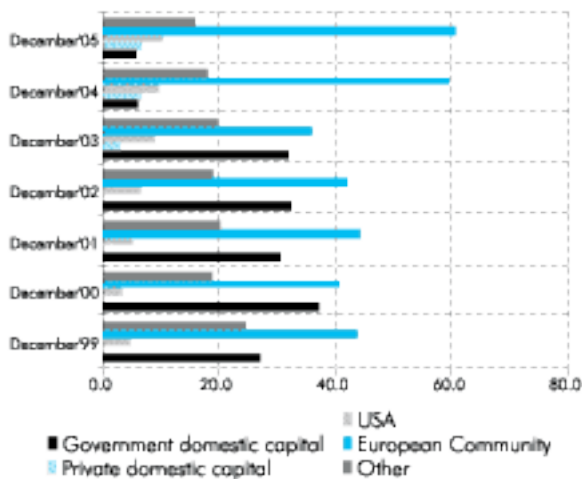
- Banks having a total volume of assets lower than 2 per cent (group 1 or G1);
- Banks having a total volume of assets higher than 2 per cent but lower than 7 per cent (group 2 or G2).
- Banks having a total volume of assets higher than 7 per cent (group 3 or G3).

During 2005 banks were grouped as follows:

- G1 – Emporiki Bank (EB); United Bank of Albania (UBA); First Investment Bank (Tirana Branch) (FIB); International Commercial Bank (ICB); Credit Bank of Albania (CBA); Popular Bank (PB); Italian Development Bank (IDB);
- G2 – ALPHA Bank (Tirana Branch) (AB), Italian-Albanian Bank (IAB); Procredit Bank (PB); National Bank of Greece (Tirana Branch) (NBG); Credins Bank (CB);
- G3 - Raiffeisen Bank (RZB); Tirana Bank (TB); American Bank of Albania (ABA); National Commercial Bank (NCB).

2.2 CAPITAL OWNERSHIP STRUCTURE

Chart 1 Capital structure (on ownership basis) of the banking system through years



Unlike 2004, when the privatization of the former Savings Bank was a consequence of significant changes in the capital structure of the banking system, year 2005 did not record any significant changes in combining the domestic capital with the foreign one. So, the foreign capital share is estimated at 87.2 percent, from 87.3 percent in the previous year. It is worth mentioning, within this group, the increasing weight of the capital deposited by the countries of the European Union, by 1.3 percentage points, and reduction of capital coming from other countries, by 2.2 percentage points.

Foreign capital dominates in the group of the large banks (G3), with a weight of 100 percent. In the meantime, in the other groups- medium banks (G2) and small banks (G1) - foreign capital exceeds 50 percent. Though in G3 and G2 groups the capital ownership structure remains almost the same with that of the previous year, the small banks group marked a decline of the domestic capital share to 23.2 percent, from 33.4 percent and a rise of the foreign capital share to 76.8 percent, from 66.6 percent at end of 2004. These structural changes are explained with the movement of banks from one group to the other, as a result of developments in their activity.

Based on the assets weight of banks with foreign capital, we evidence a decline in the weight of assets owned by banks with foreign capital to 90.5

percent (from 94.1 percent in the end of 2004) and a rise of the weight of assets owned by banks with domestic capital, to 6.4 percent (from 2.9 percent in the end of 2004).

If we take into account the direct control⁶ and indirect control of total asset, foreign shareholders have a control of 93.5 percent of total assets of the entire banking system, from 97.1 percent in the previous year.

2.3 NUMBER OF EMPLOYEES AND BANK BRANCHES

During 2005 the banking system continued the rapid expansion of its network within the territory of the Republic of Albania. During this year, more than 50 branches and agencies were opened throughout the territory of the country, but most of them were opened in Tirana. A considerable number of branches and agencies were opened in small districts of the country and at towns, indicating that an ever increasing part of the population is being covered by banking services.

Almost all the banks have opened new branches/agencies, but during this year, like in 2004, a highlight is the considerable number of 29 new openings from the small banks (G1 Group).

During 2005 the number of employees has increased considerably by 24 percent, compared to the rise by 26 percent over 2004. This significant rise in the number of employees is related mainly with the banking system network expansion and with the increased business of banks, as well as with the consolidation of their organizational structure. At end of 2005, there were 3,479 persons employed in the banking system, from 2,816 persons employed over the previous year.

Unlike a year ago, in 2005, the number of employees per bank unit decreased. So, in 2005, there were 13.9 employees per bank unit, from 15 employees per bank unit in 2004. This reduction was due to rise in the number of branches and agencies at a higher pace than the rise of the number of employees. A considerable part of

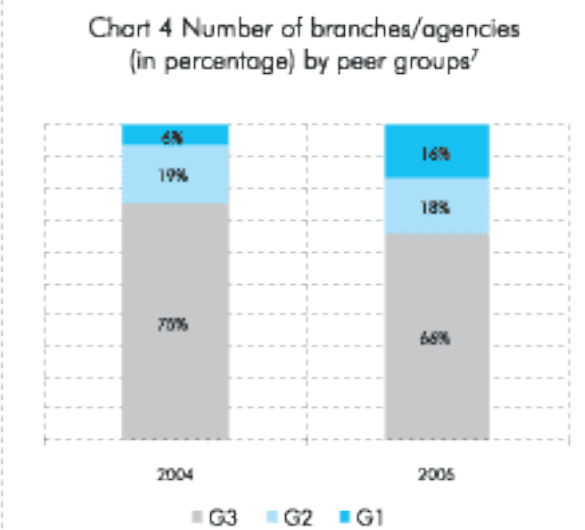
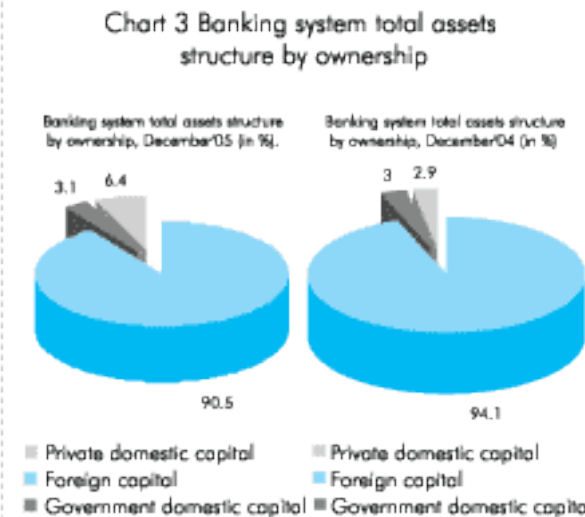
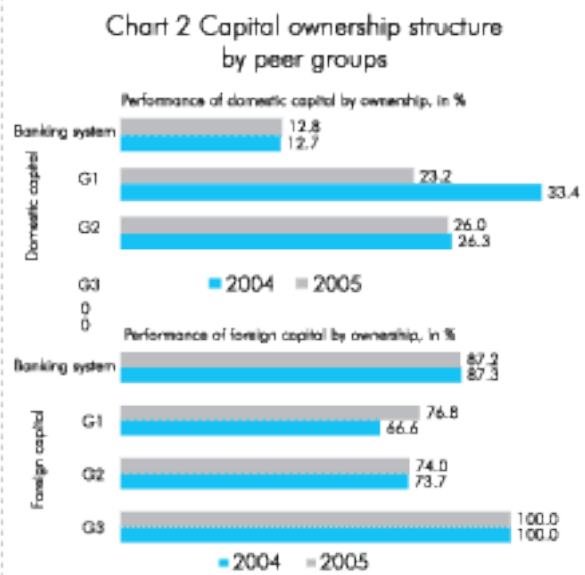
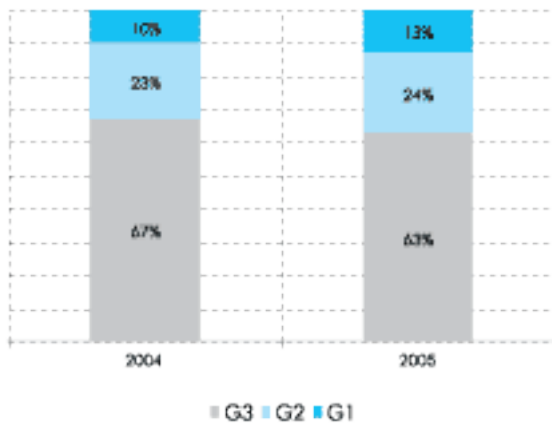


Chart 5 Number of employees (in percentage) according to peer groups



branches and agencies were opened at areas with small population, and therefore, the number of employees in those branches and agencies was low.

A significant rise is noticed in the number of loan officers/employees, as a result of the considerable growth of lending activity during 2005 and the objective for further extension in the coming periods. A restructuring of credit units is noticed in many banks, aiming at a clearer division of duties and responsibilities.

The increased numbers of banks, branches and their agencies, as well as the number of employees have made a better coverage of the population by the actual banking system. This is seen in the decreased

number of residents per bank, per bank unit, and per bank employee.

Table 2 Coverage with banking services

	2003	2004	2005
Number of employees	2,236	2,816	3,479
Number of branches, agencies	161	188	250
Number of employees per :			
bank	149	176	217
bank unit	13.9	15	13.9
Number of residents per ^a :			
bank	206,851	194,971	184,410
bank unit	20,815	16,593	12,539
bank employee	1,388	1,108	901

2.4 NEW TECHNOLOGY

The last year has been characterized by improved information and communication technology utilized by the banking system. The banks have upgraded some of their existing software or have acquired new ones. These software enable a more efficient use of the banking accounting manual and initiate new services, such as e-banking.

This was supported by the Bank of Albania, with the drafting of the Regulation "On the use of the information and communication technology of the entities licensed by the Bank of Albania", and with the approval of the Supervisory Council Decision No. 32 of May 3, 2006. This regulation will assist not only for a correct and complete supervision of information and communication technology used by banks but at the same time, will assist banks in their daily business, and in the security measures they should apply for ensuring and using the information properly, for the maintaining of this information and continuation of work in case of extraordinary situations.

However, a lot of work still remains to be done by some banks, especially regarding the security and software they use. More attention should be paid to the completion of the software with modules required for the normal operation of banks.

It is also necessary for the internal audit of the bank (or even the external one) to fully inspect the information technology as well. This audit, which is currently limited only to the profiles of the users or their access to the system, should be further extended to the function of the systems, accuracy of information outputs of the systems, changes effected in the information security system during the work or in transmission (for on line connected branches), etc.

ATM

Automated teller machines (ATMs) underwent further development over 2005. Most of banks have installed ATM-s in Tirana and in other main cities of the country. The number of ATMs has increased, and the number of their users has also increased from about 34,090 to about 225,900. ATMs utilize debit cards, but credit cards are being largely used as well. Both, "Visa" and "MasterCard" are present in Albania, and most of the banks are members of one or the other. Though the use of electronic cards is still limited, the increased number of points of sales, from 155 to 780 and the gradual change of the mentality that still favours the use of cash, will lead to increased use of cards as a means of payment.

E-banking

The service of e-banking transactions as a banking product appeared after 2000, but it can be stated that it has not recorded the required level of acknowledgement and use by the public. Until end of 2005, two banks have offered this service for certain clients (mainly businesses) for carrying out transfers, various payments, etc. Some other banks have planned to provide this service during 2006.

2.5 CONCENTRATION

The banking system in Albania during 2005 has reflected positive tendencies in terms of better allocation of financial resources and in consequence even of assets among banks.

	2000	2001	2002	2003	2004	2005
H index (assets)	0.44	0.37	0.32	0.30	0.27	0.21
H index (deposits)	0.50	0.43	0.37	0.35	0.31	0.24
H index (credit)	0.27	0.20	0.17	0.15	0.11	0.10

Table 3 H (Herfindahl)
index of assets and deposits
concentration

Herfindahl index on the main item of financial resources, that are deposits and on the total of assets has evidenced a constant reduction. The index value decline against the year-end 2004, respectively by 0.06 point for total assets and 0.07 point for total deposits, record the highest falling rates over

years, with the exception of the index performance over 2000 - 2001. Deposit concentration index has decreased, from 0.50 in 2000 to 0.24 in 2005, approaching ever more to the optimal levels.

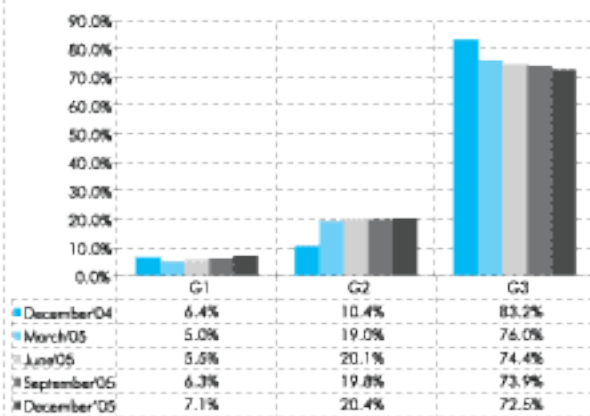
Enhancement of the competition is explained by at least two factors: the increased number of banks in the market, from 16 to 17; and the increased share of some banks in the system with higher growth rates than those of larger banks.

In the meantime, the index value for the total of credit outstanding is estimated at rather lower levels than the index value for total assets or deposits, which indicates a limited concentration of lending to the system. As concerns to lending, we do not have any bank that has a market share obviously larger than other banks, but we have a group of banks with a market share close to one-another. This indicates a more balanced distribution of the loan portfolio in absolute value, which is reflected in a relatively low value of the Herfindahl index for loans.

Notwithstanding the positive developments, the largest banks of the system (aggregated in Group 3) RFB, ABA, NCB, TB continue to dominate the banking system. The weight of total assets for these banks to total assets of the system, though reflecting a reduction, is at the level of 72.5 percent, which indicates a continue stable activity of these banks.

In terms of the peer groups' impact on the growth of the system assets over 2005, an increase in the G3 (peer group) is noticed by ALL 33.3 billion, G2 by ALL 20.6 billion and G1 by ALL 16.2 billion. The contribution of G3 banks, though higher in absolute terms than two other bank groups, is lower in relative terms (the growth in percentage compared to the previous year), meaning that the growth rate of this peer group's assets has been lower than that of banks in the other peer groups. We underline that the downward trend of the contribution of largest banks to the system growth speaks for reduced concentration of the banking system assets.

Chart 6 Peer group's share to the system by total of assets



2.6 ASSETS AND LIABILITIES

2.6.1 Total assets and their structure

During 2005 the banking system assets recorded a growth of ALL 70.1 billion or by 16.4 percent. Year 2005 has evidenced a more diversified distribution in the banking system portfolio. More concretely, "treasury and interbank transactions" recorded a reduction, either in absolute value or in specific weight to total assets. Compared to end of 2004, the main effect was given by reduced investments in treasury bills of the Albanian Government, by about 10 percentage points to the total of the portfolio.

During 2005, the overall banking system has underscored the orientation to credit activity. Loan portfolio constitutes 26 percent of assets, compared to 16 percent in the same previous year period. In the meantime, banks of the system are extending their activity in new profitable investments, such as foreign governments' securities, bonds issued by the Albanian Government, corporations, foreign banks, or other financial corporations. This group is estimated at about 12 percent of the total assets of the system at end of 2005, though the Albanian Government bonds constitute the main weight of this group, about 64 percent.

While the banking system structure distinguishes significant changes year on year, the asset/liability structure of the system remains almost the same, in spite of the change of their distribution among banks. The main elements that have impacted on the rise of liabilities are the banking system deposits, which had a growth of about 16.4 percent compared with the previous year, followed by shareholders' equity rise by about 27.2 percent. The growth of deposits of the system indicates an increasing public confidence in the banking system and it is an indicator of the reduced informality and increased efficiency of the population's savings in general.

3. RISK MANAGEMENT IN BANKING ACTIVITY

3.1 CREDIT RISK

3.1.1 Lending activity

During 2005, the credit outstanding of the banking system recorded a growth of ALL 57.6 billion⁹ or 82 percent, from ALL 19.3 billion or 38 percent for the previous year. The high upward rate speaks for a considerable expansion of the banking system in lending, an expected event at the moment the former Savings Bank was privatised. Though the RZB recorded at end of the year a relatively small loan portfolio to total assets, it is this banks that has given the largest contribution to loan portfolio growth during 2005. Also the other banks, though with a somewhat lower growth, have reflected a good performance regarding the lending activity.

Chart 7 Assets structure

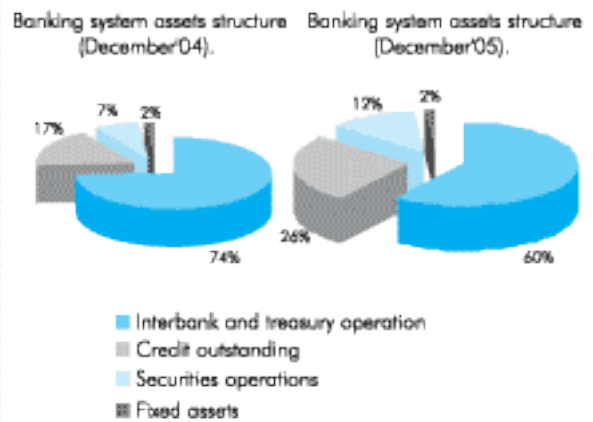


Chart 8 Liability structure

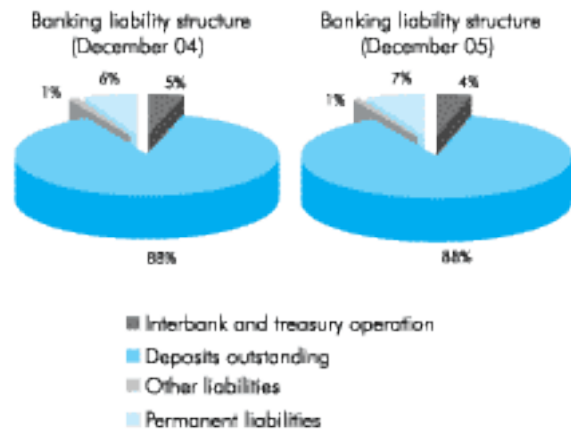
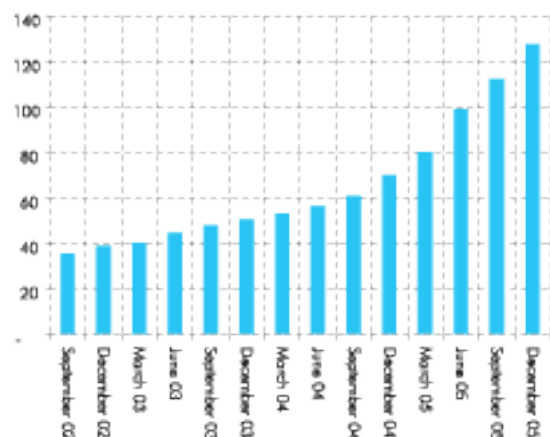


Chart 9 Gross credit outstanding, quarterly cumulative performance (in ALL billion)



In the meantime, the considerable increasing rate of credit outstanding, in comparison to end of 2004, is also reflected in the credit structure change by terms. It results out of the analysis that the short-term credit has maintained the same growth rate, while a shifting of the mid-term credit to long-term credit is noticed, particularly when the comparison is made with the end of 2004. We believe that these structural developments, by the term of loan portfolio, are an expression of households' demand for investing in real estates, but also of the business orientation to investing in fixed assets, necessary in improving the technology or extending the activity further, rather than increased requirements for the working capital. However, this tendency is regarded as positive, not only in terms of contributing to further growth and sustainability of the economy, an important element for ensuring financial stability, but also in improving the perception of the banking system for the economy performance and specific risks, in longer-term periods.

Table 4 Credit outstanding structure by term

Loan structure (in % to outstanding loans)	June'04	September'04	December'04	March'05	June'05	September'05	December'05
Short-term loans	28.8	26.9	26.7	26	27.5	25.8	26.2
Medium-term loans	35.7	35.9	35.3	33.9	33.1	32.3	30.6
Long-term loans	29.3	31.2	30.9	32.2	32.8	35.2	36.2

Chart 10 New credit extended by the banking system (in ALL billion)

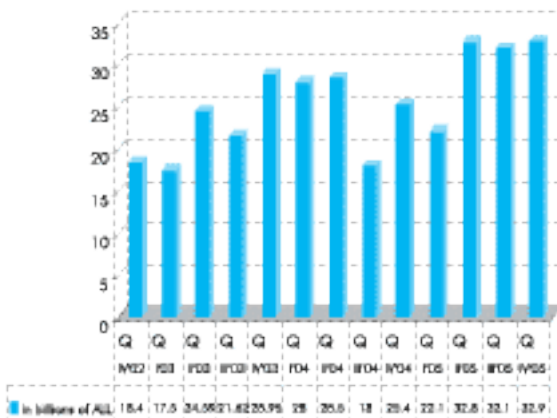
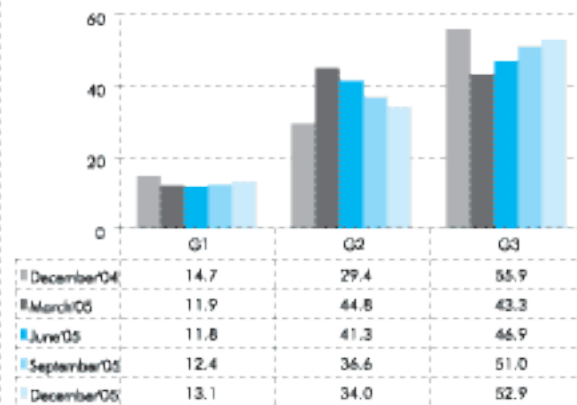


Chart 11 Peer groups' weight to total outstanding loans of the banking system (in percentage)



Concerning the contribution of the peer groups to credit outstanding growth, over 2005 the G3, G2 and G1 were evidenced respectively by ALL 28.4 billion, ALL 22.8 and ALL 6.4 billion. The fourth quarter continued to record an increased share of the large banks to total balance of the system. However, the weight achieved is 3 percentage points under the level of the same period of 2004.

3.1.2 Asset quality

During 2005, a higher growth rate of loans outstanding to non-performing loans was identified. Therefore, the important indicator of loan portfolio quality, the “non-performing loans/ outstanding loans (gross)” declined to 2.3 percent, from 4.2 percent at end of 2004. These improvements indicate an improvement of the loan portfolio quality, which has come from quantitative elements (credit growth) and not qualitative ones, such as the non-performing loan portfolio reduction. Also, the international experience indicates a rapid growth of the loan portfolio, as it has happened during 2005, generally associated with a worsening of the loan portfolio in later periods. In our case, in an environment that conveys operational risks that relate with the infrastructure of business activity in general, the possibility of taking certain decisions that may result incorrect is larger under the conditions of increased aggressiveness of banks.

Credit structure by quality reflects improvements in comparison to end of 2004. A slight rise of the weight of the loans classified as “standard” and also a slight reduction of the “doubtful” and “loss” loans was evidenced.

Credit rating	2003				2004				2005
	Q IV	Q I	Q II	Q III	Q IV	Q I	Q II	Q III	Q IV
Standard loans	92.3	91.8	91.5	91.6	92.8	92.5	94.9	94.2	94.1
Special mention loans	3.1	3.6	4.5	3.8	3.2	4.1	2.8	3.4	3.6
Sub-standard loans	1.9	0.6	0.5	0.8	1.0	0.9	0.6	0.9	0.8
Doubtful loans	0.5	1.4	0.9	1.4	1.0	0.9	0.5	0.4	0.5
Loss loans	2.1	2.6	2.6	2.4	2.1	1.6	1.2	1.1	1.0

Table 5 Credit rating in % to outstanding loans

Non-performing loans/outstanding loans (net) indicator, which measures the net amount of exposure to credit risk, recorded low levels, moreover, with a downward trend along the periods¹⁰.

Finally, the banking system ability to cover with capital the losses from loans¹¹ is evidenced as improved, due to higher growth rate of regulatory capital (plus 34.7 percent), against the growth of the stock of loans net¹² (plus 23 percent).

In spite of the domination of credit in foreign currency, the credit in ALL presents a rise of its weight to loans outstanding, (24.4 percent, from 19.5 percent at end of 2004). It has resulted out of the analysis that credit in foreign currency, where the borrower’s income flow is in ALL, is estimated at about 42 percent of outstanding loans in foreign currency, or 34 percent of total loans outstanding. Though in the first sight, the system appears exposed to indirect credit risk, implying that obvious exchange rate fluctuations may cause loan portfolio losses, hypothetic scenarios that consider the lek’s depreciation by 20 percentage points result to reduction of the banking system adequacy rate by only 1.6 percentage point.

Table 6 Loans outstanding structure by currencies

Loans structure (in % to loans outstanding)	June'04	September'04	December'04	March'05	June'05	September'05	December'05
Loans outstanding in ALL	16.8	16.7	19.5	20.1	22.3	22.4	24.4
Loans outstanding in foreign currency	83.2	83.3	80.5	79.9	77.7	77.6	75.6

3.2 LIQUIDITY RISK

The banking system liquidity was satisfactory even during 2005. The main liquidity indicators of the system present levels that have not affected the liquidity situation, whereas the Bank of Albania monetary policy on maintaining real interest rates in ALL and inflation rate under control, and the rise of interest rates for the main foreign currencies, particularly for the USD, have contributed not only to deposits stability but also to their growth in the system.

More concretely, while analysing the liquidity, we will continue to consider the liquidity ratios¹³ and the maturity gap as liquidity indicators.

3.2.1 Liquidity ratios

The "liquid assets to total assets" ratio for the banks of the system recorded above 20 percent at year-end 2005

The "short-term assets to short-term liabilities" ratio of the banking system maintained the downward trend even in the last quarter of the year, recording at year-end the level of 80 percent. This ratio is about 17 percentage points lower compared to end of 2004 and the lowest level reached by the system during these three last years. The indicator, though downward, still goes on maintaining a satisfactory level for the system, indicating a better liquidity management. The system distinguishes some banks, which have low levels of this indicator, but the satisfactory level of liquid assets to their total assets does not expose the latter ones to liquidity risk¹⁴.

Table 7 performance of short-term assets to short-term liabilities for the banking system over years

Indicator (in millions of ALL)	December 2003	December 2004	December 2005
1. Short-term assets	151,356	154,788	166,364
2. Short-term liabilities	141,276	160,067	207,852
(1)/ (2) (in %)	107	97	80

3.2.2 Maturity gap until one month

The maturity gap until one month, which presents the difference of assets and liabilities of a residual maturity until one month, aggregated for the system is 15 percent of total assets.

3.3 MARKET RISKS

The banking system in Albania, last quarter of 2005 also referred to, presents a limited risk relating to the exchange rate risk and interest rate risk. It is worth mentioning that the main foreign currencies the banking system operates with are the Euro and the Usd. The Euro has gained a larger terrain of use over the USD, due to its gradual appreciation in international markets and the strengthening of the trading agreements of Albania with the European Union countries. These monetary units are regarded as strong currencies, with a striking stability, particularly over mid-term periods, while even the exchange rate of the lek against them has been generally stable, following the performance of international market developments over longer term periods.

At end of 2005, given the reported data, from the regulatory viewpoint of the exchange rate risk, all the banks of the system¹⁵ evidenced open positions within the regulatory limit of 20 percent for each currency against the regulatory capital. At end of 2005, except three banks of the system, all other banks estimated the regulatory capital requirement at 1 percent of the actual regulatory capital, for covering risks from exchange rate fluctuations. This level was regarded as insignificant and fully coverable from the regulatory capital of banks at end of 2005.

Even the interest rate risk is estimated as limited, mainly for the following reasons:

- The banking system in Albania is dominated by an asset-liability structure of short-term maturity;
- The asset and liability composition consists in the lek (local currency) the euro and the USD. These currencies, particularly the euro and the USD, are characterized by an internal price or interest rates that do not reflect rapid developments, which may cause an unexpected financial stress;
- Securities portfolio is classified for investment purposes, not exposing banks directly to frequent price movements in securities market;
- Generally the intended minimum coverage ratio by 100 percent is fulfilled, representing the ratio between the current regulatory capital to regulatory capital requirement, which comes as a result of the requirement for covering the interest rate risk.

At end of 2005, the asset and liability structure of banks and of the whole banking system is dominated mostly by assets-liabilities that do not exceed the time frame of one year, or of a residual maturity over one year and revisable within one year. From this viewpoint, investments in securities, though occupying a considerable weight in most of the banks, are characterised by securities issued by the Albanian Government, treasury bills and to the small extent by Albanian Government bonds of a maturity not longer than three years. The latter ones are part of the fixed income securities portfolio and constitute only 12 percent of total assets, from which only about 63 percent of them had a longer maturity than one year. Another element of the asset side

with a maturity longer than one year was about 66 percent of loan portfolio. This element loses the importance from the viewpoint of interest rate risk, under the conditions when the loan portfolio occupied only 26 percent of total assets, while the loans are subject to interest rates review, at least within the time frame of one year. The rest of investments belong mainly to foreign currency deposits in currency market.

On the liability side, the liabilities are generated almost mostly by deposits, which are characterised by an upward stable trend and a maturity up to one year, though acceptances beyond the maturity of one year to three years are noticed in some banks. However, their share to total deposits of the system occupies a somewhat insignificant level of about 2.4 percent. Even the banks' own funds are stable, moreover upward, contributing in this way to a better adjustment with the banks' efforts to extend their investments in longer than one year.

4. CAPITAL ADEQUACY

Shareholders' equity of the system was increased by about ALL 7 billion or 27 percent in comparison to end of 2004. Year 2005 highlights the highest contribution of the middle banks (G2) to the shareholders' equity of the system, by about ALL 5.9 billion, whereas the group of the large banks (G3) recorded a rise of ALL 728 million and the group of small banks (G1) about ALL 408 million.

At end of 2005, the shareholders' equity structure of the system and the performance of its constituent items that contribute to capital levels are given below:

Table 8 Shareholders' equity structure

Indicators	December 2003		December 2004		December 2005	
	In lek million	in %	In lek million	in %	In lek million	in %
Shareholders' Equity	21 984.9	100.0	25 949.5	100.0	33 013.8	100.0
Paid-in capital ¹⁶	18 512.3	69.3	23 593.5	71.5	29 420.3	77.4
Share premiums			1.8	0.0	1.8	0.0
Reserves	4 517.5	20.5	2 436.8	9.4	1 432.9	4.3
Revaluation differences	-3 285.8		-5 033.8		-3 852.3	
Retained earnings (losses)	-180.9		-155.0		-184.3	
Current year profit / loss	2 422.0	11.0	5 106.1	19.7	6 195.5	18.8

The main element of the shareholders' equity, the paid-in capital, has maintained the main weight (77 percent) of the shareholders' equity of the system; moreover it has recorded a rise of about 5 percent or ALL 5.8 billion more than at end of 2004. There were nine banks in the system that increased the paid-in capital levels during the year, positively contributing to the system indicators. Capital reserves recorded a reduction by about ALL 1 billion, the profit of the period maintained the positive impact on the capital (by about ALL 1 billion), while the debtor revaluation differences, in spite of a decline

(by about ALL 1.2 billion), they continue to maintain the negative impact on the capital of the system.

Capital adequacy ratio. All the banks of the system have observed the minimum capital adequacy level above 12 percent. Capital adequacy ratio¹⁷ of the banking system recorded at end of the year the level of 19 percent, or about 3 percentage points lower than at end of 2004. The said ratio has reflected the extension of banking system activity to high risk-weighted assets, for the effect of calculating the capital adequacy ratio. In the meantime, the capital adequacy level varies in different banks, where more active banks evidence an adequate capital level very close to the minimum level required.

The main impact on the reduced levels of the indicator is given by very high growth rates of risk-weighted assets (by about ALL 54 billion or 57 percent), compared to the growth rates of regulatory capital, (ALL 7 billion or about 35 percent). Year 2005 recorded a considerable rise of banks' investments mainly in lending, as the riskiest (and most profitable) activity of banks. This is reflected in a significant rise of assets classified as high-risk assets, which grew by ALL 52 billion or 73 percent compared to end of 2004. The downward levels of capital adequacy speak for a higher efficiency of banking activity, as long as the minimum required levels are maintained.

Indicator (in million of lek)	December '03	December '04	December '05
Risk free assets	254 548.6	271 216.7	292 452.4
Low risk assets	67 655.5	71 384.0	71 480.4
Moderate risk assets	8 031.1	8 892.7	11 759.0
High risk assets	40 339.1	70 805.8	122 319.5
Total of risk weighted assets and off balance sheet items ¹⁸	62 237.6	94 800.7	148 757.1

Table 9 Performance of risk-weighted assets in the banking system through years

Capital adequacy analysis for the peer groups of the system distinguishes the same position of the indicator as at year-end 2004. G1 maintains the highest level of capital adequacy by 35 percent, G2 maintains the level of 19 percent and G3 has the lowest level, by 14 percent. The downward trend of the indicator is more evident in the peer group of small banks (about 12 percentage points), three banks of the G2 give a higher contribution, while the RZB of the G3 has given a significant impact, along with other banks of the group, maintaining considerable growth rates in lending.

We underscore that the capital adequacy ratio among the bank groups is not a consequence only of their involvement in riskier or less risky assets. The analysis distinguishes the financial leverage level, as an essential element that varies. In a more specific way, the effect of having a higher financial leverage in the capital adequacy level is identified at G3 peer groups. Even though these banks have a loan portfolio weight to total assets lower than G2 group, they have a higher financial leverage, which makes them have a capital adequacy level lower than that of G2 peer group. On the contrary, G1 and G2 banks have a similar financial leverage and the change in the

capital adequacy comes more from the level of banks' involvement groups in riskier or less risky assets.

Table 10 Performance of capital adequacy ratio by peer groups over years

Capital adequacy ratio in %	Banking system	G1	G2	G3
December 2005	18.6	35.0	19.4	14.4
December 2004	21.6	47.3	17.8	17.3
December 2003	28.5	72.0	21.4	23.0

The banking system net positive result for 2005 was ALL 1,357.18 million, or 29 percent higher than at end of 2004. The net result rise by about ALL 1,492 million is determined by the system orientation to more profitable assets, typically loans, which are increased by about 82 percent on annual basis. These developments are reflected even in the weight the loan portfolio occupies to total assets, from 16.4 percent at end of 2004, to about 26 percent at end of 2005.

Table 11 Performance of the main elements of net (non cumulative) result in ALL million

Indicators	December'05	September'05	December'04
Net interest result	4,916.08	4,316.46	3,017.82
Net results from other operations	1,171.06	1,008.13	1,103.44
Operating expenses	3,093.09	2,764.37	2,363.91
Provision expenses	555.15	218.09	229.22
Net result (after tax)	1,357.18	1,924.17	914.95

The detailed analysis of the net result and its structure indicates that the main contribution of the net result for 2005 is the net interest result. Rise of interest income is due to return on loans extended intensively during two last years, and due to interest rate rise for loans in foreign currency, under the conditions of their rise in international markets. Here should also be taken into account the fact that the interest rate rise on the asset side has been faster than that on the liability side.

Operation expenses are another important element. Their flow during 2005 increased at fast rates, negatively impacting on the banking system net result. The performance of this indicator during the whole year, particularly for the last quarter of 2005, confirms the constant expansion of banks' network, materialised in the increased number of branches and agencies, and in the increased number of employees.

5. PROFITABILITY INDICATORS

At end of 2005, return on assets, the RoAA on annual basis, is estimated at 1.40 percent. The said indicator speaks for a significant improvement of the RoAA in comparison to 2004, due to better financial result of banks from the main operations, in spite of high operation expenses from expansion.

Also the return on average equity, RoAE, has followed the same trend, like the RoAA indicator. Technically, from the comparison of end of 2004

and 2005, the developments in this indicator are explained mainly by the faster growth of the net result than the average shareholders' equity, 29.2 percent against 22.6 percent. In the meantime, even though the return on shareholders' equity results high, dividend allocation to shareholders has been insignificant.

Indicators	December '05	September '05	December '04
RoAA	1.40	1.51	1.28
RoAE	22.24	24.51	21.10

Table 12 Main indicators of return in percentage

Notwithstanding the decline, the RoAA indicator reflects a good level and obviously higher than in the developed countries. We believe that the difference is attributed mainly to the still unconsolidated business environment in Albania, compared to developed countries, which is translated into a higher intermediation margin.

Compared to region countries, the RoAA indicator has appeared on an average level, referring to some data as of 2004 or even earlier, for such countries as Bulgaria, Rumania, FYROM, Serbia and Montenegro. More concretely, the RoAA behaviour is comparable with that of Bulgaria, lower than RoAA of the banking system in Rumania, but higher than in former Yugoslav Republic. This phenomenon is identified particularly against the RoAA of the banking system of Serbia and Montenegro, maybe because of the specific problems, and social, economic and political crises in that country of the region.

The analysis by peer groups continues to identify for the four quarters of 2005 the banks of G2 as highest level banks for the RoAA, with 2.6 percent, followed by G3 banks with 0.9 percent and G1 with 0.5 percent. The high return from assets of the category of G2 banks is related mainly with the presence of a high loan portfolio to total assets for banks of the main share in this group, moreover, obviously higher than the average of the system.

The banking system profitability from the main operations and the dynamics of the balance between collecting interest payable liabilities and investing in interest bearing assets is provided in both following tables:

Indicators	December'05	September'05	December'04
Interest income/interest bearing average assets(1)	6.81	6.78	6.96
Interest expenses/ interest bearing average assets(2)	3.08	3.23	3.88
Net interest margin (NIM)[(1) – (2)]	3.73	3.55	3.08

Table 13 Main indicators of return on the main operations in percentage

The NIM indicator has had an upward trend during the year, expressing in general the banks' tendency towards more profitable assets within the structure of earning assets. The analysis of the components of the NIM indicator shows a slight reduction of the first component, while the second component in the

above table reflects a larger difference on the falling side. If we take into account the growth and growth forecasts for core interest rates, for the main economic areas in the world, the USA and the Eur area, under the conditions when: a) while the core interest rate for the lek is unchanged; b) the banking system balance sheet is characterised by a large presence of the USD and the Euro, and c) the indicators of the following table are computed as unchanged; then the performance of the second component, interest expenses to interest bearing average assets indicates that banks have not reacted rapidly to rise the interest rates of liabilities.

Table 14 Profitability indicators in ALL million

Indicators	December '05	September '05	December '04
Interest bearing average assets (1)	439,816.17	432,287.58	379,263.33
Expense bearing average liabilities (2)	415,171.61	408,853.21	355,766.29
Average assets (3)	471,250.99	463,602.12	400,080.92
(1)/(3)	0.93	0.93	0.95
(2)/(3)	0.88	0.88	0.89

The above table speaks for a sustainability of the system's capabilities to invest in interest bearing assets and to collect interest payable liabilities. This fact is expressed in the unchanged difference between two last indicators, which continues to stand at about 0.05.

The efficiency indicator compared to the same period of the previous year, confirms the underlined tendency of banks to further expand their activity, which is manifested in higher operation expenditures, associated with faster growth rates of gross income. These developments testify that this indicator is improved, and this is confirmed even by the accrual of the indicator on annual cumulative data, which are 0.50 and 0.53 respectively for 2005 and 2004.

Table 15 Efficiency indicator (non cumulative) in lek million

Indicator	December '05	September '05	December '04
Operation expenses (1)	3,093.09	2,764.37	2,363.91
Operation gross income ¹⁹ (2)	5,531.99	5,108.50	3,892.04
Efficiency (1)/(2)	0.56	0.54	0.61

C. NON-BANK FINANCIAL INSTITUTIONS

1 ACTIVITY OF NON-BANK FINANCIAL INSTITUTIONS IN ALBANIA

- As specified by various international standards (UN, 1993; Eurostat, 1995; IMF, 2004)²⁰, non-bank financial institutions are companies or institutions involved mainly with financial intermediation or with financial assisting activities closely related to financial intermediation, but that are not classified as accepting deposits. They are divided into other financial intermediaries, excluding the insurance companies and pension funds.

2 REGULATORY FRAMEWORK OF NON-BANK FINANCIAL INSTITUTIONS IN ALBANIA

Except the insurance companies and pension funds, almost all other non-bank financial institutions are licensed by the Bank of Albania. A part of them is licensed pursuant to the Regulation "On licensing non-bank institutions", approved with the decision of the Supervisory Council No. 96, dated 26.11.2003. In this regulation, foreign exchange bureaus are not included, whose licensing is based on the Regulation "On licensing foreign exchange bureaus" approved with Decision of the Bank of Albania Supervisory Council No. 65, dated 30.07.2003. Even the savings and loan associations and their unions are treated separately by the regulatory framework of the Bank of Albania. They are licensed pursuant to the Regulation "On Licensing the Savings and Loan associations and their Unions" approved with the Decision No. 11, dated 27.02.2002, amended with the Decision No. 09 of 12.02.2003 by the Supervisory Council. Also, the Bank of Albania will re-commence the licensing and supervision of some non-bank institutions, which previously were excluded from the Law "On the Banks in the Republic of Albania" (mainly: the "Besa" and "Partneri Shqiptar në Mikrokredi" ("Albanian partner in micro credit") foundations. In the meantime, upon entry into force of the Law No. 9396, dated 12.05.2005 "On financial leasing", the Bank of Albania is no longer the licensing and regulatory authority of the financial leasing company "Tirana Leasing" Jnt.stk., or of such companies that carry out only the financial leasing activity.

3 SUPERVISION OF NON-BANK FINANCIAL INSTITUTIONS

The indicators of the financial position of other financial institutions sector assist in monitoring and warning of the risks this sector may bring about. These indicators should ensure information on the size of the sector of other financial corporations – in terms of the weight of assets of other financial institutions to total assets of the financial system – to create the idea of this sector's importance in the system. Another significant indicator that informs about the importance of this sector is the weight of its assets on GDP. Also, the rapid growth of lending and rapid accumulation of assets in general may indicate any possible problems of this sector.

Currently, the Bank of Albania regulates and supervises the activity of a part of non-bank financial institutions, concretely:

- Financial Union of Tirana Ltd;
- Diners Club Albania Ltd;
- Albanian Union of Savings and Loan Associations;
- "Jehona" Union;
- "Credins" Union Jnt.Stk., Tirana.;
- Mountain Area Financing Fund;
- "AK- Invest" Jnt.Stk.;
- "Besa" Foundation;

- Albanian Partner in Micro credit;
- Albanian Post-Office;
- Foreign Exchange Bureaus;
- Savings and Loan Associations.

The full reporting system, which has started to be fulfilled and reported at the Bank of Albania since the first quarter of 2005, creates possibilities for off-site analysis of this sector.

4 ANALYSIS ON MARCH-DECEMBER 2005

For analysis reasons, first of all we highlight the SLAs among non-bank financial institutions. The SLAs receive deposits from their members, and in this context are considered as other depository corporations, being included neither in the bank group, nor in non-bank institutions. The group of non-bank financial institutions supervised by the Bank of Albania may be divided further on, on the basis of similarities of their activity and standard definitions mentioned above. So, some companies are focused on financing other companies or individuals, as the foundations "Besa", "Albanian Partner in Micro credit", "Mountain Area Financing Fund", and "Credins" do, which will be labelled as financial companies. The rest of non-bank financial institutions are other financial assisting institutions (concretely: Financial Union of Tirana Ltd, Diners Club Albania Ltd; AK- Invest Jnt.stk; and Albanian Post Office) which help the intermediation, operating with payment mechanisms.

The foreign exchange bureaus, which are licensed by the Bank of Albania, but do not report to the Banking Supervision Department or to the Statistics Department, will be excluded from the financial analysis.

To analyse the importance of the non-bank financial institutions, and savings and loan associations in the financial system, we first consider their share in the system: concretely the share of their assets to those of the system.

Table 16 Assets of non-bank financial institutions²¹ and of savings and loan associations

Description / Period	March'05	June'05	September'05	December'05
System assets, Bank of Albania excluded (Lek mln)	473,424.1	499,373.2	516,771.5	521,028.9
Assets of non-bank financial institutions (in Lek mln) ²²	7,092.6 ⁵	9,949.1	10,095.1	10,829.9
Growth of assets of the non-bank financial institutions (in %)	-	40.3	1.5	7.3
Assets of Insurance companies (Lek mln)	8,342.89	9,337.23	10,584.66	10,215.61
	-	11.9	13.4	(3.5)
Assets of the Savings and Loan Associations (in Lek mln)	3,069.7	3,384.3	3,619.8	3,789.5
Growth of assets of the Savings and Loan Associations (in Lek mln)	-	10.2	7.0	4.7
Weight of assets of the Savings and Loan Associations (in %)	3.91	4.54	4.70	4.77
Weight of the banks' assets in the system, Bank of Albania excluded (in %)	96.1	95.5	95.4	95.3

As shown by the table, the weight of the non-bank financial institutions along with the savings and loan associations to total assets of the financial

system²³ is very small, compared to the weight occupied by commercial banks. So, the weight of these two groups results respectively to 1,2 and 0,5 per cent, while the commercial banks constituted on average 95.5 percent of the financial system during 2005. Even to Gross Domestic Product (GDP), the weight of total assets of non-bank financial institutions, and of savings and loan associations at end of 2005 was insignificant compared to the banking system weight to GDP for 2005 (59,3 percent).

Most of assets of these companies (non-bank financial institutions and savings and loan associations) are composed of loans extended to clients, households and other companies. The other financial assisting institutions do not extend credit; therefore the loan portfolio quality analysis has a sense only for financial companies and for savings and loan associations.

Indicators	Financial companies	SLAs	Total
Total of loans (in lek mln)	5,174.4	2,966.4	8,140.8
Total of loans / total of assets (in %)	80.3	78.3	79.5
Non-performing loans (in lek mln)	67.4	20.4	87.8
Non-performing loans / total loans	1.30	0.69	1.08
Loan Losses (in lek mln)	0	4.0	4.0
Loan losses / total loans (in)	0.00	0.14	0.05

Table 17 Asset quality
(December'05)

As seen in the above table, at end of 2005, loans occupied 80 percent of the assets of the non-bank financial institutions and savings and loan associations. Non-performing loans have a weight of about 1.1 percent to their total assets, much lower than the level of 8 percent defined by the supervision regulatory framework. In the meantime, loan losses are insignificant and belong only to the group of savings and loan associations.

The net positive result of the non-bank financial institutions for 2005 has increased by about ALL 244 million. Within this group, the financial companies have all resulted with profit for the year, at a total level of the net result by about ALL 109.8 million. Most of revenues of these companies are composed of interest income (about 72 percent of total income), and concretely, those from loans. Other financial assisting institutions have reached a positive net result by about ALL 134,3 million. Various activities of these two sub-groups are reflected even in the various sources of income. So, commission incomes have been the main source of income (about 86 percent) for the financial assisting institutions. The net result of the savings and loan associations at end of the year was about ALL 41 million and incomes were mostly comprised of credit interest incomes.

INFORMATION ON THE NEW BASEL ACCORD (BASEL II) AND THE POSSIBILITY OF ITS IMPLEMENTATION IN ALBANIA

1 THE EXISTING BASEL CAPITAL ACCORD. WHY HAS THE NEW ACCORD COME ABOUT? ²⁴

Upon creation of the Basel Committee in 1974, a number of international standards on banking activity and supervision became effective. Among the variety of these recognized standards, we would point out the Capital Standard and its calculation, known as Basel Capital Accord. This accord was announced officially on July 1988 and is currently known as the 1988 Accord. The Accord focuses on the credit risk and suggests a minimum capital requirement of 8 percent – starting from 1992. Until now, this accord has been applied or better say has been adjusted²⁵ to by more than 100 countries or regions in the worldwide, though it was originally intended to be applied by active banks in international markets of the member countries²⁶. About 10 years later, a new capital adequacy framework was introduced, which was officially out for comment by the Basel Committee on June 1999. According to the Basel Committee, the new framework, referred to as the New Capital Accord (Basel II) would replace the current 1988 Accord.

In 1988, when the Accord was introduced, banks' capital and capital adequacy requirement generally rose, moreover, in a considerable way. So, banks with capital levels below the minimum required increased their capital ratios more than banks with satisfactory capital level. It is a fact that, even after making some changes in the Accord, still it has not hindered the banking developments and can not be viewed as detached from important financial developments, which impact on banks' business that are presenting a risk profile different from the one described by the current accord. As it is already known, the current accord focuses only on credit risk, but the credit risk is not the only one the banks are faced with nowadays. Besides the credit risk, banks are facing a number of other risks in their daily work, such as the market risk, (exchange rate risk, and interest rate risk), liquidity risk, operational risk, legal risk, reputation risk, and the strategic risk. Also, the risk management practices, passing through some critical changes, led to development and increased use of such sophisticated patterns, such as Value at Risk, Credit Metrics, and Credit Risk. etc., which are largely preferred.

Furthermore, two past decades have evidenced an acceleration of the globalization and financial liberalization rates. A set of new financial instruments, which continue to be increased daily is added to these rates. Assets securitization, derivative instruments, structured finances and implementation of financial physical techniques have played their role in income diversification and risk monitoring. Some of them initially emerged from the need to monitor risk, and have gradually transformed into its generators. As a consequence, the more complicated financial hybrid products the banks use, the more

unclear their financial position becomes. As a result, an ever larger value of transactions is evidenced in the off-balance sheet.

Also, globally, the traditional limits between the banking activity and the securities or insurance appear weak. Rarely, banks sell insurances. Insurance companies provide financial protection by using capital market instruments and provide cash administration services, thus competing with bank deposits. Also, the financial sector consolidation dictated by the increased customers' demand for integrated financial services and by upward pressure of shareholders for increasing the profit, is becoming ever more evident through merges, strategic alliances, and joint capital investment in world financial institutions.

Advanced technology, together with the considerable development of the world economy, have greatly increased the banks' support on computer systems, internet, communication through satellite, etc. The technology changes in these areas are nowadays taking into account even the way the banks operate and are managed and the transformation and functioning of financial markets, thus bringing about new ways or models of fund transfer, and creating new configurations in the operational and managing framework of banks.

At the same time, the supervisory activity and the relevant authorities are experiencing constant changes, in response to financial market development. Growth of internationalization and globalization of financial and banking markets dictates the need of harmonising the supervision activity and the convergence of relevant approaches. The emphasis is laid on banking activity supervision, because of its importance in the economic development and public welfare.

The above developments evidenced a number of limitations of the Accord, reaching the climax with the lack of its flexibility in risk assessment.

2 BASEL II VERSUS 1988 ACCORD

Basel II is composed of three pillars: First pillar -, Pillar 2 – Supervisory role and Pillar 3 – Market discipline. Skipping the details on the three pillars, which are treated in our previous reports, we will focus briefly on what the New Accord will bring about versus the 1988 Accord and its implementation in the developing countries, as well as its impacts.

Main changes between Basel II and 1988 are presented in the following table:

	1988 accord	Basel II
Structure and contents	The only minimum capital requirement	Three pillars: Minimum Capital Requirement, Supervisory role, Market discipline
Methodology	Descriptive standards	Descriptive standards with options or internal approach or a combination of both,
Flexibility in implementation	An approach is applied for all types of risk.	The approach is more discrete and dynamic
Risk-sensitivity	Not very specific	More sensitive to risks
Risk monitoring	Monitors the credit risk and market risk	Monitors a complete framework of risks
Risk weighting of assets	Assets are weighted by 0-100 percent risk, and preference is given to OECD member countries	Assets are weighted by 0-150 percent risk or more, no discrimination is made, moreover the internal and external rating is taken into consideration
Risks differentiation	Done mechanically	A greater differentiation is made, taking into consideration even the market practices
Risks concentration	Not treated	An insignificant modification (adjustment) is made
Risk mitigation techniques	Only the collateral and the guarantee	It takes into consideration more techniques, such as collateral, guarantee, credit derivatives, net position
Assets securitization	Not treated	Treated separately
Regulation of non-compliances	Not treated	Asset-liability non-compliances by maturity and currency are mainly treated
Supervisory requirements	Not treated	It provides numerous requirements, general and specific, preliminary or in continuity
Internal Audit	Not treated	Internal audit highly emphasised
Transparency	Not treated	High transparency required
Consolidation	Individual consolidation	Consolidation according to tier groups, associations that are bank shareholders also included

3 IMPLEMENTATION OF BASEL II IN THE DEVELOPING COUNTRIES AND ITS IMPACT (OVERVIEW)

In the developing countries, Basel II is expected to provide a strong encouragement for enhancing banking supervision, while the banks themselves are going to be more sophisticated in risk management.

Actually, referring to some of its concrete requirements, Basel II represents a standard that presents some difficulties in implementation. For example, lack of domestic rating agencies or their low development in the developing countries, means that many unrated internal risks be weighted by 100 percent. Though additional new elements of risk-sensitivity may exist, such as higher requirement for additional capital, for overdue loans or the requirement for additional capital for all the annulling unconditional commitments, this element would bring about reduced sensitivity to risk in the new standard, and would result in unequal conditions of competition between local banks and foreign ones. When most of internal risks are placed in the non-rated category, this would make the better rated borrowers in these countries take loans at lower cost from international banks, compared to domestic ones.

These interpretations and others have raised the need for an intermediate standard between the 1988 Accord and the Basel II, so that local banks in developing countries would benefit from Basel II, at a cost that may be faced up. This means that first, the adjustment of new standards is not mandatory for

non-member countries of the Basel Committee and the countries preferring to apply Basel I are free to proceed in this way. So, transition economies should not be penalised if they do not apply Basel II in a short-term period. Secondly, if Basel II intends the regulatory improvement, then the implementation of this high level standard would be of high interest. This would encourage these countries to develop their rating industries and to enhance their financial systems.

BOX 1: PRELIMINARY OPINIONS ABOUT POSSIBLE ALTERATIONS TO BE MADE TO OUR REGULATORY FRAMEWORK ACCORDING TO STANDARD RISK CREDIT APPROACH

The following opinions on some possible changes in the existing regulatory framework arose from the reasonable assumption that the presentation of a larger number of credit risk categories will increase this risk sensitivity and therefore, will approximate the regulatory capital requirements to risk nature the banks are faced with in their business. However, the viability of this principle should be associated naturally with the consequences an unreasonable rise of credit risk categories may have on the operational load of banks, as entities.

Our opinions are presented in two groups: the first group brings about the credit risk weighting matrix for the Government (the sovereign) and central banks, banks, corporations and the second group presents the loan portfolio treatment for individuals (excluding home loans), small business, and particularly, for homes.

I. STANDARDISED APPROACH – CREDIT RISK MATRIX (SOVEREIGN, BANKS AND CORPORATIONS)

Below is presented the matrix of weighting the claims on the sovereignty, banks and corporations. In such a case, compared to the current pattern, a category of weighting by 150 percent is added and the corporations have already possibilities to receive not only a specified weighting of 100 percent but also a weighting that varies from 20 percent to 150 percent. Also, in this approach, a determinant role in determining the weighting of such exposures is played by, at least, international rating agencies (ECA) defined according to the BIS. In using this concept, it should be taken into account that the estimations carried out by ECA for an organisation, for example, a bank within a group/holding, can not be used for defining the weighting of other organisations within the group.

Involvement of the ECA in the formatting of the regulatory framework constitutes a not premature novelty. It promotes further development of the financial market in Albania, increases the market discipline, offers a real possibility to corporations for increasing the financial leverage at lower cost and precedes further developments in the financial industry, not leaving behind the attempts for a better approximation of the regulatory framework to the economic one. At any case, the taking into account of estimations would have a positive effect on reducing the intermediation cost of the banking system, a desired benefit for further development of the economy.

Table 1 Matrix of weighting assets to sovereignty, banks and corporations

Credit risk assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Less than B	Not assessed
Risk weight (RW) to sovereignty/ central banks (%) ²⁷	0	20	50	100	150	100
RW to banks (%) (Option 1) ²⁸	20	50	100	100	150	100
RW to banks (%) (Option 2) ²⁹	20	50	50	100	150	50
Credit risk assessment	AAA to AA-	A+ to A-	BBB+ to BB-	Less than BB-		
RW to corporations (%) ³⁰	20	50	100	150	150	100

II. STANDARDISED METHOD – CREDIT RISK TO RETAIL CREDIT PORTFOLIO AND HOME LOANS

1. According to Basel proposals, claims on loans meeting the following criteria, should be regarded as retail loans, for purposes of calculating the regulatory capital. The exposures included in this portfolio may be weighted by a weight of 75 percent, except when they meet the loan criteria overdue by 90 days.

The specified criteria are as follows:

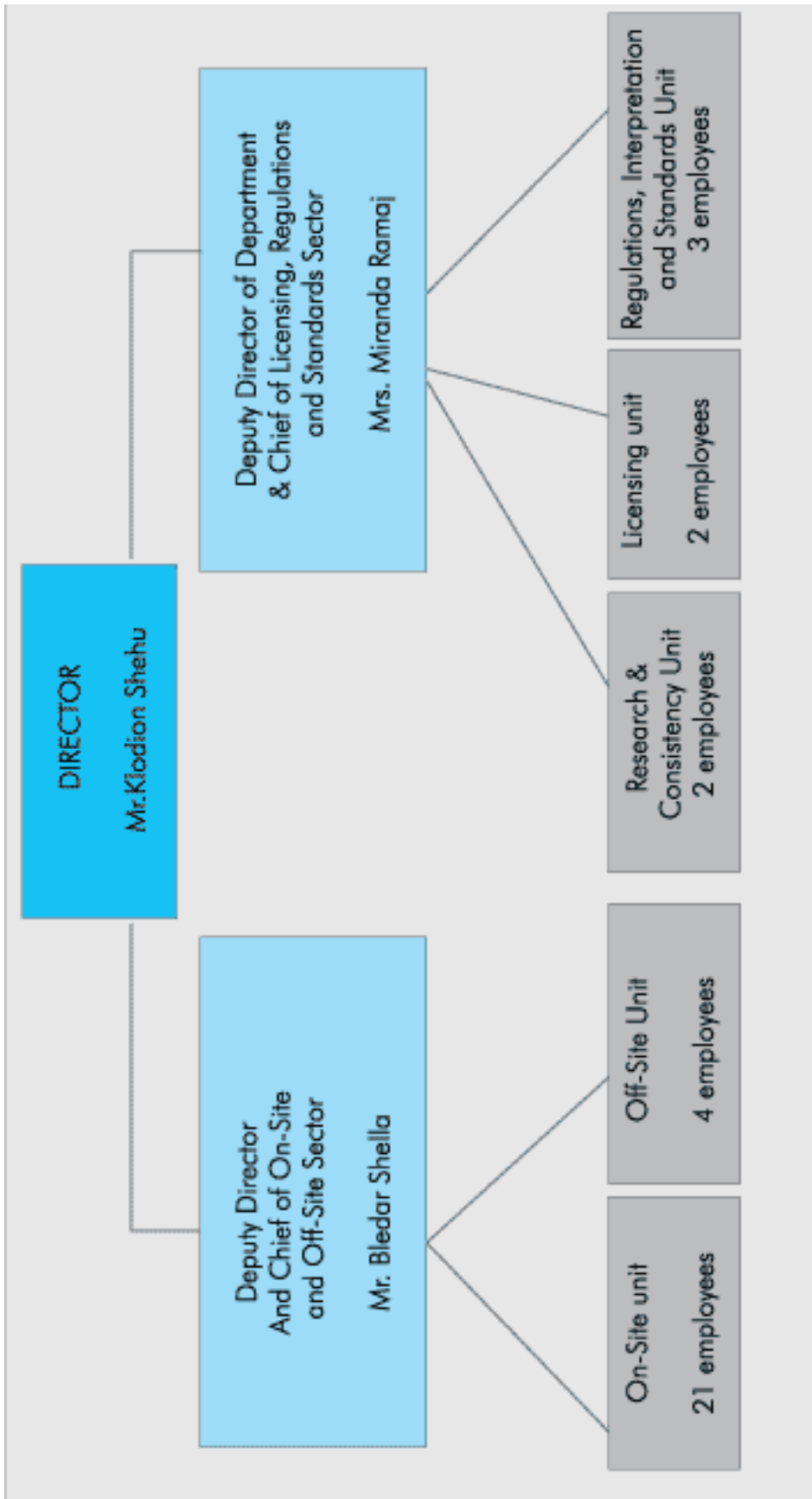
- Exposure to an individual or to a small business
- Exposure has, for instance, the form of credit cards, loans for vehicles, leasing contract, loans for studying, or any other type of personal financing.
- The portfolio is diversified in such a way as to satisfy the requirements of the regulators. For example, the placement of a numeric limit, in such a way that no exposure on consolidated/ aggregated basis should exceed 0.2 percent of retail loan portfolio.
- The maximisation of exposure against a counter party also should not exceed a certain level, for example 100 thousand euro or its counter value in any other currency.

2. Home loans, whose definition already exists in our regulatory framework and can be further improved, may also be weighted even by a weight of 35 percent. Currently, the weight applied is 50 percent. So, depending on the judgement of the domestic regulatory authority, the Basel committee has put forward a second weighting rate, which extends the risk discrimination principle and prevention of the arbitrary treatment of loans, from the viewpoint of the capital requirements even to this category of loans, making the differentiation, in this case, between home loans at lower risk and higher risk. To distinguish, within the home loan portfolio, the less risky ones, some principal criteria have to be specified, which would have to do with the following elements:

- Presence of a substantial collateral margin on loans (LTV ratio)³¹
- Strict and periodic evaluation of collateral
- Is the collateral of the first or the second grade
- Loan maturity term
- Currency type
- Fixed or variable interest rate

Three last criteria may be added because they are parameters that impact on the loan performance and on the way the banks may be influenced, either directly or indirectly. For example, from the viewpoint of direct exposure and financial stability, we would suggest that the home loans, which for example have had a smaller maturity than 10 years, have a variable interest rate and are extended in domestic currency, should be qualified for a weight of 35 percent (provided other criteria are also met). The latter is based on at least two factors: first the financial markets in Albania are not developed as appropriate and therefore, even the lek interest rate curve is difficult to be established for periods longer than two years. Second, the banks' assets in lek are not of a longer term than two years, thus exposing banks directly to the potential liquidity risk and interest rate risk, if credit would be of a fixed interest for its whole duration.

ANNEX 1. ORGANIZATIONAL CHART OF THE BANKING SUPERVISION DEPARTMENT (DECEMBER 31, 2005)



ANNEX 2. LEVEL OF ASSETS, DEPOSITS AND LOANS AS OF DECEMBER 2005 (LEK MILION)

No.	Banks	Assets	Deposits	Loans
1	RAIFFEISEN BANK	202,517.39	191,057.27	16,895.78
2	NATIONAL COMMERCIAL BANK	61,136.98	56,510.40	13,078.38
3	United Bank of Albania	4,079.84	2,545.96	1,620.72
4	ITALIAN ALBANIAN BANK	19,332.46	16,143.97	5,230.61
5	ITALIAN DEVELOPMENT BANK	1,282.34	238.02	6.24
6	TIRANA BANK	40,368.43	33,563.78	16,363.38
7	NATIONAL BANK OF GREECE (TIRANA BRANCH)	12,621.03	8,364.46	8,153.48
8	INTERNATIONAL COMMERCIAL BANK	3,118.59	2,179.82	1,501.55
9	ALPHA BANK(TIRANA BRANCH)	28,565.75	21,644.93	13,329.29
10	AMERICAN BANK OF ALBANIA	55,779.97	46,799.72	20,992.85
11	PROCREDIT BANK	24,029.70	20,454.45	10,210.34
12	FIRST INVESTMENT BANK(TIRANA BRANCH)	2,546.08	710.39	120.46
13	EMPORIKI BANK	7,532.81	3,922.65	5,128.19
14	CREDIT BANK OF ALBANIA	1,613.34	783.79	384.68
15	CREDINS BANK	16,727.35	14,434.06	6,174.05
16	POPULAR BANK	15,309.44	13,606.76	7,866.37
17	UNION BANK (NEWLY LICENSED)			
	TOTAL	496,561.49	432,960.41	127,056.37

ANNEX 3 NUMBER OF AGENCIES, BRANCHES, AND EMPLOYEES PER EACH BANK³²

No.	Banks	No. of branches	No. of agencies	No. of employees
1	RAIFFEISEN BANK	14	83	1 103
2	NATIONAL COMMERCIAL BANK	20	5	375
3	United Bank of Albania	3		51
4	ITALIAN ALBANIAN BANK		5	77
5	ITALIAN DEVELOPMENT BANK	1		14
6	TIRANA BANK	25	2	349
7	NATIONAL BANK OF GREECE (TIRANA BRANCH)		6	92
8	INTERNATIONAL COMMERCIAL BANK	4		54
9	ALPHA BANK(TIRANA BRANCH)	8	1	81
10	AMERICAN BANK OF ALBANIA	5	7	358
11	PROCREDIT BANK	16		489
12	FIRST INVESTMENT BANK (TIRANA BRANCH)		2	27
13	EMPORIKI BANK	2	1	60
14	CREDIT BANK OF ALBANIA		1	30
15	CREDINS BANK	7	2	113
16	POPULAR BANK	22		206
17	UNION BANK (NEWLY LICENSED)			
	TOTAL	127	115	3 479

ANNEX 4. BANKING SYSTEM ASSETS AND LIABILITIES (DECEMBER 2005)

CODE	DESCRIPTION	Dec-04	5-Dec
1	TOTAL ASSETS	426,440.34	496,561.49
11	Treasury and interbank transactions	308,914.15	292,217.33
111	Cash in hand	9,931.96	10,333.77
112	Transactions with the Central Bank	37,056.26	46,128.38
1121	Required reserve of central bank	35,480.11	41,662.40
1122	Other	1,576.15	4,465.98
113	Treasury bills and other bills eligible for refinancing with CB	195,379.64	175,380.40
1131	Treasury bills	195,379.64	175,380.40
1132	Other bills eligible for refinancing	0	0
1133	Reserve funds for other eligible bills for refinancing with CB	0	0
114	Transactions with banks, credit institutions and other financial institutions	66,546.29	60,374.78
1141	Current accounts	3,019.62	3,197.31
1142	Deposits with banks, credit institutions and other financial institutions	59,905.22	53,679.02
1143	Loans	1,814.72	2,599.09
1144	Other	1,806.73	899.35
13	Operations with customers (gross)	69,798.94	127,056.37
131	Loans to private sector and individuals	64,824.71	118,071.40
1311	Short-term loans	18,712.19	33,313.57
1312	Medium-term loans	24,560.70	38,818.74
1313	Long-term loans	10,983.40	29,346.71
1314	Real estate loans	10,568.42	16,532.50
1315	Finance lease contracts	0	59.89
132	Loans to public administration	0	0
1321	Current accounts	0	0
1322	Loans	0	0
1323	Other accounts	0	0
133	Other customer accounts	4,974.23	8,984.97
14	SECURITIES TRANSACTIONS	29,750.02	60,395.19
141	Fixed income securities	29,750.02	60,395.19
142	Variable income securities	0	0
143	Securities purchased and sold under REPO	0	0
144	Paid collateral	0	0
145	Received premiums	0	0
15	PROVISIONS	(1,980.90)	(1,808.46)
151	Provisions for covering losses from loans (principal)	(1,978.06)	(1,760.10)
152	Provisions for covering losses from loans (accrued interests)	(2.84)	(21.17)
153	Investment provisions	0	(27.19)
16	OTHER ASSETS	3,639.08	3,493.98
161	Other assets	2,346.91	2,498.52
162	Agent transactions	608.91	388.08
163	Inter-office accounts	70.76	78.08
164	Suspense and position accounts	612.50	529.30
1641	Suspense accounts	363.46	402.09
1642	Position accounts	249.03	127.22
165	Value added tax	0	0
17	FIXED ASSETS	7,245.89	7,263.21
171	Investments on participation equity	33.69	6.02
172	Affiliates	0	0
173	Fixed assets (net)	7,212.20	7,257.19
18	ACCRUED INTERESTS	9,073.18	7,943.86
181	Accrued interests (Class 1)	8,260.34	6,109.85
182	Accrued interests (Class 2)	349.49	701.23
183	Accrued interests (Class 3)	463.35	1,132.77
A	Total assets in foreign currency	159,563.28	204,009.58
B	Total assets of non-residents	80,304.38	84,988.10

ANNEX 5. LIST OF ENTITIES LICENSED BY THE BANK OF ALBANIA³³

BANKS AND FOREIGN BANK BRANCHES

1. ITALIAN-ALBANIAN BANK JNT.STK

License No.1/1996, dated 17.07.1998

Approved with the Bank of Albania Supervisory Council Decision No. 89, of 18.06.1998.

Certificate No. 1 "On Deposit insurance"

Director: Luigi Mastrapasqua

Address: Rruga e Barrikadave, Nr.70, Tiranë, Shqipëri

Tel: 233 965, 235 697, 235 698, 226 262

Fax: 23 30 34

2. RAIFFEISEN BANK JNT.STK.

License No.2/1998, dated 11.01.1999

Approved with the Bank of Albania Supervisory Council Decision No. 163, dated 11.12.1998

Certificate No. 2 "On Deposit insurance"

Director: Steven GRUNERUD

Address: Bulevardi "Barjram Curri", European Trade Center, Tiranë, Shqipëri

Tel. central: 226 699, 224 540, 222 669, 225 416

Fax: 275 599, 223 587, 223 695, 224 051

3. UNITED BANK OF ALBANIA JNT.STK.

License No.3/1998, dated 11.01.1999

Approved with the Bank of Albania Supervisory Council Decision No. 165, dated 11.12.1998

Certificate No. 3 "On Deposit insurance"

Director: Abdul Waheed ALAVI

Address: Bulevardi "Dëshmorët e Kombit", No.8, Tiranë, Shqipëri

Tel: 22 84 60, 22 38 73, 22 74 08

Fax: 22 84 60, 22 83 87

4. ITALIAN DEVELOPMENT BANK (FORMER DARDANIA BANK) JNT.STK.

License No.5/1998, dated 11.01.1999

Approved with the Bank of Albania Supervisory Council Decision No. 164, dated 01.12.1998

Certificate No. 4 "On Deposit insurance".

Director: Libero CATALANO

Address: Bulevardi Dëshmorët e Kombit, Ndërtesa Kullat Binjake, Tiranë, Shqipëri

Tel: 280 351 / 2 / 3 / 4 / 5

Fax: 280 356

5. NATIONAL COMMERCIAL BANK JNT.STK.

License No.6/1998, dated 11.01.1999

Approved with the Bank of Albania Supervisory Council Decision No.162, dated 11.01.1999. Certificate No. 5 "On Deposit insurance"

Director: Seyhan PENCAPLIGIL

Address: Bulevardi "Zhan D'Ark", Tiranë, Shqipëri

Tel: 25 09 55

Fax: 25 09 56

6. TIRANA BANK JNT.STK

License No.7, dated 12.09.1996

Approved with the Bank of Albania Supervisory Council Decision No.9, dated 12.09.1996.

Certificate No. 6 "On Deposit insurance"

Director: Dimitrios FRANGETIS

Address: Rruga "Dëshmorët e 4 Shkurtit"

Tel: 269 616 / 7 / 8, 233 441, 42, 43, 44, 45, 46, 47

Fax: 233 417

7. NATIONAL BANK OF GREECE (TIRANA BRANCH) JNT.STK

License No.8, dated 25.11.1996

Approved with the Bank of Albania Supervisory Council Decision No.4, dated 14.03.1996.

Certificate No. 7 "On Deposit insurance"

Director: Spiro BRUMBULLI (Local manager)

Address: Rruga "Durrësit", Godina "Comfort", Tiranë, Shqipëri

Tel: 23 36 23/24

Fax: 23 36 13

8. INTERNATIONAL COMMERCIAL BANK JNT.STK

License No.9, dated 20.02.1997

Approved with the Bank of Albania Supervisory Council Decision No.9, dated 30.04.1996.

Certificate No. 8 "On Deposit insurance"

Director: Ooi Kooi KEAT

Address: Qendra e Biznesit, Rruga "Murat Toptani", Tiranë, Shqipëri

Tel: 254 372, 256 254

Telfax: 254 368

9. ALPHA BANK (TIRANA BRANCH)

License No.10, dated 07.01.1998

Approved with the Bank of Albania Supervisory Council Decision No.01/03/96, dated 27.12.1997

Certificate No. 9 "On Deposit insurance".

Director: Andrea GALATOULAS

Address: Bulevardi "Zogu I", Nr.47, Tiranë, Shqipëri

Tel: 23 35 32, 23 33 59, 34 04 76/240 477

Tel/ Fax: 23 21 02

10. AMERICAN BANK OF ALBANIA JNT.STK.

License No.11, dated 10.08.1998

Approved with the Bank of Albania Supervisory Council Decision No.105, dated 10.08.1998. Certificate No. 10 "On Deposit insurance"

Director: Lorenzo RONCARI

Address: Rruga "Ismail Qemali" Nr.27, P.O. Box 8319, Tiranë, Shqipëri

Tel.: 24 87 53/54/55/56

Tel/ Fax: 24 87 62

11. PROCREDIT BANK JNT.STK.

License No.12, dated 15.03.1999

Approved with the Bank of Albania Supervisory Council Decision No.22, dated 03.03.1999. Certificate No. 11 "On Deposit insurance"

Director: Ralf REITEMEIER

Address: Rruga "Sami Frashëri", Tirana e Re, P.O. Box.2395, Tiranë, Shqipëri

Tel: 27 12 72/73/74/75
Telfax: 256 422

12. FIRST INVESTMENT BANK (TIRANA BRANCH) JNT.STK

License No. 13, dated 16.04.1999.

Approved with the Bank of Albania Supervisory Council Decision No.45, dated 13.04.1999. Certificate No. 12 "On Deposit insurance".

Director: Martin Tsvetkov BOGDANOV
Address: Bulevardi "Zogu I", Nr. 64, Tiranë, Shqipëri
Tel: 35 64 23, 35 64 24
Telfax: 35 64 22

13. EMPORIKI BANK (ALBANIA) JNT.STK

License No. 14, dated 28.10.1999.

Approved with the Bank of Albania Supervisory Council Decision No.105, dated 19.10.1999. Certificate No. 13 "On Deposit insurance".

Director: George CARACOSTAS
Address: Rruga "Kavajës", "Tirana Tower", Tiranë, Shqipëri
Tel: 25 87 55/56/57/58/59/60
Telfax: 25 87 52

14. CREDIT BANK OF ALBANIA JNT.STK.

License No. 15, dated 28.08.2002

Approved with the Bank of Albania Supervisory Council Decision No.66, dated 28.08.2002. Certificate No. 14 "On Deposit insurance"

Director: Kamal Abdel MONEIM
Address: Rruga "Perlat Rexhepi", Al-Kharafi Group Administration Building, Kati 1&2, Tiranë, Shqipëri
Tel.: 27 21 68; 27 21 62
Fax: 27 21 62

15. CREDINS BANK JNT.STK.

License No. 16, dated 31.03.2003

Approved with the Bank of Albania Supervisory Council Decision No.22, dated 26.03.2003. Certificate No. 15 "On Deposit insurance"

Director: Artan SANTO
Address: Rruga "Ismail Qemali", Nr.21, Tiranë, Shqipëri
Tel: 22 29 16; 23 40 96

16. POPULAR BANK JNT.STK.

License No.17, dated 16.02.2004

Approved with the Bank of Albania Supervisory Council Decision No. 06, dated 11.02.2004. Certificate No. 16 "On Deposit insurance"

Director: Edvin LIBOHOVA
Address: Rruga "Donika Kastrioti", Pallati 11/1, Kati I, Tiranë, Shqipëri
Tel: 27 27 88/89/90/91
Fax: 27 27 81
Mobile: 068 20 60 974

17. UNION BANK

License No.18, date 09.01.2006.

Approved with the Bank of Albania Supervisory Council Decision No. 101, of 28.12.2005

Certificate No. 17 "On Deposit insurance"

Director: Gazmend KADRIU

Address: Bulevardi "Zogu I", Pallati 13 katësh, përballë stacionit të trenit,
Tiranë, Shqipëri

Tel: 250 653

Fax: 250 654

NON-BANK FINANCIAL INSTITUTIONS

1. FINANCIAL UNION OF TIRANA LTD. (FUT)

License No.1, dated 08.12.1999, for conducting the following financial activities:

- Providing payment and receivable services;
- Mediating in the conduct of monetary transactions;
- Acting as a financial agent or advisor.

Director: Niko Leka; Edmond Leka
 Address: Rruga "Reshit Çollaku", Pallati "Shallvare", Sh.2, Nr.18, Tiranë, Shqipëri
 Tel: 25 06 53
 Fax: 25 06 54

2. DINERS CLUB ALBANIA LTD.

License No.2, dated 09.10.2000, for conducting the following financial activities:

- Mediating in the conduct of monetary transactions.

Director: Eni Koço
 Address: Bulevardi "Zogu I", Pallati 13 katësh, përballë stacionit të trenit, Tiranë, Shqipëri

3. ALBANIAN POST-OFFICE JNT.STK.

License No.3, dated 18.04.2001, as a "Non-bank financial institution" for conducting the following financial activities:

- Providing payment and receivable services;
- Acting as a financial agent or advisor.

Director: Arqile Goreja
 Address: Rruga "Reshit Çollaku", Nr.4, Tiranë, Shqipëri
 Tel : 22 23 15

4. "CREDINS" TIRANA JNT.STK.

License No. 4, dated 13.06.2001, as a "Non-bank financial institution" for conducting the following financial activities:

- Extending credits;
- Providing payment and receivable services;
- Mediating in the conduct of monetary transactions (foreign currency included);
- Offering guarantees;
- Acting as a financial agent or advisor (excluded herein the services set forth in points 3/a and 3/b of Article 26 of the Law "On Banks in the Republic of Albania").

Director: Migena Roshal
 Address: Rruga "Dëshmorët e 4 Shkurtit", Tiranë, Shqipëri
 Tel: 22 29 16; 23 40 96

5. MOUNTAIN AREA FINANCING FUND

License No.5, dated 29.03.2002, as a "Non-bank financial institution" for conducting the following financial activities:

- Extending credits.

Founded by the Decision of the Council of Ministers of Republic of Albania

Director: Arben Jorgji, Executive Manager

Address: Rruga "Mustafa Matohiti", Vila nr.12, Tiranë, Shqipëri

Tel: 25 06 33

6. "AK – INVEST" JNT.STK.

License No.7, dated 03.12.2003, as a "Non-bank financial institution" for conducting the following financial activities:

- Providing payment and receivable services;
- Mediating in the conduct of monetary transactions (foreign currency included);
- Acting as a financial agent or advisor.

Director: Ilir Adili

Address: Rruga "Ded Gjon Luli", Nr.2/3, Tiranë, Shqipëri

Tel: 24 01 47

FOREIGN EXCHANGE BUREAU

1. "JOARD" LTD, FOREIGN EXCHANGE BUREAU, TIRANA
 License: No. 1, dated 01.10.1999.
 Address: Rruga "Ded Gjon Luli", Nr.2, Tiranë, Shqipëri
 Cambists: Josif Kote, Pajtim Kodra

2. "AMA" LTD, FOREIGN EXCHANGE BUREAU, DURRES
 License: No. 2, dated 01.10.1999.
 Address: Rruga "Tregtare", Lagja 3, Durrës, Shqipëri
 Cambists: Mirlinda Ceka, Ilir Hoxha

3. "ARIS" LTD, FOREIGN EXCHANGE BUREAU, TIRANA
 License: No. 3, dated 01.10.1999.
 Address: Rruga "Luigj Gurakuqi", Tiranë, Shqipëri
 Cambists: Ardian Goci, Ismet Noka

4. "UNIONI FINANCIAR TIRANË" LTD, FOREIGN EXCHANGE BUREAU
 License: No. 4, dated 01.10.1999.
 Address: Rruga "Reshit Çollaku", Pallati "Shallvare", Shk.2/18, Tiranë, Shqipëri
 Cambists: Arjan Lezha (Agency manager), Albert Sara, Dhimitër Papadhopulli, Genta Angjeli (Agalliu), Piro Teti, Flora Simixhi, Petrika Mano (Agency manager), Lindita Shala, Mirela Bakalli, Anila Demiri, Emili Bakalli (Nako), Astrit Sferdelli, Mirela Kaiku, Erisa Emiri

5. "AGLI" LTD, FOREIGN EXCHANGE BUREAU, TIRANA
 License: No. 5, dated 01.10.1999.
 Address:
 Agency 1: Rruga "Islam Alla", Nr.1, Tirana.
 Agency 2: Rruga "Kavajës", pranë Pastiçeri "Rinia", Tiranë, Shqipëri
 Cambists: Kujtim Nina (Director), Agim Cani, Selim Luli

6. "EXCHANGE" LTD, FOREIGN EXCHANGE BUREAU, TIRANA
 License: No. 08, dated 24.11.1999.
 Address: Rruga "Durrësit", Nr. 170, Tiranë, Shqipëri
 Cambist: Ivan Pavllovski, Ervis Myftari

7. "UNISIX" LTD, FOREIGN EXCHANGE BUREAU, KORÇA
 License: No. 09, dated 26.11.1999.
 Address: Bulevardi "Republika", Pallati 4, Korçë, Shqipëri
 Cambists: Ernest Golka, Eli Bode

8. "EKSPRES J & E" LTD, FOREIGN EXCHANGE BUREAU, DURRËS
 License: No. 10, dated 26.11.1999.
 Address: Lagja 11, Rruga "Prokop Mexsi" (pranë Hotel "Durrësi"), Durrës, Shqipëri.
 Cambists: Kostandin Ekonomi, Entela Ekonomi

9. "ILIRIA '98" LTD, FOREIGN EXCHANGE BUREAU, TIRANË
 License: No. 12, dated 25.02.2000.
 Address: Sheshi "Skënderbej", Teatri i Kukullave, Tiranë, Shqipëri
 Cambists: Edmond Ymeri, Ali Topalli, Ilir Janku

10. "SERXHIO" LTD, FOREIGN EXCHANGE BUREAU, ELBASAN
 License: No. 14, dated 07.04.2000.
 Address: Lagja "Luigj Gurakuqi", Rruga "11 Nëntori", P. 70, Nr.14, Elbasan, Shqipëri
 Cambists: Amarildo Canoku

11. "ALBTUR" LTD, FOREIGN EXCHANGE BUREAU, TIRANA

License: No. 15, dated 07.04.2000.
 Address: Bulevardi "Zogu I", Pallati 32, Shk.1 (përballë bankës "Tirana"),
 Tiranë, Shqipëri
 Cambists: Albert Rahmani, Artur Rahmani

12. "R & M" LTD, FOREIGN EXCHANGE BUREAU, TIRANA

License: No. 16, dated 22.05.2000.
 Address: Rruga "Punëtorët e Rilindjes", Pallati 182, Tiranë, Shqipëri
 Cambists: Edmond Stepa, Miranda Stepa

13. "T & E" LTD, FOREIGN EXCHANGE BUREAU, DURRËS

License: No. 18, datë 11.06.2000.
 Address: Lagja 4, Rruga "9 Maji", Durrës, Shqipëri
 Cambist: Shpëtim Hysa

14. "SHIJAK 2000" LTD, FOREIGN EXCHANGE BUREAU, SHIJAK

License: No. 19, dated 24.11.2000.
 Address: Lagja "Popullore", Shijak, Shqipëri
 Cambists: Nazmi Ademi

15. "MANUSHI" LTD, FOREIGN EXCHANGE BUREAU, TIRANA

License: No. 22, dated 18.04.2001.
 Address: Bulevardi "Zogu I", Qendra e Biznesit "VEVE", Tiranë, Shqipëri
 Cambist: Roland Manushi

16. "UNIONI SELVIA" LTD, FOREIGN EXCHANGE BUREAU, TIRANA

License: No. 23, dated 21.05.2001.
 Address: Rruga "Sami Frasheri", Pallati 11, shk. 4, ap. 29, Tiranë, Shqipëri
 Cambists: Denis Mereçoza

17. "KALENJA" LTD, FOREIGN EXCHANGE BUREAU, TIRANA

License: No. 24, dated 29.06.2001.
 Address: Rruga "Kavajës" (pranë Ambasadës Turke), Tiranë, Shqipëri
 Cambists: Hair Shametaj, Fatmir Shametaj, Redina Shametaj

18. "TILBA" LTD, FOREIGN EXCHANGE BUREAU, ELBASAN

License: No. 25, dated 30.09.2001.
 Address: Lagja "Luigj Gurakuqi", Bulevardi "Qemal Stafa", Njësia nr.12,
 Elbasan, Shqipëri
 Cambists: Kristaq Bako, Vjollca Bako

19. "ANAGNOSTI" LTD, FOREIGN EXCHANGE BUREAU, TIRANA

License: No. 26, dated 31.10.2001
 Address:
 Bureau 1: Bulevardi "Zogu I", Pallati 97, Shk.3, Ap, 28, Tiranë, Shqipëri
 Cambists: Jani Anagnosti, Odise Anagnosti, Edlira Anagnosti
 Bureau 2: Rruga "Kajo Karafili", Nr.11, Tiranë, Shqipëri
 Cambist: Fredi Cami

20. "KO-GO" LTD, FOREIGN EXCHANGE BUREAU., TIRANA

License: No. 27, dated 12.11.2001
 Address: Rruga "Vaso Pasha", Pallati 16, Shk.2, Ap. 9, Tiranë, Shqipëri
 Cambists: Mihal Konomi, Përparim Goxhaj

21. "ALB- FOREX" LTD, FOREIGN EXCHANGE BUREAU., TIRANA

License: No. 28, dated 22.11.2001.

Address:
 Bureau 1: Rruga "Abdyl Frashëri, Nr.3, Tiranë, Shqipëri
 Cambists: Almir Duli, Agim Xhemo
 Bureau 2: Rruga "Mine Peza", Pallati 102, Shk.1 (pranë Bar "Grand"), Tiranë, Shqipëri
 Cambist: Fatmir Baholli

22. "L&N" LTD, FOREIGN EXCHANGE BUREAU., TIRANA
 License: No. 29, dated 22.11.2001
 Address: Rruga "Muhamet Gjollështa", ish-gjelltorja tek sheshi "ATATURK", Tiranë, Shqipëri
 Cambist: Leonora Mihalcka

23. "EXHANGE ALOG" LTD, FOREIGN EXCHANGE BUREAU, TIRANA
 License: No. 31, dated 22.11.2001
 Address: Rruga "Mine Peza" (përballë Selisë së Vatikanit), Tiranë, Shqipëri
 Cambists: Almida Sterio, Eduard Andoni, Elida Hasamemi

24. "BASHKIMI 2001" LTD, FOREIGN EXCHANGE BUREAU., TIRANA
 License: No. 35, dated 12.12.2001
 Address: Rruga "Kavajës" (Pastiçeri "Rinia"), Tiranë, Shqipëri
 Cambists: Bashkim Shametaj, Luan Shametaj

25. "ARJON 2002" LTD., FOREIGN EXCHANGE BUREAU, ELBASAN
 License: No. 36, dated 14.12.2001.
 Address: Lagja "Kongresi i Elbasanit", Bulevardi "Qemal Stafa", Pallati 9-katësh, Elbasan, Shqipëri
 Cambists: Arben Kovaçi, Besnik Lulja

26. "ALAKTH" LTD., FOREIGN EXCHANGE BUREAU, TIRANA
 License: No. 42, dated 18.01.2002.
 Address: Rruga "Dibrës", Nr.105/1, Tiranë, Shqipëri
 Cambists: Kosta Papa, Arben Memko, Lorenc Konomi, Thoma Konomi, Aleko Plaku

27. "FORMAT" LTD., FOREIGN EXCHANGE BUREAU, TIRANA
 License: No. 43, dated 21.01.2002.
 Address: Rruga "Durrësit", Pallati 85, Shk.1, Ap.1, Tiranë, Shqipëri
 Cambists: Diana Lemi, Egon Sinani

28. "TRI URAT" LTD., FOREIGN EXCHANGE BUREAU, ELBASAN
 License: No. 44, dated 05.02.2002.
 Address: Lagja "29 Nëntori", pranë Filialit të Postës, Elbasan, Shqipëri
 Cambists: Fahri Sanco, Ismail Bejta

29. "BESA 2001" LTD., FOREIGN EXCHANGE BUREAU, TIRANA
 License: No. 46, dated 15.02.2002.
 Address: Rruga "Myslym Shyri", Nr.25, Tiranë, Shqipëri
 Cambists: Belul Lleshi, Vladimir Avda, Mimoza Avda

30. "MARIO" LTD., FOREIGN EXCHANGE BUREAU, SARANDA
 License: No. 47, dated 14.03.2002
 Address: Lagja 1, pranë ish-Komitetit Ekzekutiv të rrethit, Sarandë, Shqipëri
 Cambists: Vangjel Gramozi, Blerim Dhima

31. "DROGU" LTD., FOREIGN EXCHANGE BUREAU, TIRANA
 License: No. 49, datë 23.04.2002
 Address: Rruga "Vaso Pasha", Kulla 1(pas pallatit "Agimi"), Kati I, Tiranë, Shqipëri
 Cambists: Shkëlqim Drogu, Kostandin Koteci

32. "HYSEN-C" LTD., FOREIGN EXCHANGE BUREAU, LAÇ
 License: No. 50, dated 23.04.2002
 Address: Lagja nr.3, përballë Komisarariatit të Policisë, Laç, Shqipëri
 Cambist: Cen Hyseni, Violeta Hyseni, Miranda Palaj
33. "UNIONI FIER" LTD., FOREIGN EXCHANGE BUREAU, FIER
 License: No. 51, dated 08.05.2002
 Address: Lagja "15 Tetori", Rruga "Kastriot Muça", Fier, Shqipëri
 Cambist: Gjergj Dulaj, Lartim Isufaj
34. "TAXI EKSPRES" LTD, FOREIGN EXCHANGE BUREAU, ELBASAN
 License: No. 52, dated 20.05.2002
 Address: Rruga "Sami Frasherit", nr. 11 (pranë shkollës "Edith Durhan", Tiranë, Shqipëri
 Cambists: Arben Sharra, Sokol Kaleci
35. "GLEAR" LTD., FOREIGN EXCHANGE BUREAU, SHIJAK
 License: No. 55, dated 23.07.2002.
 Address: Lagja "Kodër", Shijak, Durrës, Shqipëri
 Cambists: Argjend Calliku, Afërdita Calliku
36. "POSTA SHQIPTARE" JNT, STK., FOREIGN EXCHANGE BUREAU JNT.STK. TIRANA
 License: No. 56, dated 28.08.2002
 Address: Rruga "Reshit Çollaku", nr.4, Tiranë, Shqipëri
37. "UNIONI BALLSH" LTD., FOREIGN EXCHANGE BUREAU, BALLSH
 License: No. 57, dated 11.09.2002
 Address: Rruga "8 Nëntori", Ballsh, Shqipëri
 Cambists: Luan Zenelaj, Lavdimir Zenelaj
38. "ESLULI" LTD., FOREIGN EXCHANGE BUREAU, TIRANA
 License: No. 58, dated 17.10.2002.
 Address: Rruga "Reshit Çollaku", Pallati "Shallvare", Shk.4/1, Tiranë, Shqipëri
 Cambists: Selim Luli, Kleomen Gjiknuri
39. "DENI&KRISTI-2002" LTD., FOREIGN EXCHANGE BUREAU, TIRANA
 License: No. 61, dated 02.06.2003.
 Address: Rruga "Myslym Shyri", Pallati 60, Ap.3, Tiranë, Shqipëri
 Cambist: Maksim Çeku
40. "YLDON" LTD., FOREIGN EXCHANGE BUREAU, TIRANA
 License: No. 62, dated 03. 06.2003.
 Address: Rruga "Qemal Stafa", Pallati 382/2/2, Tiranë, Shqipëri
 Cambist: Ylli Ndroqi, Sabit Lika, Suela Maraku, Enkeleda Selamaj
41. "BILLI" LTD., FOREIGN EXCHANGE BUREAU, TIRANA
 License: No. 63, dated 16. 02.2004.
 Address: Sheshi "Wilson", Pallati i ri në kryqëzimin e Tiranës së Re, Tiranë, Shqipëri
 Cambist: Sybi Cenolli
42. "I.S.N." LTD., FOREIGN EXCHANGE BUREAU, TIRANA
 License: No. 66, dated 06.05.2004.
 Address: Rruga e Kavajës, Pallati 3, Kati I, Tiranë, Shqipëri
 Cambists: Nexhmi Uka, Salandi Brojaj
43. "ARIABA" LTD., FOREIGN EXCHANGE BUREAU, TIRANA
 License: No. 67, dated 07.06.2004.

Address: Rruga "Abdyl Frashëri", pranë "Librit Universitar", Kati I, Shk.5, Tiranë, Shqipëri
 Cambists: Agim Xhemo, Astrit Hado

44. "ALBACREDITS" LTD., FOREIGN EXCHANGE BUREAU, TIRANA
 License: No. 68, dated 13.07.2004.
 Address: Rruga "Dedë Gjon Luli", Nr. 5, Tiranë, Shqipëri
 Cambists: Ermira Skënderi, Engjëll Skënderi, Burhan Kodra, Shqiponja Spahiu

45. "ALB-KREDIT" LTD., FOREIGN EXCHANGE BUREAU, TIRANA
 License: No.69, dated 19.07.2004.
 Address: Rruga "Kongresi i Përmetit", Nr.2, Tiranë, Shqipëri
 Cambists: Arben Cani, Vasil Marto, Rudina Muskaj, Valbona Kadriu, Teuta Koltarka, Hajredin Toca, Dolorez Arapi (Behbi)

46. "OMEGA" LTD., FOREIGN EXCHANGE BUREAU, TIRANA
 License: No. 72, dated 20.12.2004
 Address: Rruga "Abdyl Frashëri", Pallati 1, Shk. 2, Ap. 10, Tiranë, Shqipëri
 Cambists: Mihallaq Peko

47. "ELBA 2005" LTD., FOREIGN EXCHANGE BUREAU, TIRANA
 License: No. 73, dated 28.04.2005
 Address: Bulevardi "Bajram Curri", Pallatet "Agimi", Nr.16, Tiranë, Shqipëri
 Cambists: Kujtim Elbasani

48. "JONADA – 05" LTD., FOREIGN EXCHANGE BUREAU, TIRANA
 License: No. 74, dated 27.06.2005
 Address: Rruga "Kavajës", Pallati 185, Shk. 2, Ap. 09, Tiranë, Shqipëri
 Cambists: Liliana Zyfi, Pëllumb Zyfi

49. "BASHA – N.B." LTD., FOREIGN EXCHANGE BUREAU, ELBASAN
 License: No. 75, dated 08.07.2005
 Address: Lagja "Shenkoll", Rruga "Thoma Kaleshi", Pallati 110, shk. 1, kati i parë, Elbasan, Shqipëri
 Cambists: Nashifer Basha, Çlirim Basha, Sonila Alla

50. "ÇELA 2005" LTD., FOREIGN EXCHANGE BUREAU, LUSHNJË
 License: No. 76, dated 02.08.2005
 Address: Lagja "Çlirim", Lushnjë, Shqipëri
 Cambists: Bledar Çela

51. "I & K 2005" LTD., FOREIGN EXCHANGE BUREAU, LEZHË
 Licence: No. 77, dated 09.09.2005
 Address: Lagjia "Beselidhja", Pallati 73, Lezhë, Shqipëri
 Cambists: Ilir Malaj

52. "EUROTOURS" LTD., FOREIGN EXCHANGE BUREAU, TIRANA
 License: No. 78, dated 17.10.2005
 Adresa: Rruga "Reshit Çollaku", Nr. 2/18, Pallatet "Shallvare", Tiranë, Shqipëri
 Cambists: Albert Cara, Ilir Stafa

53. "A.B.I. EXCHANGE" LTD., FOREIGN EXCHANGE BUREAU, TIRANE
 License: No. 79, dated 17.02.2006
 Address: Bulevardi "Zog I", Godina "Zëri i Popullit", Tiranë, Shqipëri
 Cambists: Ilir Doçi, Suela Dedaj

54. "REGENCY INTERNATIONAL CASINO TIRANA" LTD., FOREIGN EXCHANGE BUREAU, TIRANA

License: No. 80, dated 06.03.2006
 Address: Rruga "Dëshmorët e 4 Shkurtit", Parku Rinia, Tiranë, Shqipëri
 Cambists: Rajmonda Lami; Florjan Lami; Bandill Molla; Suzana Aliu; Aides Goga; Majlinda Jupas, Rexhep Halili, Murat Haruni, Gjergji Selala, Marsela Elmazaj, Vjollca Nurka, Julian Llazri, Andi Hidi, Enkeleda Kola, Leonard Gjonaj, Almir Dhimitri, Elvis Marku, Donald Mihal, Albana Sherifi, Armand Çadra, Eriselda Dhamo

55. "ARBËR F" LTD., FOREIGN EXCHANGE BUREAU, TIRANE

License: No. 81, dated 07.03.2006
 Address: Rruga "Kavajës", Pallati 3, Kati i Parë, ose ish Gudeni, Tiranë, Shqipëri
 Cambists: Florina Jaho, Bukurosh Jaho

56. "EURO 2006" LTD., FOREIGN EXCHANGE BUREAU, DURRES

License: No. 82, dated 12.04.2006
 Address: Lagjia nr. 4, Rruga "Migjeni", pranë Poliklinikës Qendrore, Durrës, Shqipëri
 Cambists: Hysni Bagaça, Medi Dyrmishi

57. "VOSKOP" LTD., FOREIGN EXCHANGE BUREAU, KORCE

License: No. 83, dated 13.04.2006
 Address: Lagjia nr. 7, Blloku "8 Nëntori", Korçë, Shqipëri
 Cambists: Anesti Leska, Rexhep Mankolli

58. "KRISTIAN 2002" LTD., FOREIGN EXCHANGE BUREAU, LEZHE

License: No. 84, dated 31.05.2006
 Address: Lagjia "Beselidhja", përballë Degës së bankës "Raiffeisen", Lezhë, Shqipëri
 Cambists: Sander Marashi

59. "PRE-LAND" LTD., FOREIGN EXCHANGE BUREAU, LEZHE

License: No. 85, dated 31.05.2006
 Address: Lagjia "Skënderbej", ish-lokali "Gjahtari", Lezhë, Shqipëri
 Cambists: Roland Kola

60. "SHQIPONJA VL" LTD., FOREIGN EXCHANGE BUREAU, VLORE

License: No. 86, dated 16.06.2006
 Address: Pallati i Kulturës Labëria, përballë portit detar, Vlorë, Shqipëri
 Cambists: Vjollca Musaraj
 Tel: 033 2 46 42

61. "BONVOYAGE" LTD., FOREIGN EXCHANGE BUREAU, DURRËS

License: No. 87, dated 20.06.2006
 Address: Lagja 11, Bulevardi kryesor Durrahu, Ap.243. Durrës, Shqipëri
 Cambists: Petrit Shtaro, Jusuf Milaqi
 Tel: 052 3 81 16; 052 3 73 89

SAVINGS-CREDIT ASSOCIATION UNIONS

1. "JEHONA" SAVINGS-LOANS ASSOCIATION UNION TIRANA

License: No.1, dated 27.06.2002.

Address: Rruga "Kajo Karafili", Nr.26/1, Tiranë, Shqipëri

Chairman of the Board of Directors: Vojsava Rama

2. "albanian savings-LOANS union" SAVINGS-LOANS ASSOCIATION UNION,
Tirana

License: No.2, dated 09.08.2002.

Address: Rruga "Ismail Qemali", Nr.32, Tiranë, Shqipëri

Chairman of the Board of Directors: Zana Konini

REPRESENTATIVE OFFICES OF FOREIGN BANKS

1. REPRESENTATIVE OFFICE OF THE POPULAR BANK OF PUGLIA IN ALBANIA

License: No.1, dated 02.07.2003.

Representative: Pasquale Guido Vergine

Address: Sheshi "Skënderbej", Pallati i Kulturës, Kati III, Tiranë, Shqipëri

ANNEX 6. LIST OF BANKING SUPERVISION REGULATIONS IN FORCE AS OF END OF 2005

- 1- Regulation "On the size and fulfillment of minimum initial capital, on the permitted activities of licensed banks and branches of foreign banks", approved by the Supervisory Council Decision No. 51, dated 22.04.1999.
- 2- Guideline "On internal audit in banks", approved by the Supervisory Council Decision No. 107, dated 03.11.1999.
- 3- Regulation "On foreign currency open positions", approved by the Supervisory Council Decision No. 59, dated 05.05.1999, amended by the Supervisory Council Decision No. 118, dated 01.12.1999.
- 4- Regulation "On cooperative banks", approved by the Supervisory Council Decision No. 25, dated 29.03.2000.
- 5- The Supervisory Council Decision of the Bank of Albania No.26, dated 29.03.2000 "On exemption of some entities from the application of the provisions of the Law "On Banks in the Republic of Albania".
- 6- Guideline "On interest rate risk management", approved by the Supervisory Council Decision No.61, dated 05.07.2000.
- 7- Regulation "On bank's investments in the equity of commercial companies", approved by the Supervisory Council Decision No.42, dated 06.06.2001.
- 8- Guideline "On certificates of deposits", approved by the Supervisory Council Decision No. 79, dated 03.10.2001.
- 9- Regulation "On controlling significant risks", approved by the Supervisory Council Decision No. 78, dated 07.07.1999, and amended by the Supervisory Council Decisions: No. 119, dated 01.12.1999 and No.92, dated 05.12.2001.
- 10- Regulation "On market risks", approved by the Supervisory Council Decision No. 72, dated 02.06.1999, amended by the Supervisory Council Decision No. 98, dated 19.12.2001.
- 11- Regulation "On credit risk management", approved by the Supervisory Council Decision No.12 dated 21.02.2001, amended by the Supervisory Council Decision No. 32, dated 08.05.2002.
- 12- Guideline "On banks' conservatorship and receivership", approved by the Supervisory Council Decision No.45, dated 12.06.2002.
- 13- Guideline "On banks' liquidity", approved by the Supervisory Council Decision No.04, dated 19.01.2000, amended by the Supervisory Council Decision No. 08, dated 12.02.2003.
- 14- Regulation "On licensing the savings-credit associations", approved by the Supervisory Council Decision No. 11, dated 27.02.2002 and amended by the Supervisory Council No. 09, dated 12.02.2003.
- 15- The Supervisory Council Decision No. 58, dated 24.07.2002, approved to add the "banking activity related to gold and precious metals" to the permitted banking activities.
- 16- Regulation "On licensing the foreign exchange bureaus", approved by the Supervisory Council Decision No. 65, dated 30.07.2003.
- 17- Guideline "On reporting the foreign exchange operations", approved by the Supervisory Council Decision No. 69, dated 30.07.2003.
- 18- Regulation "On licensing the non-bank financial institutions", approved

- by the Supervisory Council Decision No. 96, dated 26.11.2003.
- 19- Regulation "On foreign exchange activities", approved by the Supervisory Council Decision No. 64, dated 30.07.2003, amended by the Supervisory Council Decision No.101, dated 10.12.2003.
 - 20- Regulation "On bank's relations with related persons", approved by the Supervisory Council Decision No. 100, dated 10.12.2003.
 - 21- Regulation "On authorized chartered auditors of the banks", approved by the Supervisory Council Decision No. 06, dated 29.01.2003, amended by the Supervisory Council Decision No.102, dated 10.12.2003.
 - 22- Regulation "On banks and branches of foreign banks' administrators" approved by the Supervisory Council Decision No. 120, dated 30.12.2003.
 - 23- Regulation "On money laundering prevention" approved by the Supervisory Council Decision No.10, dated 25.02.2004.
 - 24- Regulation "On granting a license to conduct banking activity in the Republic of Albania", approved by the Supervisory Council Decision No. 71, dated 11.09.2002 and revised by the Supervisory Council Decision No.03, dated 26.01.2005.
 - 25- Regulation "On supervision of electronic banking transactions", approved by the Supervisory Council Decision No.28, dated 30.03.2005.
 - 26- Regulation "On supervision norms of non-bank entities conducting financial activity", approved by the Supervisory Council Decision No. 60, dated 05.07.2000 and amended by the Supervisory Council Decision No.31, dated 27.04.2005.
 - 27- The reporting system of the non-bank entities conducting financial activities approved by the Supervisory Council Decision No.32, dated 27.04.2005.
 - 28- Guideline "On regulatory capital", approved by the Supervisory Council Decision No. 57, dated 05.05.1999 and amended by the Supervisory Council Decisions No.21, dated 24.03.2004, No. 21 dated 24.03.2004 and No. 45, dated 08.06.2005.
 - 29- Regulation "On capital adequacy ratio", approved by the Supervisory Council Decision No. 58 dated 05.05.1999 and amended by the Supervisory Council Decisions No.86, dated 07.11.2001; No.72, dated 11.09.2002; No. 30, dated 16.04.2003; No. 82, dated 08.10.2003; No. 22, dated 24.03.2004; No.22, dated 24.03.2004 and No. 46, dated 08.06.2005.
 - 30- The reporting system of the savings-credit associations, approved by the Supervisory Council Decision No.44, dated 08.06.2005.
 - 31- Regulation "On supervision of the savings-credit associations", approved by the Supervisory Council Decision No. 43, dated 08.06.2005.
 - 32- Regulation "On consolidated supervision of banks", approved by the Supervisory Council Decision No. 68, dated 28.07.2005.
 - 33- Regulation "On licensing the non-bank financial institutions", approved by the Supervisory Council Decision No. 96, dated 26.11.2003, amended with decision No. 87, 88, of 16.11.2005
 - 34- Guideline "On minimum technical and security terms of work premises at the entities licensed by the Bank of Albania" approved by the Supervisory Council Decision No. 102, dated 28.12.2005

NOTES

* Tables and charts, whose source is not cited, are those having the Bank of Albania as their source.

¹ Supervisory Council decision No. 4, dated 26.01.2005 "On specifying the terms of meeting the requirement for required capital rise".

² Supervisory Council decision No.31, dated 27.04.2005.

³ Supervisory Council decision No.45, dated 08.06.2005.

⁴ The sale was approved by the Supervisory Council of the Bank of Albania on March 03.05.2006.

⁵ The ownership transfer was approved by the Supervisory Council of the Bank of Albania on 24.05.2006

⁶ Direct control means that the amount of capital is over 50 percent.

⁷ The adjustment of passing the Credins Bank from G1 to G2 and of the Alpha Bank from G3 to G2 is made in the distribution of the number of banks and agencies according to peer groups.

⁸ According to INSTAT, the population of Albania was 3,102,777 people in 2003, and 3,119,543 in 2004 and 3,134,982 in 2005.

⁹ While the credit outstanding in ALL was increased by ALL 17.5 billion or 128 percent, the one in foreign currency recorded a growth by ALL 40.1 billion or 71 percent.

¹⁰ This indicator is estimated at 1 percent, from 1.4 percent at end of 2004.

¹¹ Net non-performing loans / regulatory capital ratio is estimated to 4.3 percent, from 4.8 percent at end of 2004.

¹² Net outstanding of non-performing loans of the banking system is about ALL 1.2 billion, from 976 million at end of 2004.

¹³ These ratios are liquid assets to total assets and short-term assets to short-term liabilities.

¹⁴ Banks have more liquid assets invested in treasury bills and more placements at third parties.

¹⁵ Only two banks with open positions above the regulatory level in Euro are excluded here.

¹⁶ The percentage weights of the paid-in capital are calculated considering the revaluation differences as well.

¹⁷ CAR is estimated as a ratio of the regulatory capital to risk-weighted assets expressed in percentage.

¹⁸ The indicator includes four categories of assets reflected in the table with risk weighted accounting value, respectively with 0 per cent, 20 per cent, 50 per cent, and 100 per cent.

¹⁹ These incomes consist of the net income amount from the main operation and other operations, without deducting operation expenses.

²⁰ United Nations (1993), System of National Accounts 1993, New York; Eurostat, 1996, European System of Accounts: ESA 1995, Luxembourg; IMF (2004), Compilation Guide on Financial Soundness Indicators, Washington D. C..

²¹ Non-bank financial institution includes financial companies, other intermediaries and leasing companies.

²² For the first quarter, the assets of the Albanian Post Office are not

included.

²³ The total of assets of the financial system is obtained from monetary statistics and is composed of assets of the non-bank institutions, of the SLAs and their Unions, of banks.

²⁴ Wan Sin Long "The New Basel Capital Accord and Its Supervisory Inspirations".

²⁵ Basel practices and standards are not mandatory for being implemented by supervisory authorities of respective countries.

²⁶ Member countries are: Belgium, Canada, France, Germany, Italy, Japan, Luxemburg, Holland, Sweden, Switzerland, England, and United States of America.

²⁷ According to the judgement of the local regulatory authority, a smaller weight may be applied for exposing banks to sovereignty, central bank in domestic currency.

²⁸ All banks that operate under the same jurisdiction, will take the weighting of a lower category than the one of exposures to sovereignty at the same jurisdiction. However, concerning the claims on banks that operate in jurisdiction with weighting for the sovereignty BB + to B- and for banks that operate in unclassified countries, the weighting must not be higher than 100%.

²⁹ This option bases the weighting in the estimations made to banks from ECA (external credit agencies), where claims on unclassified banks may be weighted by 50% risk.

³⁰ No claim on an unclassified corporation should be given a better weighting than the one of the country where it operates.

³¹ Loan to value ratio.

³² Here are included only branches and agencies, which have received approval by the Bank of Albania.

³³ As of June 30, 2005 .