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Sheshi "Skënderbej", Nr.1, Tirana, Albania

Tel.: + 355 4 2419301/2/3; + 355 4 2419401/2/3

Fax: + 355 4 2419408

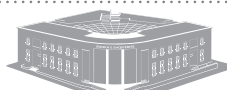
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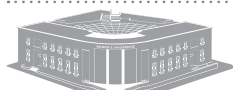
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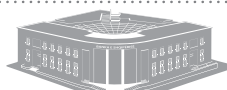
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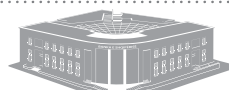




1 THE FUNCTION OF SUPERVISION

The main objective of the Function of Supervision of the Bank of Albania (BoA) is early identification of main risks, such are: credit risk, liquidity risk, operational risk, interest rate risk, capital and profitability risk, reputational risk, money laundering and financing of terrorism risk. The focus is on the assessment of internal control and the efficiency of corporate governance, being important risk-mitigating factors in the whole sphere of the activity of banks in particular, but also of non-bank financial institutions licensed by the Bank of Albania.

Timely action and effective regulatory measures through ongoing supervision, arising from the assessment of banks supervision and beyond, and their implementation, remain important steps to successfully finalize the ultimate goal - preserving the soundness of financial entities.



2. SUPERVISION HIGHLIGHTS IN 2022

STRUCTURAL DEVELOPMENTS

Inflationary pressures, due to international developments dictated the performance of banking activity over 2022. The increase in key interest rates from central authorities, as a response to upsurge in prices, drove to rising interest rates on both banking and financial products. Credit portfolio of banks, despite the elevated price of loans, continued to grow over the course of previous year by 6.55%. In addition to the growth of this portfolio, its quality has been improving, mainly on the back of the reduced volume of non-performing loans by 5.8%.

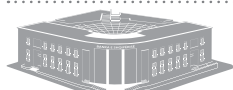
The further consolidation of the banking activity where one of the banks in the domestic market, OTP bank, purchased the shares of Alpha Bank in Albania, is one of the most important developments in 2022. This process was concluded with the complete absorption of Alpha Bank's activity. Thus, since December 2022, the Albanian banking system consists of 11 banks.

Meanwhile, other changes were also carried out in the share structures, where the Eurosig Company took possession of the controlling package of shares of the United Bank of Albania. This development led the share of banks with Albanian capital reaches at 33.8% of the total assets of the banking system. Banks with Albanian capital have registered a stable growth over the last 3 years, further boosting the banking intermediation process through lending to the domestic economy.

RISING INTEREST RATES

International financial developments, under the impact of the war in Ukraine, affected in an unfavourable manner the banking activity. Inflationary pressures triggered rising interest rates. This increase was more concentrated in the second half of year. These developments resulted in increased credit costs, and consequently may trigger difficulties in repaying loans with variable interest rates. To this end, the Bank of Albania started an open discussion with banks on this potential risk, by requiring them to conduct detailed analyses on the potential effects that may implicate their financial position through stress test exercises under various assumed scenarios.

Meanwhile, this situation, in a theoretical view, is expected to drive up non-performing loans, as materialised in the analyses submitted by banks themselves. Results about the non-performing loans ratio, as at to the end of 2022, show



this risk still remains non-materialised. Nevertheless, the risk on the increase in interest rates remains present in view of developments during 2023. Being aware of this risk, the Bank of Albania remains attentive to these developments with an active approach to prevent possible adverse developments through undertaking the adequate measures.

ASSESSMENT OF THE EQUIVALENCE OF THE REGULATORY SUPERVISORY FRAMEWORK

An independent evaluation of the current regulatory framework of supervision was conducted with the technical assistance of the European Bank for Reconstruction and Development (EBRD) and PriceWaterhouseCooper (PwC), through the adoption of a comprehensive approach. At the beginning of 2022, a revaluation of equivalence level was carried out, pursuant to the new methodology as published by the EBA at the beginning of 2022. This analysis concluded that the procedural and regulatory framework, as well as the supervisory practices, are at a high degree of equivalence and approximation with the applicable standards of the EU countries. This approximation is assessed particularly high in relation to capital requirements, applicable mitigation techniques, large exposures, liquidity, financial leverage, macroprudential supervision, professional secrecy, and international cooperation.

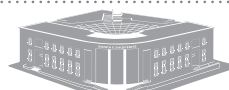
At the mid of 2022, the Bank of Albania submitted the official application to the European Banking Authority to include Albania in their schedule for starting the assessment process of equivalence based on the updated methodology by the EBA for this purpose.

CONTRIBUTION IN THE ACCESSION NEGOTIATION PROCESS TO THE EU

The Supervision Department has provided its contribution related to Chapters 3, 4, 9, 17, 20 and 28 in the Inter-institutional Work Groups throughout 2022. An important contribution is provided through the participation in the explanatory screening sessions for these chapters taking place in Brussels in the last quarter of year, and for the preparation of presentations in these bilateral screenings which will be organised at the beginning of 2023 in Brussels. In these sessions, the Bank of Albania will present its achievements towards the approximation of the legal and regulatory framework with the European Union Acquis, as well as the plans for further approximation up to the Albania's membership in the EU.

COMPILATION OF THE REGULATORY FRAMEWORK ON PAYMENT SERVICES

In 2022, the Bank of Albania has continued working on completing the regulatory framework in accordance with the requirements set forth in the Law



“On payment services”. This completion is achieved through the approval of other crucial sub-legal acts on the regulation of the activity, supervision and risk management across entities on which the law applies. These by-laws are drafted pursuant to the EU directives and the guidelines issued by the European Banking Authority (EBA). In addition, special attention was paid on drafting the new regulation on the risk management and supervision of electronic money institutions, in view of further approximation with the relevant EU Directive 2009/110/EC.

In 2022, work has continued for the transposition of Directive 2014/92/EU (PAD) into the legal and regulatory framework of the Bank of Albania. The transposition of this directive aims at enhancing transparency and competitiveness in the market, as well as bolstering financial inclusion of the Albanian citizens.

GREEN FINANCE

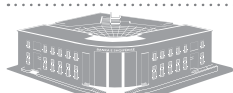
The Bank of Albania has extended its willingness to join the Government’s initiative in implementing the international undertaken measures regarding the orientation of the economy towards the green one. The supervision commitment in this regard has consisted in including the climate risk issue into the supervision process of the licensed institutions. The drafted strategy on climate change risk contains also a supervisory action-plan for the period 2023-2025 in the framework of harmonisation with the relevant international processes. These steps were determined in collaboration with the FinSAC project of the World Bank, by delineating in the relevant draft the tasks to all departments prior to submitting it for approval to the Supervisory Council.

PREPARATION OF THE GUIDELINE ON FINANCIAL REPORTING

In the framework of the project of implementing international accounting standards, for most of the year, work has been done for the preparation of the relevant guide on data reporting, according to the required form. In addition to this guide, the reporting tables that will compose the reporting system after the entry into force of the guide have been prepared. Under the same project, the bridge tables, which facilitate the conversion process of reporting, from the existing Unified Reporting System (SRU) to the new form, according to IFRSs have been drafted. These tables, which refer to the core financial statements: assets and liabilities, income and expenditure statements and off-balance sheet items, were compiled with the assistance of the FinSAC project of the World Bank and the participation of some banks in Albania.

CYBER RISK

In 2022, an intense wave of cyber attacks bumped critical sectors in the Republic of Albania - including the banking system. Some of these attacks



have been partially successful. Cyber attacks have been and remain present against the banking sector, which has gradually increased vigilance regarding the protective and preventive systems, as well as the investigative ones. In this context, several isolated incidents were evidenced in the sector of non-bank financial institutions, and as in one of the banks, in 2022. The latest incident put in difficulty the business continuity of the bank. However, these issues were quickly recovered, while services turned back to normal.

Under these circumstances, almost throughout 2022, but especially in the last period of the year, banks aimed at strengthening cooperation with third parties to support security and information systems, with each other and with the National Authority for Electronic Certification and Cyber Security (NAECCS), by maximizing synergies through sharing information on increased cyber security controls, indicators of compromise, etc. In terms of cyber security, the situation in the banking system has continued to remain under control and with no materialized incidents.

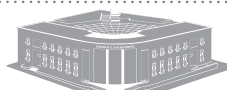
Meanwhile, the Bank of Albania has been attentive to this situation by intensifying communication with the banking industry and the presence in Albania, where the need for enhanced attention to security measures is emphasized, especially in third-party access to the bank's systems, as well as reporting in the most real time of the occurred incidents in order to coordinate the addressing measures.

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

In the framework of implementing the recommendations from the Committee of Experts of CoE on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), the BoA was committed in the implementation of the national plan of measures, with a view to improving the regulatory framework and strengthening the effectiveness of the supervisory process, with the purpose of addressing the main problems evidenced in this report.

In this framework, a considerable number of on-site examinations have been carried out related to anti-money laundering, particularly focusing on terrorism financing issues and for the implementation of the international sanctions, especially on non-bank financial institutions (NBFIs) and foreign exchange bureaus (FEBs), as vulnerable entities.

Related to the identified violations, in addition to the recommendations for specific entities, also supervisory measures, such as "warnings" and "fines" are implemented. A total of 82 examinations were carried out in 2022, in the field of preventing money laundering and terrorism financing, which comprised 5 banks, 5 non-bank financial institutions, 2 SLAs and 70 FEBs (of which 28 FEBs underwent the process of implementing recommendations as a result of



deficiencies observed in previous examinations). Four of these examinations were carried out in collaboration with the General Directorate for the Prevention of Money Laundering (GDPML).

ADJUSTING INTEREST RATES ON CONSUMER LOANS

In 2021, the Bank of Albania undertook a regulatory amendment whose subject matter are the interest rates on consumer loans. Through this amendment it was defined the way to set forth a maximum limit on effective interest rates (Maximum EIR) that lending entities apply on consumer credit products, for the purposes of regulating their costs. To determine this limit, the reports submitted by the entities for the existing products are considered and the 6-month average of the applied rates is calculated. Then, a limit of no higher than 33% of the calculated average is set.

During 2022, two publications of the maximum EIR for consumer loans were carried out. The impact of this limiting rate has been considerable, driving to a drop in effective interest rates by almost three times in the segment of very small loans, thus contributing to the normalization of the market.



3 ON-SITE EXAMINATIONS

A total of 13 full-scope and partial examinations were carried out over 2022. Most of these examinations were conducted in banks. In more concrete terms, 4 full-scope examinations and 4 thematic examinations.

At the same time, full-scope examinations were also conducted in 2 non-bank financial institutions and in 2 SLAs. A partial examination focusing on the observation of the recommendations was also conducted in a non-bank financial institution.

Administrative measures (suspension of the activity for 12 months) are taken for an entity due to the repeated violations of the regulatory framework.

Table 1 Number of examinations by theme in 2022

Examined institutions	Strategic Risk	Organisational Risk	Credit Risk	Liquidity Risk	Interest Rate Risk	Market Risk	Information and Communication Technology	Operational risk	Reputational Risk	Profitability	Capital
2020	2	8	15	11	2	5	5	5	88**	2	6
2021	7	7	12	7	7	7	8	8	109***	6	6
2022	8	9	12	12	8	8	8	8	82***	8	12

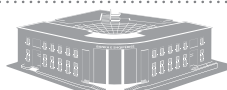
*In 2020, 74 examinations were carried out at Foreign Exchange Bureaus on Reputational Risk and 14 other examinations regarding this risk were carried out in banks and non-bank financial institutions. Among these, examinations on 2 banks, 1 non-bank financial institution and 1 Foreign Exchange Bureau, regarding this risk, were carried out in collaboration with the General Directorate for the Prevention of Money Laundering and examinations in 3 banks were carried out in collaboration with the Financial Supervision Authority.

**In 2021, 90 examinations were carried out in Foreign Exchange Bureaus on Reputational Risk and 19 other examinations regarding this risk were carried out in banks and non-bank financial institutions. Among these, the examinations in 2 banks, 6 non-bank financial institutions and 1 Foreign Exchange Bureau, regarding this risk, were carried out in collaboration with the General Directorate for the Prevention of Money Laundering.

*** In 2022, 70 examinations were carried out in Foreign Exchange Bureaus on Reputational Risk and 12 other examinations regarding this risk were carried out in banks and non-bank financial institutions.

In 2022, additional attention was paid on credit risk as well, through targeted examinations for this risk in three large banks of the system, accompanied with deep assessments of this risk in the full-scope examinations in other banks.

The conclusions of this assessment once again evidenced that overall, banks display a prudential approach related to the management of this risk, coupled with an increasing level of both governance and relevant regulatory frameworks. However, governing bodies should provide a careful addressing of the critical



assessment and adequate limits on loans that are approved, as exceptional cases from the general framework of credit risk management.

In parallel to the assessment of credit risk, the evaluation of relevant capital requirements has also progressed, given that the credit risk accounts for around 87% of the total capital requirements of banks. The assessment on the calculation of capital requirements has been improved, as banks have invested in dedicated systems and programs, aimed at calculating in an accurate manner the requirements and a high compliance with regulatory requirements. Though, the continuous improvement of this infrastructure remains important, in order to accommodate the regulatory amendments, as well as to provide the appropriate instruments in order to control and plan future capital requirements.

Operational risk and information technology risk are always present in the activity of licensed entities, particularly in the past year, due the increased external cyber attacks against important institutions in Albania, including banks and other financial institutions. To this end, it has become indispensable ensuring an effective protection regarding the integrity of systems, clients' assets and their personal data.

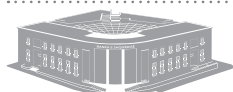
For the purposes of liquidity and market risk supervision, in addition to the commitments in full-scope examinations, parallel examinations dedicated to issues of assessing the adequacy of the internal regulatory framework and processes for the implementation of new regulatory requirements, related to net stable financing, were also carried out.

The examinations were carried out mainly in the last quarter of 2022, in four systemically important banks, which will continue during 2023 across almost all other banks. The examinations revealed deficiencies in the governance process for the implementation of the indicator as well as inaccuracies in its calculation.

Most of banks have oriented a part of their investments in the international and domestic markets of debt instruments, thereby exposing themselves to price fluctuations that occurred during 2022, due to the increase in interest rates. However, all banks managed to withstand these shocks, subsequently reorienting the structure of financial instruments on their balance sheets.

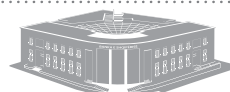
During the year 2022, the examinations of non-bank financial institutions and SLAs were oriented by their risk profile and the weight they have in the market. Examinations mainly focused on credit risk, governance systems, transparency with clients and the money laundering risk. Examinations evidence that the activity of these entities (mainly lending activity) generates stable income that have continuously supported the capital.

Overall, the internal organizational and regulatory framework is in compliance with the size and complexity of the respective entities, but there is always room for improvement, in accordance with best practices, as well as with the dynamic



risk management related to the expansion of activity. In terms of transparency and prevention of money laundering, overall a good compliance with legal and regulatory requirements is evidenced. In cases of identified deficiencies, the entities generally show a concrete reaction in addressing them.

The examinations have also identified the need for improvement in terms of the general management of financial risks, operational and ICT risks, as well as their coverage with appropriate controls.



4 LEGAL AND METHODOLOGY FRAMEWORK

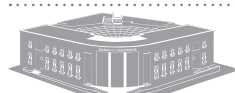
Throughout 2022, the Bank of Albania has continued the drafting of new bylaws and the reviewing of the regulatory framework in force, through the approximation with the EU directives, or in compliance with legal requirements, with a view to accomplish a more effective supervision on banks and other financial entities, being licensed and supervised by the Bank of Albania. Through the approval of several bylaws provided for in the National European Integration Plan 2022-2024, the Bank of Albania has fulfilled the relevant commitments in view of the continuous alignment of the regulatory framework with the EU acquis.

In 2022, a special attention was paid as well on drafting the new regulatory framework, pursuant to Law 55/2020 "On payment services", to complete this framework with new requirements in accordance with the EU regulations and the guidelines of the European Banking Authority (EBA), compiled for the implementation of the Payment Services Directive (PSD2). Also, the regulatory framework - which lays down the supervisory requirements for the exercise of a safe and stable activity for electronic money institutions- was drafted through the further alignment of the requirements for these institutions with the EU E-Money Directive.

In the framework of fulfilling the National Retail Payments Strategy (2018-2023), also during 2022, the work continued for the transposition of the Payment Account Directive 2014/92/EU (PAD) and the regulations of the European Commission 2018/32 /EU, 2018/33/EU and 2018/34/EU in the legal and regulatory framework of the Bank of Albania.

This commitment aims to both bolstering transparency and competition in the market, as well as promoting financial inclusion of the Albanian citizens. The transposition of several chapters of this Directive was finalized with the approval at the end of 2022 of the regulation "On the comparability of fees related to payment accounts and payment account switching service". Meanwhile, the work continued on the consultation with the stakeholders of the draft-law "On the payment accounts with basic features". Through this draft-law, it has become possible to transpose several chapters of the Directive, related to the requirements for the payment account with basic features. This draft-law is foreseen to be submitted for approval within 2023.

The new legal and sub-legal acts, as well as the amendments to the regulatory framework in force, have been consulted with banks or other entities, licensed and supervised by the Bank of Albania, which have contributed through their comments and suggestions.



The new approved regulatory acts and those revised during 2022, are listed in details below:

- I Sub-legal acts drafted for the implementation of the Law 55/2020 "On Payment services":
 - Approval of the Regulation "On the public registry of payment services providers" (approved by Decision No. 7, dated 2.2.2022 of the Supervisory Council of the Bank of Albania).

This regulation lays down the entities and the data that will be contained in the public registry of payment services providers and their agents. The Supervision Department of the Bank of Albania shall create and update this registry.

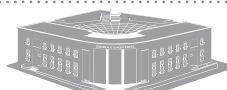
- Approval of the guideline "On the criteria on how to stipulate the minimum monetary amount of the professional indemnity insurance or other comparable guarantees" (approved by Decision No. 1, dated 2.3.2022 of the Supervisory Council of the Bank of Albania).

The guideline lays down the criteria on how to calculate the minimum monetary amount of the professional indemnity insurance or other comparable guarantees, pursuant to the requirements set forth in the Law "On payment services" for the entities applying for the licensing/registering to provide the payment initiation service, the account information service or both as set out in Annex 1 of the Law "On payment services", and the requirements for the re-calculation of this amount for the licensed/registered entities to provide these services, at least once a year, based on the data of the previous calendar year, as well as for the reporting of this amount to the Bank of Albania.

Professional indemnity insurance, or other comparable guarantees maintained by entities applying for licensing/registration and the licensed/registered entities to provide payment initiation service, account information service, or both, serve as an alternative form of regulatory capital, to cover the responsibilities of these entities towards third parties (users of payment services and payment service providers for account servicing), since the latter do not have requirements on regulatory capital (in contrast to entities that provide services 1-6 of Annex 1 of the law "On payment services").

- Approval of the Regulation "On strong customer authentication and common and secure open standards of communication" (approved by Decision No. 29, dated 1.6.2022 of the Supervisory Council of the Bank of Albania).

This Regulation establishes the requirements to be complied with by payment service providers for the purpose of implementing security measures, particularly for applying the procedure of strong customer authentication; certain exemptions to the application of the security requirements of strong



customer authentication, based on the level of risk, the amount and the recurrence of the payment transaction and of the payment channel used for its execution; protect the confidentiality and the integrity of the payment service user's personalised security credentials; establishment of common and secure open standards for the communication (open banking) between account servicing payment service providers, payment initiation service providers, account information service providers, payers, payees and other payment service providers in relation to the provision and use of payment services.

BOX: NEW REGULATION "ON STRONG CUSTOMER AUTHENTICATION AND COMMON AND SECURE OPEN STANDARDS OF COMMUNICATION"

Strong customer authentication is one of the requirements laid down in the EU Payment Services Directive (PSD2), transposed into the Law 55/2020 "On payment services", which aims at enhancing security and minimising the risk in case of fraudulent attacks in the field of the electronic payments. This important process, defined in the special law on payment services, is based on the use of two or more elements, categorised as: (i) knowledge; (ii) possession; and (iii) inherence. These elements are independent, thus providing for the breach of one element does not compromise the reliability of the others and protect the confidentiality of the authentication data of the customer.

Pursuant to the requirements stipulated in the Law 55/2020 "On payment services", the Bank of Albania drafted the Regulation "On strong customer authentication and common and secure open standards of communication", which was approved on June 2022 and will enter into force on 1 January 2024. This regulation enables payment service providers and their customers to use the same services and standards that are implemented by the payment service providers across the EU countries.

In more details this Regulation lays down:

- *general requirements for the authentication and audit of security measures to be taken by the payments service providers;*
- *security measures to be implemented for the strong customer authentication, which consist in generating an authentication code, the use of dynamic links, as well as the use of at least two independent elements of the strong customer authentication, in that the breach of one does not compromise the reliability of the others, related to technology, algorithms and parameters;*
- *in cases where payment service providers may be exempted from implementing strong customer authentication, based on a number of conditions and criteria provided for in the regulation, for example for contactless electronic payment transactions, for electronic payment transactions for transport payment or of a parking fee, for payment transactions initiated when the beneficiary is included in a list of trusted beneficiaries, for recurring transactions and low-value transactions that are categorized as low-risk transactions, etc.;*
- *the obligation for payment service providers to calculate the fraud rates for certain types of transactions defined in the regulation, where exceptions*



from strong authentication will only apply if the fraud rates calculated by the providers are below the reference rates provided for in the annex of the regulation;

- *requirements for payment service providers to ensure confidentiality and integrity of personalized security credentials (data) of payment service users;*
- *general and specific requirements for payment service providers to ensure common, open and secure communication standards between them, but also with payment service users and parties involved in the transaction/communication.*

I Revised Payment Services Directive 2 (PSD2).

II. In the framework of further approximation with the requirements laid down in Directive 2009/110/EC (the revised Payment Services Directive PSD2), and pursuant to the requirements set out in the Law 55/2020 "On payment services":

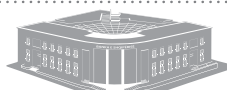
- Approval of the new Regulation "On the pursuit of the activity and supervision of electronic money institutions" (approved by the Decision No. 57, dated 21.12.2022 of the Supervisory Council of the Bank of Albania).

This regulation lays down the rules for the pursuit of the activity of electronic money institutions, for the administration of the risks related to this activity as well as their supervision, and the requirements for the issuance of electronic money by electronic money issuers. This category alongside the electronic money institution, includes also banks and branches of foreign banks.

- Approval of amendments to the Regulation "On risk management in the activity of non-bank financial institutions", (approved by Decision No. 58, dated 21.12.2022 of the Supervisory Council of the Bank of Albania).

Amendments to this regulation repeal certain requirements laid down in the previous regulation, related to electronic money institutions. These requirements are now addressed in accordance with the new regulation "On the pursuit of the activity and supervision of electronic money institutions".

In addition to these repeals, amendments to the regulation "On managing risk in the activity of non-bank financial institutions", provided for additional new regulatory requirements, based also on the results of supervision process of these entities.



BOX: THE NEW REGULATION “ON THE ACTIVITY AND SUPERVISION OF ELECTRONIC MONEY INSTITUTIONS”

The purpose of this Regulation is to better harmonise the regulatory framework for electronic money institutions, by setting forth, in a separate act, the requirements on the pursuit of the activity and supervision of these institutions. The Regulation further aligns the requirements of Directive 2009/110/EC that regulates the pursuit of activity and supervision of electronic money institutions.

The new regulation provides, in a separate by-law, the requirements that were foreseen for these entities in the regulation “On risk management in the activity of non-bank financial institutions” as well as some new additional requirements, in accordance with the requirements provided for in the law “On payment services” and Directive 2009/110/EC (as amended).

With the approval of this regulation, the regulation “On risk management in the activity of non-bank financial institutions” was revised in parallel, bringing with it the repeal of some requirements which are already foreseen in this new regulation. The regulation 11/2008 “On electronic payment instruments” repeals upon the entry into force of the new regulation (March 1, 2023). The requirements provided for in the repealed regulation “On electronic payment instruments” are mainly covered by the law “On payment services” and the new regulation “On the conduction of activity and supervision of electronic money institutions”.

The regulation stipulates new requirements related to the concept of regulatory capital and its constituent elements, the methods of calculating the capital requirement, the protection of customer funds, accounting and auditing in addition to the regulatory requirements for electronic money institutions provided for previously in the supervisory regulatory framework in force.

Given that electronic money institutions, in accordance with the requirements of the law “On payment services”, are considered as important institutions, which hold customer funds for the service of issuing electronic money and for payment services (if applicable), the new regulation introduces more prudential requirements with reference to the capital needed to cover the risks arising from these activities. For this reason, the capital requirements laid down in this regulation have been addressed in a similar way to banks, introducing for the first time the concept of regulatory capital and the requirement for regulatory capital.

Regarding the requirements for the external auditor, the new regulation (in accordance with the requirements of the law “On payment services”) provides for the calculation of the requirements for the statutory auditor or the audit company, with the requirements provided for in the legal and sub-legal framework in power for banks. The requirements for the protection of the funds of clients of electronic money institutions have been detailed more clearly, adapting to the new legal requirements, as well as the types of assets that will be considered as safe, low-risk and liquid assets have been revised, for purposes of fulfilling the legal and regulatory requirements for the protection of funds.

In detailed manner, the regulation stipulates the new requirements respectively for:



- other activities electronic money institutions shall be entitled to engage in addition to the issuance of electronic money;
- composing elements of regulatory capital, by introducing for the first time a manner of its calculation similar to that employed by banks;
- the method of calculating the requirement for regulatory capital, differentiating between the capital requirement for the activity of issuing electronic money, for the provision of payment services and for covering the credit risk, if the electronic money institution will provide loans related to payment services;
- ways of protecting the funds of electronic money institutions' clients, by adapting the requirements for the protection of funds to the provisions of the law "On payment services";
- investing clients' funds in a diversified manner among different counterparties, in fulfilment of the requirements for the protection of funds;
- the granting of credit related to payment services referred to in points 4 and 5 of Annex 1 of the law "On payment services";
- accounting, auditing and reporting of electronic money institutions;
- alternative settlement of disputes.

In addition, the Regulation has revised and adopted to the activity of electronic money institutions, certain requirements which were previously stipulated in other by laws, which are repealed upon the entry into force of this Regulation, mainly on:

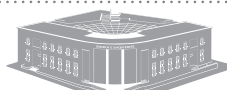
- exposure to risk and restrictions related to open foreign currency positions, liquidity risk, etc.;
- basic principles and rules of management and internal control system; and
- rule on the issuance of electronic money and the repatriation of funds to issuers of electronic money.

¹ Directive 2009/110/EC of the European Council and Parliament, dated 16 September 2009 "On the taking up, pursuit and prudential supervision of the business of electronic money institutions", amended with Directive (EU) 2015/2366 of the European Council and Parliament, dated 25 November 2015 "On payment services in the internal market" (PSD2).

- III. In the framework of reviewing the regulatory framework, for the implementation of Basel III requirements and alignment with the EU acquis, the following developments have taken place:
- Amendments to the Regulation "On core management principles of banks and branches of foreign banks and the criteria for the approval of their administrators" and the new guideline "On the Internal and effective management of banks"¹ (approved by Decision No. 21, dated 6.4.2022 of the Supervisory Council of the Bank of Albania).

Amendments to the Regulation aim to further improve the regulatory and supervisory framework of the responsible and effective management in banks and branches of foreign banks, through the establishment of the appropriate

¹ Amendments to the Regulation and the guideline entered into force on 30.6.2022.



structures, individual and collective adequacy of the steering bodies' members; compilation of policies, establishment of committees and definitions of roles and responsibilities for each committee, establishment of management culture and risk culture, and the establishment of the appropriate framework on risk appetite/tolerance, etc.

The amendments and the guideline ensure compliance with the requirements set out in the guidelines of the European Banking Authority, the Financial Stability Board, the International Finance Corporation, etc. regarding the management of credit institutions².

- **Amendments to the Regulation "On capital adequacy ratio", and to the Regulation "On regulatory capital of bank" (adopted with Decision No. 44 and 45, dated 2.11.2022 to the Supervisory Council of the Bank of Albania).**

The approved amendments to the Regulation " On capital adequacy ratio" aim at further aligning the supervision regulatory framework of the Bank of Albania with: revised provisions of the European regulations 575/2013/EU³ and 2017/2402/EU⁴ and some amendments to the latter through the regulations 2021/557/EU and 2021/558/EU, related to capital requirements for exposures in securitisation; as well as ii) requirements laid down in 575/2013/EU and technical standards compiled for its implementation on market risk.

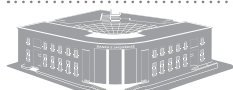
The new framework on securitisation (Chapter V of the Regulation) aims at equal treatment for all banks in the role of organiser, sponsor or investor, regarding capital requirements for securitisation positions, introducing as novelty the following:

- a revised and simplified hierarchy of methods used to calculate capital requirements for a securitisation positions, under the securitisation standardised approach (SEC-SA), and the external-ratings-based approach (SEC-ERBA), which based on the information available to the bank and on the type of analyses and assessments it can perform for a given transaction;
- revision of risk weights, depending on credit quality, which currently present greater granularity, making more sensitive the measurement of

² EBA Guidelines on internal governance under Directive 2013/36/EU; EBA Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013; Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders under Directive 2013/36/EU and Directive 2014/65/EU; Principles for An Effective Risk Appetite Framework (FINANCIAL STABILITY BOARD); The Corporate Secretary: The Governance Professional. (IFC – WORLD BANK GROUP).

³ Amended with "Regulation 2017/2401/EU amending Regulation (EU) No 575/2013 as regards the requirements for own funds for securitization positions", which amend and fully replaces the provisions set forth in Chapter V (Securitization) of (EU) 575/2013.

⁴ Regulation 2017/2402/EU laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitization".



- the capital requirement according to the risk that a securitisation position represents, based on the criterion of maturity and tranche seniority;
- new capital requirements for re-securitisation positions;
- determining the maximum capital requirements for securitisation positions, for banks in the role of originator or sponsor, under the Securitisation Standardised Approach (SEC-SA) or the Securitisation External Ratings Based Approach (SEC-ERBA), based on the requirements that would have applied to the underlying exposures as if these exposures had not been securitized;
- due diligence and transparency new requirements in securitisation positions;
- treatment of non-performing exposure securitisation.

Also, amendments to Chapter V of the regulation on securitisation also consist in the revision of some requirements previously provided for in this regulation.

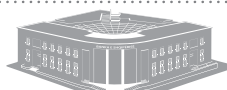
Meanwhile, amendments to Chapter VII "Market risk" of the regulation, mainly consist of:

- some additions to the requirements for the assessment of items in the tradable book, referring to their quotation and reflecting the risk of models for complex products;
- stipulation of determining by the bank a maximum limit on the capital requirement for the specific risk of a net position in a debt instrument, considering the greatest possible loss related to the risk of failure;
- capital requirements for securitised instruments;
- capital requirements for the correlated marketable portfolio, which consists of securitisation positions and nth-to-default credit derivatives;
- new stipulations related to the correction of the modified duration for debt instruments, which are subject to prepayment risk;
- revision of capital requirements for specific risk.

The amendments to the Regulation "On the regulatory capital of the bank", consist in the revision of some references of the articles of the Regulation "On the capital adequacy ratio", in relation to securitisation, to adapt it to the amended/added articles in chapter V of that regulation.

IV. In relation to the transposition of Payment account Directive 2014/92/EU (PAD) and the regulation issued for its implementation (Regulations 2018/32, 2018/33 and 2018/34 of the EU):

- Approval of the Regulation "On the comparability of fees related to payment accounts and to the service of payment account switching" (Approved by Decision No. 59, dated 21.12.2022 of the Supervisory Council of the Bank of Albania).



This regulation lays down the requirements on the transparency and comparability of fees charged to customers for their payment accounts, as well as defines the requirements for the transfer of payment accounts between payment service providers.

BOX: NEW REGULATION "ON THE COMPARABILITY OF FEES RELATED TO PAYMENT ACCOUNTS AND TO THE SERVICE OF PAYMENT ACCOUNT SWITCHING"

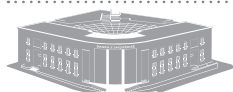
The Bank of Albania, for the purposes of further alignment with the legislation of the European Union, as well as fulfilling the obligation for the implementation of the Albania National retail Payments Strategy (2018-2023), approved the Regulation "On the comparability of fees related to payment accounts and to the service of payment account switching".

The regulation creates for consumers the opportunity to have a complete overview of the situation in order to compare prices/offers in the market on products related to payment accounts, amid different payment services providers, as well as for making relevant requests for the switching of payment accounts in the same currency and within the territory of the Republic of Albania. These requirements make it easier for consumers to change their payment account provider if they are offered a better offer from another provider in the market.

The regulation provides also the list of the most representative services related to the payment account, a document which is an integral part of this regulation and creates a standardized terminology through the publication by the Bank of Albania of a list of the most representative services related to the account of payment, for which a fee is applied. This list will be updated every four years and whenever deemed appropriate based on the services most used by consumers that generate the highest cost.

In concrete terms, the regulation provides:

- the requirements for payment service providers to make available to the consumer, before concluding a contract for a payment account and subsequently, information on fees in a standardized form, in paper format or by other durable means of communication and free of charge;*
- the requirements for the standardization of the presentation of information on fees related to the payment account;*
- standardized terms of information on fees for the list of the most representative services associated with a payment account;*
- the procedure for consumers who wish to transfer their payment account from one payment service provider to another provider;*
- obligations for each provider, both for the receiving provider and for the transferring provider of payment services, during the payment account transfer process;*
- fees related to the payment account transfer service;*
- request to cover the losses caused to consumers, during the payment account transfer process; and*
- information that payment service providers must make available to the consumer, regarding the payment account transfer process, including information on fees.*



V. Other developments

- Approval of the Decision “On suspending the dividend distribution by banks” (approved by Decision No. 6, dated 2.2.2022 of the Supervisory Council of the Bank of Albania).

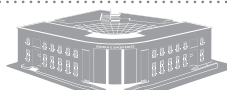
Pursuant to this Decision, the distribution by banks of the profit realised during 2021 and the profit that will be realised during 2022, is suspended until the end of 2022. This decision is considered an important measure taken by the Supervisory Council for the third year in a row, which aims at safeguarding capital levels of banks.

- Approval of amendments to the Regulation “On licensing and activity of non-bank financial institutions”, (approved by Decision No. 51, dated 7.12.2022 of the Supervisory Council of the Bank of Albania).

These amendments to the regulation are aimed at clarifying the interpretation by the subjects of the regulation, of some provisions related to the additional activities allowed for microcredit financial institutions and non-bank financial institution that purchase non-performing loans.

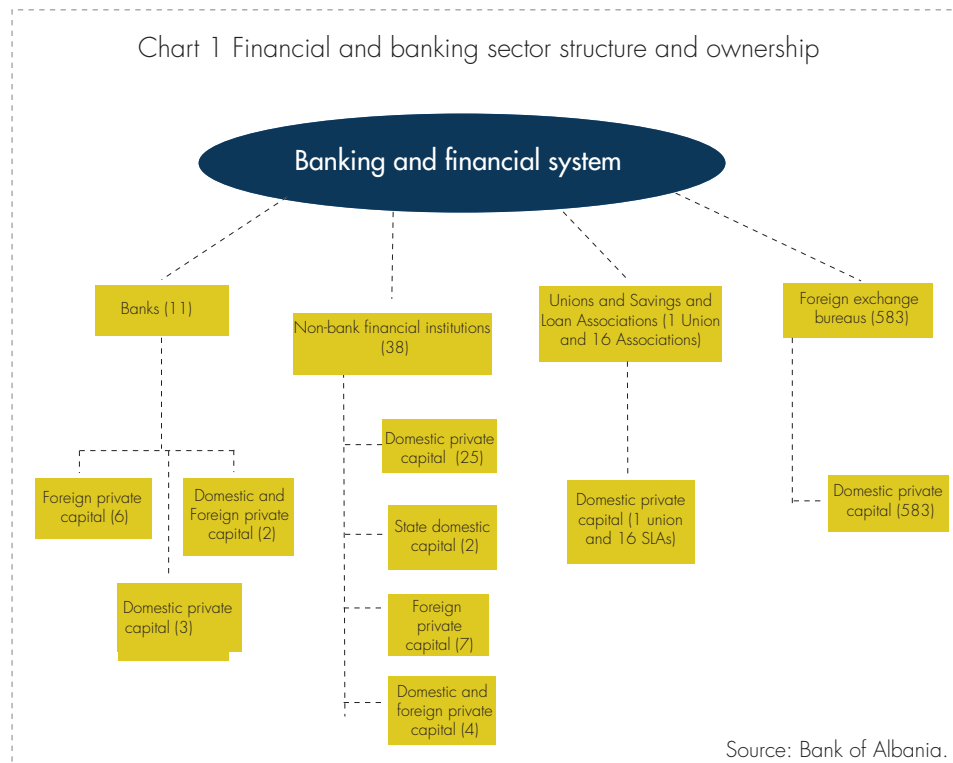
- Approval of amendments to the Regulation “On licensing and activity of savings and loan associations (and their Unions” (adopted with Decision No. 52, dated 7.12.2022 of the Supervisory Council of the Bank of Albania).

These amendments aim at implementing the recommendations from the Committee of Experts of CoE (MONEYVAL), regarding the requirements on the honesty of the founders of savings and loan associations, as well as to payments and/or capital increase.



5 LICENSING

As at the end of 2022, the structure of the banking and financial system in Albania consisted of 11 banks, 38 non-bank financial institutions (NBFIs), 538 foreign exchange bureaus, 16 Savings and Loan Associations (SLAs) and 1 union of SLAs.



Pursuant to the Law “On banks in the Republic of Albania”, the Bank of Albania is vested with the power to licence and supervise banks, NBFIs, savings and loans associations and their unions, foreign exchange bureaus and representative offices of foreign banks.

1. Banks:

In 2022, within the scope of the licensing function, the Bank of Albania made the following decisions:

- approval of (100% direct) ownership control of the shares of Alpha Bank Albania sh.a. by the new shareholder OTP Bank Plc, Hungary;
- approval for the merger by absorption of OTP Bank Albania sh.a. (the absorbing company) with Alpha Bank Albania sh.a. (the absorbed



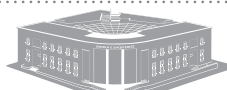
- company);
- c) approval of (51.07% direct) ownership of the qualifying holding in the capital of the United Bank of Albania sh.a. by EUROSIG sh.a., Albania;
 - d) approval of 53 administrators of banks, including: 17 members of steering councils, 5 members of audit committees, and 31 executives and directors of internal audit of banks;
 - e) approval of the expansion of the banking network with one new branch, within the territory of the Republic of Albania;
 - f) approval of the amendments to the statute of Tirana Bank sh.a., Procredit Bank sh.a. and American Bank of Investments sh.a.;
 - g) approval/no-objection on the appointment/re-appointment of chartered auditors for the auditing of financial statements at end of 2022 for all banks;
 - h) approval for subordinated debt to Banka Credins sh.a. (2 cases); American Bank of Investments sh.a., Tirana Bank sh.a., Union Bank sh.a.

2. Non-bank financial institutions, microcredit financial institutions and electronic money institutions

The Bank of Albania's decisions relating to non-bank financial institutions, microcredit financial institutions and electronic money institutions during 2022 mainly included:

- a) granting the licence to "RUBICON" sh.a., to conduct the activity as an electronic money institution;
- b) granting the licence to "VELOX PAY" sh.p.k. to conduct the activity as an electronic money institution;
- c) granting the licence to "LENDAL" sh.p.k. to conduct the activity as a microcredit financial institution;
- d) preliminary approval for the appointment /re-assignment of 7 administrators of non-bank financial institutions; 1 chair of steering councils; and 1 head of control committees of non-bank financial institutions;
- e) approval to "FAB INVEST" sh.p.k. Non-bank financial institution to conduct the additional activity of lending;
- f) approval to "RPAY" sh.p.k. electronic money institution to conduct the additional activity of the agent in insurances";
- g) approval for the 100% ownership (direct) of capital shares of the non-bank financial institution "MOGO ALBANIA" sh.a by "Virtus Invesco Partners⁵" LLC Kosovo.;
- h) approval for the (direct) control ownership by an individual at 66% of the capital of "CAPITAL INVEST" sh.a. Microcredit financial institution; (MIA Financë" sh.a);
- i) approval of ownership by Helenos" Ltd, Belgium of the qualifying holding (direct, at 17.46%) in the capital of the non-bank financial

⁵ Currently the name has changed "VIRTUS LENDING" sh.a.



- institution "ALBANIA LEASING" sh.a.;
- j) approval for the (indirect) control ownership by some associations and individuals at 51,67% of the capital of "NOA" sh.a non-bank financial institution; and
- k) rejection of an application for license by a financial institution.

3. Savings and Loan Associations and Unions of Savings and Loan Associations

Within the scope of the licensing function the Bank of Albania's decision making on savings and loan associations (SLAs) and unions of savings and loan associations, during 2022, consists in approvals for appointment/re-appointment of one Chair of steering council and 1 head of audit committee of savings and loans associations.

4. Foreign Exchange Bureaus

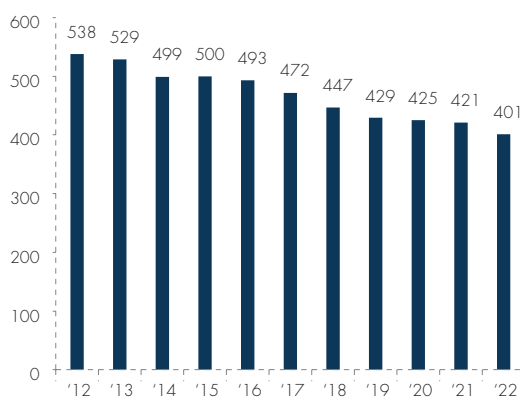
Within the scope of the licensing function, in relation to foreign exchange bureaus, the Bank of Albania decided to:

- a) license 56 new foreign exchange bureaus; and
- b) revoke the licenses of 29 foreign exchange bureau, as a supervisory measures and due to the discontinuation of the activity.

5. Other

As at end of 2022, banks operate through 401 branches/agencies, across the territory of the Republic of Albania. During this year, banks expanded the network with one new branch, while they informed the closure of 21 branches/agencies. Chart 2 shows the number of branches and their changing trends over years.

Chart 2 Number of bank branches/agencies, over years



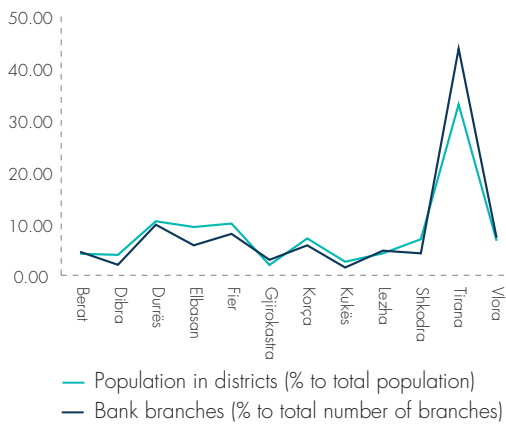
Source: Bank of Albania.

The geographical distribution of bank branches/agencies include almost the entire territory of Albania. The largest concentration of bank branches and agencies is evidenced in Tirana (43.64%), where the population concentration is greater as well (32.92%). Likewise, the distribution of bank branches/agencies by prefectures is also in proportion with the population.

During 2022, applications to conduct foreign exchange activities continued. At the end of 2022, a total of 583 foreign exchange bureaus were operating in the foreign exchange market. During the year, 56 new licences for foreign exchange bureaus were granted, and 29 existing ones were revoked.

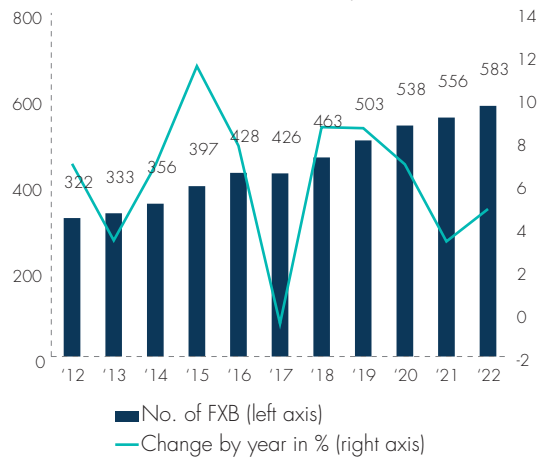


Chart 3 Resident population and bank branches and agencies' network, by region in 2022 (in %)



Source: Bank of Albania and INSTAT.

Chart 4 Foreign exchange bureaus, over the years



Source: Bank of Albania.

In compliance with the requirements laid down in the legal framework in force, payment institutions and electronic money institutions may conduct the activity of payment service and/or funds distribution and repayment. In the case of e-money institutions this may be done even through agents. As at end of 2022, the number of these entities' agents was 1.518.

Table 2 Number of payment entities/institutions' agents and number of e-money institutions as at end-2022

Entity	AK-INVEST	FINANCIAL UNION OF TIRANA	EASYPAY	RAEA FINANCIAL SERVICES SH.P.K.	Total
Agents of payment institution	360			117	477
Agents of electronic money institution		589	452		1041
Total	360	589	452	117	1.518

Source: Bank of Albania.



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

6.1 BANKING SYSTEM HIGHLIGHTS

The most important indicator of supervision, the capital adequacy ratio (CAR), at the end of 2022, stood at 18.13%⁶. This ratio shows a fall of 0.4 percentage point, compared with the same period in the previous year.

The non-performing loans ratio (NPLR) dropped by 0.69 percentage point, in annual terms, standing at 4.99% as at end of year. The non-performing loans, as at the end of 2022, reached at ALL 35.7 billion, down by ALL 2.4 billion or 6.38% from the previous year. Meanwhile, the loan portfolio grew by ALL 43.96 billion, or around 6.55% during 2022.

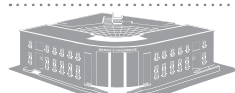
Profitability indicators, Return on Average Assets (RoAA) and Return on Average Equity (RoAE), respectively, decreased compared with 2021. As at end-2022, RoAA stood at 1.2% while RoAE stood at 12.3%, from 1.3% and 12.6%, respectively at the end of 2021.

The following are banking system highlights for 2022

1. The non-performing loans ratio (NPLR) dropped by 0.69 percentage point in annual terms, to 4.99 % at the end of 2022.
2. Net outstanding non-performing loans to total credit portfolio stood at 1.84%, down by 0.03 percentage point compared with December 2021.
3. Provisioning of NPLs was 64.36%, from 68.36% a year earlier.
4. Liquidity indicators continuously appear significantly above the regulatory requirement laid down in the Bank of Albania's regulatory acts. In December 2022, liquid assets ratio to short-term liabilities in the banking system was 41.08%⁷, down by 4.3 percentage points from the previous year.
5. Liquidity coverage ratio stood at 300% form the regulatory limit of 100%.
6. In December 2022, total value of deposits in the system amounted ALL 1.518 billion, recording 5.9% annual growth compared to the previous year. The share of the domestic currency in total deposits increased to

⁶ Data for previous years this Report may be different from those reported in the Annual Supervision Report 2021, due to the corrections of the data reported from banks and other licensed entities, as a result of the auditing processes which drive to the correctness of calculations.

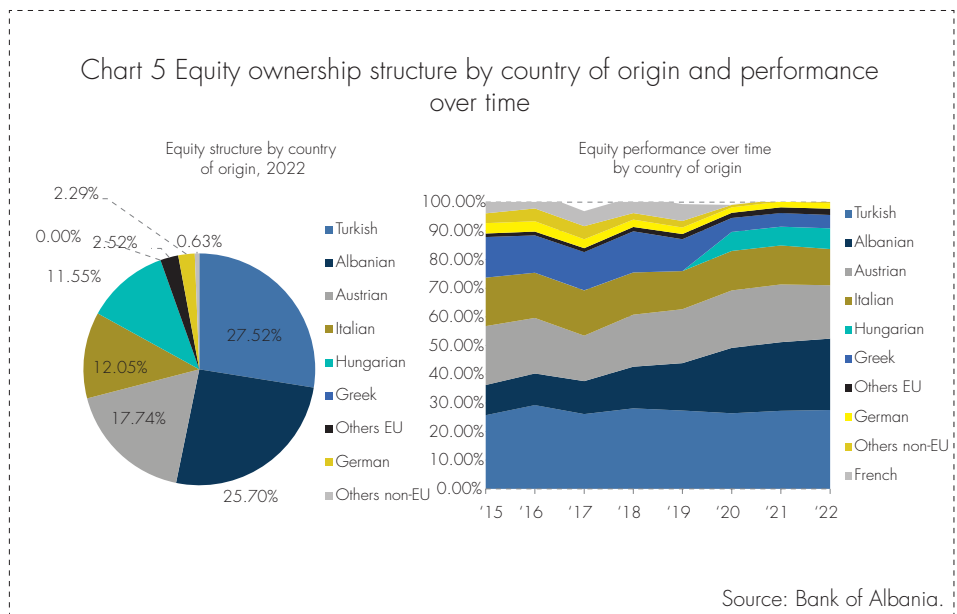
⁷ The minimum required level for this indicator, as laid down by the regulatory requirements, is 20%.



- 46.1%, from 41.1% in December 2021.
7. As at the end of 2022, the Capital Adequacy Ratio (CAR) - the main supervisory indicator – was reported at 18.13%, slightly down by 0.4 percentage point, compared with the same period in the previous year.
 8. The banking system’s profit was positive in 2022, amounting around ALL 21.67 billion or ALL 0.5 billion higher than in 2021.

6.2 CAPITAL OWNERSHIP STRUCTURE BY COUNTRY OF ORIGIN

The shareholders capital of the banking system reached ALL 184.27 billion, up by around 8.94 billion, or 5.1 % against the previous year. Foreign capital continues to dominate the capital structure. At the end of 2022, foreign capital accounted for around 75.12% of paid-in capital in the banking system, down by around 0.82 percentage points from the end of 2021.



6.3 BANKING SYSTEM STRUCTURE

6.3.1 ASSET AND LIABILITY STRUCTURE

During 2022, banking system assets grew by around ALL 104.02 billion or 5.87%, compared to the ALL 192.47 billion or 12.18% growth a year earlier. The loan portfolio grew by ALL 43.96 billion, or 6.55% during this year.

The banking system’s share in the economy, measured by the ratio of total assets to the Gross Domestic Product (GDP), continues to remain at high levels,



though this indicators decreased by 7.58 percentage points in 2022, standing at 87.95%. Meanwhile, the loan to Gross Domestic Product ratio fell due to the higher growth of GDP against the increase in the loan portfolio.

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

Indicators	2017	2018	2019	2020	2021	2022
Total assets (in ALL billion)	1444.80	1453.45	1475.55	1580.82	1773.29	1877.31
Total assets/GDP (in %)	93.17	88.80	87.21	95.96	95.53	87.95
Total loans/GDP (in %)	38.75	35.48	34.03	36.96	36.15	33.50

Source: Bank of Albania.

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

- Increase in treasury and interbank transactions by ALL 27.07 billion or 5.49%, mainly driven by the increase in treasury bills by ALL 26.98 billion or 36.96% and in transactions with the central bank by ALL 26.26 billion or 14.07%. Meanwhile, transactions with other banks decreased by ALL 24.33 billion or 11.93%.
- Increase in client transactions (net) by ALL 47.06 billion or by 7.30%.
- Increase in security transactions (net) by All 28.18 billion or by 4.8%.
- Decrease in other assets by All 0.3 billion or by 1.32%.
- Increase in fixed assets by ALL 2.02 billion or by 8.05%.

Table 4 Key banking system asset items

Indicators:	December 2021			December 2022		
	Amount*	Share**	Change %***	Amount*	Share**	Change %***
1. Treasury and interbank transactions	493.1	27.8	5.12	520.1	27.7	5.49
Of which:						
- Monetary assets	29.3	1.7	(0.16)	27.5	1.5	(5.94)
- Transactions with the central bank	186.7	10.5	4.10	213.0	11.3	14.07
T-bills	73.0	4.1	3.88	100.0	5.3	36.9550
- Transactions with other banks	203.9	11.5	7.35	179.5	9.6	(11.93)
Accrued interests	0.2	0.0	13.77	0.1	0.0	(48.22)
2. Transactions with customers (net)	644.9	36.4	11.84	692.0	36.9	7.30
3. Security transactions (net)	587.2	33.1	21.08	615.4	32.8	4.80
4. Other assets	23.0	1.3	(10.19)	22.7	1.2	(1.32)
5. Fixed assets	25.0	1.4	2.19	27.1	1.4	8.05
Total assets	1,773.3	100.0	12.18	1,877.3	100.0	5.87

Source: Bank of Albania.

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

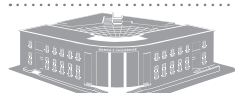
*in ALL billion

**in % to total assets

***in % to a year earlier

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

- Increase in transactions with customers by ALL 84.6 billion (5.92%). This increase was arising from the following:
 - increase in private sector by ALL 83.29 billion or 5.91%;
 - increase in current account by ALL 64.93 billion or 11.17%;



- Increase in permanent resources by ALL 12.10 billion or 6.07%;
- Increase in other liabilities by All 5.09 billion or 21%;
- Increase in treasury and interbank transactions by ALL 1.62 billion (1.43%);

Table 5 Key banking system liability items

Indicators:	December 2021			December 2022		
	Amount*	Share**	Change%***	Amount*	Share**	Change%***
1. Treasury and interbank transactions	112.7	6.4	29.7	114.3	6.1	1.43
2. Transactions with customers (gross)	1,429.6	80.6	11.5	1,514.2	80.7	5.92
3. Other liabilities	24.6	1.4	38.9	29.7	1.6	20.68
4. Permanent resources	199.3	11.2	7.1	211.4	11.3	6.07
Total liabilities	1,773.3	100.0	12.2	1,877.3	100.0	5.87

Source: Bank of Albania.

*in ALL billion

** in % to total assets

***in % to a year earlier

During 2022, the share of off-balance sheet items in total assets decreased, reaching at 105.21%, from 130.60% as at end of 2021. Off-balance sheet items decreased both in value and share to total assets. Table 6 shows that the annual fall during this year was driven by the drop in "commitments received" and "commitments granted" items. The commitments received have the main share in off-balance sheet items, accounting for 87.09%, from 89.03% at the end of 2021.

Table 6 Change in off-balance sheet items

Indicators:	December 2021			December 2022		
	Amount*	Share**	Change***	Amount*	Share**	Change***
Total	2,316.4	100.0	33.8	1,975.1	100.0	-14.7
Commitments granted	201.2	8.7	14.4	149.0	7.5	-25.9
Of which:						
- Financing commitments	62.8	2.7	16.2	72.7	3.7	15.8
- Guarantees	41.0	1.8	11.0	48.3	2.4	17.9
- Security commitments	97.4	4.2	14.7	28.0	1.4	-71.2
Commitments received	2,062.3	89.0	35.2	1,720.2	87.1	-16.6
Of which:						
- Financing commitments	3.8	0.2	30.2	4.9	0.2	28.9
- Guarantees	2,051.2	88.5	35.3	1,703.2	86.2	-17.0
Foreign currency transactions	20.1	0.9	15.0	50.7	2.6	152.6
Other commitments	2.6	0.1	-5.4	2.6	0.1	-2.1
Commitments for financial instruments	30.2	1.3	226.1	52.6	2.7	74.0

* in ALL billion, ** in % to total off balance-sheet items. *** in % to a year earlier

Source: Bank of Albania.

6.3.2 CONCENTRATION

Concentration, as measured by the Herfindahl index calculated for total deposits and loans index, registered almost the same level as in 2021, while the total assets index increased by 0.01 percentage point. All three indicators show low levels.



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

Indicators	2017	2018	2019	2020	2021	2022
Index H (assets)*	0.15	0.16	0.15	0.15	0.14	0.15
Index H (deposits)	0.15	0.15	0.15	0.15	0.15	0.15
Index H (loans)	0.13	0.13	0.12	0.12	0.12	0.13

Source: Bank of Albania.

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

6.4 MANAGEMENT OF BANKING ACTIVITY RISKS

6.4.1 CREDIT RISK

6.4.1.1 Lending

Total credit grew by ALL 43.96 billion or around 6.55% in 2022.

Table 8 Quarterly credit growth in 2022

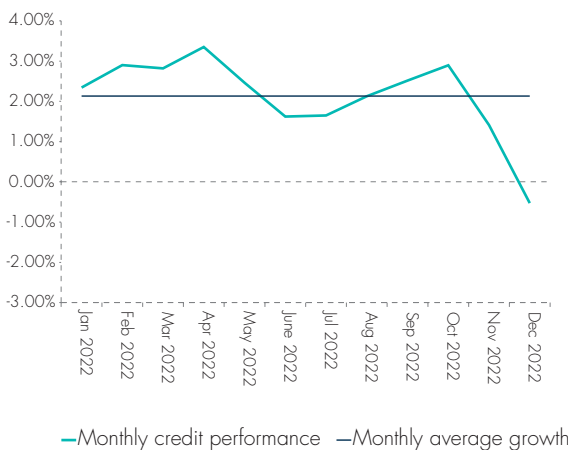
Quarterly credit growth	March 2022	June 2022	September 2022	December 2022
in ALL million	18,919.47	11,206.87	17,643.87	(3,804.14)
In %	2.82%	1.62%	2.52%	-0.53%

Source: Bank of Albania.

In January, November and December 2022, the loan portfolio decreased by ALL 1.03 billion or (0.15%), ALL 2.23 billion or (0.31%) and All 7 billion or (0.97%), respectively. While, in the other months of the year, this portfolio was up, where the highest growth was reported in February and March, by ALL 10.37 billion (1.55%) and ALL 9.57 billion (1.41%), respectively. The monthly average credit growth stood at 0.53%.

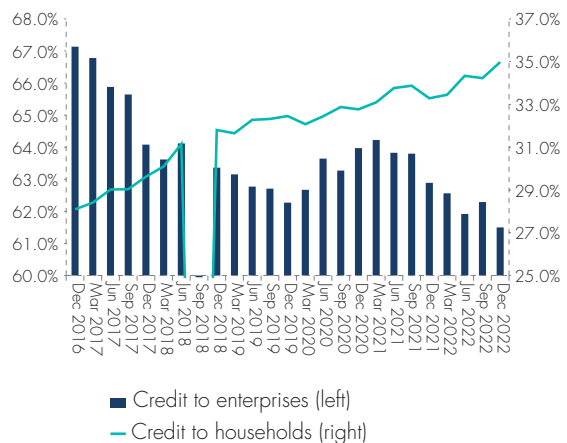
The analysis of credit by type of entity shows a higher concentration in the private sector, around 61.5%, down by 1.4 p.p, while lending to this sector,

Chart 6 Monthly credit growth in 2022 (in %)



Source: Bank of Albania.

Chart 7 Outstanding credit to enterprises and households to outstanding total loans (in %)



Source: Bank of Albania.



during 2022, grew by ALL 17.69 billion (4.19%). Also, credit to households grew by ALL 26.65 billion (11.93%) contributing in the increase to its share by 1.7 p.p. Credit to public sector recorded a slight decrease by ALL 0.38 billion (1.48%).

By entity and purpose of use⁸, the analysis shows that loans for "house purchase" to households have the major share in the total credit portfolio (24.4%); followed by "overdraft" to enterprises (17.8%); loans for "real estate" and other loans to enterprises (16.4%), each.

In 2022, loans for "house purchase" to households reflects the highest growth by 14.2%, followed by "overdraft" to enterprises by 12.5%.

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

Description	December 2021	Share in %	Change in % December 2021 - December 2020	December 2022	Share in %	Change in % December 2022 - December 2021
Total loans	640.0	100.0	9.5	684.2	100.0	6.9
Credit to enterprises	417.2	65.2	8.3	435.0	63.6	4.3
Overdraft	108.3	16.9	14.3	121.8	17.8	12.5
Working capital	77.3	12.1	7.4	78.9	11.5	2.0
Equipment purchase	10.2	1.6	5.0	9.5	1.4	(6.5)
Real estate	109.9	17.2	6.6	112.4	16.4	2.3
Other loans	111.4	17.4	5.6	112.4	16.4	0.9
Credit to households	222.8	34.8	11.9	249.2	36.4	11.8
Overdraft	7.5	1.2	1.4	8.0	1.2	5.8
Non-durable goods	33.5	5.2	9.1	36.6	5.3	9.1
Durable goods	23.2	3.6	9.3	24.6	3.6	6.0
Real estate loans	146.0	22.8	14.6	166.7	24.4	14.2
Loans for other purposes	12.5	2.0	1.6	13.3	1.9	6.2

Source: Bank of Albania.

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

The structure of loans **by term to maturity**, has changed from the previous year showing an increase in the share of short-term loans, and a decline in the shares of medium-term and long-term loans. As at the end of 2022, the latter has the main share in the total credit portfolio, followed by short and medium-term loans.

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

Term to maturity	December 2021	March 2022	June 2022	September 2022	December 2022
Short-term	21.1	21.7	21.7	22.4	22.8
Medium-term	14.7	14.5	14.0	13.7	13.2
Long-term	38.9	38.6	38.8	37.8	37.5

Source: Bank of Albania.

⁸ Data do not include non-residents.

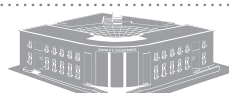
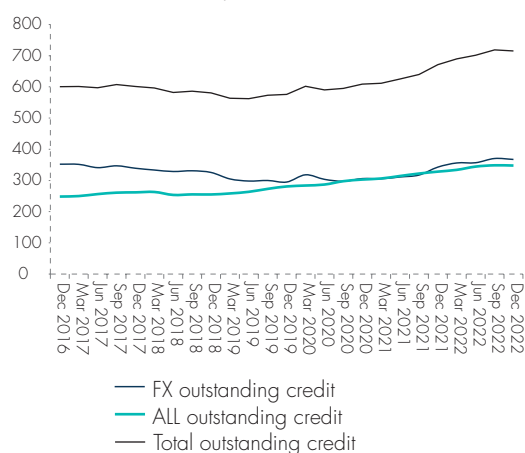


Chart 8 Volume of outstanding credit by currency (in ALL billion)



Source: Bank of Albania.

In 2022, the credit portfolio by currency shows that foreign currency loans continue to have the highest share in total loans by 51.4%. At end of 2022, the share of loans in domestic currency to total credit portfolio increased by only 0.1 percentage point, compared to the same period in the previous year.

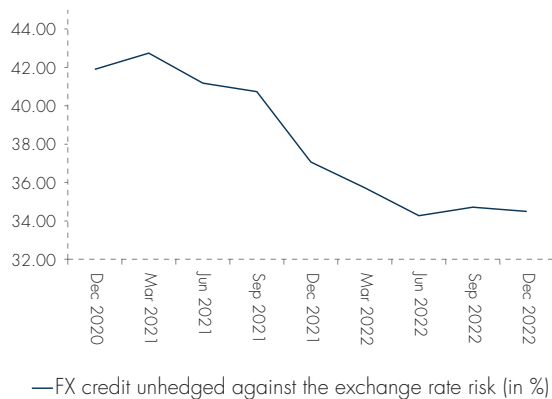
In 2022, the share of foreign currency-denominated loans unhedged against the exchange rate risk to total portfolio in foreign currency⁹, compared to the previous year, decreased by 2.57 percentage points, reaching at 34.5%.

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

Currency	December 2019	December 2020	December 2021	December 2022
ALL	48.8	49.7	48.9	48.6
Foreign currency	51.3	50.3	51.1	51.4

Source: Bank of Albania.

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



Source: Bank of Albania.

The structure of credit by sectors of the economy¹⁰, for 2022, shows higher lending to enterprises compared to households “Wholesale and retail trade” and “Repair of vehicles and motorcycles” remain the most credited sectors of the economy, sharing 33.1% in the portfolio, followed by “Construction” and “Manufacturing” sharing 17.6% and 12.6% in the portfolio, respectively.

⁹ The credit unhedged against the exchange rate risk is defined in Bank of Albania’s Regulation, No. 62, dated 14.09.2011 “On credit risk management”, Article 4, paragraph 2 (c).

¹⁰ Data do not include non-residents.

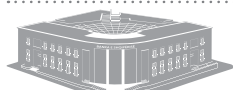


Table 12 Credit by branches of economy (by value (in ALL billion) and share to total credit)

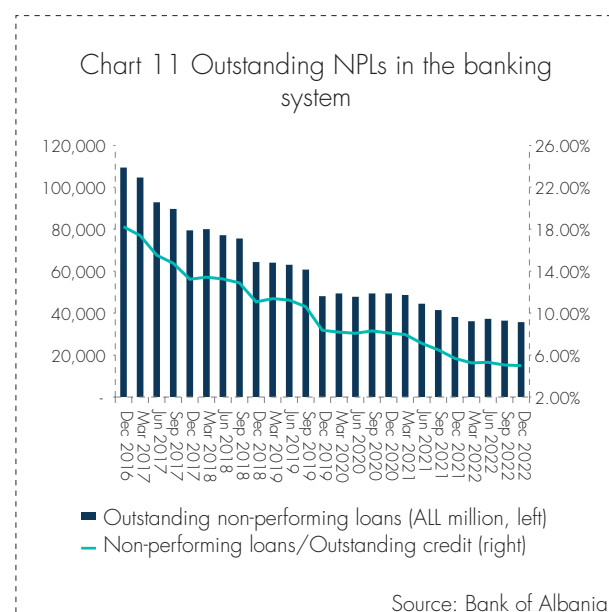
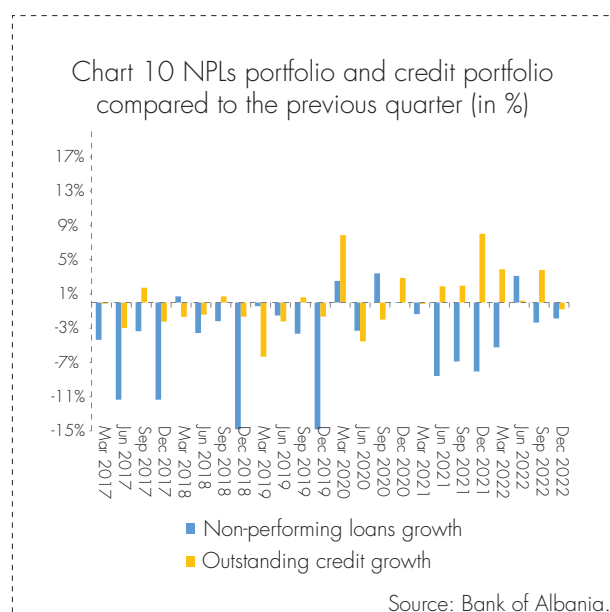
Description	December 2021		December 2022	
	Value	Share in %	Value	Share in %
Enterprises	395.2	63.9	411.9	62.3
Agriculture, Forestry, Fishing	6.7	1.7	6.9	1.7
Extracting industry	11.3	2.9	6.1	1.5
Processing industry	53.0	13.4	51.9	12.6
Electricity, gas supply, steam and air conditioning	33.3	8.4	32.8	8.0
Water supply, waste management activities	1.2	0.3	1.5	0.4
Construction	62.3	15.8	72.7	17.6
Wholesale and retail trade; Repair of vehicles and motorcycles	132.4	33.5	136.5	33.1
Transportation and storage	6.6	1.7	10.6	2.6
Accommodation and food services	30.9	7.8	33.5	8.1
Information and communication	10.2	2.6	7.0	1.7
Financial and insurance activities	2.3	0.6	3.5	0.8
Real estate activities	6.9	1.7	7.9	1.9
Professional, scientific and technical activities	1.7	0.4	2.4	0.6
Management and supporting services	2.9	0.7	3.3	0.8
Public management and defence; Obligatory social security	0.2	0.1	0.1	0.0
Education	6.0	1.5	6.1	1.5
Healthcare and social work activities	4.9	1.2	5.4	1.3
Art, recreation and relaxation	0.9	0.2	0.6	0.1
Other service activities	20.1	5.1	23.0	5.6
Households' activities as employers; Activities of output of invariable goods and services of households for their own use	0.6	0.2	0.0	0.0
Activities of international organisations and bodies	0.8	0.2	0.0	0.0
Households	222.8	36.1	249.2	37.7
Total	618.0	100.0	661.1	100.0

Source: Bank of Albania.

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

6.4.1.2 Assets quality

As at end-2022, non-performing loans reached at ALL 35.7 billion, down by ALL 2.4 billion, or 6.38% compared with the previous year. Gross non-performing loans ratio declined by 0.69 percentage points, in annual terms, standing at 4.99% at the end of 2022.



Net outstanding non-performing loans to total loan portfolio stood at 1.84%, down by 0.03 percentage point compared with December 2021.

The portfolio of performing loans shows: “standard” loans grew by 0.62 percentage point, while the share of “special-mention” loans was up by 0.05 percentage point. Meanwhile, the portfolio of non-performing loans shows a decrease in “doubtful” and “lost” loans by 0.05 p.p. and 0.64 p.p., respectively.

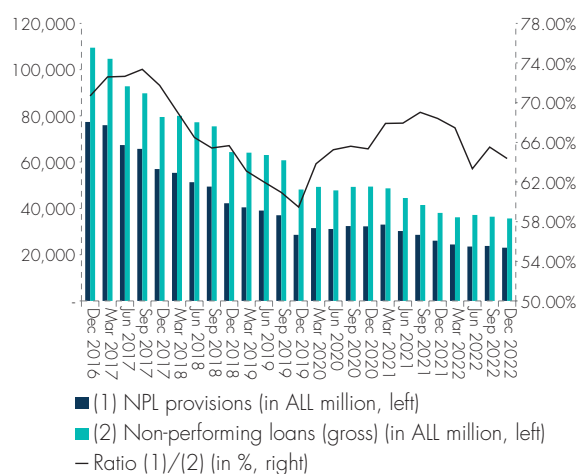
Table 13 Share of outstanding credit by category (in %)

Credit rating	2021				2022			
	Q I	Q II	Q III	Q IV	Q I	Q II	Q III	Q IV
Standard loans	88.3	89.8	89.8	90.7	91.2	91.6	92.0	91.3
Special mention loans	3.9	3.2	3.8	3.8	3.7	3.2	3.0	3.8
Sub-standard	2.2	1.9	1.7	1.5	1.5	1.8	1.6	1.5
Doubtful loans	1.6	1.4	1.2	1.2	1.1	0.9	1.0	1.1
Lost loans	4.0	3.6	3.4	2.9	2.6	2.4	2.4	2.2

Source: Bank of Albania.

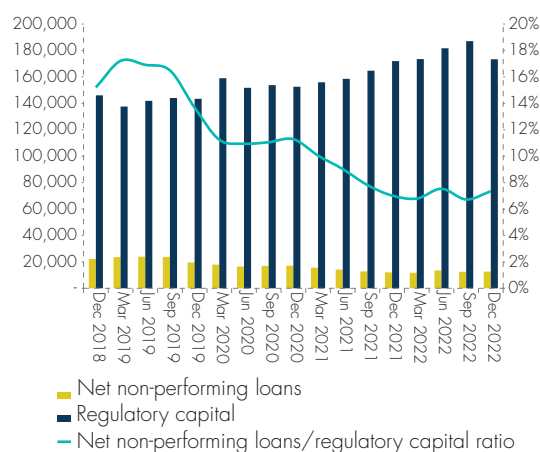
Loan loss provisions amounted to ALL 23 billion, down by around ALL 3 billion from the previous year. Whereas, the “loan loss provisions to non-performing loans” was 64.36%, around 4 percentage points lower over the course of one year.

Chart 12 Loan loss provisions



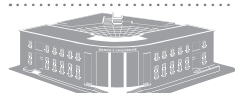
Source: Bank of Albania.

Chart 13 Net NPLS to regulatory capital ratio



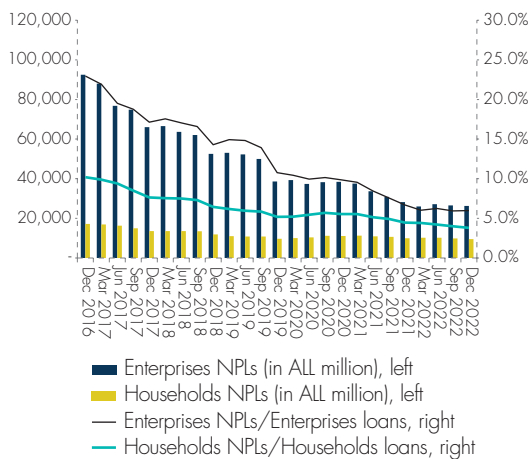
Source: Bank of Albania.

The share of net NPLs to regulatory capital increased by only 0.33 percentage point compared to the previous year, as a result of the increase at a higher pace of net non-performing loans by ALL 0.66 billion or 5.48%. Meanwhile the regulatory capital grew by ALL 1.2 billion or 0.83%.



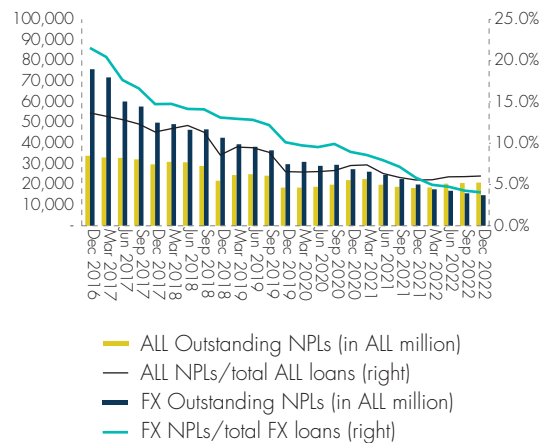
Regarding the credit quality by type of entity, the non-performing loans ratio for enterprises decreased by 0.7 percentage point, standing at 6%, while for households it decreased by 0.7 percentage point compared to the previous year, standing at 3.8%.

Chart 14 Outstanding NPLs to enterprises and households



Source: Bank of Albania.

Chart 15 Outstanding NPLs by currency



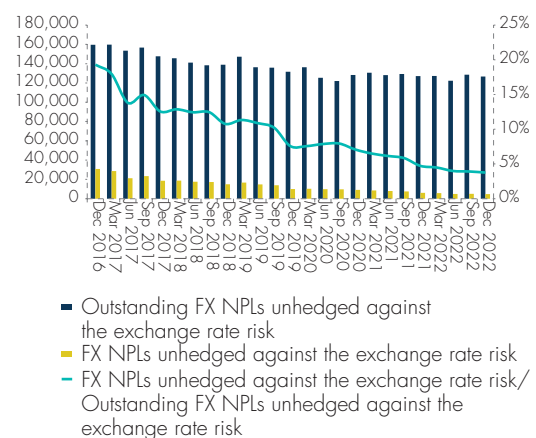
Source: Bank of Albania.

By currency, the NPL portfolio in foreign currency shows a lower ratio by 4% (5.8% at the end of the previous year), compared with the lek-denominated portfolio up at 6% compared to 5.5% at the end of the previous year.

The indicator of foreign currency non-performing loans unhedged against the exchange rate risk is 4%, downward by 1 percentage point from the end of 2021. This decline was attributable to the decrease in foreign currency NPLs by 20.5% and the decrease of foreign currency unhedged outstanding credit against the exchange rate risk by 0.27%.

The data reported shows that the major share of the loan portfolio (86 %) was collateralized, up by 1 percentage point from a year earlier (85%). By type of collateral, the largest share of loans in the system, around 55% was collateralized by real estate. Loans in foreign currency to households had a higher rate of collateralization with real estate, at 72%, compared to loans to enterprises, at 55%.

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



Source: Bank of Albania.



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

Type of collateral	December 2022					
	Households		Enterprises		Total	
	ALL	For- eign curren- cy	ALL	For- eign curren- cy	ALL	For- eign curren- cy
Real estate	55%	72%	48%	55%	52%	60%
Cash	3%	4%	2%	4%	2%	4%
Other collateral	4%	8%	47%	37%	25%	29%
Uncollateralized loan	38%	15%	2%	4%	20%	7%
Total	100%	100%	100%	100%	100%	100%

Source: Bank of Albania.

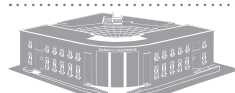
The Bank of Albania conducts stress tests to measure a bank's capital resilience to risks facing the banking activity. Analyses show that the current level of the banking system capital is sufficient to withstand a relatively high level of losses, which may arise from exposure to credit risk. This ability of the capital to withstand any potential losses was constant throughout 2022.

6.4.2 LIQUIDITY RISK

In 2022, the overall liquidity situation in the banking system continued to be stable, showing a relatively low exposure to liquidity risk. Steady growth of deposits, as the main financing contributor to banks' activity, a level of liquidity two times higher than the regulatory minimum (calculated as a ratio of liquid assets to short-term liabilities), a low credit to deposits ratio and the ability of the system to generate liquidity in the event of materialisation of extraordinary situations, all provide an adequate framework for protection against liquidity risk.

Liquidity indicators continuously appear significantly above the ratios set out in the Bank of Albania's regulatory acts. In December 2022, the ratio of liquid assets to short-term liabilities in the banking system was 41.08%¹¹, down by 4.3 percentage points compared with the same period in the previous year. The decrease was mainly attributable to the different rate of growth between liquid assets and short-term liabilities. Liquid assets declined by 6%, whereas short-term liabilities increased by 3.9%. The main movements in liquid assets are attributable to investments in treasury bills and bonds issued by the Government of the Republic of Albania, as well as investments in loans to banks and other financial institutions, and investments in "securities issued by central governments classified by international credit rating agencies at the equivalent S&P classification, not less than A+.

¹¹ The minimum required level for this indicator, as laid down by the regulatory requirements, is 20%.



In December 2022, the liquidity in foreign currency, stood at 27.11%¹² (from 32.1% in December 2021), owing to the fall in liquid assets in foreign currency against the growth in short-term liabilities denominated in foreign currency. The changes in foreign currency indicator are mainly in “current accounts” with banks and in securities of the Albanian Government. Meanwhile investments in securities of foreign government and central banks have grown as well. Liquid assets in lek remain the main support of liquidity at 58.8% of total liquid assets (with 61.2% of total liquid assets in December 2021).

The Liquidity Coverage Ratio (LCR)¹³ stood at 300%, which is mainly determined by the lek indicator. Broken by currency, the indicator in lek is 394%, or several times higher than the one of significant foreign currencies, which stands at 162%. This is as a result of the structure of liquid assets that are dominated by bonds of the Albanian Government.

6.4.2.1 Banking system deposits¹⁴

Customer deposits remain the main source of financing for the Albanian banking system, sharing 80.9% (80.8% in December 2021) of total liabilities. In December 2022, the total value of deposits in the system amounted to ALL 1.518 billion, recording 5.9% annual growth from the previous year. The share of the domestic currency in total deposits grew to 46.1% from 41.1% in December 2021. The maturity structure continuous to be slightly shifted to short-term maturities, given that the share of current accounts and demand deposits increased, whereas time deposits shrank slightly. The different environment in interest rates seems to have not yet impacted or penetrated the customers.

6.4.2.2 Concentration of deposits

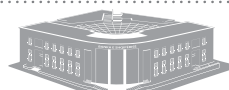
In December 2022, the ten largest depositors accounted for 6.9% of the banking system’s total deposits, from 6.8% in December 2021. The other groups of larger depositors show a similar slightly expanding performance¹⁵. Households’ deposits remain the main base of the banking system’s deposits, with a share of 79.5% of total deposits, down by around 0.6 percentage point, compared to the previous year. Private and public sectors’ accounts grew at a faster pace (by 9.1% and 7.7%, respectively) during 2022.

¹² The minimal level of indicator in lek, in accordance with regulatory requirements is 15%, whereas the one in foreign currency is 20%.

¹³ The indicator was officially reported for the first time in March 2020, following the entry into force of the Regulation No. 27 “On the liquidity coverage ration”, approved on 28 March 2019. This indicator is calculated as a ratio between liquidity reserve (and liquid assets) and net outflow. Net outflows are calculated as the difference between incoming and outgoing flows, save that incoming flows are less than 75% of outgoing flows. If incoming flows are greater than 75% of outgoing flows, then the ceiling of inflows is applied. So, not more than 75%. The minimum regulatory limits for the LCR are 100% of the total of all currencies and 80% of significant foreign currencies.

¹⁴ Deposits” refers to all sources from clients, including current accounts, time deposits, demand deposits and other accounts, except when otherwise specified.

¹⁵ 20 Larger depositors: 9.1% in 2022, from 9.0% in 2021. 50 Larger depositors: 12.3% in 2022, from 12.2% in 2021.



6.4.2.3 Loan to deposit ratio

The loan/deposit ratio, in December 2022, was 47.09% (December 2021: 45.39%) and reflects a structure of asset-liabilities that facilitates liquidity management and provides potential lending incentives. During 2022, the ratio expanded slightly due to the different growth pace of credit portfolio and total deposits (credit portfolio growth was higher than the growth in deposits). This ratio maintains a balance between domestic and foreign currencies, with a contraction from the previous period (foreign currency: 44.89% from 47.54%).

6.4.2.4 Liquid assets of the banking system

During 2022, liquid assets decreased by ALL 35.3 billion, or 6%. Their fall is mainly a result of the change in investment portfolio of banks in securities of the Albanian Government, which are registered in the balance sheet as tradable/ of placement and the channelling of funds in: investments in securities of foreign governments and central banks; loans granted to banks or financial institutions; and in T-bills of the Albanian Government.

Total liquid assets of the banking system amounted to ALL 555 billion, in December 2022. Government securities have the main share in their structure (by 52.1%, from 54% in December 2021).

6.4.2.5 Other financial sources

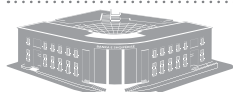
Other financial sources in the banking system have a relatively low share in total assets, around 6.09%, contracting slightly during the year (December 2021: 6.63%). Liabilities to financial institutions and repurchasing agreements had the main share in this item.

6.4.2.6 Stress tests

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

6.4.3 MARKET RISKS

The overall situation of the banking system's exposure to market risks remained at relatively low levels over 2022 as well. For the assessment of market risks, the trading book and the banking book include indicators (risk factors) of exposure to: **change of interest rate in the banking book; exchange rate risk** in all the balance sheet items; the position risk (specifically **change of interest rate in the tradable and placement portfolio**), and the capital buffers to cover potential losses from these risks.



The capital requirement for market risk at system level constitutes only 1.79% of total capital requirement. This exposure arises mainly from the exchange rate risk as the trading portfolio is at very low levels¹⁶.

Market risk originating from the exposure to interest rate risk - measured as the change of exposure value in the banking book after the standard shock in the interest rate to regulatory capital – during the year, reflects an averagely low risk of the structure of re-priced assets and liabilities in the banking system. In December 2022, the value of this indicator was 6.32%, compared to 9.35% in December 2021¹⁷. Certain banks show a divergence from the average, due to the changes in the average maturity of the credit portfolio and investments in securities, which however remain well within regulatory limits.

Market risk originating from exposure to the exchange rate - assessed from the dynamic of open position in foreign currencies - continues to be low and this behaviour dominated throughout the annual period. In December 2022, the banking system's exposure to exchange rate risk was "long", at ALL 22.79 billion, accounting for 13.16% of the banks' regulatory capital¹⁸, at levels far from the regulatory limit.

Market risk in the **trading portfolio** for the banking system is rather low, showing a downward dynamic. This risk was assessed as such throughout the analysed annual performance. Trading portfolio at system level appears rather low against total assets (0.08% in December 2022, from 0.64% in December 2021). Market risk originating from interest rate in **non-resident trading portfolio of placement** (non-resident portfolio of placement bears market risk factors) is assessed at low levels against total assets.

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

6.4.4 OPERATIONAL RISK

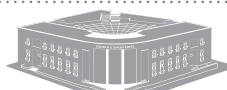
The performance of exposure to operational risk has deteriorated based on the gross annual losses, which have gone up to ALL 193 million in 2022, as compared to ALL 139 million in 2021.

There were more sources of operational risk recorded in 2022, as cyber-attacks threatened all fields, including the banking system. These threats reached their

¹⁶ Capital requirement consists of 1.83% exchange rate risk and 1.4% debt securities position risk.

¹⁷ The maximum permitted level for this indicator, in accordance with regulatory requirements, is 20%.

¹⁸ The maximum permitted level for this indicator, in accordance with regulatory requirements, is 30%.



peak in the last quarter of the year. In response, banks have undertaken the relevant measures by increasing internal controls and spending on this regard.

Given these risk developments, the ratio of losses to capital requirement has increased to 2.31%, in 2022 from 1.78% in 2021. The increase was due to higher operational losses recorded from the previous year by 39%, despite the slight increase of capital requirement by 6.5%.

6.4.4.1 Information and Communication Technology

Throughout 2022, cyber-attacks towards all fields have advanced, particularly to the banking system, which responded by strengthening their measures and security systems and intensifying the awareness-raising campaigns for the information technology users on the nature and risks of cyber-attacks.

Currently, information security, particularly related to cybernetics is stable. Banks have intensified their internal controls, taking additional measures regarding their existing infrastructure through implementing more (logical and technical) controls in all communication channels, including third parties. Banks have intensified their cooperation and communication on cybernetic security information, corruption indicators and other vulnerabilities as regards the threats observed in their systems and the measures undertaken to prevent incidents.

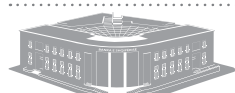
In the framework of increasing the financial sector's awareness regarding cyber risk, the Supervision Department has continued to communicate with banks bringing to their attention the main issues, which require enhanced protective measures of the regulatory and technical aspect as they attempt to tackle all the levels of cyber risk.

6.4.5 REPUTATIONAL RISK

Reputational risk – as a risk that may harm banks and financial institutions immediately - has the following key assessment elements: reasonable doubts about the involvement or use of financial institutions for money laundering/terrorism financing; lack of transparency with clients; failure to comply with terms and conditions, contractual terms, etc.

6.4.5.1 Anti- money laundering and countering the financing of terrorism

During 2022, banks and financial institutions have made positive efforts in terms of anti-money laundering and countering the financing of terrorism (AML/CFT). Overall, on-site examinations, carried out during 2022, identified that, regarding AML/CFT risk management issues, banks paid adequate attention and increased their efforts for the appropriate management of AML/CFT risk, in compliance with the legal, regulatory and internal regulatory requirements in this field.



This year the supervision is mainly focused on areas such as: the regulatory framework, the expanded/appropriate vigilance processes, dependence on third parties. In particular, banks have in place adequate structures and systems in this regard and have increased the effectiveness of preventive measures, which is reflected in an increase in the number and quality of Suspicious Activity Reports.

For the supervision of this risk, the Bank of Albania has also closely cooperated with the responsible authority, the General Directorate for the Prevention of Money Laundering, through conducting joint inspections, exchanging information, coordinating administrative measures, coordinating reporting to international organizations, relevant training etc.

The cooperation has continued with the Ministry of Foreign Affairs through the distribution to licensed institutions, of UN Security Council resolutions and Council of Ministers' decisions on sanctioning and updating the list of people who finance terrorism and international sanctions.

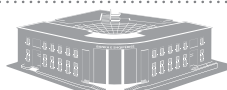
This year as well supervision is mainly focused on areas such as:

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

In 2022, 82 on-site examinations were carried out to prevent money laundering and terrorist financing, specifically in:

- o 5 banks;
- o 5 non-bank financial institutions;
- o 2 Savings and Loan Association;
- o 70 foreign exchange bureaus. The process of checking the implementation of recommendations was realised in 27 foreign exchange bureaus, as a result of shortcomings noticed in previous examinations.

Four on-site inspections were carried out in the framework of cooperation with the General Directorate for the Prevention of Money Laundering (GDPM), in the following entities:



- o 1 bank;
- o 1 non-bank financial institution;
- o 1 Savings and Loan Association;
- o 1 foreign exchange bureau.

The types of problems identified in **banks** consisted mainly in issues related to Due diligence/ Enhanced Due Diligence and the centralised system, which are summarized below:

- banks have verified the last beneficiary owner based on the documents, but have failed to reflect the last beneficiary owner of the entity in the bank's central system;
- when funds are deposited or transferred from another bank, banks considers the funds clients held in another commercial bank as corroborating documents on the source of funds and fails to secure actual corroborating documents on the source of funds;
- transactions of high value where the economic purpose is not clear;
- use of personal account for business purposes and foreign currency transactions declared by the business which is converted at the cash desk;
- cases where issues are manifested by open sources and other suspicious elements;
- lack of scenarios build and implemented within the system, which would enable the activation of alert signals.

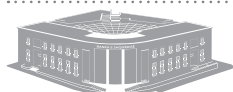
Regarding the terrorist financing risk management and the implementation of sanctions, no issues were observed in regards to.

In regards to issues related to the terrorist financing risk management and the implementation of sanctions, no problems were concluded in the conducted examinations.

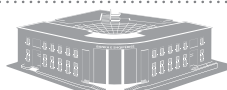
The examinations in **non-bank financial institutions (NBFIs)** and **savings and loan associations (SLAs)** identified shortcomings in: the internal regulatory framework of AML/CFT; the structure/responsible staff; the implementation of the due diligence and enhanced due diligence; the centralised system; internal audit; the processes of risk management of TF and TSF risk management processes; training, etc.

Specific recommendations were issued regarding the identified shortcomings in order to address them in a timely manner. The types of problems in non-bank financial institutions and savings and loan associations, mainly related to:

- The internal regulatory framework:
 - the regulatory framework has several non-compliances with the legal framework in force, specifically: (i) the legal references should include the Law No. 72/20219 dated 17.10.2019 "On the international restrictive measures in the Republic of Albania" (ii) the Regulation should



- lay down in detail the process and steps to be followed in the framework of international restrictive measures;
 - the procedure does not comprise the work-flow of reporting suspicious cases identified by staff/agents to the authorised person, who after analysing the case may report it to the Responsible Authority (i.e., GDPML);
 - in the framework of measures against terrorist financing (specifically Article 10/1 of the Law No. 157 on TF), there is no identification of steps that should be followed to temporarily freeze the financial transaction, for example current or attempted transactions, of funds and other property in compliance with DCM No. 538, dated 29.07.2022.
- The shortcomings in the process of conducting due diligence:
 - lack of analysis on the reason behind fulfilling loan obligations before due time, accompanied by corroborating documents on the source of funds;
 - lack of corroborating documents on the source of funds when opening a deposit account;
 - expiration of the identification document beyond the valid date and incorrect identification document.
 - Training:
 - insufficient staff training on the obligations and measures laid down in the Law No. 72/2019 "On the international restrictive measures in the Republic of Albania", as well as the implementation of the Targeted Financial Sanctions (TFS) and the Guideline on the implementation of obligations to prevent money laundering and terrorist financing based on AML/CFT risk;
 - lack of regular training (at least once per year) for agents.
 - Other shortcomings related to legal and regulatory requirements:
 - the AML/CFT risk assessment analysis fails to take into account the risks borne by the client, services and geography of each branch, as well as the assessment of the overall AML/CFT risk level against which it is exposed to;
 - lack of ML/FT risk assessment for all the members;
 - failure to report the designation of the responsible person to the Responsible Authority at the Bank of Albania.
 - CFT risk management and sanctions:
 - the need to improve the regulatory framework by including the Law No. 72/2019 "On international restrictive measures in the Republic of Albania" in the legal references, and to lay down more clearly in this framework the measures to be taken by the entities for the implementation of the Law No. 157/2013, dated 10.10.2013 " On the Measures Against Terrorism Financing" and the Law No. 72/2019 "On international restrictive measures in the Republic of Albania"



(specifically, the steps to be taken by the entity for the control of clients with the announced and sanctions lists, the measures to be taken in case of suspicion of similarity of names in the lists along with the method of remaining updated with these lists);

- lack of consultation with the sanction lists at the moment of establishing a relationship with the member, in addition to the consultation with the declared people list;
- lack of proof on the verification conducted against the declared lists;
- failure to audit CFT issues, including AML ones;
- insufficient knowledge on the undertaken measures and management of the CFT risk and sanctions.

Examinations of FEBs identified shortcomings in relation to insufficient knowledge, and consequently, non-compliance with the legal/regulatory obligations regarding: (i) the implementation of Due diligence/Enhanced Due Diligence; (ii) the centralized system; (iii) training; (iv) the lack of evidence that document TF and TFS verification; (v) failure to analyse and utilize the online reporting portal of the GDPML. In addition to recommendations issued to address these shortcomings, there were also administrative measures imposed such as fines.

The problems identified at FEBs were addressed with the supervisory/administrative measures, as follows:

Fine 15 FEBs;

Warning 8 FEBs;

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

- lack of an internal regulation with the purpose of preventing money laundering and financing of terrorism(AML/CFT), when the activity is run from not fewer than three people;
- non-compliance with customer identification procedures, customer identification and verification of their identity and shortcomings in maintaining supporting documents of foreign exchange operations;
- non-compliance with the requirements for taking preventive measures to establish centralized system responsible for data collection and analysis, with elements for identifying anomalies;
- insufficient knowledge and non-compliance with the legal obligations defined in Law No. 157/ 2013 "On measures against terrorist financing" and Law No. 72/ 2019, dated 17.10.2019, "On the international restrictive measures in the Republic of Albania," and Law No. 9917, dated 19.5.2008, "On the prevention of money laundering and financing of terrorism" and the sub-legal acts on AML/CFT);
- absence of training on the legal obligations laid down in Law No. 157/ 2013 "On measures against terrorist financing" and Law No. 72/ 2019, dated 17.10.2019, "On the international restrictive measures in the Republic of Albania," and Law No. 9917, dated 19.5.2008, "On the prevention of money laundering and financing of terrorism"



- and the sub-legal acts on AML/CFT);
- absence of evidence on cases suspected for the similarity of names with the watchlist and the sanction list of the UN Security Council or proof that verification with lists were carried out.

In parallel, the Bank of Albania has carried out the evaluation of exposure to this risk for entities in the context of off-site analyses on the basis of reporting at the beginning of 2023, with the 2022 data. This evaluation consists in the integration of the evaluation on the quantity of risk and the evaluation on the risk management quality, in the framework of institution categorisation and orientation of supervisory focus to the function of risk-based supervisory principles. The evaluation was carried out for 671 financial entities (11 banks, 38 NBFIs, 10 SLAs and 612 FEBs).¹⁹⁾

6.4.5.2 Transparency and disclosure of information

Transparency and the publication of information, which are elements that affect the level of public confidence in the financial system of the country, have continued to be in the focus of the Bank of Albania during 2022.

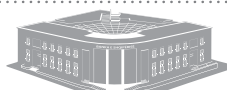
In this context, compliance with obligations of banks to report to the Bank of Albania was subject to a detailed analyses with regard to the implementation of the regulatory framework on transparency and issues relating to fully reporting or publishing the working conditions on the banks' website.

Banks' behaviour and measures relating to public transparency and disclosure of financial information have been consistently and cautiously examined through on-site and off-site supervision.

As a result of the monitoring and measures taken by the Bank of Albania, the banking sector has raised its awareness and commitment to matters of transparency and disclosure of information. However, there are still issues in need of further improvement in terms of:

- internal regulatory framework (mainly in drafting the methodology for calculating interest rates and commissions, and complaints);
- contractual information (contracts) on consumer loans, mortgages loans, and credit cards in accordance with regulatory requirements;
- application of terms and conditions (e.g. amortization plan) not in accordance with the provisions of the contract signed between the parties;
- certain elements in the information published on the websites;
- opening the current account product in the system (for example: opening several current accounts in the system by signing one single contract with the customer).

¹⁹⁾ 29 out of 612 FEBs had their license revoked during 2023, but the evaluation was conducted based only on reported data.



In NBFIs and SLAs, the issues needed to be addressed mostly relate to:

- policies and procedures (shortcomings in the methodology for calculating interest rates and commissions related to cost elements);
- inaccuracy in the calculation of the NEI (the insurance premium is not included in the calculation of the NEI);
- loan contracts (some elements of the loan contract are in violation of regulatory provisions; conditions which specify the method for adopting and calculating the interest rate; as regards the penalties imposed in cases of non-compliance with the contractual obligations, the provision “in no case should it exceed the sum of the contractual obligation” is missing; lack of interest calculation method and penalty calculation method; commission for early repayments is not in accordance with regulatory provisions; deferred interest on delayed loan instalments expressed in a monthly rather than a yearly percentage basis; absence of a clear example for adopting and calculating the interest rate, etc.);
- the deposit and account contract (fails to provide a method for notifying the depositor on the changes of terms and conditions or deadlines of the contract signed prior to the application of changes);
- Publication of information (the information published in the work place and the official website regarding interest rates and commissions of the loan products provided, is not complete; lack of information on the interest rate of loans and deposits and commissions of products provided; lack of information on loan interest rates and relevant commissions);
- administration of complaints (failure to inform the management bodies on a periodic basis about the number, typology and solutions of complaints submitted by customers; the database of complaints does not contain the typology of the complaint).

In addition to on-site examinations, in order to evaluate the entities on their compliance with the requirements of the regulatory acts of the Bank of Albania, off-site analyses were also carried out regarding the publication of financial reports and working conditions for the products and services offered by the licensed entities. In the framework of informing the public, the publication of transparency forms for interest rates and commissions for products and services offered to the public by banks and NBFIs has been carried out periodically.

Also, during 2022, the minimum requirements for the publication of financial reports by banks and branches of foreign banks were monitored. Overall, the information disclosed by banks is in accordance with the regulatory requirements of the Bank of Albania.

In the framework of transparency, the engagement in on-site inspections was aimed at assessing the entities for compliance with the requirements of the regulatory acts of the Bank of Albania.



6.4.5.3 Treatment of customers' complaints

Treatment of customers' complaints has taken a significant importance in the framework of transparency and consumer protection in the financial sector. In 2022, the unit for the supervision of reputational risk processed a considerable number of complaints/requests/letters (262) submitted from households, enterprises, natural persons, media, bailiffs and state institutions.

Chart 18 shows that households have the largest number of processed complaints at 74.81%.

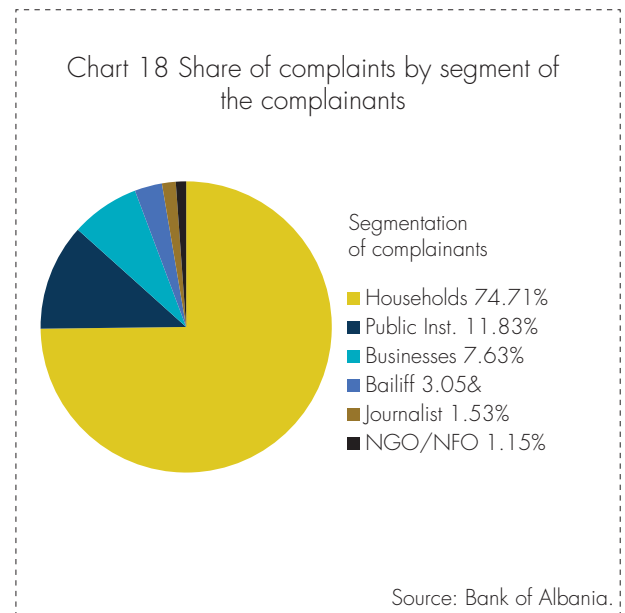
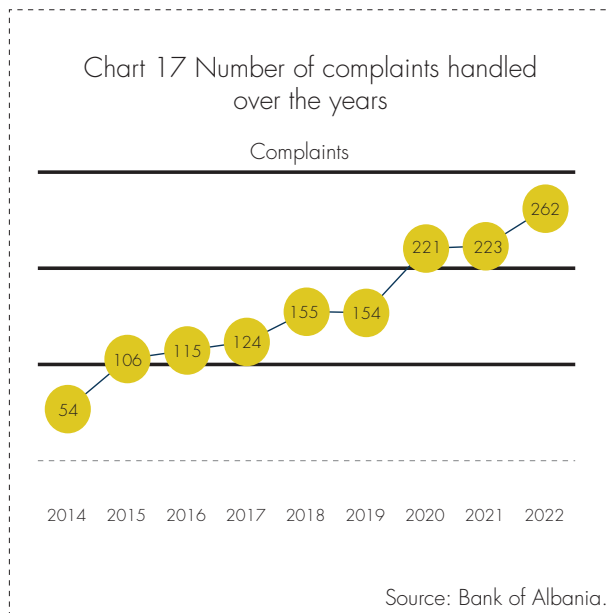


Chart 19 shows credit products account for the largest share by 41.98%.

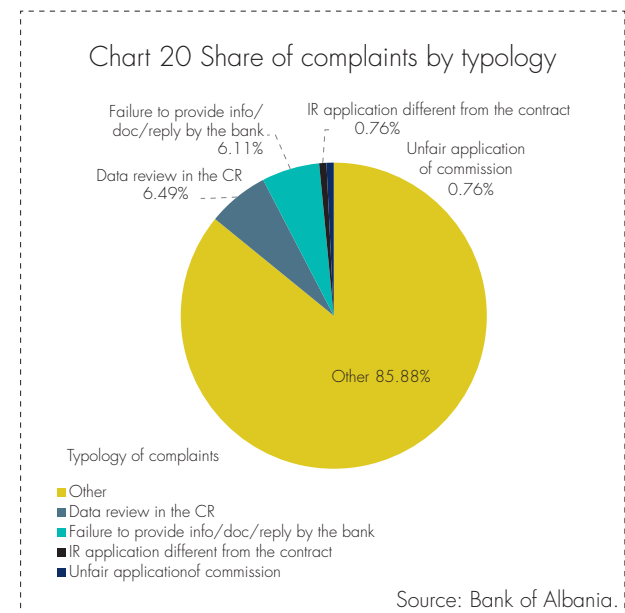
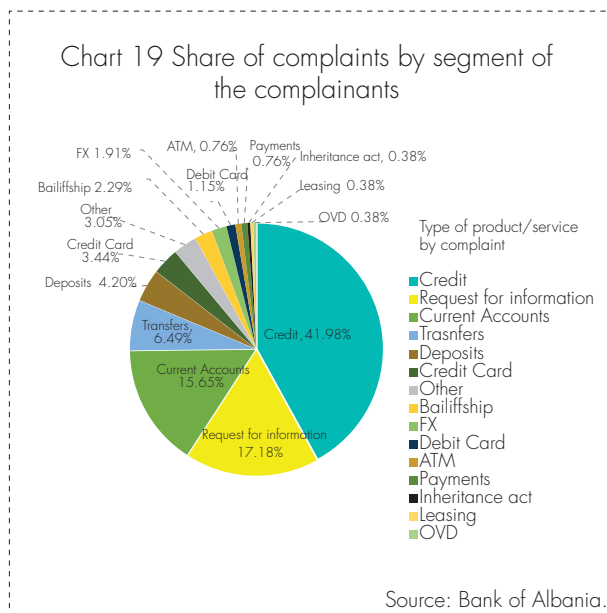
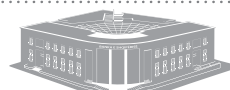


Chart 20 shows that the typology "Other" accounts for the largest share by 85.88%. This typology includes complaints that are requests for intervention



of the BoA to ease loan conditions and other requests for information from the Bank of Albania, whereas the rest consists of complaints/requests/letters on bailiff decisions' appeals, the level of commissions or interest rates adopted by banks and non-bank financial institutions on applied products and services etc.

6.4.6 PROFITABILITY

6.4.6.1 Net result and its structure

The financial result was positive in 2022, at around ALL 21.67 billion, or ALL 0.50 billion (2.36%) higher than in 2021.

Throughout 2022, the third and fourth quarter of the year had the greatest impact on the financial result, with a net financial result above the result of the same periods of the previous year. A higher level of profit was recorded in 2022 as compared to the previous year, due to the increase in net interest income, which was driven by interest revenues growing at a higher pace than interest expenses, by 24% and 16.7%, respectively.

6.4.6.2 Profitability indicators

Although the financial result is positive and higher than in the previous year, the main profitability ratios such as the Return on Average Assets (RoAA) and Return on Average Equity (RoAE), decreased compared to 2021. At the end of 2022, RoAA stood at 1.2% and RoAE at 12.3%, from 1.3% and 12.6%, respectively, at the end of 2021.

Table 15 Main profitability indicators (in %, cumulative)

Indicators	December 2022	December 2021	December 2020	December 2019
RoAA	1.2	1.3	1.1	1.3
RoAE	12.3	12.6	10.4	13.0

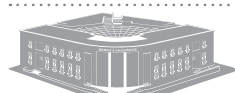
Source: Bank of Albania.

The following table shows the banking system profitability from the main activity and the dynamics of the equilibrium between the collection of interest bearing liabilities and investment in interest-earning asset. Dynamics over years shows a sustainability of the indicator.

Table 16 Profitability ratios from main activity in % (cumulative)

	December 2022	December 2021	December 2020	December 2019
Interest income/ average earning assets (1)	4.1	3.9	4.0	4.1
Interest expenses/ average earning assets (2)	0.8	0.5	0.6	0.7
Net Interest Margin (NIM)[(1) - (2)]	3.3	3.4	3.4	3.4

Source: Bank of Albania.



As at end-2022, the ratio of average income-earning assets to average assets increased by 0.57 percentage points (from 83.47% to 84.04%), compared to end of the previous year, affected by the higher increase in average income-earning assets versus the increase in average assets. The ratio of average interest-bearing liabilities to average assets decreased by 1.52 percentage points (from 93.86% to 92.34%), compared to the end of the previous year, affected by the higher growth in average assets against the increase of average expense-bearing liabilities.

Table 17 Average profitability ratios (in ALL million)

Indicators	December 2022	June 2022	December 2021	June 2021
Average earning assets (1)	1,471,647.6	1,498,931.5	1,382,558.1	1,335,212.4
Average paying liabilities (2)	1,617,062.1	1,658,850.3	1,554,632.0	1,504,680.2
Average assets (3)	1,751,227.5	1,782,743.5	1,656,308.7	1,603,594.3
(1) / (3)	84.04%	84.08%	83.47%	83.26%
(2) / (3)	92.34%	93.05%	93.86%	93.83%

Source: Bank of Albania.

The efficiency ratio of the system declined by 2.54 percentage points compared to the previous year, as operating income rose by ALL 1.5 billion or 3.31%, at a slower pace than operating expenses, which increased by ALL 1.65 billion or 5.15%.

Table 18 Performance of efficiency ratio (in ALL million)

Indicators	December 2022	December 2021	December 2020	December 2019
Net interest result (1)	48,311.2	46,762.8	43,678.1	41,140.8
Operating expenses (2)	33,849.4	32,192.7	29,759.2	29,525.4
Efficiency ratio (1) / (2)	142.72%	145.26%	146.77%	139.34%

Source: Bank of Albania.

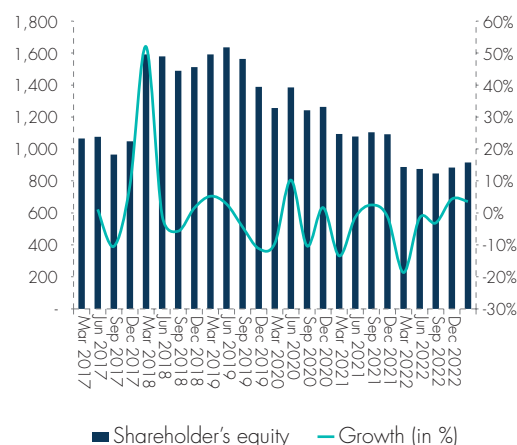
6.4.7 CAPITAL ADEQUACY RATIO

6.4.7.1 Shareholders' equity

As of end-2012, the shareholders' equity of the banking system amounted to ALL 184.27 billion, registering an ALL 8.94 billion (5.1%) annual growth, against a lower growth of ALL 11.82 billion (7.21%) in 2021.

In 2022, the shareholders' equity increased between 1.6% and 3.8% throughout the entire year, except the fourth quarter, when it fell by 2.8%.

Chart 21 Shareholder's equity



Source: Bank of Albania.



The increase of paid-in capital and reserves provided the largest material contributions to the shareholders' equity growth, up by ALL 8.8 billion and ALL 7.8 billion, respectively, compared with the same period in the previous year.

Table 19 Shareholders' equity structure and its components

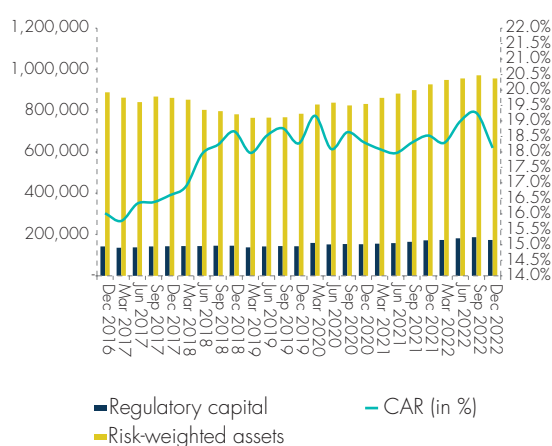
Indicators	December 2022		December 2021		December 2020		December 2019	
	In ALL million	%	In ALL million	%	In ALL million	%	In ALL million	%
Shareholders' equity	184,273.3	100.0	175,331.2	100.0	163,966.7	100.0	153,569.6	100.0
Paid-in capital	94,421.6	51.2	102,363.0	58.4	101,859.3	62.1	105,767.5	68.9
Share premiums	7,152.7	3.9	7,130.6	4.1	7,084.1	4.3	6,991.6	4.6
Reserves	33,859.0	18.4	26,035.0	14.8	23,537.8	14.4	21,270.5	13.9
Revaluation difference	(8,386.7)	(4.6)	(8,037.6)	(4.6)	(9,005.2)	(5.5)	(6,812.1)	(4.4)
Earnings/retained loss	35,548.9	19.3	26,662.0	15.2	23,994.0	14.6	7,121.4	4.6
Earnings/loss for the period	21,677.8	11.8	21,178.2	12.1	16,496.7	10.1	19,230.7	12.5

Source: Bank of Albania.

6.4.7.2 Capital adequacy ratio

As at end-2022, the Capital Adequacy Ratio (CAR) – the main supervisory indicator - was reported at 18.13%, against the 12% required regulatory minimum²⁰. This ratio dropped by 0.4 percentage point, compared with the same period in the previous year.

Chart 22 Capital adequacy ratio and its components



Source: Bank of Albania.

6.4.7.2.1 Regulatory capital

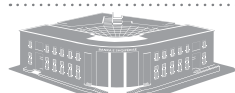
The banking system's regulatory capital totalled ALL 173.26 billion, up by ALL 1.4 billion or 0.81% from 2021.

Common Equity Tier 1 capital of the banking system is the main component of the regulatory capital of the system, accounting for around 93.13%, down by 0.88 percentage point, compared with the previous year, and yet it stands at a level, which provides evidence for a qualitatively stable regulatory capital.

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

Total risk-weighted assets and off-balance sheet items increased compared with the previous year by ALL 28 million or 3.02%. Capital requirement for credit risk by 87.32% has the highest share in total risk-weighted assets and off-balance sheet items, followed by capital requirement for operational risk by 10.88%, and capital requirement for market risk by 1.80%.

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



6.5 NON-BANK FINANCIAL INSTITUTIONS AND SAVINGS AND LOAN ASSOCIATIONS

6.5. NON-BANK FINANCIAL INSTITUTIONS

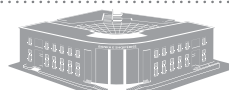
6.5.1.1 Overview

At the end of 2022, the financial system included 38 NFBIs, up by 3 (three) entities compared to 2021. The licensed entities are: "Rubicon" and "Velox Pay" to conduct electronic money activity and "Lendal" to conduct a financial leasing activity.

Table 20 Activity of non-bank financial institutions

No.	Non-bank financial institutions	Payment and Money Transfer Service Activities	E-money	Credit risk activities				Foreign exchange services	
				Lending	Micro-credit	Financial leasing	Factor-ing	Foreign exchange services	Foreign Exchange Advisory Services
1	Financial Union Tirana	√	√					√	√
2	Agrokredit			√					
3	Ak-Invest	√		√			√	√	√
4	Fondi Besa			√					
5	NOA	√		√				√	
6	Easypay	√	√						
7	Posta Shqiptare	√	√						
8	Tranzit			√		√	√		
9	M-Pay	√							
10	Platinum Investment								√
11	Raiffeisen Leasing					√			
12	FIN - AL			√		√			
13	Landeslease					√			
14	Porsche Leasing					√			
15	Albania Leasing					√			
16	Crimson Finance Fund Albania (CFFA)			√		√	√		
17	Virtus Lending					√			
18	Agro & Social Fund					√			
19	MiA Finance					√			
20	Micro Credit Albania			√					
21	Iutecredit Albania					√			
22	Agro Partner					√			
23	Kredo Finance					√			
24	Omnifactor						√		
25	Tirana Factoring & Lease					√	√	√	
26	Albanian Financial Institution			√		√	√		
27	Kastrati	√							
28	Raea Financial Services	√						√	√
29	Tirana Capital Trade						√		
30	Micro Credit Risk					√			
31	Paysera Albania		√						
32	Antigone Financial Enterprise					√			
33	eReja shpk		√						
34	RPay		√						
35	Soft & Solution		√						
36	Lendal					√			
37	RUBICON		√						
38	VELOX PAY		√						

Source: Bank of Albania.



6.5.1.2 Assets of NBFIs

In December 2022, total assets for non-bank financial institutions reached at ALL 81.12 billion, increasing by around ALL 4.83, or 6%. This growth was mainly generated from the following entities: Paysera (ALL 2.1 billion), NOA (ALL 2 billion), Iutecredit Albania (ALL 1.5 billion), Kredo Finance (ALL 1 billion), etc. Whereas, the total assets of "Fondi Besa" fell by ALL 3 billion. The assets of non-bank financial institutions account for around 4.14% of the total banking system assets.

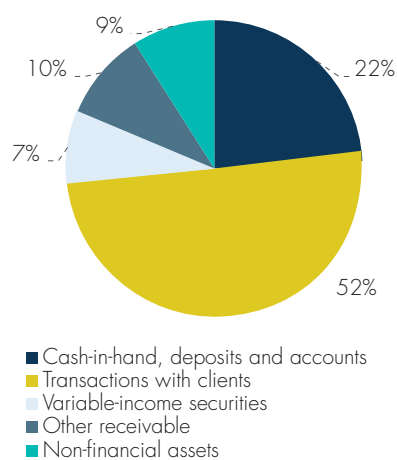
Table 21 Total assets of NBFIs

Indicator/ALL million	December 2019	December 2020	December 2021	December 2022
Total assets of NBFIs	65.2	67.9	76.3	81.12

Source: Bank of Albania.

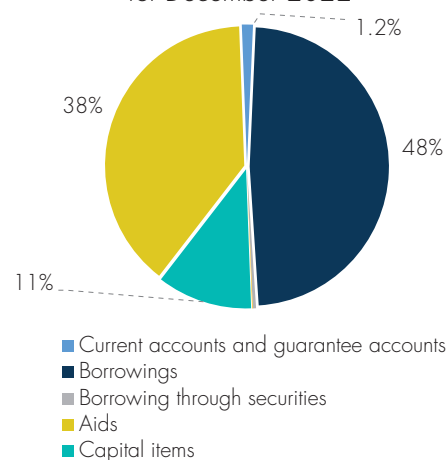
Credit portfolio accounts for the main share in the asset structure of NBFIs, by 52%. The rest is divided into liquid assets (22%), other receivables (10%), variable-income securities (7%) and other assets (including durable assets) (8.5%).

Chart 23 Assets allocation of NBFIs for December 2022



Source: Bank of Albania.

Chart 24 Funding sources allocation of NBFIs for December 2022

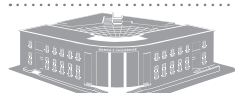


Source: Bank of Albania.

NBFIs are mostly financed through borrowing (48% of liabilities) and own capital (38%). Borrowing through the issuance of securities accounts for only 0.4%. Regarding the origin of borrowings, the balance leans slightly towards non-resident financial institutions by 56.5%.

6.5.1.3 Outstanding loan portfolio developments and activity volume

At the end of 2022, the gross credit portfolio of non-bank financial institutions reached ALL 47.4 billion, registering an increase of around ALL 5.3 billion (or



12.5%) compared to the previous year. In 2022, microcredit registered the highest growth (by around ALL 2.6 billion).

Table 22 Total NBFIs' credit portfolio, net and gross

Indicator/ALL million	December 2019	December 2020	December 2021	December 2022
Total loan portfolio of NBFIs (net)	33.0	33.5	37.4	42.02
Total loan portfolio of NBFIs (gross)	35.5	36.6	42.1	47.38

Source: Bank of Albania.

The largest share of NBFIs' credit portfolio is held by credit and microcredit entities (77%), followed by the portfolio of financial leasing entities (22%) and the portfolio of factoring entities (1%).

The credit portfolio of NBFIs accounted for 6.24% of total credit in the banking system, increasing by 0.34 p.p. compared to the previous year.

Table 23 Gross credit portfolio by NBFIs' activities

Financial activity (ALL bln)	December 2019	December 2020	December 2021	December 2022
Lending	14.7	15.6	16.6	18.4
Microcredit	11.4	11.6	15.4	18.0
Financial leasing	8.9	9.1	9.6	10.4
Factoring	0.5	0.4	0.5	0.4
Gross Portfolio	35.5	36.6	42.1	47.4

Source: Bank of Albania.

At the end of 2022, the activities of lending and financial leasing entities remain business-oriented, with around 82.5% and 84.7%, respectively, while the factoring portfolio is carried out entirely for business purposes. Compared with 2021, there is an increase in loans to households against enterprises, which was mainly due to the expansion of microcredit activity.

In the framework of the business portfolio, in 2022, the most financed sectors are: "Trade and repair of vehicles" by 18.73%, "Other service activities" by 18.70% and "Construction" by 12.16%.

The portfolio of NBFIs remains oriented towards funding in the domestic currency (66%) and medium-term maturity (72%).

The portfolio of financial leasing, broken down by products, is dominated by funding for personal transport vehicles (40%) and work transport vehicles (31%). Compared with December 2021, the portfolio increased by ALL 80 million, localized on the product "personal transport vehicles".

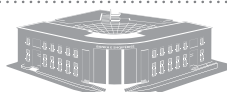


Table 24 Leasing portfolio, by funded subject

Financial leasing (ALL bln)	New equipment	Used equipment	December 2021	New equipment	Used equipment	December 2022
Personal transport vehicles	2.00	1.86	3.86	2.10	2.07	4.17
Work transport vehicles	1.80	1.22	3.02	2.05	1.17	3.22
Work equipment/production lines	0.77	0.28	1.05	0.73	0.31	1.04
Real Estate	0.04	0.05	0.08	0.09	0.01	0.10
Other	1.57	0.04	1.61	1.84	0.04	1.88
Total	6.17	3.45	9.61	6.82	3.59	10.41

Source: Bank of Albania.

At the end of 2022, **the factoring portfolio** registers an outstanding balance of ALL 0.5 million, up by a negligible growth of ALL 7 million compared with the previous year. The annual circulation of the factoring portfolio increased by ALL 33 million compared to 2021, accompanied by the increase of invoice circulation.

The activity of factoring is realized in the domestic market at 93.6%, and mainly for guaranteed financing (90.4%).

Table 25 Annual volumes and balance of factoring portfolio

Factoring	December 2019	December 2020	December 2021	December 2022
Circulation				
No. of invoices	2,609	2,076	1,930	2,170
Value (ALL millions)	1.03	0.96	1.39	1.4
Outstanding portfolio (ALL bln)	0.48	0.52	0.48	0.49

Source: Bank of Albania.

6.5.1.4 Credit portfolio quality

For financial entities, **the non-performing loans ratio** decreased by 0.4 percentage point, as at end of 2022. This result was affected by the increase in the financing portfolio by about 12.53% (or ALL 5.3 billion), while the increase of non-performing loans was by about 9%. The increase in total non-performing loans appears higher for lending and micro-credit entities.

Table 26 Credit quality indicator performance

Indicators	December 2019	December 2020	December 2021	December 2022
Non-performing loans/outstanding loans (gross)	9.69	11.20	13.60	13.20
Non-performing loans/outstanding loans (net)	4.14	4.38	3.96	3.54

Source: Bank of Albania.

6.5.1.5 Payment and transfer services

During 2022, **payment and transfer services** showed positive results, with a more significant growth in the volume and number of transactions for outgoing transfers and payments. Their performance is shown in the table below:

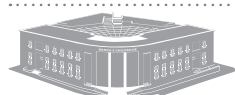


Table 27 Volume of transfers and payments on annual basis

	2018		2022	
	No.	Volume (ALL mln)	No.	Volume (ALL mln)
Outgoing transfers	884.792	15.04	1,043,301	20.07
Incoming transfers	2,672,458	104.83	2,482,425	104.87
Outgoing payments	21,892,937	71.89	24,274,499	82.55

Source: Bank of Albania.

* Data was reviewed after the corrections reported to the Albanian Post Office.

6.5.1.6 Financial Result

During 2022, NBFIs generated a positive result of ALL 3.33 billion. Compared with the previous year, there is a decrease by ALL 0.33 billion (9%). The entities providing the largest contribution to the profits realised by NBFIs are: "Tranzit", "Kredo Finance", "NOA", "Unioni Financiar Tiranë", "Iute Credit". The net result of NBFIs accounts for 13.3% of the banking system's result. RoA for total of entities reaches 4.11% (against 4.8% in 2021), while the RoE reaches 10.7% (against 13.83% in 2021).

6.5.2 FINANCIAL UNIONS AND SAVINGS AND LOAN ASSOCIATIONS

6.5.2.1 Number of associations

The number of savings and loans associations and their unions has remained the same during 2022. This group consists of 16 SLAs and 1 Union, of which only 9 SLAs are included in the deposit insurance scheme. The Albanian Savings and Loan Union (ASLU) is the only union that continues to be licensed, but it doesn't operate.

6.5.2.7 Performance of assets

Total assets²¹ of the SLAs, at the end of 2022, amounted to ALL 14.2 billion, up by ALL 1.1 billion or 8.4% during the year. The main contribution to this growth came from larger SLAs. SLAs' total assets accounts for only 0.75% of the banking system's total assets.

In December 2022, the structure of SLAs' assets continued to be oriented towards lending to members (72%) and liquid assets (22%). "Fed Invest" with 53.5% and "Alb-Progress" with 14.2% account for the main share of SLAs total assets.

Table 28 Performance of assets (in ALL bln)

Total assets/ ALL bln	December 2019	December 2020	December 2021	December 2022
SLAs	10.92	11.56	13.12	14.22

Source: Bank of Albania.

²¹ The calculation includes also those SLAs that are not part of the deposit insurance scheme, but that report to the Bank of Albania.



6.5.2.8 Developments in the outstanding loan portfolio

In December 2022, the gross credit portfolio for SLAs group reached ALL 10.7 billion, up by ALL 1.39 billion or 13%, compared with the previous year. The increase in the lending activity of the SLAs: "Fed Invest" (ALL 0.76 billion), "Alb Progres" (ALL 0.15 billion) and "Alb Credit" (ALL 0.13 billion); provided the main contribution in this result.

The gross loan portfolio of SLAs accounts for only 1.48% of the banking system's credit portfolio.

Table 29 Gross and Net credit portfolio for SLAs

SLAs indicators (ALL bln) (in ALL billion)	December 2019	December 2020	December 2021	December 2022
Gross Loans	7.96	8.49	9.34	10.70
Net Loans	7.64	8.11	8.93	10.28

Source: Bank of Albania.

In December 2022, the non-performing loans ratio for SLAs was 4.71%, decreasing by 0.47 percentage point, compared with the previous year. This improvement was a result of the increase in percentage of total loans (14.6%), while non-performing loans had an almost immaterial increase of ALL 21 million.

The highest increase of non-performing loans was recorded in March 2022, when the indicator reached 5.59%, further improving in the following months.

6.5.2.9 Financial Result

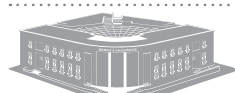
During 2022, SLAs generated a positive financial result, which reached ALL 184 million. This result is slightly lower than the one registered in the previous year. The net profit fell due to the increase of the activity's expenses during the period.

For 2022, RoA for total of SLAs reached 1.29% (against 1.62% in 2021), while the RoE reached 10.47% (against 15.39% in 2021).

6.6 CREDIT REGISTRY

In 2022, the Credit Registry Office has continued to ensure the maintenance and accuracy of data reporting to its subject users, as well as the necessary assistance to the authorised users of the subject regarding the uninterrupted functioning of data reporting and Credit Registry use.

The number of researches carried out by data reporters in 2022 increased in 2022 as well, around 4% higher compared to 2021.



During 2022, one new reporting subject, licensed by the Bank of Albania, has been included in the Credit Registry. During this time, the merger by absorption of Alpha Bank by OTP Bank took place, reducing the number of banks from 12 to 11. As a result, at the end of 2022, the number of reporting subjects to the Credit Registry has remained unchanged, at 46.

The financial institutions that report to the Credit Registry the data of their borrowers are listed below.

Table 30 Financial institutions that report to the Credit Registry the data of their borrowers

DATA REPORTER	
1	Bank of Albania
	Banks
	Non-bank Financial Institution
1	Raiffeisen Bank
2	OTP Albania Bank
3	American Bank of Investments
4	Credins Bank
5	United Bank of Albania
6	First Investment Bank
7	Intesa Sanpaolo Bank
8	National Commercial Bank
9	Tirana Bank
10	Union Bank
11	ProCredit Bank
	12 Iutecredit Albania
	13 Kredo Finance
	14 Landeslease
	15 Lendal
1	SLA Fast Credit Albania
2	SLA Alb Credit
3	SLA ALB-Progress
4	SLA Fed Invest
5	SLA Partner Plus
6	SLA Unifin
7	SLA Tirana Invest Kredit 2000
8	Albanian Savings Loan Union
9	SLA Petrelë
	16 Credit AI (formerly known as Micro Credit Risk)
	17 Microcredit Albania (MCA)
	18 Virtus Lending (formerly known as Mogo Albania)
	19 NOA
	20 Porshe Leasing
	21 Raiffeisen Leasing
	22 Tirana Factoring & Lease
	23 Tranzit – representative of AMCO
	24 Tranzit
	OTHER
	1 Credit Treatment Agency

The treatment of Borrower Report requests, as well as the assistance and information provided to the public has continued to remain an important function of the Credit Registry Office. In this framework, in 2022, there were 1775 requests for borrower's report handled for legal entities and households, and 136²² complaints/requests for information. This number has increased compared to the previous year, as citizens have become more aware regarding the accuracy and correctness of their borrowing track record.

²² This is the number of complaints handled only by the Credit Registry Office regarding the accuracy and completeness of information held at the Credit Registry (excluding complaints handled in the framework of transparency and client protection).



Since 2020, in order to provide a simple and fast access to personal financial data held at the Credit Registry, the Bank of Albania has allowed access through its website online as well. Nonetheless, this type of access²³ has been slow, and there are only 83 active users registered in 2022 (from 73 users in 2021).

The Office of Credit Registry has continued its effective cooperation with all the structures of the Bank of Albania, which use the data of the system in order to meet their tasks, as well as with several institutions, such as the judicial bodies and partner institutions (SAC, FSA and GDPML).

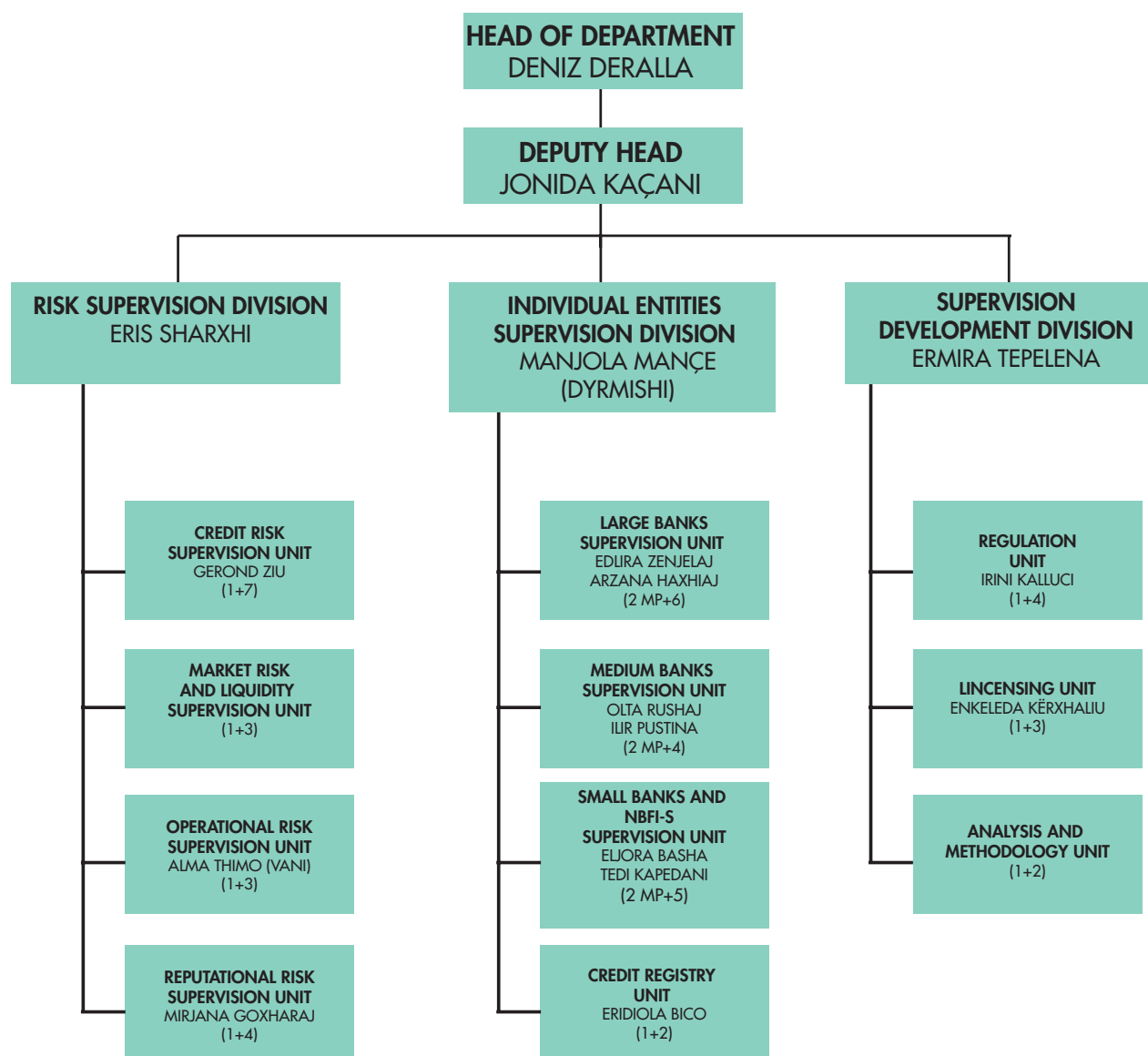
In addition to the above functions, the priority of the registry continues to be the evaluation of the data reported to this system, at a time when the latter aims to create a mechanism for a safe and accurate distribution of information. In this regard and in function of the supervisory process, in cooperation with the portfolio managers, on-site examinations of 4 financial institutions (banks and non-banks) were carried out, as well as the necessary information for the examination of 6 other NBFIs and SLAs was obtained from the Credit Registry.

²³ Access is allowed after the user profile is verified by the Bank of Albania.



7 ANNEXES

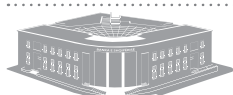
7.1 ORGANISATIONAL STRUCTURE OF SUPERVISION DEPARTMENT



7.2 SPECIFIC SHARE OF EACH BANK IN THE BANKING SYSTEM

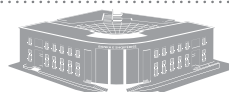
BANKS (Indicator in %)	December '22							
	Total balance sheet	Permanent sources	Shareholders' equity	Out-standing loans	Non-performing loans	T-bills	Securities	Total deposits
RAIFFEISEN BANK SH.A	15.3	16.1	17.7	17.1	18.2	9.3	11.8	16.0
UNITED BANK OF ALBANIA SH.A.	0.7	0.6	0.6	1.2	3.0	-	-	0.7
NATIONAL COMMERCIAL BANK SH.A.	26.3	26.6	27.5	12.6	10.1	24.8	44.1	25.8
TIRANA BANK	6.2	6.2	5.8	7.1	5.9	9.5	5.1	6.2
INTESA SANPAOLO BANK ALBANIA SH.A.	10.3	11.0	12.1	7.9	3.5	28.8	7.3	11.0
PROCREDIT BANK	2.2	2.5	2.3	4.0	2.4	1.8	-	1.8
AMERICAN INVESTMENT BANK	6.1	5.4	5.0	6.1	2.5	9.5	6.6	5.0
FIRST INVESTMENT BANK, ALBANIA	2.6	2.9	2.5	3.6	4.5	2.4	1.7	2.2
CREDINS BANK	16.0	14.3	11.2	19.7	26.8	10.8	13.1	17.1
OTP BANK ALBANIA SH.A.	9.6	10.7	11.6	15.1	16.1	1.4	5.8	9.7
UNION BANK	4.9	3.8	3.7	5.6	7.1	1.7	4.4	4.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Albania.

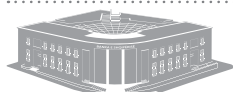


7.3 ASSETS AND LIABILITIES

ASSETS (in ALL millions)		December	December	December	December	December
CODE	Description	2018	2019	2020	2021	2022
1	Total assets	1,453,451.57	1,475,550.92	1,580,818.91	1,773,289.99	1,877,307.74
11	Treasury and interbank transactions	474,296.58	470,059.29	468,874.12	492,854.98	520,031.03
111	Cash in hand	28,246.16	25,908.62	29,324.64	29,276.76	27,537.75
112	Transactions with the central bank	146,678.80	130,849.91	179,337.97	186,688.07	212,952.96
1121	Required reserve at the Central Bank	98,911.83	107,737.69	114,546.26	127,219.17	137,621.49
1122	Other	47,766.97	23,112.22	64,791.71	59,468.91	75,331.47
113	Treasury bills and other eligible bills for refinancing with the central bank	67,417.93	74,026.90	70,284.88	73,012.92	99,994.85
1131	T-bills	67,417.93	74,027.67	70,285.25	73,015.93	100,118.70
1132	Other eligible bills for refinancing	-	-	-	-	-
1133	Reserve funds for the depreciation of bills eligible for refinancing from Central Bank	-	(0.76)	(0.37)	(3.01)	(123.85)
114	Transactions with bank, credit institutions and other financial institutions	231,953.69	239,273.85	189,926.63	203,877.23	179,545.46
1141	Current accounts	65,322.47	64,424.19	47,460.56	61,457.45	44,075.98
1142	Deposits with banks, credit institutions and other financial institutions	128,410.89	144,558.86	103,828.39	107,805.38	99,389.59
1143	Loans	36,443.07	28,539.45	36,757.04	31,638.18	30,603.18
1144	Other	47,766.97	23,112.22	64,791.71	59,468.91	75,331.47
13	Transactions with customers (gross)	577,911.34	573,354.55	606,434.96	668,605.31	711,928.59
131	Loans to private sector and households	550,860.98	547,751.81	582,990.63	644,385.26	688,759.53
1311	Short-term loans	135,814.55	133,729.49	126,972.45	141,314.14	162,463.76
1312	Medium-term loans	109,693.75	94,519.19	93,182.65	97,914.53	93,552.68
1313	Long-term loans	192,839.58	199,279.13	234,244.38	259,542.21	266,869.26
1314	Real estate loans	109,802.32	116,818.97	125,080.41	141,586.73	160,865.46
1315	Finance lease contracts	2,710.78	3,405.03	3,510.74	4,027.65	5,008.37
132	Loans to public administration	7,794.00	6,175.65	4,708.10	3,100.47	1,526.18
1321	Current accounts	65,322.47	64,424.19	47,460.56	61,457.45	44,075.98
1322	Loans	36,443.07	28,539.45	36,757.04	31,638.18	30,603.18
1323	Other accounts	0.25	-	0.01	-	-
133	Other customer accounts	19,256.36	19,427.09	18,736.23	21,119.57	21,642.88
14	Securities transactions	384,912.95	404,408.70	479,581.13	581,954.73	617,591.93
141	Fixed income securities	381,441.40	400,629.26	471,229.38	567,297.87	602,721.61
142	Variable income securities	2,633.82	2,633.82	294,150.64	328,933.44	331,902.87
143	Securities purchased and sold under REPO	2,141.16	2,141.16	45,158.68	69,448.90	78,922.51
144	Paid collateral	-	-	-	-	-
145	Received premiums	-	-	131,920.05	168,915.53	191,896.22
15	Provisions	(43,514.98)	(28,751.25)	(32,508.23)	(27,601.50)	(32,814.97)
151	Loan loss provisions (principal)	(41,557.46)	(28,020.52)	(31,690.10)	(25,581.25)	(22,539.79)
152	Loan loss provisions (accrued interest)	(701.11)	(591.25)	(570.28)	(496.08)	(446.53)
153	Investment provisions	(1,256.41)	(139.49)	(247.85)	(1,524.17)	(9,828.65)
16	Other assets	30,568.59	25,712.73	25,627.33	23,017.15	22,714.39
161	Other assets	27,570.18	23,626.01	23,711.48	20,802.35	19,963.23
162	Agent transactions	18.51	114.53	1.47	1.52	12.90
163	Inter-office accounts	0.18	0.18	2.87	2.17	3.85
164	Suspense, difference and position accounts	2,864.60	1,876.26	1,889.73	2,206.75	2,726.58
1641	Suspense accounts	2,861.91	1,869.96	1,847.02	2,206.55	2,651.30
1642	Position accounts	2.69	6.30	42.71	0.20	75.28
165	Value added tax	115.11	95.75	21.79	4.37	7.82
17	Fixed assets	20,540.14	23,562.09	24,497.70	25,035.13	26,697.44
171	Investments in participation equity	38.51	5.87	5.97	5.83	5.64
172	Affiliates	900.23	3,668.96	5,836.64	5,458.20	5,270.73
173	Fixed assets (net)	19,601.40	19,887.25	18,655.09	19,571.10	21,421.08
18	Accrued interests	8,736.96	7,204.81	8,311.90	9,424.19	10,806.22
181	Accrued interests (Class 1)	785.17	181.01	194.40	221.16	114.51
182	Accrued interests (Class 2)	2,775.60	2,391.08	2,475.04	2,420.63	3,063.42
183	Accrued interests (Class 3)	5,176.19	4,632.71	5,642.46	6,782.40	7,628.29
A	Total assets in foreign currency	798,283.40	773,921.56	811,366.74	922,797.34	988,602.42
B	Total assets of non-residents	385,865.61	351,271.90	333,371.94	390,667.50	395,935.57



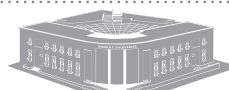
LIABILITIES (in ALL millions)						
CODE	DESCRIPTION	December 2018	December 2019	December 2020	December 2021	December 2022
1	Total liabilities	1,453,451.57	1,475,040.39	1,580,818.91	1,773,289.99	1,877,307.74
11	Treasury and interbank transactions	80,235.87	87,905.66	86,880.03	112,690.58	114,306.28
111	Central Bank	6,004.19	2,072.16	1,446.82	820.49	103.10
112	Treasury bills and other eligible bills	32,301.08	32,686.01	32,660.52	41,572.69	51,044.03
113	Current accounts	8,481.73	10,748.82	11,430.92	11,943.04	15,029.52
114	Deposits from banks, inst. Financ.	17,570.06	20,854.99	21,675.46	30,050.46	27,470.86
115	Loans	12,660.36	18,385.10	17,305.04	25,239.45	18,290.45
116	Other	3,218.44	3,158.59	2,361.27	3,064.45	2,368.31
12	Transactions with customers	1,176,537.94	1,189,632.85	1,282,671.95	1,429,636.81	1,514,236.15
121	Public administration	10,134.94	10,649.60	13,053.38	20,893.92	22,200.38
1211	Current accounts	8,481.73	10,748.82	11,430.92	11,943.04	15,029.52
1212	Demand deposits	6.09	6.12	6.16	6.19	6.24
1213	Time deposits	1,077.15	1,845.00	2,221.10	12,470.94	14,132.62
1214	Loans	12,660.36	18,385.10	17,305.04	25,239.45	18,290.45
1215	Other	3,218.44	3,158.59	2,361.27	3,064.45	2,368.31
122	Private Sector	1,166,403.00	1,178,983.25	1,269,618.58	1,408,742.89	1,492,035.78
1221	Current accounts	8,481.73	10,748.82	11,430.92	11,943.04	15,029.52
1222	Demand deposits	6.09	6.12	6.16	6.19	6.24
1223	Time deposits	1,077.15	1,845.00	2,221.10	12,470.94	14,132.62
1224	Other	3,218.44	3,158.59	2,361.27	3,064.45	2,368.31
1225	Certificates of deposits	-	-	-	-	-
13	Securities transactions	6,936.43	2,634.47	3,556.77	3,106.34	3,113.80
131	Debts represented by securities	-	-	-	-	-
132	Securities purchased and sold under REPO	6,934.62	2,634.44	3,556.77	3,106.34	3,113.80
133	Collateral on securities transactions	-	-	-	-	-
134	Premiums on financial instruments	-	-	-	-	-
14	Other liabilities	14,199.04	13,291.60	17,578.55	24,599.97	29,686.79
141	Other liabilities	5,610.54	6,813.03	12,230.07	14,427.51	16,417.27
142	Agent transactions	2,704.29	2,621.86	2,367.35	4,156.55	6,144.00
143	Inter-office accounts	(1.64)	(3.10)	0.23	0.23	0.23
144	Difference and position pending accounts	5,826.38	3,787.54	2,871.82	5,926.62	7,023.10
1441	Difference accounts	5,383.91	3,293.69	2,871.45	5,318.14	6,242.85
1442	Position accounts	442.47	493.86	0.37	608.48	780.25
145	Value added tax = (form. 21) 46	59.47	72.26	109.08	89.06	102.20
15	Permanent resources	171,525.40	177,702.61	186,110.05	199,303.69	211,401.37
151	Grants and public funding	59.47	-	-	-	-
152	Specific provisions	9,474.98	9,673.27	9,518.79	10,026.02	10,563.79
1521	Provisions for risk and expenses	7,883.69	8,416.81	8,425.49	9,137.75	9,648.07
1522	Specific provisions	9,474.98	9,673.27	9,518.79	10,026.02	10,563.79
153	Subordinated debt	13,967.48	14,459.77	12,624.57	13,946.52	16,564.31
154	Shareholders' equity	148,082.94	153,569.57	163,966.70	175,331.16	184,273.27
1541	Paid-in capital	110,251.76	105,767.48	101,859.34	102,362.97	94,421.61
1542	Share premiums	6,440.53	6,991.62	7,084.11	7,130.63	7,152.71
1543	Reserves	18,892.48	21,270.48	23,537.81	26,034.97	33,858.95
1544	Revaluation difference	(6,696.50)	(6,812.10)	(9,005.23)	(8,037.58)	(8,386.65)
1545	Retained earnings or loss	782.69	7,121.41	23,993.99	26,661.97	35,548.86
1546	Current year profit (loss)	18,411.99	19,230.67	16,496.68	21,178.20	21,677.79
16	Accrued interests	4,016.90	3,873.19	4,021.56	3,952.61	4,563.35
161	Accrued interests (Class 1)	86.96	149.58	142.62	153.18	205.43
162	Accrued interests (Class 2)	3,701.47	3,538.44	3,756.76	3,674.44	4,200.72
163	Accrued interests (Class 3) = (form. 21) 339 + 3429	33.61	0.50	0.04	0.19	1.41
164	Accrued interests (Class 5)	194.87	184.67	122.14	124.79	155.79
A	Total liabilities in foreign currency	771,324.59	751,118.92	789,903.99	897,042.59	966,419.38
B	Total liabilities of non-residents	88,138.98	37,574.17	35,121.17	51,344.68	47,017.35



7.4 KEY FINANCIAL INDICATORS

(in %, unless otherwise stated)	December 2019	December 2020	December 2021	December 2022
Indicators				
Based on capital				
Regulatory capital to risk-weighted assets	18.28	18.32	18.53	18.13
Tier 1 capital to risk-weighted assets	17.06	17.23	9.0%	9.0%
Tier 1 capital to total assets	9.09	9.07	9.11	8.60
Regulatory capital to total assets	9.72	9.65	9.69	9.23
Shareholders' equity to total assets	0.09	0.07	0.05	0.05
Non-performing loans net of provisions to Tier 1 capital	14.63	12.00	7.47	7.89
Non-performing loans net of provisions to regulatory capital	13.68	11.29	7.02	7.35
Non-performing loans net of provisions to shareholders' equity	1,561.80	1,574.83	1,358.84	1,390.34
Return on equity	13.00	10.41	12.63	12.30
Open foreign exchange position to Tier 1 capital	8.04	8.65	9.44	5.36
Open foreign exchange position to regulatory capital	7.52	8.13	8.87	4.99
Open foreign exchange position to shareholders' equity	858.63	1,134.66	1,716.44	944.04
Liquid assets to total assets	34.23	35.68	34.81	33.28
Liquid assets/Short-term liabilities	46.21	49.40	47.39	45.39
Return on assets	1.34	1.08	1.28	1.24
Non-performing loans to total loans	8.36	8.11	5.68	4.99
Net interest income to gross income	80.25	91.30	83.98	83.25
Operating expenses to gross income	57.59	62.21	57.81	58.33

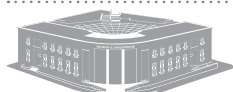
Source: Bank of Albania.



7.5 BANKS' SHAREHOLDERS (31.12.2022)

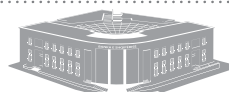
No.	Banks	Shareholders	Equity share in %	Ownership	Capital origin	Home country
1.	RAIFFEISEN BANK SH.A.	Raiffeisen SEE Region Holding GmbH	100	Private	Foreign	Austria
2.	NATIONAL COMMERCIAL BANK SH.A.	Çalik Holding A.S.	100	Private	Foreign	Turkey
3	UNITED BANK OF ALBANIA SH.A.	Islamic Development Bank (IDB) Jeddah	72.20	Private	Foreign	Saudi Arabia
		EUROSIG SH.A.	21.02	Private	Domestic	Albania
		Ithmaar Bank BSC	4.30	Private	Foreign	Kingdom of Bahrain
		Saudi Brothers Commerce Co.	0.54	Private	Foreign	Saudi Arabia
		3 Individuals	1.94	Private	Foreign	Saudi Arabia
4	INTESA SANPAOLO BANK ALBANIA SH.A.	Intesa Sanpaolo S.p.A (ISP)	100.00	Private	Foreign	Italy
5	TIRANA BANK SH.A.	Balfin - Balkan Finance Investment Group sh.p.k	100.00	Private	Domestic	Albania
6	PROCREDIT BANK SH.A.	ProCredit Holding AG & CO, KgaA	100.00	Private	Foreign	Germany
7	American Bank of Investments	TRANZIT sh.p.k	100.00	Private	Domestic	Albania
8	CREDINS BANK SH.A.	B.F.S.E. Holding B.V.	15.13	Private	Foreign	The Netherlands
		Amryta Capital LLP	6.42	Private	Foreign	United Kingdom
		Albanian Savings Loan Union	2.51	Private	Domestic	Albania
		EDRO sh.p.k	1.27	Private	Domestic	Albania
		A.F.C. sh.p.k.	3.47	Private	Domestic	Albania
		Frigo Alba sh.p.k.	0.67	Private	Domestic	Albania
		Prima sh.p.k.	2.92	Private	Domestic	Albania
		Renis Tershana	18.16	Private	Domestic	Albania
		Aleksander Pilo	7.68	Private	Domestic	Albania
Individuals	41.77	Private	Domestic	Albania		
9	OTP BANK ALBANIA SH.A.	OTP Bank Nyrt,	100.00	Private	Foreign	Hungary
10	UNION BANK SH.A.	Union Financiar Tirana Sh.A.	89.72	Private	Domestic	Albania
		2 Individuals	3.54	Private	Domestic	Albania
11	FIRST INVESTMENT BANK, ALBANIA SH.A.	First Investment Bank S.A.	100.00	Private	Foreign	Bulgaria

Source: Bank of Albania.

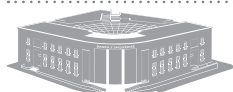


7.6 DATA FOR THE SHAREHOLDERS/PARTNERS OF THE NON-BANK FINANCIAL ENTITIES*

No.	Non-bank financial entity	Partners/Shareholders	Equity share in %	Ownership	Capital origin	Home country
1	Union Financiar Tiranë sh.a.	Edmond Leka	35	Private	Domestic	Albania
		Niko Leka	35	Private	Domestic	Albania
		Varuzhan Piranjan	10	Private	Domestic	Albania
		Gjergj Misha	10	Private	Domestic	Albania
		Eduard Shima	10	Private	Domestic	Albania
2	Posta Shqiptare sh.a.	Ministry of Economy, Trade and Energy	100	Public	Domestic	Albania
3	Ak- Invest sh.a.	Muharrem Kokona	35	Private	Domestic	Albania
		Suzana Adili	65	Private	Domestic	Albania
4	Noa sh.a.	Noa Holding N.v.	100	Private	Foreign	Netherlands
		NOA Cooperatief U.A.	1 share	Private	Foreign	Netherlands
5	FONDI BESA SH.A.	Albanian Besa Capital Foundation	66.38	Private	Domestic	Albania
		Bajram Muçaj	20	Private	Domestic	Albania
		46 Individuals	13.62	Private	Domestic	Albania
6	Final sh.a	Arben Meskuti	100	Private	Domestic	Albania
7	Agrokredit sh.a SH.A	Ministry of Finances	100	Public	Domestic	Albania
8	Raiffeisen Leasing sh.a	Raiffeisen Bank sh.a.	100	Private	Domestic	Albania
9	landeslease sh.a.	Union Bank sh.a.	100	Private	Domestic	Albania
10	Agro & Social Fund sh.p.k	Fondi Besa Sh.a.	100	Private	Domestic	Albania
11	MIA Finance sh.a. (formerly known as Capital Invest)	Lavdiqe Elezaj	66	Private	Domestic	Albania
		Gëzim Balisha	25	Private	Domestic	Albania
		Lajthiza Invest sh.a.	9	Private	Domestic	Albania
12	Tranzit sh.p.k.	Moscopole Inc, USA	80	Private	Foreign	USA
		New Century Holdings XI, L.P.	10	Private	Foreign	Ishujt Kajman
		NCH Balkan Fund, L.P.	10	Private	Foreign	Ishujt Kajman
13	M - Pay sh.p.k	Ludovic Laventure	100	Private	Foreign	France
14	Fab Invest sh.p.k	Fab -Group sh.p.k	100	Private	Domestic	Albania
15	Platinum Investment sh.p.k.	Andri Kasneci	100	Private	Domestic	Albania
16	Tirana Factoring & Lease sh.a.	Rolandi Manushi	40	Private	Domestic	Albania
		Lediana Aliaj	40	Private	Domestic	Albania
		Endrit Beqaj	20	Private	Domestic	Albania
17	Porsche Leasing sh.p.k.	Porsche Bank Aktiengesellschaft (AG)	100	Private	Foreign	Austria
18	Albania Leasing sh.a.	Islamic Corporate for Private Sector Development (ICD)	35.64	Private	Foreign	Saudi Arabia
		National Commercial Bank (NCB) sh.a.	29.98	Private	Domestic	Albania
		ND Real Estate Doool	21.88	Private	Foreign	N. Macedonia
		Kolon World Investment Co	12.5	Private	Foreign	Hong Kong



19	Iutecredit Albania sh.a	AS Iutecredit Europe	100	Private	Foreign	Estonia
20	Agro Partner sh.p.k.	Arjan Lala	100	Private	Domestic	Albania
21	Crimson Finance Fund Albania sh.p.k	Albanian - American Development Foundation (AADF)	32.02	Private	Foreign	USA
		Crimson Capital Corp	3.85	Private	Foreign	USA
		Helenos s.a.	38.45	Public	Foreign	Belgium
		Tirana Municipality	25.68	Public	Domestic	Albania
22	Easypay sh.p.k	Lindita Shomo	96.5	Private	Domestic	Albania
23	Kastrati sh.p.k.	3 Individuals	3.5	Private	Domestic	Albania
24	Kastrati sh.p.k.	Shefqet Kastrati	100	Private	Domestic	Albania
25	Micro Credit Albania sh.a.	Elda Ibro	100	Private	Domestic	Albania
25	Albanian Financial Institution sh.p.k	Besnik Leskaj	80	Private	Domestic	Albania
		Redjan Basha	20	Private	Domestic	Albania
26	Raea Financial Services sh.p.k	Relianda Zhelegu	90	Private	Domestic	Albania
		Rezart Kastrati	10	Private	Domestic	Albania
27	Virtus Lending sh.a. (former Mogo Albania)	"Virtus Invesco Partners" L.L.C	100	Private	Foreign	Kosovo
28	Kredo Finance sh.p.k	As Eleving Consumer Finance Holding	100	Private	Foreign	Latvia
29	Tirana Capital Trade sh.p.k	Arta Mici	90	Private	Domestic	Albania
		Ergys Demneri	10	Private	Domestic	Albania
30	Credital sh.p.k. (former Micro Credit Risk)	Angelus Lex Sh.p.k	75	Private	Domestic	Albania
		Klei Kaçupi	25	Private	Domestic	Albania
31	Paysera Albania sh.p.k.	Redion Çatri	10	Private	Domestic	Albania
		Idlir Ahmati	10	Private	Domestic	Albania
		BWB sh.p.k	80	Private	Domestic	Albania
32	Antigone Financial Enterprise sh.p.k.	Dritan Zeqo	100	Private	Domestic	Albania
33	eReja sh.p.k.	Ak- Invest sh.a.	100	Private	Domestic	Albania
34	Rpay sh.p.k	Aleksandër Risilia	30	Private	Domestic	Albania
		Akil Rajdho	30	Private	Domestic	Albania
		Landways International Sh.p.k	20	Private	Domestic	Albania
		Blessed Investment Sh.p.k	20	Private	Domestic	Albania
35	Soft & Solution sh.p.k.	Ermal Beqiri	100	Private	Domestic	Albania
36	Rubicon sh.a.	APC INTEGRATED, LLC	3.63	Private	Domestic	Albania
		NAVY YARD CAPITAL, LLC	2.74			
		JULIA HOXHA	27.11			
		ARMAND BRAHAJ	27.11			
		ALTIN LEKSANI	13.69			
		IGLI GJELISHTI	6.57			
		DENIS BEHLULI	4.38			
		AIJULA HASA	3.84			
		ARIAN SYKNEJ	2.74			
		EDUARD HOXHA	2.74			
		ALFONS MUCAJ	2.74			
ENO KOTMILO	2.74					
37	IUTEPAY SH.P.K. (Former VELOX PAY)	AS Iutecredit Europe	100	Private	Foreign	Estonia
38	Lendal sh.a.	Anila Misa	30	Private	Domestic	Albania
		Eron Merko	70	Private	Domestic	Albania



7.7 GEOGRAPHIC DISTRIBUTION OF BRANCHES AND BANKING AGENCIES BY REGION

No.	Region	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1	Tirana	218	213	203	204	207	197	190	183	181	181	175
2	Durrës	55	53	51	51	49	49	45	45	43	41	39
3	Fier	43	42	42	41	39	38	34	33	32	33	32
4	Elbasan	30	30	28	29	29	27	25	24	24	24	23
5	Korçë	37	38	35	35	34	31	30	26	26	26	23
6	Shkodër	25	24	22	22	22	22	20	19	19	18	17
7	Vlora	42	41	37	37	35	32	31	29	30	29	29
8	Lezha	25	24	23	23	23	22	22	22	22	21	19
9	Berat	21	22	20	20	20	20	19	19	19	19	18
10	Gjirokastrë	23	23	20	20	18	17	14	13	13	13	12
11	Kukës	9	9	9	9	8	8	8	7	7	7	6
12	Dibra	10	10	9	9	9	9	9	9	9	9	8
	Total	538	529	499	500	493	472	447	429	425	421	401

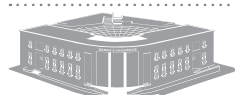
Source: Bank of Albania.



7.8 E-BANKING PRODUCTS/SERVICES, BY COMMERCIAL BANKS, AS AT END OF 2022

BANKS	ATM	POS	POS Virtual	Pay-Box	Internet banking	Phone banking	Mobile banking / SMS banking	Electronic (Debit, Credit) Cards
RAIFFEISEN BANK SH.A.	√	√	√		√		√	√
NATIONAL COMMERCIAL BANK SH.A.	√	√			√	√	√	√
TIRANA BANK SH.A.	√				√	√	√	√
ALPHA BANK – ALBANIA SH.A.	√	√			√		√	√
PROCREDIT BANK SH.A.	√	√		√	√			√
FIRST INVESTMENT BANK, ALBANIA SH.A.	√				√			√
CREDINS BANK SH.A.	√	√	√		√			√
UNION BANK SH.A.	√	√			√		√	√
OTP BANK ALBANIA SH.A.	√				√		√	√
INTESA SANPAOLO BANK ALBANIA SH.A.	√	√			√		√	√
AMERICAN BANK OF INVESTMENTS SH.A.	√				√			√
UNITED BANK OF ALBANIA SH.A.								√

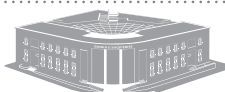
Source: Bank of Albania.



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

No.	Scope of application	YEAR 2008	YEAR 2009	YEAR 2010	YEAR 2011	YEAR 2012	YEAR 2013	YEAR 2014	YEAR 2015	YEAR 2016	YEAR 2017	YEAR 2018	YEAR 2019	YEAR 2020	YEAR 2021
1	Banks and branches of foreign banks	16	16	16	16	16	16	16	16	16	16	14	12	12	12
2	Non-bank financial institutions	7	13	17	19	21	21	22	27	28	31	30	32	30*	35
3	Foreign exchange bureaus	189	221	284	301	322	333	356	397	428	426	463	503	538	556
4	Savings and Loan Associations	133	135	126	126	126	121	113	111	13	13	13	14	14	16
5	Unions of savings and loan associations	2	2	2	2	2	2	2	2	2	1	1	1	1	1

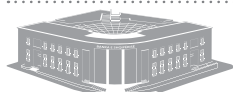
Source: Bank of Albania.



7.10 DATA ON BANKING SERVICES UP TO 2022

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Number of banks	16	16	16	16	16	16	14	12	12	12	11
Number of employees of banks	6,836	6,686	6,819	6,819	6,949	6,877	6,738	6,383	6,563	6,609	6,637
Number of branches/agencies in the country	538	529	499	500	493	472	447	429	425	421	401
Average number of employees per:											
- Bank	427	418	426	426	434	430	481	532	547	551	603
- Banking unit	13	13	14	14	14	15	15	15	15	16	17
Number of population (000)	2,899	2,896	2,893	2,886	2,876	2,870	2,862	2,846	2,830	2,794	2,794
Number of population per											
- Bank	181,188	181,000	180,813	180,375	179,750	179,375	204,459	237,167	235,812	232,833	254,000
- Banking unit	5,388	5,474	5,798	5,772	5,834	6,081	6,404	6,634	6,658	6,637	6,968
-Bank employee	424	433	424	423	414	417	425	446	431	423	421

Source: Bank of Albania and INSTAT.



7.11 BANKS NETWORK AS AT END OF 2022

No.	Banks	Number of branches/ agencies in the country	No. of branches abroad	No. of branches and agencies, total
1	Raiffeisen	74		74
2	National Commercial Bank	63		63
3	United Bank of Albania	6		6
4	Tirana Bank	33		33
5	Alpha Bank Albania**	25		25
6	Intesa Sanpaolo Bank, Albania	35		35
7	ProCredit Bank	7		7
8	American Bank of Investments	24		24
9	Credins Bank	51		51
10	OTP Bank Albania	35		35
11	Union Bank	34		34
12	First Investment Bank	14		14
	TOTAL	401	0	401

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

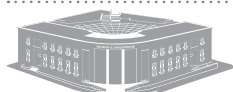
Source: Bank of Albania.



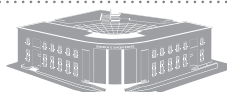
7.12 SUPERVISION REGULATIONS IN FORCE, AS AT 31 DECEMBER 2022

1. Regulation "On bank's investments in the equity of commercial companies", approved by the Supervisory Council Decision No. 42, dated 06.06.2001.
2. Guideline "On certificates of deposits", approved by the Supervisory Council Decision No. 79, dated 03.10.2001.
3. Manual on corrective actions for banks and branches of foreign banks in the Republic of Albania, approved by the Supervisory Council Decision No. 51, dated 26.06.2002.
4. Regulation "On supervision of electronic banking transactions", approved by the Supervisory Council Decision No. 28, dated 30.03.2005 and amended by the Decision No.80, dated 18.12.2019.
5. Regulation "On use of information and communication technology in entities licensed by the Bank of Albania", approved by the Supervisory Council Decision No. 32, dated 03.05.2006.
6. Regulation "On licensing, organization and supervision of foreign exchange bureaus", approved by the Supervisory Council Decision No. 31, dated 06.06.2007 and amended by Decision No. 73, dated 27.11.2007, Decision No. 82, dated 14.12.2011, Decision No. 31, dated 30.04.2014, Decision No. 48, dated 30.03.2016 and Decision No. 49, dated 3.7.2019.
7. Regulation "On the management of risk in the activity of branches of foreign banks", approved by the Supervisory Council Decision No. 57, dated 15.10.2007 and amended by Decision No. 62 of 29.08.2008.
8. Regulation²⁴ "On electronic payment instruments", approved by the Supervisory Council Decision No. 11, dated 06.02.2008 and amended by the Decision No.03, dated 17.01.2013, Decision No. 122, dated 09.11.2016, and by Decision No.17, dated 7.2.2018.
9. Regulation "On transparency for banking and financial products and services", approved by the Supervisory Council Decision No. 59, dated 29.08.2008 and amended by Decision No. 14, dated 09.03.2011, Decision No. 25, dated 3.5.2017, and Decision No. 15, dated 7.2.2018, and Decision No.64, dated 24.11.2021.
10. Regulation "On the minimum requirements for disclosure of information by banks and branches of foreign banks", approved by the Supervisory Council Decision No. 60, dated 29.08.2008 and amended by Decision No. 25, dated 10.04.2015.
11. Document "Reporting methodology and content of financial reports", approved with the Decision of Supervisory Council No. 95, dated 24.12.2008.
12. The document "Licensing policy of banking entities", approved by the

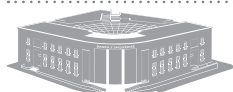
²⁴ Repealed on 1 March 2023 upon entry into force of Regulation No. 57, dated 21.12.2022 "On carrying out of activity and supervision of electronic money institutions".



- Supervisory Council Decision No. 12, dated 25.02.2009.
13. Regulation "On granting the licence to banks and branches of foreign banks to conduct banking business in the Republic of Albania" approved by the Supervisory Council Decision No. 14, dated 11.03.2009 and amended by Decision No. 33, dated 11.05.2011, Decision No. 28, dated 16.05.2012, Decision No. 55, dated 01.10.2014, Decision No. 15, dated 03.02.2016, Decision No. 46, dated 3.7.2019, and by Decision No.61, dated 24.11.2021.
 14. Regulation "On the prevention of money laundering and financing of terrorism" approved by the Supervisory Council Decision No. 44, dated 10.06.2009 and amended by Decision No. 55, dated 28.08.2013, Decision No. 22, dated 5.4.2017 and Decision No. 78, dated 18.12.2019.
 15. Regulation "On Reporting to the Bank of Albania according to the Unified Reporting System", approved by Supervisory Council Decision No. 45, dated 10.06.2009 and amended by Decision No. 61, dated 06.08.2015, Decision No. 80, dated 06.07.2016, Decision No. 58, dated 03.10.2017, Decision No. 36, dated 2.5.2018, and Decision No. 71, dated 2.12.2020.
 16. Regulation "On foreign exchange activity", approved by the Supervisory Council Decision No. 70, dated 30.09.2009 and amended by Decision No. 07, dated 28.01.2015.
 17. Regulation "On liquidity risk management", approved by the Supervisory Council Decision No. 71, dated 14.10.2009 and amended by Decision No. 75, dated 26.10.2011, Decision No. 28, dated 27.03.2013 and Decision No. 14, dated 7.2.2018.
 18. Regulation "On defining the decision-making level in the supervision of banking and financial activities", approved by the Supervisory Council Decision No. 36, dated 26.05.2010 and amended by Decision No. 54, dated 12.09.2012 and Decision No. 29, dated 07.06.2017.
 19. Regulation "On management of risk from open foreign currency positions", approved by the Supervisory Council Decision No. 48, dated 14.07.2010.
 20. Manual "On conservatorship and liquidation", approved by the Decision of the First Deputy Governor of the Bank of Albania on 31.12.2010.
 21. Regulation "On operational risk management", approved by the Supervisory Council Decision No. 3, dated 19.01.2011.
 22. Regulation "On authorized chartered auditors of banks and branches of foreign banks", approved by the Supervisory Council Decision No. 42, dated 15.06.2011.
 23. Regulation "On managing credit risk from banks and branches of foreign bank", approved by the Supervisory Council Decision No. 62, dated 14.09.2011 and amended by Decision No. 27, dated 27.03.2013, Decision No. 22, dated 27.02.2014, and Decision No. 26, dated 01.04.2015, Decision No. 50, dated 30.03.2016, Decision No. 52, dated 3.7.2019, the Circulating Decision No. 13, dated 12.3.2020, the Circulating Decision No. 33, dated 28.5.2020



- and Decision No. 5, dated 13.1.2021.
24. Regulation "On core management principles of banks and branches of foreign banks and the criteria for approving their administrators", approved by the Supervisory Council Decision No. 63, dated 14.11.2012 and amended by Decision No. 73, dated 6.12.2017, and by Decision No. 21, dated 6.4.2022.
 25. Regulation "On granting the license to non-bank financial institutions", approved by the Supervisory Council Decision No. 1, dated 17.01.2013 and amended by Decision No. 47, dated 30.03.2016, Decision No.121, dated 09.11.2016, Decision No. 47, dated 06.09.2017, Decision No. 47, dated 3.7.2019, Decision No. 60, dated 24.11.2021, and Decision No.51, dated 7.12.2022.
 26. Regulation "On the management of risk in the activity of non-bank financial institutions", approved by the Supervisory Council Decision No. 2, dated 17.01.2013 and amended by Decision No. 46, dated 06.09.2017, Decision No. 50, dated 3.7.2019, the Circulating Decision No. 14, dated 12.3.2020, and by Decision No. 58, dated 21.12.2022.
 27. Guideline "On managing interest rate risk in the banking book", approved by the Supervisory Council Decision No. 33, dated 30.04.2013.
 28. Regulation "On capital adequacy ratio", approved by Supervisory Council Decision No. 48, dated 31.07.2013 and amended by Decision No. 43, dated 30.07.2014, Decision No.70, dated 18.12.2014, Decision No. 49, dated 01.07.2015, Decision No. 91, dated 02.12.2015, Decision No. 49, dated 30.03.2016, Decision No. 5, dated 01.02.2017, Decision No. 34, dated 2.5.2018, and Decision No. 7, dated 5.2.2020, the Circulating Decision No. 22, dated 1.4.2020, the Circulating Decision No. 54, dated 9.11.2021, Decision No. 68, dated 22.12.2021, and by Decision No. 44, dated 2.11.2022.
 29. Document "Supervision Policy", approved by the Supervisory Council Decision No. 9, dated 26.02.2014
 30. Regulation "On managing risk arising from large exposure of banks", approved by Supervisory Council Decision No. 10, dated 26.02.2014 and amended by Decision No. 20, dated 04.03.2015, Decision No. 50, dated 01.07.2015, the Circulating Decision No. 23, dated 1.4.2020, Decision No. 53, dated 2.9.2020, and Decision No. 6, dated 13.1.2021.
 31. Regulation "On regulatory capital", approved by the Supervisory Council Decision No. 69, dated 18.12.2014 and amended by Decision No. 19, dated 04.03.2015, Decision No. 2, dated 9.1.2019, and Decision No. 45, dated 2.11.2022.
 32. Order "On recognition of ECAs", approved by Order No. Prot./1883, dated 22.04.2015 of the First Deputy Governor of the Bank of Albania.
 33. Regulation "On consumer and mortgage loans to households", approved by the Supervisory Council Decision No. 48, dated 01.07.2015 and



- amended by Decision No. 27, dated 4.4.2018, Decision No. 47, dated 1.9.2021 and Decision No. 69, dated 22.12.2021.
34. Regulation "On the internal control system", approved by the Supervisory Council Decision No. 67, dated 02.09.2015 and amended by Decision No. 74, dated 6.12.2017.
 35. Regulation "On minimum security requirements regarding premises where banking and financial activities are conducted and transportation of monetary values", approved by Supervisory Council Decision No. 67, dated 01.06.2016 and amended by Decision No. 107, dated 05.10.2016, and by Decision No. 63, dated 24.11.2021.
 36. Regulation "On licensing and exercising of the activity of savings and loan associations and their unions" approved by Supervisory Council Decision No. 104, dated 05.10.2016 and amended by Decision No. 48, dated 3.7.2019, Decision No. 62, dated 24.11.2021, and Decision No. 52, dated 7.12.2022.
 37. Regulation "On management of risk in the activity of savings and loan associations and their unions" approved by Supervisory Council Decision No. 105, dated 05.10.2016 and amended by the Circulating Decision No. 15, dated 12.3.2020 and the Circulating Decision No. 20, dated 26.3.2020.
 38. Regulation "On consolidated supervision", approved by the Supervisory Council Decision No. 4, dated 1.2.2017, and amended by the Decision No. 79, dated 18.12.2019, Decision No. 54, dated 2.9.2020 and Decision No. 41, dated 4.8.2021.
 39. Guideline "On the internal capital adequacy assessment process", approved by the Decision of Supervisory Council, No. 26, dated 3.5.2017.
 40. Regulation "On banks recovery plans", approved by Supervisory Council Decision No. 72, dated 6.12.2017.
 41. Regulation "On liquidity coverage ratio", approved by the Supervisory Council Decision No. 27, dated 28.3.2019, and amended by Decision No. 46, dated 1.9.2021.
 42. Regulation²⁵ "On out-of-court treatment of distressed borrowers by banks", approved by Supervisory Council Decision No. 51, dated 3.7.2019 and amended by the Circulating Decision No. 34, dated 28.5.2020.
 43. Regulation "On stress-test of bank", approved by the Supervisory Council Decision No. 60, dated 4.9.2019.
 44. Regulation "On determining the conditions for granting the prior approval to the intra-banking group financial support agreement" approved by Supervisory Council Decision No. 6, dated 5.2.2020.
 45. Regulation "On determining the conditions for applying early intervention measures and on the conditions and manner of carrying out the temporary administration", approved by Supervisory Council Decision No. 61, dated 4.11.2020.

²⁵ Was in force until 1.1.2022.



46. Regulation "On the establishment, licensing, supervision, functioning, and termination of the operation of the bridge bank" approved by Supervisory Council Decision No. 62, dated 4.11.2020.
47. Regulation "On the financial leverage ratio of banks", approved by Supervisory Council Decision No. 63, dated 4.11.2020.
48. Regulation²⁶ "On net financial sustainability ratio of banks", approved by Supervisory Council Decision No. 70, dated 2.12.2020 and amended by Decision No. 45, dated 1.9.2021.
49. Regulation "On the functioning of the Credit Registry of the Bank of Albania, as well as the conditions and procedures for the recognition, use and review of the data administered thereon", approved by Supervisory Council Decision No. 72, dated 2.12.2020 and amended by Decision No. 48, dated 1.9.2021.
50. Regulation "On the licensing of payment institutions and electronic money institutions and the registration of payment service providers," approved by Supervisory Council Decision No. 59, dated 24.11.2021.
51. Guideline No. 2, dated 1.12.2021, "On the internal capital adequacy assessment process".
52. Regulation "On the public register of payment service providers", approved by Supervisory Council Decision No. 7, dated 2.2.2022.
53. Guideline No. 1, dated 2.3.2022, "On the criteria on how to stipulate the minimum monetary amount of the professional indemnity insurance or other comparable guarantees".
54. Regulation²⁷ "On strong customer authentication and common and secure open standards of communication", approved by Supervisory Council Decision No. 29, dated 1.6.2022.
55. Regulation²⁸ "On carrying out of activity and supervision of electronic money institutions", approved by Supervisory Council Decision No. 57, dated 21.12.2022.
56. Regulation²⁹ "On the comparability of the fees related to payment account and payment account switching service" approved by Supervisory Council Decision No. 59, dated 21.12.2022.

²⁶ Enters into force on 1.1.2023.

²⁷ Enters into force on 1.1.2024.

²⁸ Enters into force on 1.3.2023.

²⁹ Enters into force on 1.3.2023.

