

**REPUBLIC OF ALBANIA**

 **ANNUAL REPORT**

**2018**

[www.asd.gov.al](http://www.asd.gov.al/)

t: +355 (4) 2362 989/2347 298

f: +355 (4) 2362 984

e: [info@asd.gov.al](mailto:info@asd.gov.al)

Rruga e Elbasanit, Nr. 317, Tiranë

TABLE OF CONTENT

[Section 1 – Introduction 3](#_Toc16784905)

[1.1. Message of the Chairman of the Board /General Director 3](#_Toc16784906)

[1.2. Executive Summary 6](#_Toc16784907)

[Section 2 – General overview of deposits 8](#_Toc16784908)

[2.1. Deposits in the system 8](#_Toc16784909)

[2.2. Deposit insurance in banks 9](#_Toc16784910)

[2.3. Deposit insurance in SCAs 20](#_Toc16784914)

[Section 3 – Administration of the Agency’s funds and financial resources 26](#_Toc16784915)

[3.1. Deposit Insurance Fund in Banks 26](#_Toc16784916)

[3.2. Deposit Insurance Fund in SCAs 29](#_Toc16784917)

[3.3. Administration of financial assets 32](#_Toc16784918)

[3.4. Loan Agreement 34](#_Toc16784919)

[Section 4 – Administration of the Resolution Fund (RF) 35](#_Toc16784920)

[Section 5 - Main projects for the reporting year 37](#_Toc16784921)

[5.1. Strategic Plan 2018-2020 37](#_Toc16784922)

[5.2. Strengthening professional efficiency and preparedness 38](#_Toc16784923)

[5.3. Expansion of the deposit insurance scheme for SCAs 40](#_Toc16784924)

[5.4. Financial Administration of the Agency - Adopting new financial reporting standards 41](#_Toc16784925)

[5.5. Raising the level of public awareness 42](#_Toc16784926)

[5.6. Cooperation with local and international actors 45](#_Toc16784927)

[Section 6 – Good Governance 48](#_Toc16784928)

[6.1. Risk Management in the Agency 48](#_Toc16784929)

[6.3. Organizational Structure of the Agency 50](#_Toc16784930)

[8.1. Financial Statements of the Deposit Insurance Agency for the year closed in December 31, 2018 and the Independent Auditor Report 61](#_Toc16784931)

[8.1.2. Financial position statement 64](#_Toc16784932)

[8.1.3. Statement of income and expenses and other comprehensive income 65](#_Toc16784933)

[8.1.4. Statement of the inflow of assets 66](#_Toc16784934)

[8.1.5. Statement of changes to the deposit insurance fund 67](#_Toc16784935)

[8.2. Resolution Fund Financial Statements for the year closed on December 31, 2018 and the Independent Auditor Report 68](#_Toc16784936)

[8.2.2. Statements of financial position 71](#_Toc16784937)

[8.2.3. Statement of income and expense and other summarized income 72](#_Toc16784938)

[8.2.4. Statement of the inflow of assets 73](#_Toc16784939)

[8.2.5. Statement of changes in net actives available to the Resolution Authority 74](#_Toc16784940)

# Section 1 – Introduction

### Message of the Chairman of the Board /General Director

Dear readers,

We are pleased to present the Annual Report on the main activity and directions that the work of the Deposit Insurance Agency for 2018 has focused on. As in previous years, in this report we have tried to give an overview of the banking system deposits and funds administered by the Agency, as well as a brief overview of the main projects that the Agency has been involved in this year.

The deposit insurance scheme continues to remain robust and highly profitable, characterized by increasing indicators. However, we are aware that we must continue to increase our efforts for high operational readiness and vigilance against any situation that may have an impact on the financial stability in the country. For this reason, throughout the year the Agency has continued to be fully committed to the efficient fulfilment of its legal mandate, guided also by the recommendations issued by the Resolution of the Assembly of the Republic of Albania for this year.

As always, we are well aware that the challenge of financial stability is a multi-dimensional challenge that requires inter-institutional cooperation. In this context, as a member of the Financial Stability Advisory Group, we are in constant contact and consultation with the Bank of Albania and the Ministry of Finance as the Agency's primary strategic partners towards the common objective of financial stability. Achieving and maintaining this stability and avoiding potential financial crises, with the final consumer of banking services as the main beneficiary, underlies our work. Building such bridges between the regulatory and supervisory authorities of the Albanian banking system is necessary to guarantee public confidence in the institutions that protect their welfare and interests. In this context, the novelty of the Agency's activity in 2018 is the new role assigned by Law 133/2016 “On Recovery and Resolution of Banks in the Republic of Albania” as Administrator of the Resolution Fund. This new responsibility testifies to the important contribution that the Agency offers to guarantee the sustainability of the banking sector in the country.

During this year the Agency drafted its Strategic Plan 2018-2020, which foresees the strategic directions that will guide our activity throughout this three-year period. The key priorities identified by the structures of the Agency are: I. Effectiveness of the Deposit Insurance Scheme; II. Human Capital Management; and III. Strategic Partnership Development. We believe that the totality of these priorities, which consists of meeting short and medium-term objectives and initiatives, is essential to fulfilling the public legal mandate of the Agency and the objectives of the deposit insurance scheme, for the accurate and timely compensation of insured depositors, as well as contributing to maintaining financial stability in the country.

As in previous years, the priority of our work this year has been to further improve our readiness in case of an insurance event. This year we conducted two simulation exercises of a compensation process. With the participation of external observers, we tested all the aspects and actors regarding compensation readiness, including the IT infrastructure, communication with depositors, as well as the bank under liquidation and the Agent Bank selected by the Agency to conduct a compensation process. We will continue to perform such exercises in the future, including inter-agency simulations or emergency intervention simulations, as we are convinced that we are thereby training and testing ourselves, our technical infrastructure and operational readiness to perform a fast and effective compensation process.

Public confidence is another key element of a healthy and effective deposit insurance scheme, so we remain committed to being transparent and objective in reflecting our work and activity with the general public. For this reason, this year as well, we have been working towards continuing education and public awareness through various ADIA’s promotion campaigns and deposit insurance schemes and public training. The Agency's initiatives in these campaigns have included holding lectures at universities, producing various promotional materials, conducting surveys and communicating through social networks and the Agency's official website.

In line with our approach to developing cooperation with various local and international stakeholders, this year we invested in intensifying and formalizing our relationship with the Albanian Association of Banks and the Financial Services Volunteer Corps (FSVC), signing a Memorandum of Understanding with each of them. Over the years, the Agency has

benefited from a strategic partnership with the AAB and FSVC, in terms of cooperation with the banking sector in the country and development of a deposit insurance scheme in line with the best international standards and practices. Meanwhile, we have continued to participate in international forums such as IADI and EFDI in which we are members. Among other things, we can mention here meetings held with the deposit insurance authorities of the Balkan region, an already consolidated tradition of regional meetings to exchange experiences and knowledge among deposit insurance schemes of similar characteristics.

In closing, we would like to express our gratitude to the new and old associates who have supported us throughout our activity this year and contributed to achieving our objectives. We also thank the colleagues and staff of the Agency for their commitment and enthusiasm in fulfilling their duties, as well as the members of the Board of Directors for their vision, contribution and commitment to the Institution's initiatives. We are aware that the future can bring us new challenges and events, so we must continue to be ready and well prepared at all times to protect depositors and contribute to maintaining financial stability in the country. For this, we look forward to your support and all the Agency’s partners support and cooperation in the future.

Thank you.

|  |  |
| --- | --- |
| Donald Duraj | Genci Mamani |
| Chairman of the Board of Directors | General Director |

### Executive Summary

As in the previous year, during 2018 banking system deposits increased slightly by 0.5%. By the end of December 2018, the total deposits in the banking system reached ALL 1,121 billion, compared to ALL 1,115 billion a year earlier, of which the Agency has a compensation obligation of ALL 667.2 billion or 1,603,317 depositors. The value of eligible deposits in banks benefiting from the deposit insurance scheme amounted to ALL 1,079 billion, which represents 96.3% of the total deposits. The eligible individual deposits account for the largest share of the eligible deposits, namely about 85.5%, while 14.5% are eligible deposits of traders and companies. Eligible deposits in ALL, at the end of December 2018, accounted for the largest share of the total eligible deposits by 48.6%, followed by deposits in Euro with 44.4%, and deposits in USD with 5.1%, maintaining the same ratios with the previous year.

On the other hand, the total deposits in Savings and Credit Associations are 6.9 billion ALL at the end of 2018, from ALL 6.1 billion last year, with a significant annual growth of 14%. Eligible deposits in Savings and Credit Associations comprise 98.7% of the total, amounting to ALL 6.8 billion, benefiting 21,564 depositors. At the end of 2018, the eligible deposits in foreign currency account for 17.8% of the total eligible deposits in Savings and Credit Associations, while the remainder are deposits in ALL. The Deposit Insurance Agency's compensation obligation in Savings and Credit Associations is ALL 5.16 billion, or 14,192 depositors.

Deposit insurance funds in banks and Savings and Credit Associations have increased steadily throughout 2018. Specifically, the book value of the bank deposit insurance funds at the end of 2018 is ALL 38.9 billion, with an annual increase of ALL 3.89 billion or 11.11%. This was due to the increase in insurance premium income, which in 2018 was ALL 3.27 billion, with an increase of 2.02%, as well as the increase in incomes from the administration of financial assets, amounting to ALL 999.44 million or 28 % more than in 2017.

In 2018, the increase in incomes from the administration of financial assets was mainly due to the expansion of the portfolio to bonds with maturities over two years. The steady increase in bank deposit insurance funds has led to an increase in the coverage ratio, calculated as a percentage of bank deposit insurance fund compared to insured deposits, to 5.83% at the end of 2018 from 5.34% in 2017.

Meanwhile, the book value of the deposit insurance fund in Savings and Credit Associations in the same period is ALL 107.51 million, marking an increase of 16.6%. The annual income from insurance premiums for 2018 was ALL 13.9 million, while the annual income from the administration of financial assets of the deposit insurance fund in Savings and Credit Associations during 2018 was ALL 1.68 million, with an increase of 24.4%. Notwithstanding the downward tendency of interest rates, it is noticed that here too the return on investment has remained at a satisfactory level as a result of the portfolio diversification in several maturities. The coverage ratio for the second year of operation of the insurance scheme for SCAs is 2.08%.

Finally, throughout the year, the Agency was fully committed to fulfilling the new legal functions entrusted for the administration of the Resolution Fund (RF), as the first year of banks' annual contributions to this fund. The book value of the Resolution Fund at the end of 2018 is ALL 636.7 million. The total of the first annual contribution paid by the banks was ALL 632.17 million, while the income from investing the financial assets of the fund for 2018 is ALL 8.44 million. RF’s financial assets are administered under the management policy adopted by the Agency and the Bank of Albania as the Resolution Authority.

# Section 2 – General overview of deposits

### Deposits in the system

During 2018, the Deposit Insurance Agency insured individual deposits in all 16 banks of the system, as well as in 6 Savings and Credit Associations. As of October 1, 2018, as a result of the merger by absorption of the American Investment Bank sh.a., with NBG Bank Albania, as well as the merger by absorption of Intesa Sanpaolo Albania sh.a., with Veneto Bank sh.a., the number of banks insured by the Deposit Insurance Agency is 14. At the end of 2018 the total banking system deposits amounted to ALL 1,121 billion, while the total deposits in Savings and Credit Associations were ALL 6.9 billion. Depositors in any bank or in any branch of a foreign bank are insured 100%, but in any case no more than ALL 2,500,000 (two million five hundred thousand), while depositors in Savings and Credit Associations are insured to the extent of 100 per cent, but in any case no more than ALL 2,000,000 (two million), regardless of the number of deposits or their currency deposited in this SCA.

*Graph 1. Dynamics of deposits in the banking system by the end of years 2002-2018[[1]](#footnote-1)*

1,200.00

1,000.00

**Values in billion ALL**

800.00

600.00

400.00

200.00

-

2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018

Ineligible deposits Eligible deposits Insured deposits Total deposits

According to data for the end of 2018, the Agency is obliged to compensate ALL 667.2 billion bank deposits, or 1,603,317 depositors; the Agency is obliged to compensate ALL 5.16 billion for deposits in Savings and Credit Associations or 14,192 depositors. Of the total liabilities of the Agency, of ALL 672.36 billion, to depositors who placed their deposits in banks and SCAs, 99.2% accounts for the Agency's liability to depositors who placed their deposits in banks, while 0.8% is the Agency’s liability to depositors who have their deposits in Savings and Credit Associations.

### Deposit insurance in banks

During 2018, the total deposits of the banking system had an upward and downward trend with relatively low monthly change rates. At the end of December 2018, the total deposits in the banking system reached ALL 1,121 billion, compared to ALL 1,115 billion a year earlier, recording an increase of 0.5%.

*Graph 2. Dynamics of deposits in the banking system for end of years 2002-2018*

1,200.00

1,000.00

**Values in billion ALL**

800.00

600.00

400.00

200.00

-

2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018

Ineligible deposits Eligible deposits Insured deposits Total deposits

* + 1. Eligible deposits in the banking system

At the end of 2018, the value of eligible deposits benefiting from the deposit insurance scheme amounted to ALL 1,079 billion, representing 96.3% of the total deposits. Compared to the previous year these deposits increased by 0.5%, while the increase in absolute value is ALL 5.2 billion. Eligible deposits include time deposits, current accounts, savings accounts, card accounts, joint accounts and other similar products.

GBP

2%

Eligible deposits in ALL, by the end of December 2018, accounted for the largest share of the total eligible deposits by 48.6%, followed by Euro deposits 44.4%, and USD deposits 5.1%, maintaining the same ratios of the previous year.

EUR 44%

USD 5%

ALL 49%

*Graph 3. Structure of the amount of eligible deposits in the system according to currencies in % - 31 December 2018*

The performance of the eligible deposits in ALL during 2018 has been both positive and negative, with relatively small monthly change rates. The highest rate of monthly change was 1.2% at the end of December. During this period, these deposits reached the value of ALL 524.9 billion. Foreign currency eligible deposits constitute 51.4% of the total eligible deposits and their countervalue in ALL is 554.2 billion. The rate of monthly change in foreign currency deposits was positive for June-September, as well as for December, while the highest growth of 2.9% was recorded at the end of August.

*Graph 4. Dynamics of eligible deposits in the system by currencies 2010-2018[[2]](#footnote-2)*

1200

361

405

431

458

454

457

452

525

523

307

364

413

399

40

455

436

554

551

1000

Values in billion ALL

800

600

400

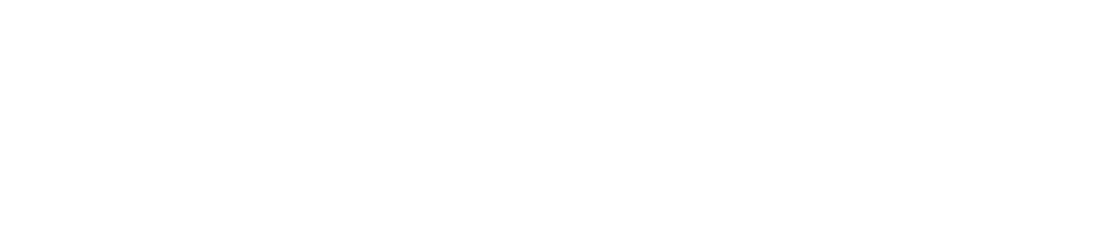
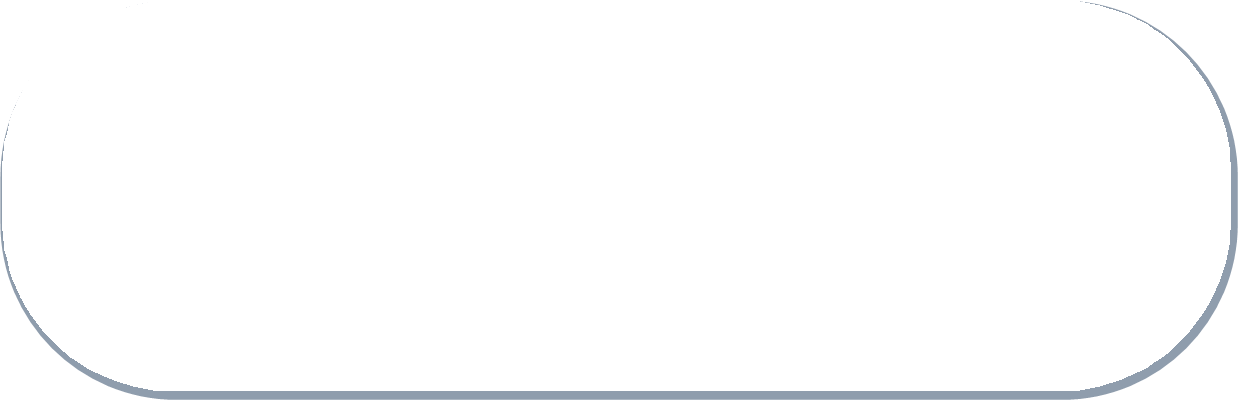
200

Dec Dec Dec Dec Dec Dec Dec Dec Dec

2010 2011 2012 2013 2014 2015 2016 2017 2018

Eligible deposits in ALL Eligible deposits in foreign currency Total deposits in the system

By the end of December 2018, the eligible deposits less than or equal to the maximum level of coverage were ALL 422.3 billion (denominated as a percentage: 39% of the total amount of eligible deposits), while deposits above the maximum level of coverage reached ALL 656.8 billion (or 61% of the total amount of the eligible deposits).



*According to the provisions of Law no. 53/2014 “On Deposit Insurance”, as amended, the amount of compensation shall be paid up to the maximum level of coverage only if it exceeds the amount of 100 ALL.*

*Banking system compensation deposits at the end of 2018 reached ALL 667.2 billion, which represents the maximum liability of the Agency against 1,603,317 individual depositors and traders and companies.*

*Graph 5. Structure of eligible deposits for compensation compared to the coverage limit of 2.5 mln - December 2018*

**411.9**

2.5 billion ALL

Uninsured deposits ((billion ALL)

Compared to maximal level of coverage

|  |  |  |  |
| --- | --- | --- | --- |
|  | |  | **656.8** |
| Eligible deposits for |  |
|  |  |
| compensation = |  |
|  |
| 1,079.1 billion ALL |  |
|  |
|  | | **422.3** |

Eligible deposits for compensation up to maximum coverage level

**422.3**

**244.9**

Insured deposits

= 667.2 billion ALL

Eligible deposits for compensation over the maximum coverage level

Individual deposits for compensation for deposits up to the maximum coverage level

Individual deposits for compensation for deposits over the maximum coverage level

Uninsured deposits

* + 1. Eligible individual deposits

These deposits in the banking system as of December 31, 2018 amounted to ALL 922.3 billion, accounting for the largest portion of the total eligible deposits, namely 85.5% (the annual change rate was -0.06%).

The impact on the slight annual decline of 0.06% of the eligible individual deposits was caused by USD deposits with amounts above the coverage level, which denominated in their countervalue in ALL decreased by 8.1%, while in the original currency they decreased by 5.3%. In December 2018, foreign currency deposits denominated in their countervalue in ALL accounted for 50.2% and their annual decline was 0.3%, while deposits in Euro (43.1% of them) recorded an annual growth of 8.4%, and their countervalue in All increased by 0.6%.

At the end of December 2018, eligible individual deposits in ALL in the banking system amounted to ALL 459.7 billion, representing 49.8% of the individual deposits, while compared to a year earlier, they increased by ALL 764.4 million ( 0.2%).

The performance of eligible individual deposits according to the level of coverage has had different directions. Compared to the end of 2017, deposits amounting to ALL 2.5 million increased by 3.6%, while deposits above the level of coverage decreased by ALL 14.7 billion or 2.8%.

## Since in December 2018, deposits over the coverage level have the highest share to the total eligible individual deposits (56 %), their downward performance has led to a slight annual decline with 0.06% of the eligible individual deposits.

*Graph 6: Structure of the amount of eligible individual*

*deposits in the system by currencies in %-December 2018*

EUR 43%

GBP 2%

ALL 50%

USD 5%

The number of individual depositors benefiting from the deposit insurance scheme in the banking system by the end of 2018 is 2,388,7173[[3]](#footnote-3), and during the 16-year period of the activity of the deposit insurance scheme, this number has increased 6 times (compared to 400 thousand depositors at the beginning of 2003).

Among individual depositors with deposits greater than ALL 100, 94% of them or 1,414,440 depositors, have deposits up to the level of coverage and benefit from full deposit insurance scheme coverage.

Individual depositors with deposits greater than ALL 2.5 million at the end of December 2018 are 90,845 and the amount of their deposits reached a value of ALL 516.2 billion.

*Graph 7. Dynamics of the number of individual deposits classified by coverage level 2010-2018*

3000

Nr. of depositors in thousands

2500

2000

1500

1000

500

0

2010 2011 2012 2013 2014 2015 2016 2017 2018

**end of period**

number of individual depositors with deposits over 2.5 mln All number of individual depositors with deposits up to 2.5 mln All

*Graph 8. Dynamics of eligible and insured individual deposits 2010-2018*

Bln ALL; end of period

1000.0

900.0

800.0

700.0

600.0

500.0

400.0

300.0

200.0

100.0

0.0

2010 2011 2012 2013 2014 2015 2016 2017 2018

Eligible individual deposits Insured individual deposits

* + 1. Insured individual deposits

Insured individual deposits for the banking system at the end of December 2018 had a value of ALL 633.2 billion, constituting 68.7% of the value of eligible individual deposits.

*Graph 9. Dynamics of insured individual deposits in value and the rate of annual increase in % 2010 - 2018*

700.0

600.0

500.0

Values in bln All

400.0

300.0

200.0

100.0

0.0

Dec 10 Dec 11 Dec 12 Dec 13 Dec 14 Dec 15 Dec 16 Dec 17 Dec 18

**in %**

16.0

14.8

10.2

**9.8**

**2.0**

**1.5**

**2.4**

**4.0**

**3.0**

**2.1**

14.0

12.0

10.0

8.0

6.0

4.0

2.0

0.0

Insured individual deposits Rate of annual increase of insured individual deposits

*Graph 10. Dynamics of insured individual deposits in values in 2018*

635.0



630.0

Values in bln All

625.0

620.0

615.0

610.0

Jan'18 Feb'18 March'18 April'18 May'18 June'18 July'18 Aug'18 Sept'18 Oct ' 18 Nov '

Dec '

Insured individual deposits

18 18

For the period 2010-2018, the share of individual deposits up to ALL 2.5 million varies from 40% to 44% of the total eligible deposits.

*Graph 11. Dynamics of individual deposits classified by coverage level 2010-2018*

**in %; end of period**

120

**58**

**58**

**59**

**60**

**60**

**58**

**58**

**58**

**56**

**42**

**42**

**41**

**40**

**40**

**42**

**42**

**42**

**44**

100

80

60

40

20

0

2010

2011

2012

2013

2014

2015

2016

2017

2018

Individual eligible deposits with a value over 2.5 billion All

Individual eligible deposits with a value up to 2.5 billion All

* + 1. Eligible deposits of traders and companies

For the banking system, these deposits reached ALL 156.8 billion in December 2018 and increased by 3.8% during the year. The annual growth was mainly driven by deposits over ALL 2.5 million, or 3.2%. These deposits have the largest share in their total eligible deposits, namely 89.7%.

According to the type of currency, the largest impact on the annual growth of 3.8% of the eligible deposits of traders and companies was provided by Euro deposits, which in December 2018 accounted for 52.2% of their total deposits. The rate of the annual change in Euro deposits denominated in their coutervalue in ALL was + 10.4%. Deposits in ALL accounted for 41.6% and increased by 1.3% compared to the previous year, while USD deposits accounted for 5.8%, and compared to the previous year these deposits denominated in their countervalue in ALL decreased with 23.8%.

*Graph 12. Structure of the amount of eligible deposits for traders and companies in the system by currencies in %*

*- December 2018*

ALL 42%

EUR 52%

USD 6%

## By product category, the largest share of the eligible deposits for traders and companies is accounted for by current accounts, with 87%.

*Graph 13. Structure of the amount of eligible deposits for traders and companies in the system by products -*

*December 2018*

**Amount in 000 /All**

Companies & traders

16,657,554 (11%)

136,498,368 (87%)

3,611,690 (2%)

Current accounts Savings accounts Term deposit accounts

## In contrast to the situation of the eligible individual deposits, 90% of traders and company deposits are above the coverage level, and correspond to 7,105 depositors, who represent 6% of traders and company depositors. This structure has remained at these ratios throughout 2018.

Insured deposits of traders and companies increased by 7.1% during 2018 and reached the value of ALL 34 billion at the end of this year. The performance of the insured deposits of traders and companies during 2018 has been both positive and negative.

*Graph 14. Dynamics of insured deposits of traders and companies in value during 2018*

34.5



34.0

33.5

33.0

Values in billion ALL

32.5

32.0

31.5

31.0

30.5

30.0

29.5

29.0



Insured deposits of traders and companies

### Deposit insurance in SCAs

Deposits in SCAs during 2018 have increased by 14% compared to a year ago and 69% compared to January 1, 2017, which is the beginning of the SCAs activity as members of the deposit insurance scheme. Monthly deposit growth rates ranged from 0.4% to 2.7%.

*Graph 15. Dynamics of SCAs deposits during 2018*

8.0

7.0

6.0

Values in billion ALL

5.0

4.0

3.0

2.0

1.0

Dec 2017 Mar-18 June 2018 Sept 2018 Dec 2018

Uninsured deposits Insured deposits Eligible deposits Total deposits

The total SCAs deposits at the end of 2018 amounted to ALL 6.9 billion, from ALL 6.1 billion at the end of December 2017, marking an annual growth of 14%. Meanwhile at the beginning of the activity of the SCAs as members of the deposit insurance scheme (January 2017) this amount was 4.1 billion ALL.

*Graph 16. Dynamics of SCAs deposits during the period January 2017- December 2018*

8.0

6.9

6.1

6.9

4.1

6.0

4.0

7.0

6.0

Values in bln All

5.0

4.0

3.0

2.0

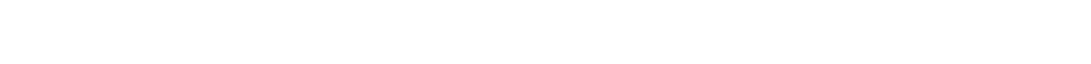
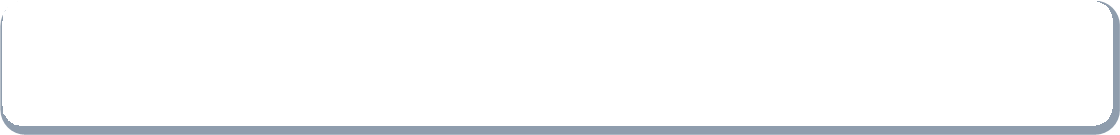
1.0

Jan-17 Dec 2017 Dec 2018

Eligible deposits Total deposits

* + 1. Eligible deposits in SCAs

These deposits at the end of December 2018 are ALL 6.8 billion and account for 98.7% of the total deposits, compared to ALL 6 billion as of December 31, 2017. These deposits benefit 21,564 SCA depositors, against 19,543 depositors who benefited from the deposit insurance scheme on December 31, 2017.



*“Eligible deposits in SCAs include time deposits as well as supporting accounts of SCAs depositors / members.”*

The eligible deposits at the end of December 2018, increased by 14% compared to the end of December 2017 and 70% compared to January 01, 2017 (graph 14 and 15).

The greater impact on the annual increase of the eligible deposits was a result of increased deposits in ALL. Deposits in ALL account for the largest share of the total eligible deposits in SCAs. Their annual growth is 12.4%.

*Graph 17. Total deposits by currencies 31 December 2018*



EUR; 16,91%

USD; 0,07%

ALL; 83,02%

Foreign currency deposits account for 17.8% of the total eligible deposits, as a result of the fact that only a portion of SCAs have foreign currency deposits. At the end of December 2018, eligible deposits less than or equal to the maximum level of coverage were ALL 2.7 billion (denominated as a percentage: 40% of the total amount of eligible deposits), while deposits above the maximum coverage level reached ALL 4.1 billion (or 60% of the total amount of eligible deposits).

*Graph 18. Structure of eligible deposits for compensation compared to the coverage limit of 2 mln - December 2018*

Eligible deposits for compensation

= 6.8 mld

|  |  |  |
| --- | --- | --- |
| 4.1 mld | Compred to maximum coverage level | 1.7 mld |
| 2 mln Lek | 2.4 mld |
| 2.7 mld | 2.7 mld |

Deposits for compensation

= 5.1 mld lek

Uninsured deposits

Insurable deposits for compensation up to maximum coverage level

Eligible deposits for compensation over maximum coverage level

* + 1. Insured deposits in SCAs

Individual deposits for compensation for deposits up to maximum coverage level

Individual deposits for compensation for deposits over maximum coverage level

Uninsured deposits

At the end of 2018, insured deposits in SCAs are ALL 5.1 billion. This amounts to 74% of the total deposits, or 75% of the eligible deposits.

*Graph 19. Dynamics of insured deposits by quarters in 2018*

5.4

5.2

Values in billion ALL

5.0

4.8

4.6

4.4

4.2

4.0

Dec 2017 Mar-18 June 2018 Sept 2018 Dec 2018 Insured deposits Quarterly change ratio

35.0

30.0

**4.0**

**2.5**

**5.9**

**2.7**

25.0

20.0

in %

15.0

10.0

5.0

0.0

Insured deposits that are fully covered by the deposit insurance scheme (all deposits between ALL 101 and ALL 2 million) as of December 31, 2018, amounted to ALL 2.7 billion and constitute 40% of the total eligible deposits.

Deposits that are partially covered by the deposit insurance scheme (deposits greater than ALL 2 million) amounted to ALL 2.4 billion at December 31, 2018, accounting for 60% of the total eligible deposits.

*Graph 20. Dynamics of iinsured deposits versus total eligible deposits by level of coverage per quarter*

100%

**38**

**62**

**39**

**61**

**60**

**60**

**60**

90%

80%

70%

Depoits in %

60%

50%

40%

**40**

**40**

**40**

30%

20%

10%

0%

Dec 2017 Mar-18 June 2018 Sept 2018 Dec 2018

Partially insured deposits/total of eligible deposits (in %)

Fully insured deposits / total of eligible deposits (in %)

*Graph 21. Dynamics of insured deposits by level of coverage per quarter*

8.0

7.0

**3.7**

**3.7**

**3.8**

**4.0**

**4.1**

**2.3**

**2.4**

**2.5**

**2.7**

**2.7**

Deposits in mln All

6.0

5.0

4.0

3.0

2.0

1.0

Dec 2017 Mar-18 June 2018 Sept 2018 Dec 2018

Partially insured deposits (deposits larger than the coverage limit)

Fully insured deposits (deposits between 101-2 mln)

The number of depositors holding deposits up to ALL 2 million at the end of December 2018 is 12,969. These depositors make up for 91% of the total depositors benefiting from the deposit insurance scheme. The number of depositors holding deposits in an amount over ALL 2 million at the end of December 2018 is 1,223, making up for 9% of the total depositors benefiting from the scheme.

*Graph 22. Number of insured depositors during 2018 per quarter*

**1,112**

**1,104**

**1,079**

**1,223**

**1,185**

**11,935**

**12,107**

**12,388**

**12,636**

**12,969**

Dec 2017 Mar-18 June 2018 Sept 2018 Dec 2018

number of insured individuals with deposits over 2 mln All number of insured individuals with deposits 101-2 mln All

# Section 3 – Administration of the Agency’s funds and financial resources

### Deposit Insurance Fund in Banks

* + 1. Dynamics of the insurance deposit fund in banks

As of December 31, 2018, the book value of the deposit insurance fund in banks, which consists of the start-up capital of ALL 400 million and the accumulated profits over the years, is ALL 38.9 billion. Compared to a year ago this fund increased by about ALL 3.89 billion or 11.11%. The graph below shows the dynamics of the deposit insurance fund for the period 2009 - 2018.

45,000,000

40,000,000

35,000,000

30,000,000

25,000,000

20,000,000

15,000,000

10,000,000

5,000,000

-

*Graph 23. Deposit insurance fund in banks (in thousand ALL)*

2009 2010 2011 2012 2013 2014 2015 2016 2017 2018

* + 1. Main financial indicators of the deposit insurance fund in banks

The size of the bank deposit insurance fund is determined by the net income from the activity over the years. The main income contributing to the increase of the deposit insurance fund in banks is the income from the insurance premium and the income from the administration of financial assets.

In accordance with the Law “On Deposit Insurance”, starting in 2015, the deposit insurance premium is calculated on a quarterly basis instead of an annual basis. For banks, the quarterly insurance premium is calculated as 0.125% of the arithmetic average of the amount of insured deposits, which is registered with the bank on the last day of each month of the previous

quarter, while for SCAs the quarterly insurance premium is calculated as 0.075% of the arithmetic average of the amount of insured deposits registered with the SCA on the last day of each previous quarter. The quarterly insurance premium for subject members of the insurance scheme shall be paid no later than the 15th day of the first month of the quarter for which it is paid.

The insurance premium income for 2018 was ALL 3.27 billion or 2.02% higher than in 2017. The insurance premium income over the period 2009 - 2018 has been increasing, which is directly related to the increase in insured deposits in the banking system in these years.

*Graph 24. Insurance premiums in banks (in thousand ALL)*

3,500,000

3,000,000

2,500,000

2,000,000

1,500,000

1,000,000

500,000

-

2009 2010 2011 2012 2013 2014 2015 2016 2017 2018

The income from the administration of the financial assets of the bank deposit insurance fund for 2018 was ALL 999.44 million or 28% more than in 2017. During the period 2009 - 2013 this income has been increasing, which is directly related to the expansion of financial assets under administration and the interest rates on securities. Income from the administration of financial assets for the years 2014-2017 has been affected by the lower interest rates of the Albanian Government securities. In 2018, the increase in incomes from the administration of financial assets was mainly due to the expansion of the portfolio to bonds with maturities over two years. Despite the downward tendency of the interest rates, return on investment has remained at satisfactory levels as a result of the portfolio diversification in several maturities.

*Graph 25. Incomes from the administration of financial assets of the deposit insurance fund in banks (in thousand ALL)*

1,200,000

1,000,000

800,000

600,000

400,000

200,000

-

2009 2010 2011 2012 2013 2014 2015 2016 2017 2018

* + 1. Coverage ratio of insured deposits in banks

At the end of 2018, insured deposits in the banking system were ALL 667.13 billion or 1.79% higher than the previous year. The steady growth of the deposit insurance fund in banks and the more moderate dynamics of the insured deposits in the banking system during the period 2009 - 2018 have led to a continuous increase of the coverage ratio during these years. At the end of 2018, the coverage ratio, calculated as a percentage of the deposit insurance fund in banks compared to the insured deposits, was 5.83%. The following graph summarizes the dynamics of insured deposits in the banking system and the coverage ratio during 2009 - 2018.

*Graph 26. Coverage ratio and insured deposits in banks (in thousand ALL)*

800,000,000

700,000,000

600,000,000

500,000,000

400,000,000

300,000,000

200,000,000

100,000,000

-

2009 2010 2011 2012 2013 2014 2015 2016 2017 2018

0.07

0.06



2.69%

3.07% 3.68%

4.21%

4.66%

5.11%

2.01%

2.31%

5.83%

5.34%

0.05

0.04

0.03

0.02

0.01

0

Insured deposits in banks Coverage Ratio

At the end of 2018, for the third consecutive year, the coverage ratio reached over 5% of the insured deposits since the set-up of the Deposit Insurance Agency. The achievement of this objective, as an indicator included in the Law on Deposit Insurance, testifies to a strong and efficient scheme as well as to the positive performance of the bank deposit insurance fund over the years.

### Deposit Insurance Fund in SCAs

* + 1. Dynamics of the deposit insurance fund in SCAs

In accordance with the Law “On Deposit Insurance”, as amended, in January 2015, the State Budget received the start-up capital for deposit insurance in SCAs in the amount of ALL 76 million. This fund provided the initial financial basis of the deposit insurance fund in SCAs. Starting from 2015 onwards, the Agency has administered the financial assets of the deposit insurance fund in SCAs, which entered the scheme in January 2017. As of December 31, 2018, the book value of the deposit insurance fund in SCAs, which consists of the start-up capital of ALL 76 million and accumulated profits, is about ALL 107.51 million, marking an increase of 16.6% compared to 2017.

*Graph 27. Deposit insurance fund in SCAs (in thousand ALL)*

120,000.00

100,000.00

80,000.00

60,000.00

40,000.00

20,000.00

-

2015

2016

2017

2018

* + 1. Main financial indicators of the deposit insurance fund in SCAs

The main income contributing to the increase of the bank deposit insurance fund is the insurance premium income and proceeds from the administration of financial assets.

In accordance with the legislation in force, subjects that were admitted to the scheme from January 2017 began to pay their quarterly insurance premiums. In the meantime, during 2018 subjects included in the scheme have paid an additional initial contribution to the amount of ALL 474 thousand, after verifications carried out by the Agency.

As SCAs are new to the insurance scheme, 2018 being the second year of operation of the insurance scheme for these companies, information on the dynamics of financial indicators for 2018 is submitted.

Insurance premium incomes for the whole of 2018 were ALL 13.9 million. From quarter to quarter these incomes have been increasing throughout 2018, which is directly related to the increase in insured deposits provided in these companies for 2018.

*Graph 28. Dynamics of quarterly premiums of deposit insurance in SCAs (in thousand All)*

3800

3700

3600

3500

3400

3300

3200

3100

3000

3 m I 3 M II 3 M III 3 M IV

The income from the administration of financial assets of the deposit insurance fund in SCAs throughout 2018 amounted to ALL 1.67 million which compared to 2017 increased by 24.4%.

*Graph 29. Incomes from the administration of financial assets of the deposit insurance fund in SCAs (in thousand ALL)*

1,800

1,600

1,400

1,200

1,000

800

600

400

200

-

2015 2016 2017 2018

The deposit coverage ratio in these companies during the two years of the scheme's operation is shown in the graph below. The coverage ratio of the SCAs fund to the total of insured deposits in SCAs has changed from 2.07% in 2017 to 2.08% in 2018. At the end of 2018, insured deposits for SCAs were ALL 5.1 billion or 16% higher than the previous year.

*Graph 30. Coverage ratio and insured deposits in SCAs (in thousand ALL)*

5,400,000

5,200,000

5,000,000

4,800,000

4,600,000

4,400,000

4,200,000

4,000,000

2017 2018

Insured deposits in SCAs Insured deposits in SCAs

2.09%

2.09%

2.08%

2.08%

2.07%

2.07%

2.06%

2.06%

2.05%

### Administration of financial assets

As of December 31, 2018, the Agency's financial assets, with a book value of ALL 38.62 billion, are all invested in Albanian Government securities, current account balances and one-week deposits with the Bank of Albania. In order to effectively manage the financial assets and guarantee the needs for liquid financial assets at all times, the Agency in accordance with the investment policy, at the end of 2018, had 23.58% of the portfolio in highly liquid instruments, such as deposits with the Bank of Albania and securities with a maturity of up to 90 days. The following graph is a summary of the Agency's financial assets by investment tranches as of 31 December 2018.

*Graph 31. Financial assets by investment tranches*

Liquidity tranche Investment 3-24M Investment tranche >24M

**20%**

**24%**

**56%**

The Agency's financial assets are largely in ALL. The Agency also holds part of its financial assets in Euro. In accordance with the Investment Policy, investments in foreign currency account for 7.8% of the financial assets under management and in the long run it is intended to approximate the structure by currency type of the Agency’s portfolio to that of the insured deposits. The following graph is a summary of the Agency's financial assets by currency as of December 31, 2018.

*Graph 32. Financial assets by currency*

LEKE EURO

**8%**

**92%**

The following graph shows the distribution of financial assets by duration up to maturity as of December 31, 2018.

*Graph 33. Financial assets by duration up to maturity*

With maturity 3 months

**20%**

**24%**

**9%**

**26%**

**9%**

**12%**

With maturity 6 months

With maturity 9 months

With maturity 12 months

With maturity 2 years

With maturity over 2 years

In order to effectively manage financial assets and guarantee at all times the needs for liquid assets, financial assets have a scalable distribution by duration up to maturity. After the adoption of Law no. 53/14 “On Deposit Insurance”, the Agency has transferred about 56% of its investment portfolio in instruments with residual maturity of 24 months and about 20% of its portfolio in instruments with residual maturity over 24 months.

### Loan Agreement

The Law on Deposit Insurance, in accordance with the basic principles and best practices in the field of deposit insurance, gives the Agency the opportunity to address various financial resources in order to guarantee at all times the fulfilment of its obligations. One of the most important instruments available to the Agency is the right to borrow. At the end of 2014, the Agency signed a Loan Agreement with the European Bank for Reconstruction and Development (EBRD) for a credit line of up to EUR 100 million. The Loan Agreement is accompanied by a guarantee from the Albanian Government. Under the Agreement, the Agency pays an annual commitment fee of 0.5% of the amount available from the credit line for this instrument. In case of an insurance event, the Agency may access the funds available from the credit line in a short time, thereby increasing the efficiency of the scheme to timely respond to depositors' obligations. The Agency during 2017 reduced the amount available from the credit line from 58 million to 41 million EUR, while in 2018 the credit line was reduced to 35 million EUR, as a result of the increase of the accumulated fund coverage to the total insured deposits in the system, which also led to lower financial costs for this instrument compared to the previous year. The Ministry of Finance, in the capacity of the guarantor, was informed of and acquainted with this reduction.

# Section 4 – Administration of the Resolution Fund (RF)

Law No. 133/2016, dated 22.12.2016, “On Recovery and Resolution of Banks in the Republic of Albania” has assigned the Deposit Insurance Agency the powers to administer this fund. During the year 2018, the Agency updated its internal regulatory acts specifying the tasks under the Administration of the Resolution Fund. Before the first contribution was made, the Agency prepared the entire necessary infrastructure to have a clear division between its funds and the Resolution Fund. Accounting, financial statements and reporting lines, investment policy and decision making in the Investment Committee have also operated separately.

As of December 31, 2018 the book value of the Resolution Fund is ALL 636.7 million. The annual contribution for the first year of operation of the fund is made up of two parts, 10% and 90%, in accordance with the regulatory acts. Contributions were received by banks between January 10 and April 30. The total annual contribution paid by the banks was ALL 632.17 million.

The Agency has begun investing the funds in January to comply with the RF’s Financial Assets Administration Policy adopted by the Agency and the Bank of Albania (BoA) as the Resolution Authority. The RF’s financial assets at nominal value of ALL 639.42 million are all invested in Albanian Government securities, one-week deposits and current accounts with the BoA. The gross income from the investment of the Resolution Fund for 2018 is 8.44 million ALL.

In order to effectively manage the financial assets of this fund, the Agency in accordance with its financial management policy, at the end of 2018 had 32.59% of the portfolio in highly liquid instruments, such as BoA deposits and securities with a residual maturity of up to 90 days. The following graph is a summary of the RF's financial assets by investment tranches as of 31 December 2018.

*Graph 34. Financial assets by investments tranches*

Liquidity tranche

**33%**

**67%**

Investment tranche 3-24M

The RF's financial assets are largely in ALL. In accordance with the RF’s financial assets Administration Policy, foreign currency investments account for 5.4% of the financial assets under management. The following graph is a summary of the RF’s financial assets by currency as of December 31, 2018.

*Graph 35. Financial means by currencies*

**5%**

LEKE

EURO

**95%**

The Agency periodically prepares financial statements and reports to the BoA on the RF’s quarterly investment activity. During 2018 the communication with the Resolution Authority has been very intense, for a transparent approach and preparation for new situations that this new function has brought. The Agency has participated in seminars and conferences organized by the BoA in the context of solutions and resolution. Preparatory work with the external auditor Deloitte Audit Albania in cooperation with the Resolution Authority ensured the preparation of financial statements in accordance with international financial reporting standards and IFRS 9.

# Section 5 - Main projects for the reporting year

### Strategic Plan 2018-2020

At the conclusion of the 2015-2017 Strategic Plan, this year the Deposit Insurance Agency started work on drafting a new plan for its activity in the next three-year period. In drafting the Strategic Plan 2018-2020, with the involvement of all sectors and the ADIA’s leadership team, the achievements of the previous plan, such as the vision, mission, values ​​and public objectives of the deposit insurance scheme, which stand at the core of the Institution's activity, were carefully considered.

The Strategic Plan 2018-2020 aims to provide a clear and structured forecast of the direction of the Agency's activity during this three-year period. The priority for the insurance scheme during this three-year period and the Agency's mandate as administrator will continue to remain the preparation for effective compensation of depositors in case of need. In view of fulfilling this mandate, the Strategic Plan presents an overview of the Agency's activity for this period, which will focus on pursuing a concrete strategy for achieving well-defined short and medium-term objectives.

For the three-year period 2018-2020, the Agency's strategic priorities will be: I. Effectiveness of the Deposit Insurance Scheme; II. Human Capital Management; and III. Strategic Partnership Development. For the realization of these priorities a set of strategic objectives and initiatives is foreseen to be undertaken in this three-year period by the structures of the Agency. ADIA considers that this set of strategic priorities is essential for meeting the public objective of the deposit insurance scheme, for the accurate and timely compensation of insured depositors, and contributing to the financial stability of the country. The Strategic Plan 2018-2020 was drafted after a careful assessment of the implementation of the objectives and initiatives of the previous mid-term plan (2015-2017) in order to continue with and reintegrate the unfinished projects of the previous plan.

The objectives and initiatives of each strategic priority will serve as guides to our joint work and to each sector in particular, throughout this three-year period. A significant part of them have been part of our activity throughout the past year, as presented in this comprehensive Annual Report. In the meantime, the strategic objectives and initiatives will be part of the working plans of the relevant Agency structures in the coming years, with the aim of effectively meeting the projections of the Strategic Plan 2018-2020.

### Strengthening professional efficiency and preparedness

In implementing its Strategic Plan 2018-2020, the Agency has conducted during 2018 two simulations of an insurance event. The first simulation, organized in June 7, 2018, was the technical simulation of a compensation process of a subject member of the deposit insurance scheme. The simulation was intended to serve as a comprehensive preparatory test for the staff of the Agency as well as a practical training / preparation for the next simulation. The simulation exercise aimed at identifying the issues that the Agency's responsible units would face in case of an insurance event, as well as gaining the experience needed to conduct similar simulation exercises. All employees of the Agency, representatives of the Board of Directors, as well as the Internal Audit of the Agency participated in the simulation. Also, the third party in the simulation was a member bank of the scheme which tested the preparation of the “compensation payroll” with depositors' data. It should be noted that the simulation exercise was intended to cover the phase of the compensation process, which begins at the time a subject member of the deposit insurance scheme is placed under compulsory liquidation by the Bank of Albania.

This simulation was a valuable preparatory tool for the organizational structures of the Agency, as lessons were learned and concrete findings served to improve the Agency's preparedness to respond more effectively to potential situations of a compensation process.

The second simulation was organized



on 21– 28 September 2018.

The highlight of this exercise was the

involvement of the Kosovo Deposit

Insurance Fund, a cooperation

achieved in the framework of the

implementation of the

Cooperation Agreement signed

between the two institutions.

Employees of the

Deposits Insurance Fund of Kosovo

participated in the exercise

during an insurance event.

Participating in the simulation

were also third parties, such as the Agent Bank and the Bank of Albania, who have an important role to play in successfully completing the compensation process. The Agent Bank which was engaged during this simulation was one of the Agent Banks previously selected by the Agency to conduct the compensation process. In this simulation, the Bank of Albania played an active role in enabling the necessary transactions to be performed for the simulated event.

The exercise began with a simulation of the Supervisory Authority's decision to hypothetically revoke a license and place under compulsory liquidation a member bank of the deposit insurance scheme. Subsequently, the uploading and execution of depositors' data in the Agency's electronic system was simulated, with the aim of preparing a "compensation payroll". The Agency, through it IT System on Reporting and Compensation, checked the preparation of the "final payroll" as well as the accuracy of depositors' data. The "final payroll" was then sent to the Agent Bank selected for this simulation.

The exercise continued with the simulation of fund transferring from the Agency’s account for simulation with the Bank of Albania, to the account of the Agent Bank selected to make the depositors' compensation payments. Part of the exercise was to simulate the process of making payments from the Agent Bank. To this end, a group of fictitious depositors showed up at the Agent Bank counters, where their deposit withdrawal was tested. During the simulation the Agency's special platform in the official website dedicated to the communication of information during an insurance event was also tested.

At the conclusion of the simulations, the Agency evaluated the exercises and the performance of both the Institution and the Agent Bank. The Agency, through evaluation reports, identified concrete lessons and findings to improve the Institution's preparedness for an insurance event. Issues identified were listed in an Action Plan with concrete deadlines, which the Agency will rigorously implement over the next two years.

In conclusion, the simulations conducted contributed to raising the level of the awareness of the Agency's associates, as well as improving the professional capacity of the Agency to accurately and quickly administer a complex and challenging process such as the deposit compensation process.

### Expansion of the deposit insurance scheme for SCAs

Year 2018 was the second year of activity of the Savings and Credit Associations as members of the deposit insurance scheme. The Agency throughout 2018 has been closely monitoring the progress of the SCAs, both through training meetings and verifications. The purpose of the training meetings was to better explain the legal framework in force, to ensure its proper implementation, as well as to increase the professionalism of the employees of Savings and Credit Associations, in order to develop a prudent business, complying with all regulatory requirements of the Supervisory Authority, which the SCAs should prioritize throughout their work.

The Agency has also carried out verifications in all Savings and Credit Associations to verify the implementation of the legal framework as well as the recommendations left in verifications carried out. The on-site verification of all SCAs members of the scheme covered all the issues provided for in Article 37 of Directive no. 4188, dated 01.09.2016, “On deposit insurance in Savings and Credit Associations”. But the priority of these verifications was to prepare depositors' data for simulation / compensation, i.e. depositors' “payroll” with their unique appearance.

At the end of this second year of SCAs’ activity as members of the deposit insurance scheme, it is estimated that overall their performance has been positive. This year has seen a further increase in deposits, as well as in the number of depositors in all SCAs members of the schemes.

In December 2018, the Board of Directors of the Agency made the decision to issue a certificate of compliance with the legal and by-legal requirements on deposit insurance to the SCA TIK 2000, which had submitted to the Agency its application for membership in the deposit insurance scheme. This decision of the Board of Directors of the Agency came only after a thorough review process for completing the documentation in accordance with the requirements of Directive no. 4188, dated 01.09.2016 “On deposit insurance in Savings and Credit Associations”, as well as a verification carried out in the current SCA on meeting the requirements in accordance with the applicable legal and regulatory framework. Following licensing by the Supervisory Authority and certification by the Agency, the Savings and Credit Associations scheme will be expanded with a new company, amounting to seven the total number of SCAs members of the scheme.

### Financial Administration of the Agency - Adopting new financial reporting standards

The Deposit Insurance Agency prepares its financial statements in accordance with Law No. 25 / 2018 “On Accounting and Financial Statements”, as well as international accounting standards.

The International Accounting Standards Board has published the final version of IFRS 9 “Financial Instruments”, which brings together all the stages of classification and measurement, depreciation and hedge accounting. This standard has replaced IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

IFRS 9 requires a single approach to the classification and measurement of the financial assets it reflects:

* Business model for managing financial assets; and
* Characteristics of the contractual monetary inflows of financial active, if they are payments of principal and interest only.

IFRS 9 also uses the expected credit loss model, which replaces the incurred loss model defined by IAS 39. The provisioning requirements set out in IFRS 9 are intended to address problems arising during the financial crisis associated with the incurred loss model defined by IAS 39, which delays the recognition of provisioning until there is objective evidence of devaluation.

The Agency took the necessary measures to effectively implement this standard by commencing the preparatory work at the closure of Financial Statements for 2017, in order to assess the impact of the adoption of this new standard on the Agency's financial statements. The Agency, with the support of experts from the Bank of Albania, succeeded in drawing up the business model for the classification of its financial instruments, as well as estimating the expected losses from these instruments.

The ADIA’s financial assets, based on the constructed model, are classified in the category of held-to-collect instruments and are measured at amortized cost. In addition, the Agency estimates at each reporting date of financial statements the expected credit losses based on the general approach of the loss model set out in this reporting standard.

### Raising the level of public awareness

The Agency, this past year, has continued to work to increase public confidence in line with its mandate to protect depositors and ensure the preservation of financial stability in the country, through the use of public awareness mechanisms for the deposit insurance scheme as well as supporting financial education policies in the country.

The basic documentation guiding the public awareness work is “The Agency’s Strategic Plan 2018-2020” and “Public Awareness Strategy”. Objectives, principles, tools and methods that the Agency should pursue to successfully and efficiently achieve its legal mandate for well-administering the deposit insurance scheme, both in quiet times and in case of an insurance event, are clearly set out in this documentation.

**The Agency's official website -** the commitment that the Agency has made to increase its transparency and accountability in informing the public and other stakeholders about the role, activity and decision-making of the Agency, has given the official website an important role. As the best communication tool with depositors and any other stakeholder group, it has



continued to be updated with information. Our official website reflects in real time and transparently all information, notices and activities related to the Agency's day-to-day operations. Interested parties may also consult this site to familiarize with the important agreements, meetings and participations in which our Institution is represented and which serve the Agency's objectives of developing cooperation with international institutions and organizations and exchange experiences. The total number of site visitors during 2018 is 38,450.

**The Agency’s Facebook profile** is a powerful tool for informing and educating the public, considering it is the social network with the largest number of users, allowing us to be closer to the different stakeholders. This profile has continued to evolve with the same commitment as the official website of the Agency. Ongoing questions and comments are a positive indicator of the interest shown towards the Agency and the insurance scheme in the country, whether by depositors or the general public. Through Facebook responses, followers have been accurately informed and targeted.

**Meetings with stakeholders** at the Agency's premises continue to be a very efficient way of communicating with depositors. Direct contact with the public has enabled the accuracy of the information transmitted by the Agency while increasing confidence in the deposit insurance scheme.

**Promotional materials -** During 2018, the Agency produced and distributed, free of charge, promotional materials of the Deposit Insurance Agency such as information leaflets on banks and Savings and Credit Associations and tags with ADIA’s logo, with the aim of providing clear, understandable and transparent information to depositors.

**Participation in financial education campaigns** - Information and education of the younger generation has continued to be the focus of 2018 as well. Since then, the Agency has participated in activities held at the Global Money Week on March 12-18. Global Money Week is a worldwide celebration of money, aimed at raising awareness among the younger generations to be responsible and financially capable citizens in the future. This activity enabled the Agency to be closer to the students and properly inform and orient them as present and future depositors of the deposit insurance scheme.

Following this initiative, on March 30, the Agency in cooperation with the Albanian Association of Banks organized a debate with students from the Economic Faculties of 3 local universities with the topic "Do deposit insurance schemes affect the financial stability of the country?" This debate format first developed by the Agency attracted a large number of stakeholders, thus marking a novelty in ways of reaching out to the younger generations. Given the success and high quality of representation it is now thought that this initiative will become a tradition.

**Open lectures with university students** - Following on the work done to inform and educate the younger generation, as well as to raise public awareness on the deposit insurance scheme, the Agency has conducted open lectures at public and private universities this year. The audience has generally been of the financial-banking profile and not only, very interested, making the product of these lectures mutually satisfying for both the Agency and the participating students. The high quality of their questions and the high demand for information highlights the fact that cooperation with universities continues to be a fruitful and successful communication tool in the context of raising public awareness.

**Survey study** - In line with the Law “On Deposit Insurance”, ADIA’s Strategic Plan, the recommendations of international experts and the experience of counterpart agencies, in 2018, a survey was conducted focused on the topic: “Measuring the level of public awareness on the deposit insurance scheme”.

The analytical data derived from this study, which was the second of its kind organized by the ADIA, are considered to be very important historically and are essential to consider in the Agency's day-to-day operations in order to raise public awareness on the deposit insurance scheme, its role and functions. The survey was satisfactory with regard to the results collected, raising the level of public awareness on the deposit insurance scheme and the Agency as its administrator.

### Cooperation with local and international actors

One of the strategic priorities identified in the Agency's Strategic Plan 2018-2020 is the Strategic Partnership Development. Partnership with local and international actors is considered of strategic importance because efficient coordination at all levels of cooperation would guarantee the successful realization of the Institution's legal mandate. Taking into account this institutional approach, in 2018 the Agency and its management structures engaged in institutionalizing their relationships with bodies and entities deemed to play a role in the successful fulfilment of the legal obligations of the Agency.

* + 1. Cooperation Agreement with the Albanian Association of Banks (AAB)

Appreciating the importance of cooperation with the banking sector and members of the deposit insurance scheme, in December 2018, with the initiative of the Agency, the Chairman of the AAB and the General Manager of Intesa Sanpaolo Bank Albania, Mr. Silvio Pedrazzi, and ADIA’s General Director Mr. Genci Mamani, signed a Cooperation Agreement between the Deposit Insurance Agency and the Albanian Associations of Banks.



This Agreement defines the areas of cooperation between both parties, as well as their interaction ways, in terms of coordinating joint initiatives and creating favourable conditions for the development of the deposit insurance scheme; implementing laws and bylaws on deposit insurance from member banks of the scheme; safeguarding depositors' rights and boosting public confidence in the banking sector. The Agreement will also aim at exchanging professional experience in the relevant areas of common interest, regular exchanging of information, and establishing joint teams to deal with different issues, etc.

In the framework of joint activities, parties will organize seminars and conferences of a scientific and practical nature, open lectures with pupils and students as well as financial education campaigns to raise public awareness on the deposit insurance scheme in the country, etc.

* + 1. Cooperation Agreement with the Financial Services Volunteer Corps

Based on the Strategic Plan 2018-2020 and efforts to improve the regulatory framework on compensation and benefit from the best international practices and standards in the deposit insurance field, the Agency has continuously developed an intensive cooperation with the Financial Services Volunteer Corps (FSVC), by means of USAID funding. FSVC is a non-profit organization that promotes economic development by strengthening the financial sector in the countries where it contributes. FSVC enjoys considerable experience in developing and implementing technical assistance programs, of which the Deposit Insurance Agency has also been a part. Relations between the Agency and the FSVC have consisted, inter alia, of technical assistance missions in the field of information technology, professional and operational capacity building, good administration of the Agency, etc.

In light of this fruitful cooperation, the Agency and the FSVC established and institutionalized their relationship with a Cooperation Agreement signed in May 2018. The Agreement makes the FSVC experience available to the Agency through customized technical programs that serve the needs of the Agency, in line with USAID’s Albania development objectives. These personalized consultations, on-the-job training activities and technical seminars will be provided by experienced professionals of the US financial and legal sector, and will be designed in accordance with or in addition to previous technical assistance provided by other institutions.

* + 1. Participation in international forums (IADI and EFDI)

The Deposit Insurance Agency is one of the first members of international deposit insurance forums. Participation in these forums creates the opportunity to keep up to date with changes in the regulatory environment, facilitating the work of the Agency in establishing and maintaining its regulatory framework in line with the best international practices. On the other hand, international financial institutions also provide an opportunity to exchange professional experiences, which is of increasing importance in the context of constant changes in financial markets and society's expectations regarding the deposit insurance scheme. In support of Albania's aspiration to join the European Union, exchange of contemporary experience and harmonization of the regulatory framework on the deposit insurance scheme with the best European and international practices and standards is of primary importance. Based on the above, in 2018 the Agency has participated in annual meetings organized by the International Association of Deposit Insurance (IADI) and the European Forum of Deposit Insurance (EFDI). The Agency has also contributed to meetings of the IADI’s Regional Committees and the EFDI’s Thematic Committees.

Appreciating the contribution and role of the Agency within its structures, IADI has for the first time selected the Agency to organize the annual meeting of the Regional Committee of Europe in 2019, which is attended by almost all deposit insurance institutions in Europe. In this context, considering the importance of the level of preparedness of the deposit insurance institutions to deal with financial crises, a technical seminar on “Contingency Plans and Crisis Management / Resolution Cases” will be organized in Tirana.

# Section 6 – Good Governance

### Risk Management in the Agency

Risk management in the Agency is a function based on Regulation no. 32 “On Risk Management in the Deposit Insurance Agency” approved on 23/10/2015. In view of fulfilling this function, a Risk Management Sector (RMS) has been set up at the Agency. The Agency has set up several risk monitoring systems aiming to minimize impacts on achieving its objectives.

In terms of day-to-day activity RMS manages the operational risks. The identification of these risks and evaluation stages are mostly done in cooperation with the staff of the Agency. For these risks the inherent risk is initially estimated and then the residual risk. Operational risks are summarized in a register, regularly monitored by and periodically reported to the Board of Directors.

In terms of financial risks, the Agency monitors the investment risk of funds it manages. With the new task of managing the resolution fund in banks, the Agency has once again shown credibility in the banking industry and members of the financial security network. To reduce the credit risk, all three funds under management are invested in Albanian government debt securities. Investments in long-term debt securities are of moderate value and in line with EBRD-coordinated investment policies. Portfolios are constructed in such a way that investments are escalated and maturities distributed. This portfolio diversification reduces the risk of liquidity if funds are used. To minimize the market risk the Agency holds and accounts for securities up to maturity.

Regarding the system risk, the Agency has set up an early warning system, monitoring every three months the financial performance of the member banks of the scheme. For this purpose, the Agency uses statistical methods to processes financial position indicators obtained from the Supervisory Authority. This system will also apply to the SCAs member of the scheme in 2019.

Based on the simulations conducted this year, the Agency has identified the compensation risks and compiled a register thereof. This is an important step towards preparing for a more regular compensation process. In the future the register will be supplemented with risk assessment and minimization. For objective reasons there can be no monitoring of these risks.

* 1. **Board of Directors**

The Board of Directors is the highest decision-making body of the Deposit Insurance Agency. The Board of Directors is responsible for the conduct and proper functioning of the Agency's activities and operations. Its members have the obligation to act honestly at all times in the best interest of the Agency. The role of the Board focuses on its supervisory responsibilities, acting independently and evaluating the performance of the Agency's management against the legal requirements, recommendations of the constitutional institutions (Assembly of the Republic of Albania) and supervisory institutions (Bank of Albania) to which the Agency reports as well as the objectives set out in strategic plans and other acts of the Agency.

The members of the Board of Directors are non-executive, with the exception of the member appointed to the position of the General Director. The term of office for each member of the Board of Directors is five years, with a right to be re-elected, based on the performance indicators of their activity.

The Board of Directors is composed of five members appointed by the Supervisory Authority and nominated as follows:

|  |  |  |
| --- | --- | --- |
| **BOARD OF DIRECTORS** | **ROLE** | **PROPOSING INSTITUTION** |
| Donald Duraj | Chairman | Bank of Albania |
| Genci Mamani | Member | Bank of Albania |
| Erjon Luçi | Member | Minister of Finance |
| Ervin Mete | Member | Minister of Finance |
| Nexhmije Çela | Member | Authorized Countable Experts Institute (ACEI) |

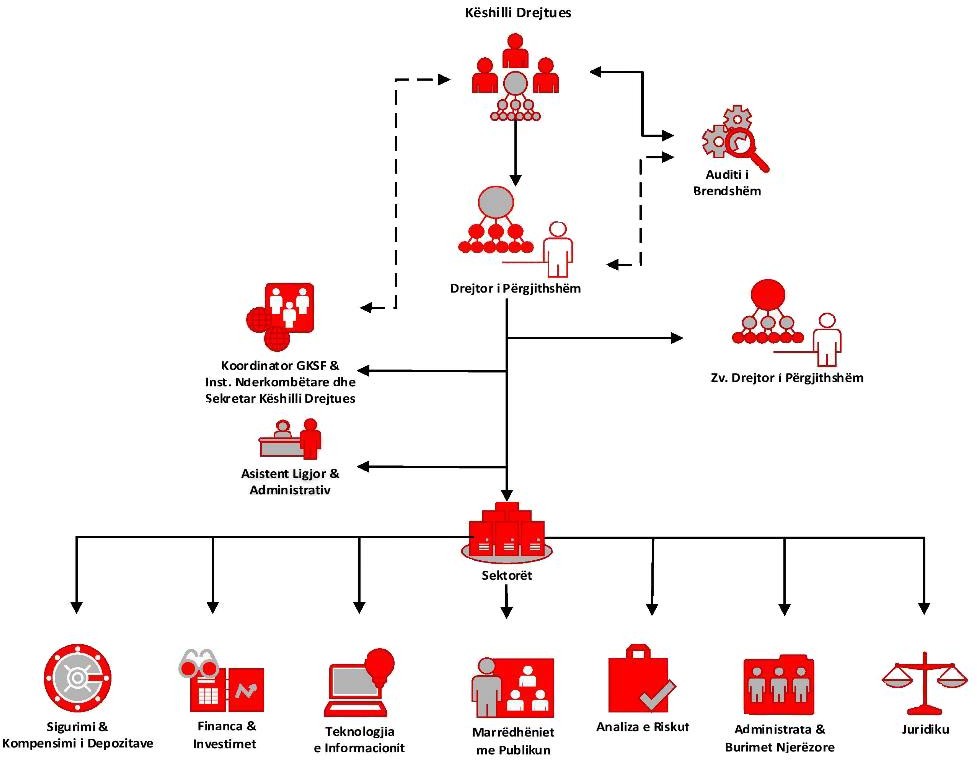
The activity of the Board of Directors for 2018 is exercised in accordance with the competencies set out in the Law “On Deposit Insurance”, as amended, the Statute of the Deposit Insurance Agency, the Regulation “On the Rules and Procedures of Operations and Meetings of the Board of Directors of the Deposit Insurance Agency” and the legislation in force for collegial bodies.

The Board of Directors' decision-making process, even throughout 2018, has been guided by the principles of legality, professionalism, independence and transparency. In 2018 the Board of Directors exercised its activity by organizing monthly meetings. The Board of Directors' decision-making has produced 34 decisions aimed at establishing and maintaining high standards in the good governance of the Agency and consolidating its capacity to fulfil its legal mandate. The Board of Directors' decision-making was mainly focused on the adoption of bylaws for the purpose of well-administering and expanding the deposit insurance scheme and operational progress of the Agency.

### Organizational Structure of the Agency

The organizational structure of the Deposit Insurance Agency has been approved by the Decision of the Board of Directors no. 19, dated 29.08.2013 “On the approval of the organizational structure, staff and number of employees of the Deposit Insurance Agency”, as amended.

Based on the Statute of the Agency approved by the Decision of the Board of Directors no. 24, dated 31.10.2018, and in accordance with its organizational structure, the Agency is organized in a hierarchical manner, chaired by the Board of Directors and administered by the General Director. According to this structure, the Agency is composed of 7 departments, with a total staff of 29 employees. During 2018, following a competitive procedure, the Agency filled the position of Head of Finance and Investment Sector, while the rest of the staff has been consistent, continuing with their professional motivation policies. Also during 2018 the organizational structure of the Agency has not changed.



* + 1. Professional Qualification

Human capital management is one of the strategic directions set by the Agency in its Strategic Plan for 2018-2020.

This priority is defined as a challenge for the Agency and a shared responsibility between the Human Resources Unit and heads at all levels of the Agency. The Agency as an institution with a unique function in the country has invested and will continue to invest in its human resource capital.

Human resource management in the Agency is oriented towards improving professional skills by delivering training tailored to the professional needs in the workplace in order to meet various challenges in the future, properly administer the personnel files and the annual work performance assessment for each employee, in due time and in accordance with the relevant administrative rules.

This year the Agency has continued its efforts to enable constant staff training, developing incentive policies in order to increase staff professional qualification in line with the mission and strategic objectives. During 2018, the staff have attended training programs at home and abroad, organized by international institutions such as IADI and EFDI, as well as training organized by other counterpart institutions. The purpose of these trainings was to develop the skills needed to exercise the functions of each staff member, within the framework of the Agency's policies for developing cooperation with international institutions and organizations, while exchanging contemporary experiences and practices.

**Section 7 – ANNEX 1**

|  |  |  |  |
| --- | --- | --- | --- |
| Recommendations of the Assembly of Albania on the activity of the Deposit Insurance Agency for 2018, implementation measures taken by the Agency and the status of implementation of the recommendations. | | | Status |
| R1 | | *“In view of transparency and information, develop clear rules and procedures for the publication of decisions and materials adopted by the Board of Directors, respecting the limitations of the legislation in the area of protection of confidential and commercial data.”* | Fully achieved |
| Measures ADIA | | Pursuant to this recommendation and in view of the transparency of the decision-making of its governing bodies, the Deposit Insurance Agency publishes its Board of Directors’ decision-making in its official website. This publication is conveyed to all concerned in two forms. Through a notice summarizing the main issues addressed and approved by the Board of Directors and by publishing the decisions taken at periodical meetings of the Board. |
|  | | | Status |
| R2 | *“To continuously monitor the fulfilment of conditions by Savings and Credit Associations, in accordance with the legal and regulatory framework in force, promoting a healthy and long-term business.”* | | Fully achieved |
| Measures ADIA | The Agency, in implementing the recommendations of the Resolution of the Assembly in 2018, has carefully monitored the situation in all Savings and Credit Associations conducting verifications to ensure the correct implementation of the applicable legal framework. The Agency has also organized meetings and trainings with Savings and Credit Associations, to discuss the particular importance of preparing and reporting files for an insurance event (simulations / compensation), as well as the quality of depositor’s data reported in these files. Concretely: | |
|  | 1. In January 2018, the Agency held a meeting with all SCAs regarding the implementation of its tasks for 2017. The Agency has also prepared a document with recommendations for SCAs aimed at developing a healthy activity throughout 2018. 2. In July 2018, the Agency conducted training on file preparation and reporting of deposit and depositors’ data with the Agency’s system (SIRK) in case of an insurance event (preparation for simulation), as well as on the importance of maintaining accurate and updated depositors’ data. 3. Within the first half of 2018, the Agency carried out the verification of all Savings and Credits Associations. In the verification reports addressed to all Savings and Credit Associations, a separate section addressed the Agency's recommendations regarding work improvement in these subjects. 4. The Agency has carried out monthly statistical analysis of the Savings and Credit Associations' deposits, and informed its Board of Directors every quarter on the progress and expansion of these subjects. | |  |

|  |  |  |
| --- | --- | --- |
|  | | Status |
| R3 | *Add tools to promote the deposit insurance scheme and assess the impact of promotional areas on the targeted public through annual surveys.* | Fully achieved |
| Measures ADIA | In order to implement this recommendation and its strategy to raise public awareness, the Deposit Insurance Agency has conducted open lectures and thematic debates with public and private university students, mainly of bank-finance profile. Following are some of these activities:   1. Open lecture Epoka University - January 2018 2. Open lecture “Aleksandër Xhuvani” Universitety -March 2018, 3. Lecture at the European University of Tirana- May 2018, 4. Lecture at the Economic Faculty of the University of Tirana – October 2018, 5. Open lecture “Aleksandër Moisiu” University –November 2018. |

|  |
| --- |
| Also, in the framework of the Money Week, in March 2018, the Deposit Insurance Agency and the Albanian Association of Banks & Balkans Youth Link Albania organized a debate with students from "Alexander Moisiu" University in Durrës, Epoka University and Luarasi University College in Tirana, on the topic “Do deposit insurance schemes affect the financial stability of the country?”. |
| Regarding recommendation to assess the impact of promotional areas on the targeted public through annual surveys, in January 2018 the Deposit Insurance Agency conducted a survey focused on “Measuring the level of public awareness on deposit insurance scheme”. |
| In addition, the Agency, in pursuance of this recommendation, has had several meetings in 2018 with the Savings and Credit Associations as well as member banks of the deposit insurance scheme, one of the important issues being the cooperation for a better and more accurate information with regard to the benefits and limitations of the deposit insurance scheme. |

|  |  |  |
| --- | --- | --- |
|  | | Status |
| R4 | *“Update policies and operational procedures to ensure compliance of the deposit insurance scheme with the basic principles for effective deposit insurance schemes”.* | Fully achieved |
| Measures ADIA | In pursuance of this recommendation, in 2018, the Agency focused on identifying issues for improvement in terms of compliance of the deposit insurance scheme with the fundamental principles of effective deposit insurance schemes. To this end, the Agency conducted two simulations (specifically in June and September 2018) of an insurance event, with the participation of one agent bank selected in the preliminary list for the compensation process, as well as the participation of the Supervisory Authority and the Deposit Insurance Fund of Kosovo. The simulations were a very valuable tool, especially for lessons learned and concrete findings for revising the Agency's internal regulatory framework, which is expected to improve the compliance of the deposit insurance scheme with the basic principles for effective deposit insurance schemes. The issues identified are listed in an Action Plan with concrete deadlines, which the Agency will rigorously implement over the next two years. Requirements to review and improve operational policies and procedures are also constantly identified through the verification process in scheme member subjects. |

|  |  |  |
| --- | --- | --- |
|  | | Status |
| R5 | *“Continue cooperation with members of the financial security network*  *and Savings and Credit Associations, to maintain financial stability in the country and protect depositors' interests”.* | Fully achieved |
| Measures ADIA | As a member of the Financial Stability Advisory Group (FSAG), the Deposit Insurance Agency throughout 2018 has regularly participated in all meetings organized by this important forum. At FSAG meetings, the heads of the Agency reported in details on deposit performance in the financial system, their mobility trends, and the Agency's activity in view of the financial stability in the country.  The Deposit Insurance Agency is a signatory party to the Memorandum of Understanding "On Cooperation for the Prevention and Management of Extraordinary Situations in the Activity of the Financial System in the Republic of Albania", signed with the Bank of Albania, the Ministry of Finance and the Financial Supervision Authority (FSA). The latter, in co-operation with experts of the project “Strengthening Supervision Capacity of the Financial Supervisory Authority: Focus on Capital Market Development”, funded by the Swiss State Secretariat for Economic Affairs (SECO), organized the simulation of a systemic crisis in the financial market. This exercise aimed to test the specific procedures and actions in case of crisis of participating institutions through the conduct of a simulation scenario of an emergency financial situation. The simulation scenario was conceived by SECO experts with the contribution of FSA, such as to affect not only the institutions supervised by FMA but also banks supervised by the Deposit Insurance Agency. In conclusion, the simulation showed that any financial difficulty of a non-banking subject could translate into a systemic crisis involving the banking industry. In this context, a closer pro-active inter-institutional cooperation is still needed to avoid the spread of such risks to the banking and financial system. In cooperation with the Bank of Albania, the role of the Deposit Insurance Agency is important to minimize the panic of Albanian depositors. Such simulations were proposed to further continue in order to increase the readiness of financial stability institutions in Albania. |

|  |  |  |
| --- | --- | --- |
|  | | Status |
| R6 | *“Inform depositors on measures taken by the Bank of Albania in the framework of the de-Euroization strategy.”* | Fully achieved |
| Measures ADIA | In 2018, the Deposit Insurance Agency is engaged in informing depositors on measures taken by the Bank of Albania in the context of the de-Euroization and risks associated with holding foreign currency deposits as a result of exchange rate fluctuations. In this regard, in the reporting year, the Agency included the Bank of Albania's measures package in all its activities and presentations organized with stakeholders to raise their awareness. |

**Section 8 – ANNEX 2**

### Financial Statements of the Deposit Insurance Agency for the year closed in December 31, 2018 and the Independent Auditor Report

* + 1. **Report**

**Deloitte Deloitte Audit Albania sh.p.k**

**Rr. Elbasanit**

**Pallati poshtë Fakulteti Gjeologji-Miniera**

**Tirana, Albania**

**Tel: +355 4 45 17 920**

**Fax: + 355 4 45 17 990**

[**www.deloitte.al**](http://www.deloitte.al)

**INDEPENDENT AUDIT REPORT**

**To the Board of Directors of the Deposit Insurance Agency**

**Financial statements audit report**

**Opinion**

We audited the financial statements of the Deposit Insurance Agency (“Agency”) which comprise financial statements of the financial position as of December 31, 2018 and the income and expense and other comprehensive income statements, the statement of changes to the deposit insurance fund and inflows of financial assets for the year closed on this same date, as well as a summary of the key accounting policies and other explanatory notes.

In our opinion, the financial statements accurately represent in all their material aspects, the financial position of the Agency as of December 31, 2018 as well as its financial performance and cash inflows for the year closed in this same date in accordance with the International Financial Reporting Standards (“IFRS”).

**Basis**

We conducted our audit in accordance with the International Standards on Auditing (“ISA”). Our responsibilities according to these standards are described in the paragraph titled “Responsibilities of the auditor in auditing financial statements” of this report. We express our independence from the Agency in accordance with the Code of Ethics for Professional Accountants established by the International Ethics Standards Board of Accountants (“IESBA”) and the ethical requirements applicable for financial statements auditing in Albania, and we have fulfilled our other ethical responsibilities in accordance to said requirements.

We believe that the evidence of the audit provided is sufficient and adequate to support the basis of our audit opinion.

**Other information**

The management is responsible for other information. Other information include information submitted in the Annual Report, drafted by the Management of the Agency in accordance with Law no. 53/2004, dated 22 May 2014 “On Deposit Insurance”, as amended. The Annual Report is expected to be available to us after the date of our audit report. Our opinion on financial statements does not cover other information and we do not express conclusions that offer certainty concerning such information. As concerns the auditing of financial statements we have the responsibility to read other information identified above, when made available, and assess whether it contains material inconsistencies with the financial statements or the meaning we have obtained throughout the audit or in case it contains material anomalies. Once we read the Annual Report, and if we reach to the conclusion that this information contains material anomalies, then we are required to report this fact to the parties in charge of governing.

**Responsibilities of the Management and parties in charge of financial statements governance**

The Management shall be responsible for the accurate preparation and presentation of financial statements in accordance with IFRS as well as the internal audit system, which to the extent established by the Management, is necessary to enable the preparation of financial statements without material anomalies, as a consequence of frauds or errors.

In preparing financial statements, the Management shall be responsible for assessing the capacity of the Agency to continue its activity based on the principle of continuity, submit explanatory notes, if applicable, issues related to the continuity of the activity of the Agency and use the principle of continuity as an accounting base, except when the Management aims to liquidate the activity or suspend operations or there is no other real alternative, except the above.

Parties in charge of governance are responsible for monitoring the process of the Agency’s financial reporting.

**Responsibility of the auditor for auditing the financial statements**

Our objective is to reach a reasonable certainty concerning the fact whether financial statements in general have material anomalies as a consequence of frauds or errors and issue an audit report including our opinion. The reasonable certainty is a high level certainty, but not a guarantee that an audit conducted according to ISA will always identify an existing material anomaly.

Anomalies may be the result of errors or frauds and are considered as material if, individually or together, are expected to influence, in a reasonable way, the economic decisions of users taken on the basis of these financial statements.

As part of the audit and in accordance with ISA, we exercise our professional judgement and scepticism throughout the audit process. In addition, we:

* Identify and assess the risk of material anomalies in financial statements as a consequence of frauds or errors, plan and implement the respective procedures to respond to such risks, and collect sufficient and adequate evidence to create the basis for our opinion. The risk of failure to detect an anomaly consequence of fraud is higher than the risk of failure to detect an anomaly consequence of error, as fraud may include hiding information, falsification of information, deliberate embezzlement, misinterpretations or violations of the internal audit.
* We obtain the meaning of the applicable internal audit for the audit process in order to draft auditing procedures according to the circumstances but do not express an opinion on the effectiveness of the internal audits of the Agency.
* We evaluate the adequacy of accounting policies used and reasoning of accounting assessments conducted as well as submission of the respective explanatory notes drafted by the Management.
* We express ourselves in view of the adequacy of the principle of continuity used by the Management and based on evidence collected during the audit, if a material uncertainty exists, then it may cause major doubts about the capacity of the Agency to continue. If we reach to the conclusion that a material uncertainty exists, we should draw the attention in our audit report with a reference to the respective explanatory note or, if the explanatory note is not suitable, we should modify our opinion. Our conclusions are given based on the evidence of the audit obtained until the date of the audit report. However, events or conditions in the future may cause the suspension of the Agency’ capacity to continue.

**Auditor responsibility for financial statements auditing (continues)**

* We assess the general presentation, structure and content of financial statements, including explanatory notes and whether financial statements present fundamental transactions and events in a way that achieves a fair presentation.

We communicate to the persons in charge of the Agency’s governance, in addition to other issues, the purpose and time planned for the audit, the key findings of the audit, including any significant deficiency of the internal audit identified during our own audit.

Deloitte Audit Albania sh.p.k.

Rr. Elbasanit, Pallati poshtë Fakultetit Gjeologji-Miniera

Tirana, Albania

Unique identification number: L41709002H

Engagement Partner

Legal Auditor

Enida Cara

### Financial position statement

*(All values are in ALL, unless otherwise specified)*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Notes** | **On Dec 31,**  **2018** |  | **On Dec 31,**  **2017** |
| **ACTIVES** |  |  |  |  |
| Monetary assets and their equivalents | 8 | 5,350,390,547 |  | 3,857,238,311 |
| Investments hold to collect contracted flows | 9 | 33,597,058,369 |  | 31,187,189,202 |
| Long-term material actives, net | 10 | 64,146,294 |  | 60,379,348 |
| Non-material, long-term actives, net | 11 | 9,327,649 |  | 12,454,057 |
| Other actives, net | 12 | 3,864,405 |  | 2,465,585 |
| **TOTAL ACTIVES** | **39,024,787,264** | |  | **35,119,726,503** |
| **LIABILITIES** |  |  |  |  |
| Other liabilities | 13 | 10,598,211 |  | 10,416,180 |
| **TOTAL LIABILITIES** | **10,598,211** | |  | **10,416,180** |
| **DEPOSIT INSURANCE FUND** |  |  |  |  |
| Start-up fund for deposit insurance in banks | 14 | 400,000,000 |  | 400,000,000 |
| Start-up fund for deposit insurance in SCAs | 14 | 76,000,000 |  | 76,000,000 |
| Accumulated fund for deposit insurance in banks |  | 38,506,676,717 |  | 34,617,089,962 |
| Accumulated fund for deposit insurance in SCAs |  | 31,512,336 |  | 16,220,361 |
| **TOTAL FUND OF DEPOSIT INSURANCE** |  | **39,014,189,053** |  | **35,109,310,323** |
| **TOTAL OF LIABILITIES AND DEPOSIT INSURANCE FUND** |  | **39,024,787,264** |  | **35,119,726,503** |

### Statement of income and expenses and other comprehensive income

*(All values are in ALL, unless otherwise specified)*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Notes** | **Year closed on**  **31 December 2018** |  | **Year closed on 31**  **December 2017** |
| **Operating income:** |  |  |  |  |
| Income from insurance premiums | 15 | 3,286,733,568 |  | 3,218,113,171 |
| Income from initial contributions | 16 | 474,892 |  | 1,171,728 |
| Income from interests | 17 | 1,001,121,175 |  | 781,534,888 |
| Other operating income | 18 | 632,425 |  | 1,566,157 |
|  | **4,288,962,060** | |  | **4,002,385,944** |
| **Financial Expenses:** |  |  |  |  |
| Loss from exchange to foreign currency |  | (230,324,215) |  | (60,364,692) |
| Other financial expenses | 19 | (23,945,556) |  | (34,143,110) |
|  | **(254,269,771)** | |  | **(94,507,802)** |
| **Operative expenses:** |  |  |  |  |
| Staff expenses | 20 | (81,708,632) |  | (72,755,740) |
| Administrative expenses | 21 | (29,929,770) |  | (29,670,063) |
| Amortization expenses | 10, 11 | (8,949,419) |  | (19,958,193) |
|  | **(120,587,821)** | |  | **(122,383,996)** |
| Provisioning expenses for financial actives | 8, 9 | (1,889,388) |  | **-** |
| **NET SURPLUS FOR THE YEAR** |  | **3,912,215,080** |  | **3,785,494,146** |
| Other summarized income |  | - |  | - |
| **TOTAL OF SUMMARIZED INCOME** |  | **3,912,215,080** |  | **3,785,494,146** |

.

### Statement of the inflow of assets

*(All values are in ALL, unless otherwise specified)*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Notes** | **Year closed on**  **31 December 2018** |  | **Year closed on 31 December 2017** |
| **Surplus of funds** |  | **3,912,215,080** |  | **3,785,494,146** |
| ***Adjustments for:*** |  |  |  |  |
| Amortization | 10, 11 | 8,949,419 |  | 19,263,193 |
| Calculated interest for investments in securities |  | (120,861,865) |  | (45,306,699) |
| Provisions for financial actives | 9 | 4,576,697 |  | - |
| Additional provisions for financial actives recognised in 1 January 2018 | 9 | (7,336,348) |  | - |
| **Changes to:** |  |  |  |  |
| Other actives |  | (1,398,820) |  | (278,391) |
| Other liabilities | 182,031 | |  | 237,591 |
| **Inflow of monetary assets generated from the operational activity** | **3,796,326,194** | |  | **3,759,409,840** |
| **INVESTING ACTIVITY** |  |  |  |  |
| Purchase of equipment | 10 | (9,589,958) |  | 218,224 |
| Purchase of securities | (2,293,584,000) | |  | (3,044,047,260) |
| **Inflow of monetary assets used in investing activity** | **(2,303,173,958)** | |  | **(3,043,829,036)** |
| **Net increase of monetary assets during the year** | **1,493,152,236** | |  | **715,580,804** |
| Monetary assets and their equivalents at the beginning of the year | 8 | 3,857,238,311 |  | 3,141,657,507 |
| **Monetary assets and their equivalents at the end of the year** | 8 | **5,350,390,547** |  | **3,857,238,311** |

### Statement of changes to the deposit insurance fund

*(All values are in ALL, unless otherwise specified)*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Start-up capital for deposit insurance in banks** | **Start-up capital for deposit insurance in Savings and Credit Associations** | **Accumulated fund for deposit insurance in banks** | **Accumulated fund for deposit insurance in Savings and Credit Associations** | **Total** |
| **On 31 December 2016** | **400,000,000** | **76,000,000** | **30,843,190,622** | **4,625,555** | **31,323,816,177** |
| Changes to the start-up capital | **-** | **-** | - | - | - |
| Total of summarized income for the year | **-** | **-** | 3,773,899,340 | 11,594,806 | **3,785,494,146** |
| **On 31 December 2017** | **400,000,000** | **76,000,000** | **34,617,089,962** | **16,220,361** | **35,109,310,323** |
| Adjustment from the implementation of SNRF 9 for financial actives (1 January 2018) | **-** | **-** | (7,336,349) | - | **(7,336,349)** |
| Changes to the start-up capital | **-** | **-** | - | - | - |
| Total of summarized income for the year | **-** | **-** | 3,896,923,104 | 15,291,976 | **3,912,215,080** |
| **On 31 December 2018** | **400,000,000** | **76,000,000** | **38,506,676,717** | **31,512,337** | **39,014,189,054** |

### Resolution Fund Financial Statements for the year closed on December 31, 2018 and the Independent Auditor Report

* + 1. **Independent Auditor Report**

**Deloitte Deloitte Audit Albania sh.p.k**

**Rr. Elbasanit**

**Pallati poshtë Fakulteti Gjeologji-Miniera**

**Tirana, Albania**

**Tel: +355 4 45 17 920**

**Fax: + 355 4 45 17 990**

[**www.deloitte.al**](http://www.deloitte.al)

**INDEPENDENT AUDIT REPORT**

**To the Board of Directors of the Resolution Fund**

**Financial statements audit report**

**Opinion**

We audited the financial statements of the Resolution Fund (“Fund”) which comprise the financial statement of the financial position as of December 31, 2018 and the income and expense and other comprehensive income statements, the statement of changes to the deposit insurance fund and inflows of financial assets for the year closed on this same date, as well as a summary of the key accounting policies and other explanatory notes.

In our opinion, the financial statements accurately represent in all their material aspects, the financial position of the Fund as of December 31, 2018 as well as its financial performance and cash inflows for the year closed in this same date in accordance with the International Financial Reporting Standards (“IFRS”).

**Basis**

We conducted our audit in accordance with the International Standards on Auditing (“ISA”). Our responsibilities according to these standards are described in the paragraph titled “Responsibilities of the auditor in auditing financial statements” of this report. We express our independence from the Fund in accordance with the Code of Ethics for Professional Accountants established by the International Ethics Standards Board of Accountants (“IESBA”) and the ethical requirements applicable for financial statements auditing in Albania, and we have fulfilled our other ethical responsibilities in accordance to said requirements.

We believe that the evidence of the audit provided is sufficient and adequate to support the basis of our audit opinion.

**Other information**

The management is responsible for other information. Other information include information submitted in the Annual Report, drafted by the Management of the Deposit Insurance Agency in accordance with Law no. 53/2004, dated 22 May 2014 “On Deposit Insurance”, as amended. The Annual Report is expected to be available to us after the date of our audit report. Our opinion on financial statements does not cover other information and we do not express conclusions that offer certainty concerning such information. As concerns the auditing of financial statements we have the responsibility to read other information identified above, when made available, and assess whether it contains material inconsistencies with the financial statements or the meaning we have obtained throughout the audit or in case it contains material anomalies. Once we read the Annual Report, and if we reach to the conclusion that this information contains material anomalies, then we are required to report this fact to the parties in charge of governing.

**Responsibilities of the Management and parties in charge of financial statements governance**

The Management shall be responsible for the accurate preparation and presentation of financial statements in accordance with IFRS as well as the internal audit system, which to the extent established by the Management, is necessary to enable the preparation of financial statements without material anomalies, as a consequence of frauds or errors.

In preparing financial statements, the Management shall be responsible for assessing the capacity of the Fund to continue its activity based on the principle of continuity, submit explanatory notes, if applicable, issues related to the continuity of the activity of the Fund and use the principle of continuity as an accounting base, except when the Management aims to liquidate the activity or suspend operations or there is no other real alternative, except the above.

Parties in charge of governance are responsible for monitoring the process of the Fund’s financial reporting.

**Responsibility of the auditor for auditing the financial statements**

Our objective is to reach a reasonable certainty concerning the fact whether financial statements in general have material anomalies as a consequence of frauds or errors and issue an audit report including our opinion. The reasonable certainty is a high level certainty, but not a guarantee that an audit conducted according to ISA will always identify an existing material anomaly.

Anomalies may be the result of errors or frauds and are considered as material if, individually or together, are expected to influence, in a reasonable way, the economic decisions of users taken on the basis of these financial statements.

As part of the audit and in accordance with ISA, we exercise our professional judgement and scepticism throughout the audit process. In addition, we:

* Identify and assess the risk of material anomalies in financial statements as a consequence of frauds or errors, plan and implement the respective procedures to respond to such risks, and collect sufficient and adequate evidence to create the basis for our opinion. The risk of failure to detect an anomaly consequence of fraud is higher than the risk of failure to detect an anomaly consequence of error, as fraud may include hiding information, falsification of information, deliberate embezzlement, misinterpretations or violations of the internal audit.
* We obtain the meaning of the applicable internal audit for the audit process in order to draft auditing procedures according to the circumstances but do not express an opinion on the effectiveness of the internal audits of the Fund.
* We evaluate the adequacy of accounting policies used and reasoning of accounting assessments conducted as well as submission of the respective explanatory notes drafted by the Management.
* We express ourselves in view of the adequacy of the principle of continuity used by the Management and based on evidence collected during the audit, if a material uncertainty exists, then it may cause major doubts about the capacity of the Fund to continue. If we reach to the conclusion that a material uncertainty exists, we should draw the attention in our audit report with a reference to the respective explanatory note or, if the explanatory note is not suitable, we should modify our opinion. Our conclusions are given based on the evidence of the audit obtained until the date of the audit report. However, events or conditions in the future may cause the suspension of the Fund’s capacity to continue.

**Auditor responsibility for financial statements auditing (continues)**

* We assess the general presentation, structure and content of financial statements, including explanatory notes and whether financial statements present fundamental transactions and events in a way that achieves a fair presentation.

We communicate to the persons in charge of the Fund’s governance, in addition to other issues, the purpose and time planned for the audit, the key findings of the audit, including any significant deficiency of the internal audit identified during our own audit.

Deloitte Audit Albania sh.p.k.

Rr. Elbasanit, Pallati poshtë Fakultetit Gjeologji-Miniera

Tirana, Albania

Unique identification number: L41709002H

Engagement Partner

Legal Auditor

Enida Cara

Tirana, Albania

February 28, 2019

### Statements of financial position

*(All values are in ALL, unless otherwise specified)*

|  |  |  |
| --- | --- | --- |
| **Notes** | | **On 31 December 2018** |
| **ACTIVES** |  |  |
| Monetary assets and their equivalents | 8 | 66,291,242 |
| Investments held to collect contracted inflows | 9 | 571,698,800 |
| **TOTAL ACTIVES** | **637,990,042** | |
| **LIABILITIES** |  |  |
| Other liabilities | 10 | 1,314,609 |
| **TOTAL LIABILITIES** |  | **1,314,609** |
| **NET ACTIVES AVAILABLE TO THE RESOLUTION AUTHORITY** |  |  |
| Total of summarized income for the period |  | 636,675,433 |
| **TOTAL OF NET ACTIVES AVAILABLE TO THE RESOLUTION AUTHORITY** |  | **636,675,433** |
| **TOTAL OF LIABILITIES AND ACTIVES AVAILABLE TO THE RESOLUTION AUTHORITY** |  | **637,990,042** |

### Statement of income and expense and other summarized income

*(All values are in ALL, unless otherwise specified)*

|  |  |  |
| --- | --- | --- |
|  | **Notes** | **Since the set-up date (1 January**  **2018 ) up to 31 December 2018** |
| **Operative income:** |  |  |
| Income from annual contributions | 11 | 632,174,459 |
| Income from interests | 12 | 8,437,388 |
| Other operative income | 13 | 5,712 |
|  | **640,617,559** | |
| **Financial Expenses:** |  |  |
| Loss from exchange to foreign currency |  | (2,270,400) |
| Bank fees and commissions | 14 | (500,000) |
|  | **(2,770,400)** | |
| **Operative Expenses:** |  |  |
| Operative expenses from the activity | 15 | (1,064,425) |
|  | **(1,064,425)** | |
| Provision expenses for financial actives | 8 | (107,301) |
| **NET SURPLUS FOR THE YEAR** |  | **636,675,433** |
| Other summarized income |  | - |
| **TOTAL OF SUMMARIZED INCOME** |  | **636,675,433** |

### Statement of the inflow of assets

*(All values are in ALL, unless otherwise specified)*

|  |  |  |
| --- | --- | --- |
|  | **Notes** | **Since the set-up date (1 January 2018) up to 31 December 2018** |
| **Surplus of funds** |  | **636,675,433** |
| ***Adjustments for:*** |  |  |
| Calculated interest for investments in securities |  | 1,301,200 |
| **Changes to:** |  |  |
| Other liabilities | 1,314,609 | |
| **Inflow of monetary assets generated from the operational activity** | **639,291,242** | |
| **INVESTING ACTIVITY** |  |  |
| Purchase of securities | (573,000,000) | |
| **Inflow of monetary assets used in investing activity** | **66,291,242** | |
| **Net increase of monetary assets during the year** | **66,291,242** | |
| Monetary assets and their equivalents at the beginning of the year (1 January) | 8 | - |
| **Monetary assets and their equivalents at the end of the year** | 8 | **66,291,242** |

### Statement of changes in net actives available to the Resolution Authority

*(All values are in ALL, unless otherwise specified)*

|  |  |  |
| --- | --- | --- |
| **Since the set-up date (1 January 2018 ) up to 31 December 2018** | | **Total** |
| **Net actives available to the Resolution Authority on January 1, 2018** | **-** | **-** |
| Total of summarized income for the period | 636,675,433 | 636,675,433 |
| **Net actives available to the Resolution Authority on December 31, 2018** | **636,675,433** | **636,675,433** |

1. In 2017, deposits of Savings and Credit Associations and traders and companies were included in the deposit insurance scheme. [↑](#footnote-ref-1)
2. In 2017, deposits of traders and companies were included in the deposit insurance scheme. [↑](#footnote-ref-2)
3. The total number of depositors is determined by adding the aggregated data reported by each bank, so that a person who has deposits with several banks is registered several times. In this number there are depositors with zero balance up to 100 All (legal minimum for compensation), who as of December 2018 are 911,153. [↑](#footnote-ref-3)