



# **DEPOSIT INSURANCE AGENCY**

---

## **ANNUAL REPORT**

**2013**

**February 2014**

---

## CONTENTS

<b>Introduction</b> .....	4
<b>1. General overview</b> .....	5
<b>2. A year in figures</b> .....	6
<b>3. Deposit insurance system</b> .....	7
3.1. System membership .....	8
<b>4. DIA's main functions overview</b> .....	9
4.1. Deposit insurance .....	9
4.2. Deposit compensation .....	16
4.3. Financial asset management .....	17
4.4. Public education and awareness .....	22
<b>5. DIA's main deposit insurance system improvement operations</b> .....	23
5.1. Information technology infrastructure improvement .....	23
5.2. International standards compatibility assessment of the deposit insurance system .....	25
5.3. Insurance of financing reserve resources .....	26
5.4. Collaboration with financial security network institutions .....	26
5.5. Collaboration with international financial institutions and counterpart agencies .....	27
<b>6. DIA's organization</b> .....	29
6.1. Board of Directors .....	29
6.2. Organizational structure .....	30
<b>7. DIA's financial situation</b> .....	35
7.1. Balance sheet .....	
7.2. Income statement .....	
7.3. Insurance fund differences statement .....	
7.4. Cash flow .....	
<b>8. Year 2014 objectives</b> .....	
<b>9. Annexes</b> .....	

## **MISSION**

The Deposit Insurance Agency's mission is to protect depositors by insuring deposits at deposit insurance system member institutions and to compensate depositors in case financial institutions experience payment inability

## **VISION**

The creation of a deposit insurance system that strengthens depositors' trust in the banking system, in support of the country's financial stability

## **OBJECTIVES**

Protection of depositors' interests  
Contribution to the country's financial stability

## INTRODUCTION

Honorable Ladies and Gentlemen,

The 2013 Annual Report in hand, presents a summarized picture of the Agency's main functions and operations of its legal mission and obligation, depositors' insurance and compensation. This report is made up of eight chapters.

**Chapter I** "*General Overview, DIA in 2013*", addresses the main challenges and work results that the Deposit Insurance Agency faced and achieved last year.

**Chapter II** "*A Year in Figures*", displays in figures the main banking system deposits total data, as well as the Agency-insured deposits and depositors' data.

**Chapter III** "*The Deposit Insurance System*", outlines concisely the deposit insurance system functioning, as well as its member financial institutions.

**Chapter IV** "*DIA's Main Functions*", focuses on the agency's four basic functions, such as (i) Insurance; (ii) Compensation; (iii) Financial asset management; and (iv) Public Education and Awareness.

**Chapter V** "*DIA's Main Deposit Insurance System Improvement Operations*", presents the most important operations carried out by the Agency's structures during the year in account.

These operations include: (i) starting the implementation process of the member institutions' data collection and reporting automated system, which will essentially improve the Agency's capabilities to carry out a rapid and precise compensation process; (ii) the process of the Agency's assessment by international financial institutions (IMF and WB) in the framework of FSAP Mission; (iii) starting negotiations with EBRD on obtaining a credit line, to expand the Agency's additional financial resource range, in relation to the insured depositors' compensation and the country's financial stability safeguard; (iv) as well as other matters linked with the Agency's deposit insurance system and work processes operations improvement.

**Chapter VI** "*DIA's Organization*", contains information on the Agency's directing bodies, such as its Board of Directors and General Director, as well as the Agency's structural organization, focusing on the new Sectors that carry out its basic functions.

**Chapter VII** "*DIA's Financial Situation*", provides information on the Agency's financial asset management, by reporting the Agency's financial situation, in accordance with the law "On Countability" and relevant international standards.

**Chapter VIII** "*Year 2014 Objectives*", addresses the year 2014 objectives that the Agency should meet, based on its 5-year Strategic Plan and vision.

All of the Agency's above-mentioned work areas will be explained throughout this Report. Ultimately, we wish to reiterate that the Deposit Insurance Agency considers the compilation and publication of its annual report, not simply as the fulfillment of an institutional obligation, but also as an essential element of its activity transparency. We remain hopeful, that upon reading this report, you will clearly and fully grasp developments both in the field of deposit insurance and the agency's work during last year.

## 1. GENERAL OVERVIEW

During 2013, the agency's involvements and efforts have focused on the creation of the institution's long-term vision. The agency's vision is to create a reliable and trustworthy deposit insurance system, widely and easily recognized by both the public and interest groups, which completes obligations towards depositors in a rapid and accurate manner. Creating trust among the public that the income they invest into bank deposits, are protected, is a crucial element of this vision.

Aiming at fulfilling its vision, the agency compiled a 5-year Strategic Plan (2013-2017), which identifies DIA's main priorities in relation to its deposit insurance system improvement. The strategic plan addresses the below-mentioned summarized activity areas:

- Insurance system functional improvement in relation to carrying out a rapid and accurate deposit insurance and compensation process.
- Raising public awareness about the deposit insurance system.
- Strengthening collaboration with financial security network members.

Additionally, while fulfilling its Mission and Vision in accordance with its 5-year Strategic Plan, some of the Agency's tangible work results during 2013 in these areas are: (i) the EBRD-funded project implementation of the Deposits Insurance Agency's automated system of the deposit insurance premium reporting and evaluation; (ii) the assessment of the deposit insurance system's compatibility with the Core Principles of the International Association of Deposit Insurers (IADI); (iii) the re-organization of the agency's structure organization, aiming at the operational improvement of its basic functions, by following both international best practices in the field of deposit insurance and international financial institutions' recommendations; (iv) the acquisition of alternative financing resources in case the reconstruction of the agency's financial asset is deemed necessary; (v) the compilation of a draft law "On Deposit Insurance" in accordance with FSAP Mission's recommendations and DIA structure-identified problems; (vi) the active participation in the Advisory Group of the Financial Stability, aiming both at the country's financial system development and the prevention of extraordinary situations, which might threaten the stability of this system. The strategic plan was supported through FDIC assistance, funded by the FSVC contribution.

## 2. A YEAR IN FIGURES

- The banking system deposits total experienced a rise of **3.2%** compared with 2012 and **9.6%** compared with 2011.
- The Deposit Insurance Agency's object is to insure individuals, whose deposits make up **85%** of the banking system deposits total sum. This sum represents a rise of **2.3%** compared with 2012 and **10.6%** more than in 2011.
- By the end of 2013, the insured deposits recorded a rise of **2%** from 2012 and **12%** compared with the end of 2011.
- By the end of December 2013, the aggregated and netted individuals' deposits, reached up to ALL 2.500.000 and made up **95%** of the total depositors' number.
- The Deposit Insurance Agency Fund had a rise of **22%** compared with 2012.
- Insurance premium-related incomes, DIA's main income source, had a rise of **8.93%** in 2013, compared with the previous year.

### 3. DEPOSIT INSURANCE SYSTEM

The deposit insurance system is the insurance and compensation of deposits' judicial relation and activity that is carried out between system member institutions and public network financial security institutions, to the depositors' benefit. Deposit insurance systems are an important element in safeguarding and strengthening the financial stability.

An efficient deposit insurance system is made up of many elements, among the most important are: (i) offering suitable coverage to the majority of depositors; (ii) rapid and accurate depositors' reimbursement systems; (iii) compensation funds' availability and sufficiency; (iv) transparency and accountability; and (v) a reliable image.

Since October 2002, the Deposit Insurance Agency is the only deposit insurance system administrator to compensate depositors, in case the financial institutions where they have their deposits are unable or unlikely to complete obligations towards them. DIA is a public institution established in accordance with Law no. 8873, dated 29.03.2002, "On Deposit Insurance" (amended), which reports as a Supervisory Authority to the Albanian People's Assembly, the Albanian Council of Ministers and the Bank of Albania. The Deposit Insurance Agency is one of the four state institutions that make up the financial security network, followed by the Bank of Albania, the Ministry of Finance and the Financial Supervision Authority.

The Agency's main purpose is to insure and compensate individuals' deposits at country banks and foreign banks' branches that conduct their activity within the territory of the Republic of Albania. DIA insures each individual's deposit at each insured institution that operates in the Republic of Albania, to the extent of 100 percent at the amount of ALL 2.500.000, irrespective of the deposits number or the deposited amount.

Compensation on behalf of the insured deposits starts immediately after the agency is notified in the written form by the Supervisory Authority for intervention in the insured institution or when the latter is voluntarily liquidated. The compensation is completed no later than three months from the starting date of the compensation process.

In order to insure bank deposits, the agency owns a fundamental fund of ALL 400,000,000, which is an Albanian State contribution.

No foreign banks or foreign bank branches that operate within the territory of Albania can accept or collect deposits when not insured by the agency in accordance with effective legal dispositions. Insured institutions pay the agency an initial contribution as well as the annual deposit insurance premium.

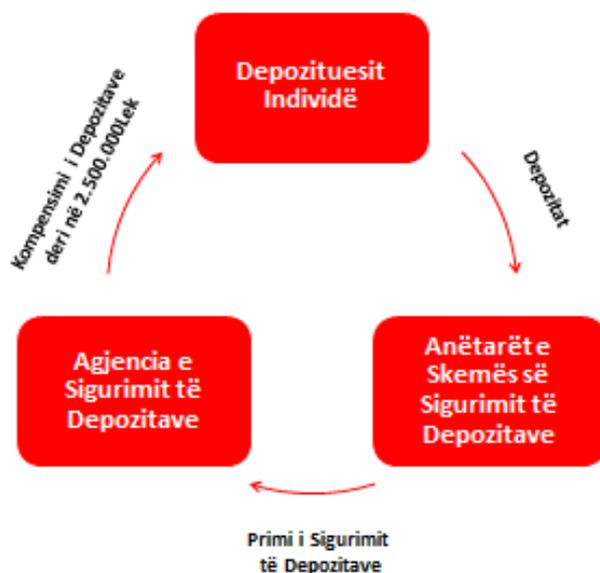
### 3.1. SYSTEM MEMBERSHIP

Insured financial institutions are those, which are requested to enroll into the deposit insurance, in accordance with the law “On Deposit Insurance” including banks and Savings/Credits Institutions.

There are 16 insured banks, which are all members of the deposit insurance system, and this number remained the same throughout 2013.

Law no. 78/2012, dated 26.07.2012, “On some additions and amendments on Law no. 8873, dated 29.03.2002, ‘On Deposit Insurance (amended)’”, defines the enrollment, within September 2013, of Savings/Credits Institutions (SCI) into the deposit insurance system, as members of this system. In order to execute the above-mentioned legal amendments, the agency conducted a series of meetings with SCI representatives, in the process of assisting them to comply with the system membership requirements. Following the assessment process of SCI’s membership technical requirements compliance, it was concluded that some of them did not meet their data accuracy and technical reporting requirements. Some others did not meet legal public information requirements and the rest had never made a system membership request. Based on such conclusions, DIA’s Board of Directors, in accordance with Law no. 8873, dated 29.03.2002, “On Deposit Insurance” (amended) as well as the effective legal framework, decided that SCIs would re-submit a system membership acceptance request upon their completion of all legal and technical requirements.

The fundamental fund for insuring savings/credits institutions deposits is defined to be ALL 50,000,000, as a State Budget contribution, and is defined to be in cash in 2014.



#### **Information spot**

*When an individual places a deposit at one of the deposit insurance system insured institutions, and is not subject to insurance exclusion, a deposit insurance juridical relation between the depositor, the insured institution and the Deposit Insurance Agency, comes automatically into existence.*

**Pic. 1, Deposit insurance system**

## 4. DIA's MAIN FUNCTIONS

In order to complete its main function, the depositors' compensation in case of a potential financial institution bankruptcy, the Deposit Insurance Agency creates financial reserves from system member institutions' initial contributions and annual premiums, as well as from related financial asset investment incomes. It also strives to accomplish this task within the legally-defined time limit, always aiming at retaining the financial stability. It works throughout peaceful times, to inform depositors on the deposit insurance system benefits and limitations, by being cautious not to make them unclear or insecure.

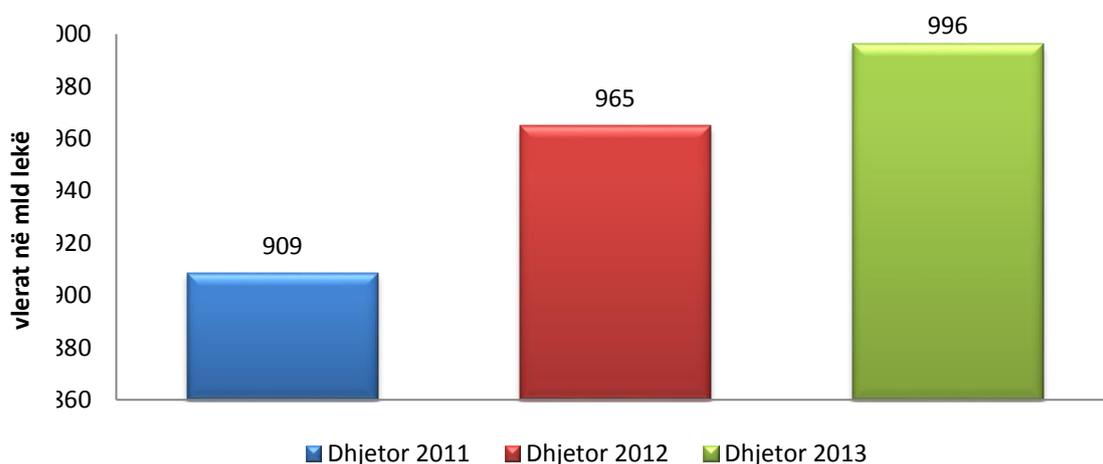
### 4.1. THE DEPOSIT INSURANCE

The Deposit Insurance Agency functions not solely to collect insured institutions' premiums, but to also carry out on-the-spot verifications of how these premiums are being calculated and verifications of these institutions' system availability, in addition to conducting their staff's training on accurately storing depositors' data onto databases. This data serves to conduct timely and accurate compensation processes.

#### Banking system deposits

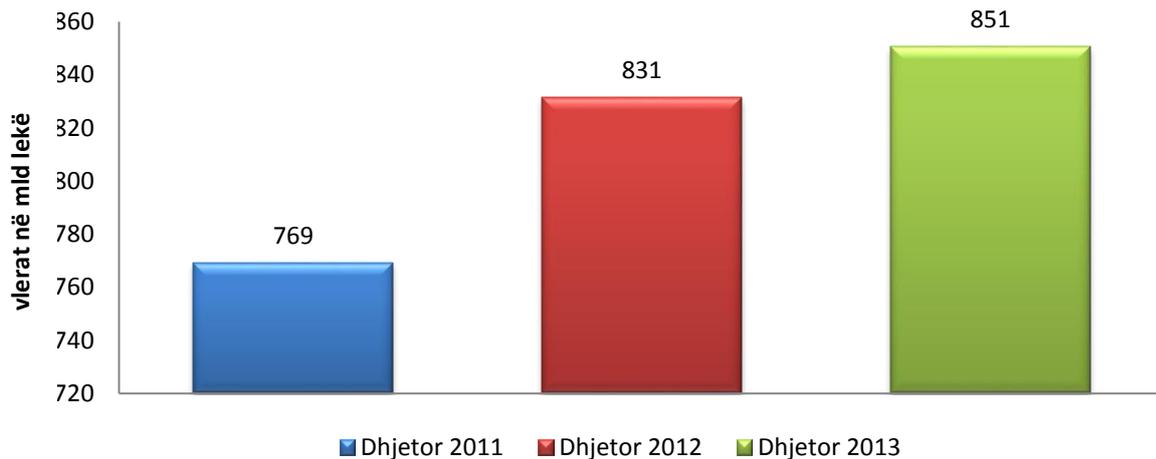
During 2013, **the total system deposits**, as well as individuals' deposits, both increased and decreased, being on the rise for the first nine months of the year, but experiencing a slight fall in the last trimester. The total of deposits at banks that operated in the Republic of Albania until 31 December 2013, recorded a rise of 3.2 %, compared with the end of 2012.

*Graph 1, System deposits total performance*



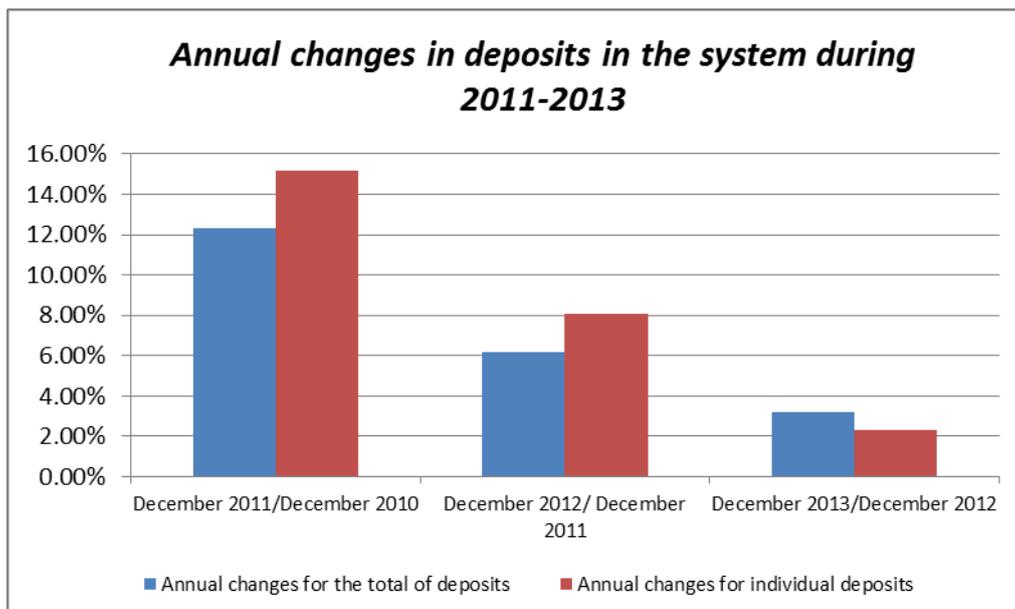
**Individuals' deposits**, which benefited from the deposit insurance system, at the end of 2013, represented 85% of the banking system deposits total, with a respective sum of ALL 851 billion. These deposits, recorded a rise of 2.3% at the end of the year, compared with a year ago. The rise in individuals' deposits was mainly influenced by deposits in Albanian Lek (ALL).

*Graph 2, Individuals' deposits performance*



In the 2011-2013 three-year time period, the system deposit total trend, as well as that of individuals' deposits, has been positive, but the growth rate has been declining, by twice-reducing its size at each year's end.

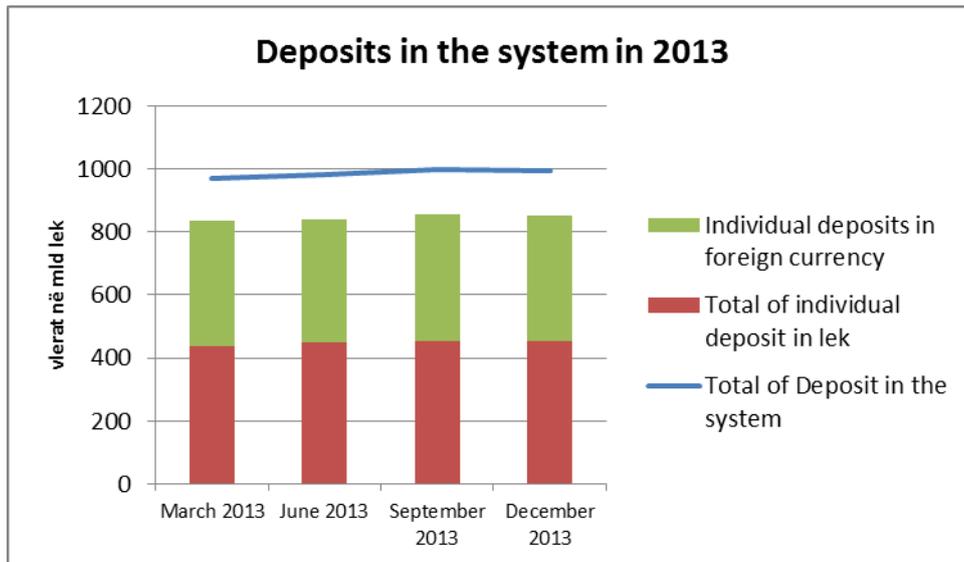
*Graph 3, 2011-2013 system deposits annual change performance*



**Individuals' deposits per currency type** are 53% ALL deposits, 40% EUR deposits, and 6% USD deposits. All the other currencies together, have a relatively small specific weight of 1%. The banking system ALL deposits' value, at the end of 2013, rose by ALL 21 billion (which corresponds with +5% annual difference), whereas foreign currency deposits, fell by ALL 2.3 billion (this annual difference in percentage was -0.6%).

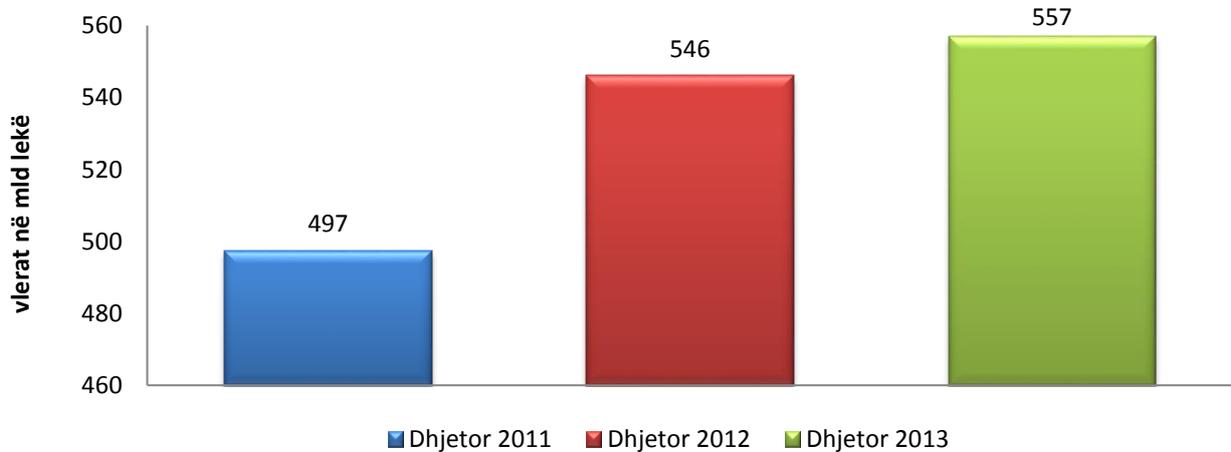
EUR deposits recorded a decline of 1.2% at the end of the year, whereas USD deposits had an annual growth rate difference of 3.6%, but these deposits did not influence their performance significantly, since they have a relatively small specific weight against the individuals' deposits total.

*Graph 4, 2013 system deposits performance*



The insured system deposits represent 65% of individuals' deposits by the end of 2013. During the year's first three trimesters, these deposits had a positive trend, whereas in the fourth trimester they had a slight fall, which did not influence the annual trend. The insured deposits annual difference resulted in +2 %, which equals a growth value of ALL 11 billion.

*Graph 5, Insured deposits performance*



### **Information spot**

The Deposit Insurance Agency insures individuals' deposits at any banks in the Albanian banking system, to **an amount of ALL 2,500,000**.

#### **Insurance beneficiaries**

- Deposits of Albanian or foreign individuals, who live in Albania or out of it;
- ALL or foreign currency deposits

#### **Insurance non-beneficiaries**

- Trade institutions, physical or judicial persons;
- Banks or savings/credits institutions' directors and administrators, as well as depositors who carry out similar functions to the judicial persons they are associated with;
- Shareholders who directly or indirectly own a 5% + ownership right in the bank or savings/credits capital, as well as shareholders who exercise voting rights towards them;
- Auditors who audit and certify banks or savings/credits institutions' countable accounts, as well as depositors who carry out similar functions in similar group institutions;
- Depositors with more than 20% preferential interest, different from all the other bank or savings/credits institution work conditions-defined depositors' interest;
- Depositors who use deposit accounts for criminal activity;
- Depositors who open deposits during and after the bank or savings/credits institutions' liquidation by the Bank of Albania.
- Depositors who open deposits at a country bank branch outside the territory of

The 2013 year-end insured deposits belonged to 1,838,900 depositors<sup>1</sup>, 95% of whom benefit with full deposit insurance system coverage, as their post-aggregation and netting deposits are no larger than the ALL 2,500,000 coverage limit. Individuals' deposits that are smaller than the coverage limit comprise 40% of all individuals' deposits. These reports are in compliance with meeting the deposit insurance system's objective to protect small depositors in Albania; as well as international standards set requirements on deposit insurance system operation. By the end of 2013, the number of system-benefitting individual depositors rose by 0.5%,

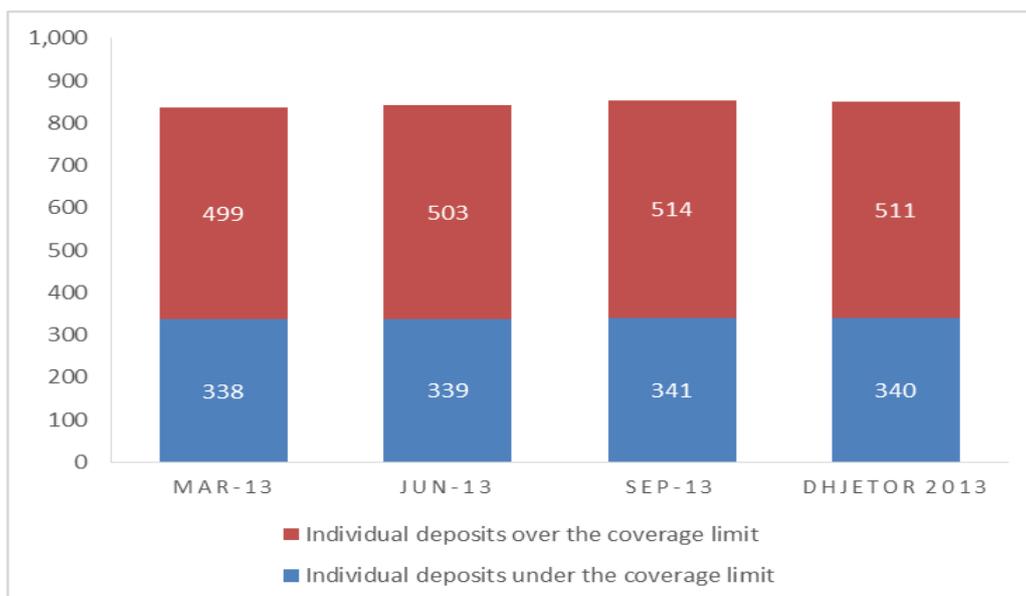
### Information spot

**Aggregation** is the general sum calculation of ALL-converted insured deposits, together with an insured institution depositor's calculated interest.

**Netting** is the deduction of unpaid obligations in due time, which results in payment delay on the intervention day, from the insured deposits aggregated sum of an insured institution depositor.

compared with the end of 2012. The most significant influences on this rise were those depositors whose deposits fall under the coverage limit, whereas the greatest factor towards the individuals' deposits rise in volume was the opening of new deposits at a value higher than the coverage limit. Individuals' deposits which exceed the coverage limit sum rose by 3.2% in 2013, compared with the 2012 year-end.

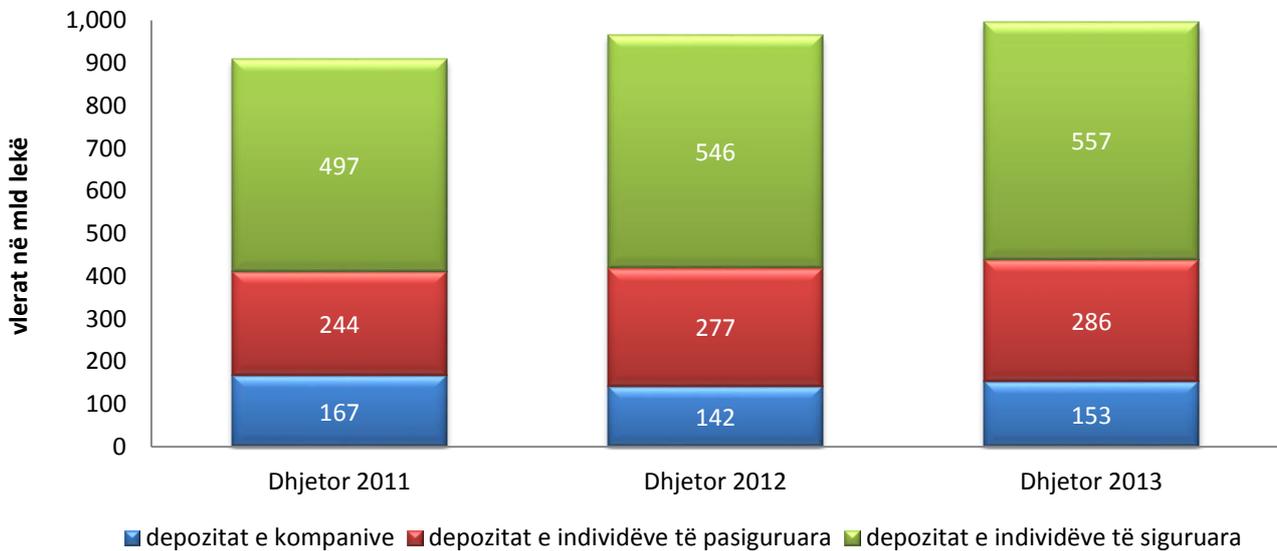
**Graph 6, Coverage level-classified individuals' deposits performance**



<sup>1</sup>The total depositors' number is defined through aggregated deposits data collection from every insured bank, thus a person who has deposits in a few banks, appears several times in this total number.

During the 2011-2013 three-year period, the structure of the system deposits, classified according to their deposit insurance benefit, was of the same specific weight against the total.

**Graph 7, Performance of deposits structured according to the deposit insurance system benefit**



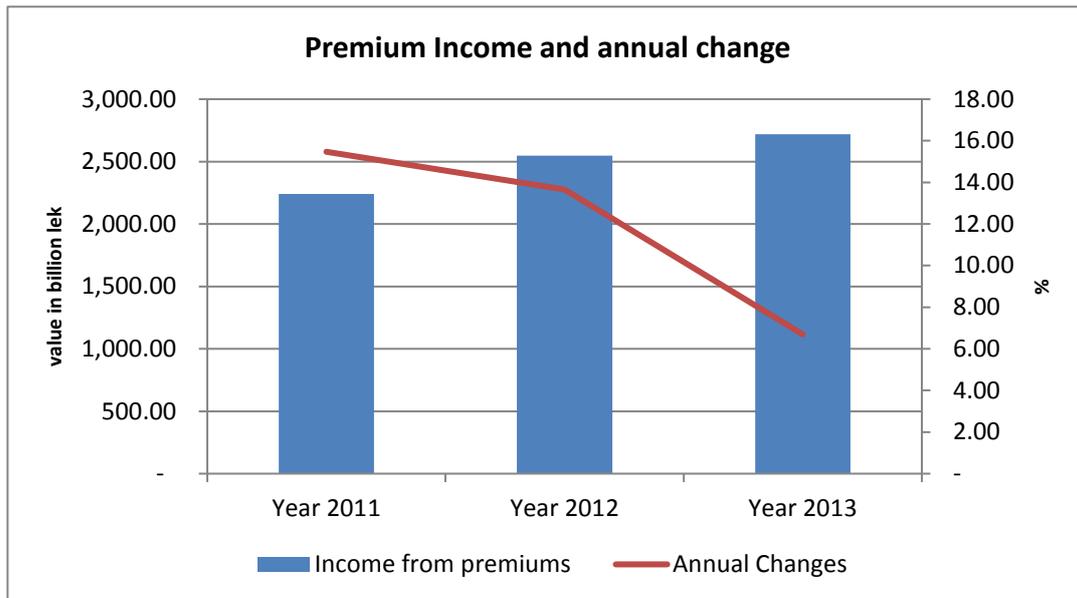
### Initial contribution

The deposit insurance system candidate institutions' initial contribution to the agency, reaches 0.5% of their initial capital. No other institution has gained deposit insurance system membership during 2013.

### Insurance premium

Insurance premium incomes, which make up the main agency income source, reached the amount of ALL 2.775.118 thousand in 2013, which marked a rise of 8.93%, compared with a year ago. For the 2011-2013 three-year period, the insured deposits interest rate has been falling, reflected in the insurance premium amount paid by banks in this period.

**Graph 8, Premium incomes and annual difference performance**



### Verifications

At least once a year, the agency carries out bank verifications, which are mainly related to:

- methodology accuracy on the premium-linked calculation insurance sum evaluation;
- compensation process-linked information system availability;
- deposits and depositors' data-storing quality;
- public information

Following the verification process, in case violations of the law are detected, the Agency determines corrective measures and follows up on their implementation by banks. During 2013, the Agency focused mainly on the depositors' data quality and public information, taking into account these two matters' great role towards the deposit compensation process.

### **Information spot**

*Every insured institution's annual deposit insurance premium is calculated at the rate of 0.5 percent of the insured deposits arithmetical sum average, registered at each day's end during last year's last trimester. The premium payment is completed in four trimestral instalments. In accordance with law-defined dispositions, the deposit insurance premium annual rate that was applied for the year 2013, was the same for all banks.*

## 4.2. DEPOSIT COMPENSATION

The Agency is the institution responsible for the clients' deposits compensation within a law-defined time limit.

In order to accomplish this task efficiently, during the year 2013 the agency continued its activity on: **a)** information technology infrastructure automation in relation to the insured deposits compensation. Also closely linked with a rapid and accurate compensation process, the Agency conducted **b)** all banks client service staff trainings on a better understanding of the Law "On Deposit Insurance" (amended). This training was performed to ensure a better informed public on deposit insurance system benefits and limitations and to consequently maintain the country's financial stability. These trainings also focused on highlighting the depositors' data storing and updating importance. Additionally, an important role is played by the process of **c)** all regulatory and legal framework improvement operations, to adjust it in accordance with all deposit insurance-related developments, especially following lessons drawn from the 2008 crisis.

The agency's potential maximum obligation for the 2013 year-end, rose by an amount of ALL 11 billion, compared with the 2012 year-end, a rise which makes up an annual difference of +2%.

### **Information spot**

*The Agency compensates each individual's deposit at each insured institution that operates in the Republic of Albania, to the extent of 100 percent, and in all cases, at the amount of ALL 2.500.000, irrespective of the deposits number or the deposited amount. To calculate the compensation amount, only the depositors' delayed payment sum will be deducted from the aggregated sum of the insured institution depositors' deposits.*

### 4.3. FINANCIAL ASSET MANAGEMENT

In compliance with Law no. 8873, dated 29.03.2002, "On Deposits Insurance" (amended), as well as the "Financial Asset Management Policy", approved by the Agency's Board of Directors, the Deposit Insurance Agency is responsible for the efficient management of funds in accordance with agreed-upon risk management standards. Fund management is being performed through the agency's asset investment into:

- ALL or foreign currency titles emitted by the Government of the Republic of Albania or the Supervising Authority.
- Foreign currency titles emitted by governments or central banks, which are considered safe by internationally-recognized risk assessment agencies.
- Titles emitted by international financial institutions, which are considered safe by internationally-recognized risk assessment agencies.
- Supervisory Authority interest deposits.

Purchased titles should have not exceeded more than one maturity year from the agency's ownership claiming moment. In order to efficiently manage funds and to always meet liquid asset needs, the Agency has designed diversified portfolio investment distribution.

The agency's asset management is carried out at three levels:

- First level - The Agency's Board of Directors
- Second level - The Investment Committee
- Third level – The Finance and Investments Sector

**The Board of Directors** approves the asset management policy and method as well as acknowledges, admits and controls the asset investment risk-taking, based on Investment Committee's submitted reports.

**The Investment Committee** defines a short-term asset investment plan in order to implement the investment policy and its requirements. It exercises the right to approve practices associated with (i) the agency's financial instruments definition; (ii) the pre-defined benchmark difference among the agency's asset instruments; (iii) the respective benchmark difference among foreign currencies. The Committee also conducts periodical investments performance reviews.

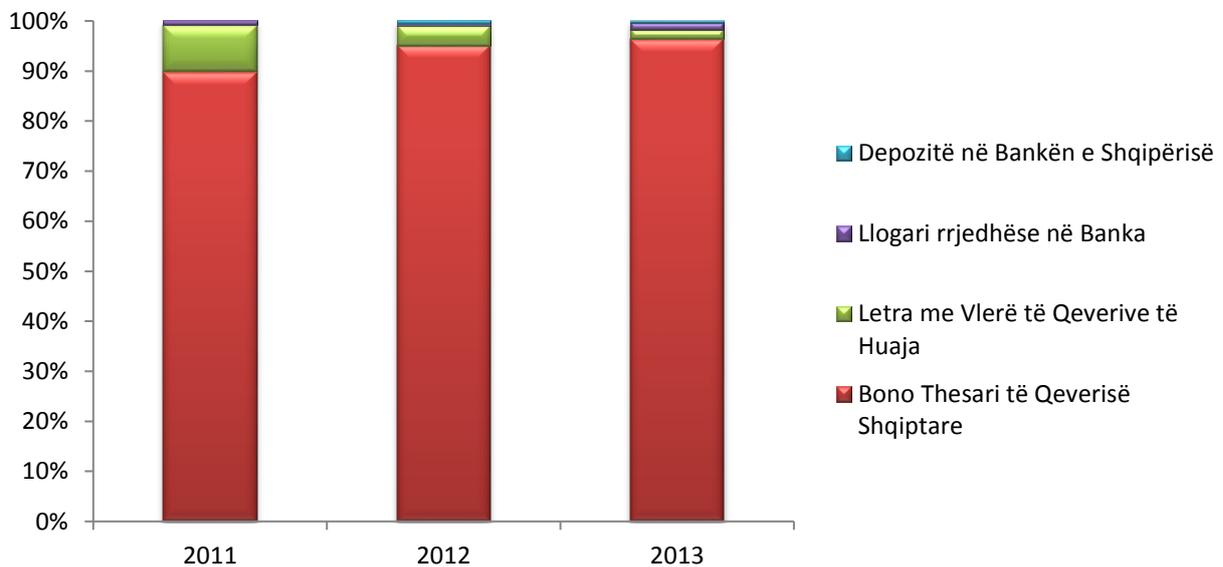
**The Finance and Investment Sector** is responsible for operational asset management. It performs and follows up on the execution of transactions necessary to abide by the quantitative indicators and other requirements, as defined in the investment policy or the Investment Committee decisions.

The agency's assets have been mostly invested into Albanian Government's Treasury Bills. The agency has invested some of its asset into United States of America's Securities. Temporarily free assets are being placed at an ALL weekly interest Deposit at the Bank of Albania or our foreign currency current accounts at the State Street Bank, Germany. The following table and graph display a summary of the agency's assets by instrument type by 31 December 2013, 2012 and 2011 respectively.

*Table 1, Financial assets by instrument type*

INSTRUMENTS	December 31, 2011		December 31, 2012		December 31, 2013	
	Lek	As %	Lek	As %	Lek	As %
Treasury Bills of Albanian Government	11,537,107,393	90.52%	15,326,940,885	95.13%	19,013,091,170	96.40%
Securities of Foreign Governments	1,208,139,470	9.48%	632,662,063	3.93%	378,851,358	1.92%
Current Accounts in Banks	102,963,136	0.81%	52,453,247	0.33%	274,907,939	1.39%
Deposits at Bank of Albania	-	0.00%	100,000,000	0.62%	55,500,000	0.28%
<b>MONETARY INSTRUMENTS</b>	<b>12,745,246,863</b>	<b>100%</b>	<b>16,112,056,195</b>	<b>100%</b>	<b>19,722,350,467</b>	<b>100%</b>

*Graph 9, Financial assets by instrument type*

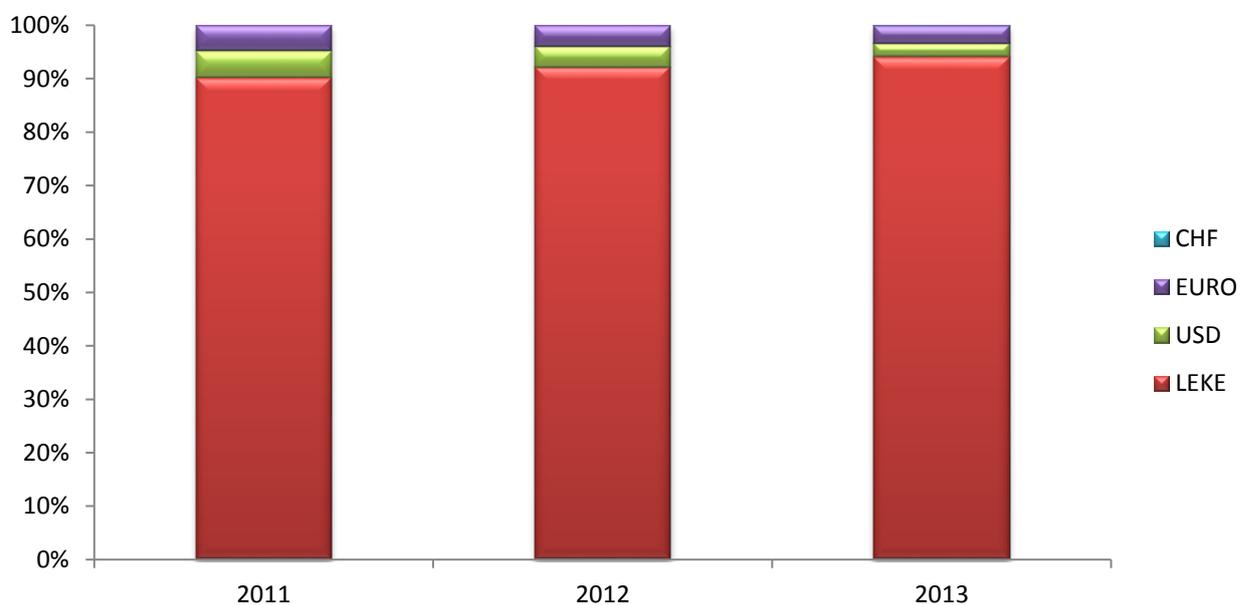


The agency's assets are mostly in ALL. The agency stores some of its assets in foreign currency. The following table and graph displays a summary of the agency's financial assets by foreign currency in December 2013, 2012 and 2011.

*Table 2, Financial assets by foreign currency*

CURRENCY	December 31, 2011		December, 31 2012		December 31, 2013	
	Lek	As %	Lek	As %	Lek	As %
LEK	11,589,561,012	90.20%	14,845,303,723	92.14%	18,561,138,496	94.11%
USD	642,326,846	5.00%	633,291,236	3.93%	500,105,991	2.54%
EURO	616,322,141	4.80%	633,461,236	3.93%	661,100,121	3.35%
CHF	-	0.00%	-	0.00%	5,859	0.00%
<b>MONETARY INSTRUMENTS</b>	<b>12,848,209,999</b>	<b>100%</b>	<b>16,112,056,195</b>	<b>100%</b>	<b>19,722,350,467</b>	<b>100%</b>

*Graph 10, Financial assets by foreign currency*

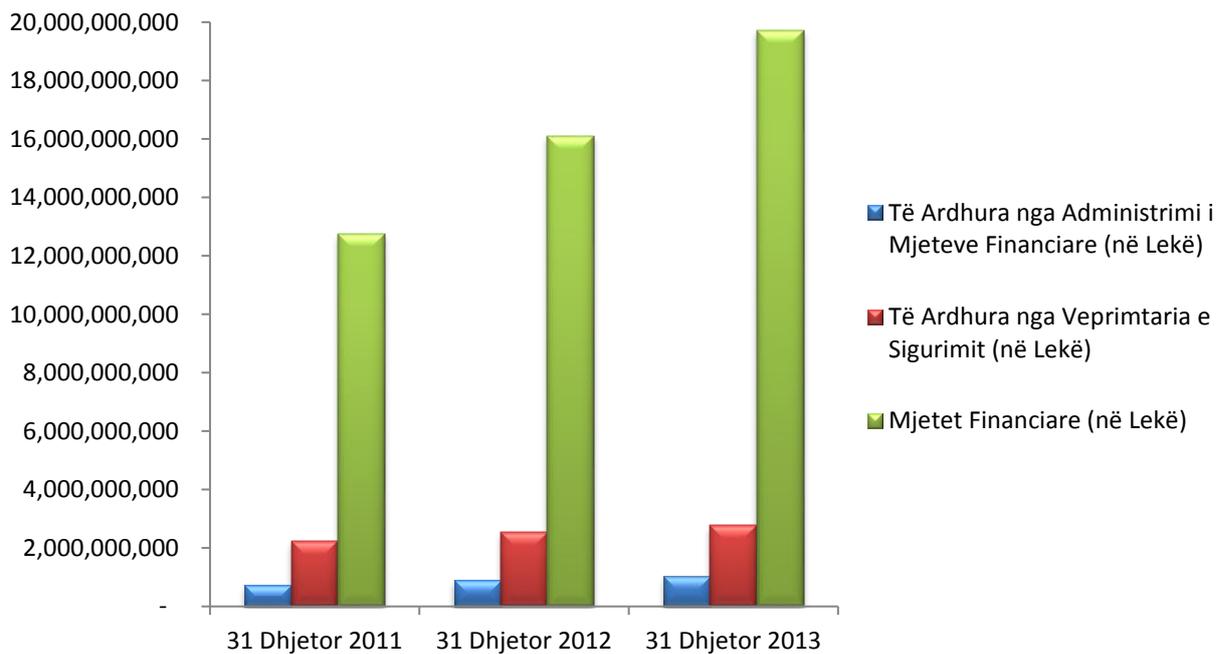


The agency's assets, increase or decrease in proportion with its business incomes in years. The main incomes that contribute to the assets' increase derive from the insurance activity, mainly the annual insurance premium, as well as investment portfolio management incomes. The following table and graph display a summary of the agency's assets and main incomes for 2013, 2012 and 2011 respectively.

*Table 3, Financial assets and incomes in years*

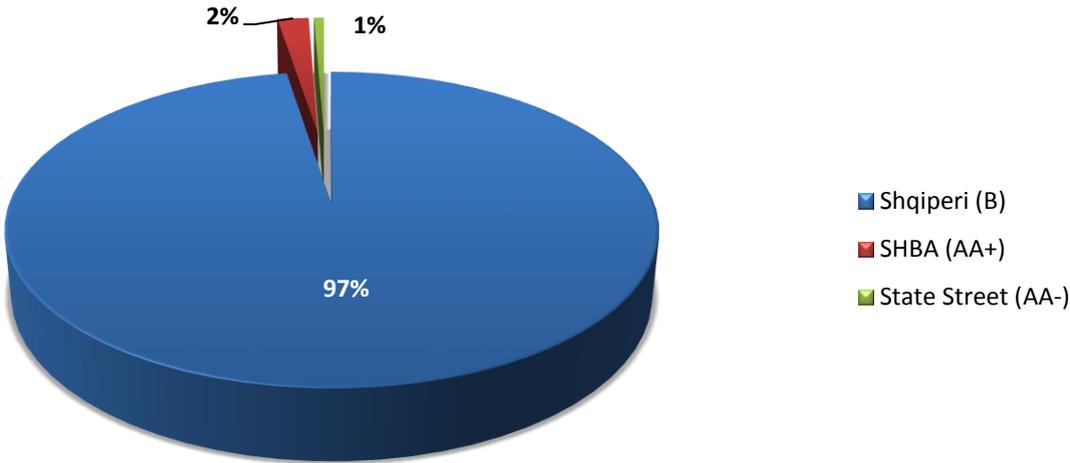
Year	Revenue from Financial Instruments Administration (Lek)	Revenue from Insurance Activity (Lek)	Monetary Instruments (Lek)
December 31, 2011	736,294,000	2,241,387,000	12,745,246,863
December 31, 2012	901,488,542	2,547,690,715	16,112,056,195
December 31, 2013	1,029,437,021	2,775,118,878	19,722,350,467

*Graph 11, Financial assets and incomes in years*

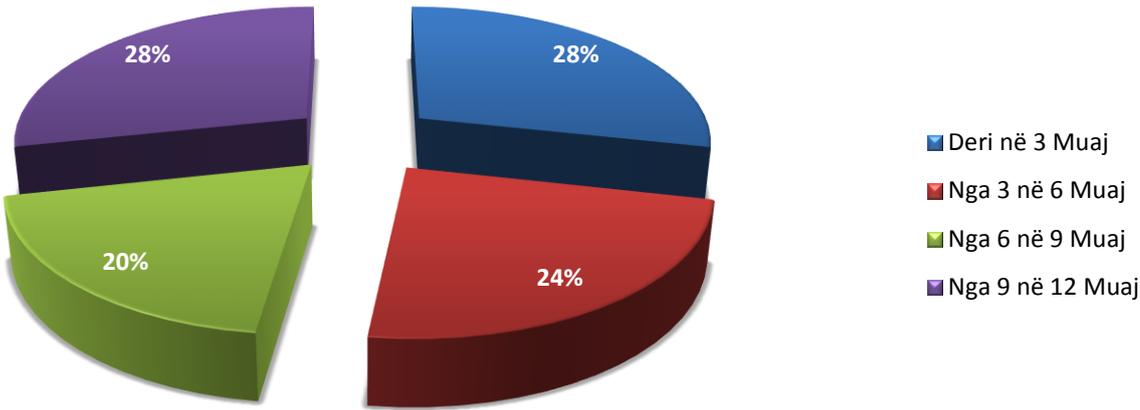


Based on the above information on the agency's financial assets, the following graphs show the assets' display by country or financial institution and these assets' distribution by maturity duration by 31 December 2013. The agency has invested 97% of its financial asset in Albania and 3% out of it. In order to efficiently manage funds and to always meet liquid financial asset needs, the assets have a maturity duration-based graded distribution.

*Graph 12, Evaluation-based asset display*



Graph 13, Maturity duration-based asset display



#### **4.4. PUBLIC EDUCATION AND AWARENESS**

The public education and awareness is one of the main Agency functions to serve the public objective of maintaining and increasing depositors' trust in the banking system, thus contributing to the country's financial stability. The public and interest groups' awareness of the system's existence as well as its benefits and limitations, play an essential role in a deposit insurance system's operation and efficiency.

During 2013, DIA's activity in raising public awareness, focused on a strategic approach, which is based upon collaboration between two main deposit insurance system actors: the Bank of Albania as the Supervisory Authority and the second-level banks as deposit insurance system member institutions. The client service bank staff is considered to be of a specific importance in increasing depositors' trust with relation to guaranteeing their deposits', as well as their respective benefits and obligations awareness.

For this purpose, the 2013 public information strategy focused on organizing special workshops/trainings with local bank staff. In collaboration with the Supervisory Authority, a series of regional workshops were conducted in Tirana (April 2013), Elbasan (October 2013), Berat (November 2013) and Korçë (December 2013). The workshop and discussion topics included matters such as: the importance of depositors' data-storing accuracy and their impact on the compensation process, deposit insurance public informing, premium-calculation methodology, money-laundry prevention systems, deposit insurance client/depositor's awareness and bank products and services' transparency. These activities will continue in all other regions throughout 2014 as well.

In the framework of collaboration with other member institutions, closely linked with the growth of client service staff's knowledge on the deposits insurance system, DIA's structures have prepared and distributed a ready-made staff training presentation to all its member institutions. This presentation includes all the most important aspects of the deposit insurance system operation as well as the agency's activities.

In accordance with best international practices in the deposit insurance field (European Commission's Draft-Directive on Deposits Insurance Systems) and by paying maximum attention to the depositor's timely and accurate communication, the Agency has prepared a public information ready-made model. This model will be included in the documentation of the contract that the depositor signs when opening a deposit. This model was consulted upon in advance in collaboration with the banking industry.

In collaboration with the Bank of Albania and in relation to public education, deposit insurance system education material has been prepared and will be included in the Bank of Albania Bank Clients' Manual.

Additionally, the Agency widely uses its website to communicate with the public by providing basic information on DIA's regulatory practices, systems and activities.

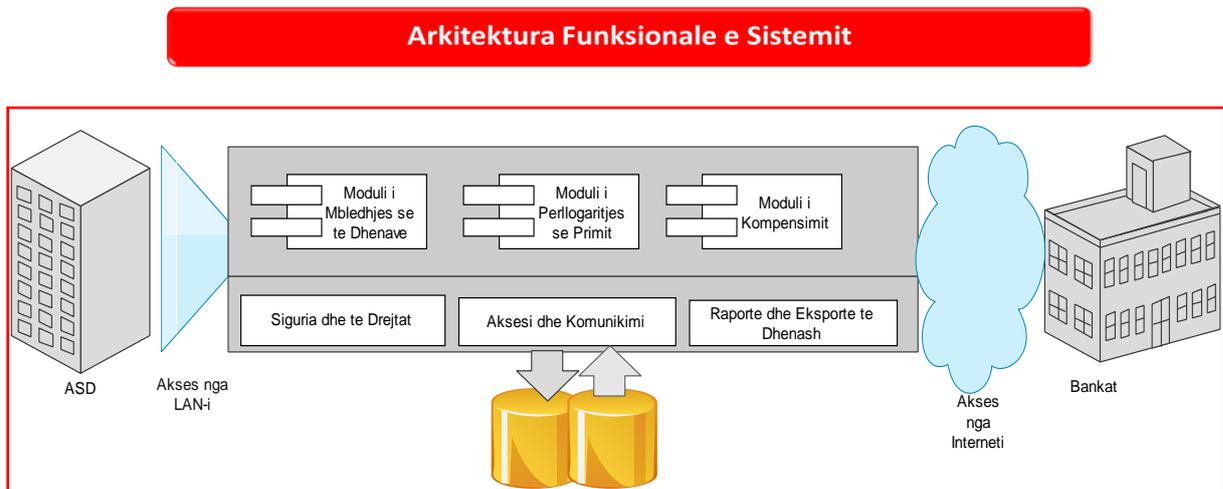
#### **5. DIA'S MAIN DEPOSIT INSURANCE SYSTEM OPERATIONS IMPROVEMENT**

## 5.1. INFORMATION TECHNOLOGY INFRASTRUCTURE IMPROVEMENT

Nowadays technology plays a crucial and indisputable role both in individuals and organizations' operation and activity performance. With this in mind as well as the fundamental objective of the rapid and accurate deposit insurance and compensation, in order to retain financial stability, information technology infrastructure improvement, which aims to increase system's efficiency, has been one of DIA's most important activities. During 2013, DIA's technological infrastructure has been substantially renewed, by upgrading it towards latest field-related developments and financial system collaborators' expectations, as well as by directly improving employees' technology-related experience.

Investments have mainly been made in relation to (i) establishing an insured institutions' data collecting and reporting central information system and (ii) restructuring DIA's internal technological infrastructure.

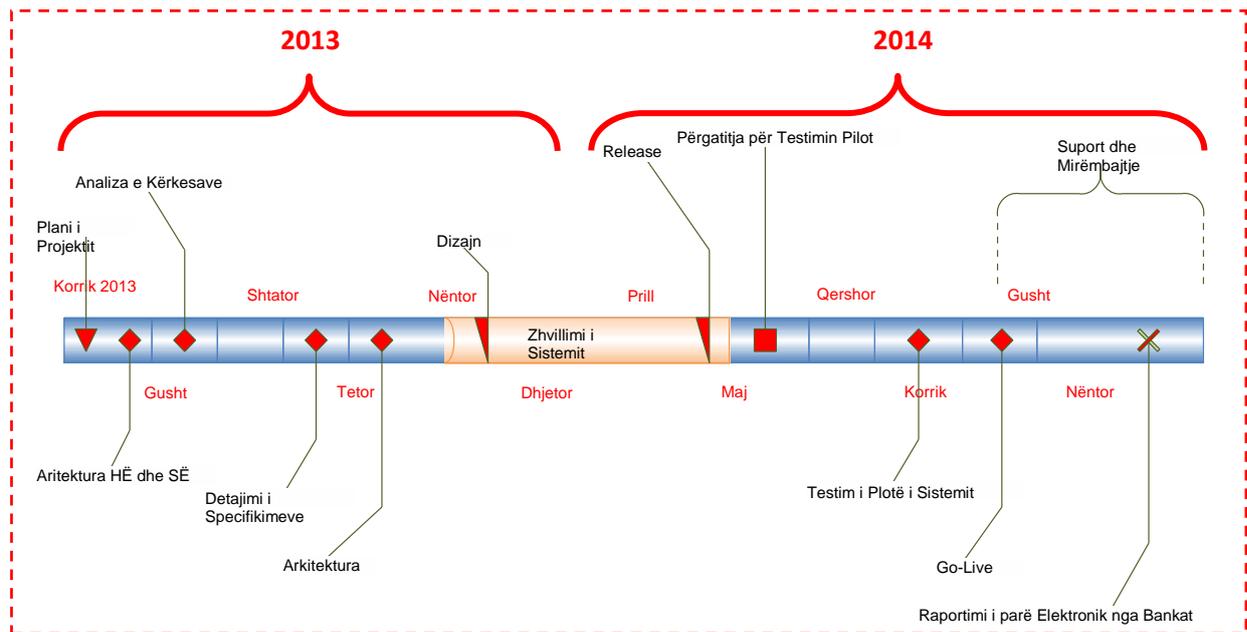
**5.1.1. The data collecting and reporting central information system**, aims at centralizing the electronic information reported to DIA by the banks, calculating each bank's annual premium and carrying out rapid and efficient compensation in case of a bank dissolution. This project was funded by an EBRD grant and FSVC contribution through FDIC's high-level experts, who helped by compiling its terms of reference and performance evaluation. According to the project plan, the system will be made available for premium calculations by October 2014.



*Pic. 2, Data collecting and reporting infrastructure system*

During 2013, the project complied with the steps defined in the Implementation Work Plan. Some of its relevant stages were closely linked with the system methodology construction, DIA's work processes analysis and their adjustments with technological processes, identification of electronic indexes that will be derived from banks, and preparation of a proper environment for system installation.

**Fazat e Realizimit të Projektit**



**Pic. 3, Project stages**

The system will not be able to function properly without the banking system’s contribution and collaboration. For this reason, a special attention has been paid to the coordination and interaction with the deposit insurance system member institutions. The interaction has taken place at two levels, (i) technical and (ii) informative. The technical aspect has been accomplished through the selection of four different characteristic banks that have been introduced to the initial entry index formats and have been formally asked to generate data from their systems in compliance with pre-defined formats. In the framework of the banking system information and feedback/opinions receiving processes, DIA organized a workshop with second-level bank managers in November 2013. The purpose of this seminar was to introduce the project and its impact on the agency’s collaboration with the banking system and the latter’s awareness of the necessary measure-taking process to ensure compliance of its information technology systems with those of the agency. This workshop was organized in collaboration with the Bank of Albania, the Albanian Banks Association and FSVC.

**5.1.2. DIA’S internal technological infrastructure restructuring** was carried out during 2013, in order to improve the work processes quality. The agency undertook an ERP (Enterprise Resource Planning) system implementation project. This system includes a few basic modules, which respond to the agency’s operation and its main activity performance. These modules are: Partnerships Management, Procurement, Finance and Accounting, Financial Asset Reporting, Project and Human Resources Management. The Agency’s main system-related benefits are multiple and they are grouped into two main areas (i) managerial (ii) operational. The ERP system enables the Agency’s managing structures to make decisions, plan, implement and supervise periodical objectives thanks to the availability of timely information. The system mechanisms that assist these structures might include, but are not limited to, visibility on: annual budgets, third party financial operations, main projects, basic documentation and human capital. Operationally, the implemented ERP system is easy to use, not time-consuming training-wise as well as favorable in terms of data entry, storing and

reporting processes. Such a system substantially disciplines data processing and provides immediate reports, thus benefiting every employee and position with extra active work time. Among its operators' levels, the system regulates role and responsibility sharing, by becoming a practical tool in preventing role-overlap. Based on the above, the system enables all agency staff's performance review in relation to their pre-defined objectives.

Also, considering that DIA will manage all depositors' data, which are of a very delicate nature, investments have been made towards the establishment of a safe and reliable technological infrastructure, which will improve communication and data protection quality, thus offering a high information security.

## **5.2. INTERNATIONAL STANDARDS COMPATIBILITY ASSESSMENT OF THE DEPOSIT INSURANCE SYSTEM**

The Financial Sector Assessment Program in Albania (FSAP), which was implemented in October-November 2013, by the World Bank and International Monetary Fund joint mission, included among others, a deposit insurance system assessment as well as a compatibility assessment on the "Core Principles of Deposit Insurance Effective Systems", approved by the International Association of Deposit Insurance (IADI) and the Basel Committee on Banking Supervision (BCBS). In the framework of this program and upon the request of FSAP mission, the Agency completed a questionnaire on the deposit insurance field's latest developments, as well as conducted a deposit insurance system self-assessment process, in accordance with relevant international core principles, based on a special IADI-approved methodology.

Towards the completion of this process, FSAP mission concluded that in relation to the "Core Principles on Deposit Insurance Effective Systems" (comprised of 18 principles), the deposit insurance system in Albania, fully or essentially complies with 13 principles, highlighting the system's general compliance with relevant international standards. On the other hand, FSAP mission recommended further system improvement, by identifying matters that should be addressed through legal amendments. Some of FSAP mission's main recommendations are: (i) the agency's operational and financial independence; (ii) compensation process efficiency improvement; (iii) strengthening the agency's cooperation with other financial security network institutions, (iv) cross-border counterpart institutions collaboration; (v) SCI premium and coverage level definition. FSAP mission recommendations will make up DIA's main activity objectives for 2014.

## **5.3. INSURANCE OF FINANCING RESERVE RESOURCES**

In order to expand its available financial resources as well as in relation to fulfilling its legal obligation, the individual deposits protection and guaranty, in 2013 the agency started a negotiation process with the European Bank for Reconstruction and Development (EBRD) to obtain a credit line. This credit line represents a reserve finance source, which only when deemed proper will be used to fulfill potentially obligations towards insured depositors, in accordance with effective laws. Such an instrument contributes to further strengthening public trust and consequently retaining the banking system's stability.

The negotiation process has included among others, the evaluation of the credit line parameters and efficiency towards the further strengthening of the deposit insurance system financial capacity in the Republic of Albania. Considering the fact that the credit line should be guaranteed by the Government of the Republic of Albania, the negotiations process is being carried out in collaboration with the Ministry of Finance and the Bank of Albania.

The credit line is a widely-used instrument in the deposit insurance field. It is a well-known practice between the EBRD and other deposit insurance institutions in the region and beyond. The EBRD has accorded similar credit lines to other regional countries such as Montenegro and Bosnia-Herzegovina, and it is currently in negotiation processes with Kosovo and Serbia.

#### **5.4. COLLABORATION WITH FINANCIAL SECURITY NETWORK INSTITUTIONS**

As a participant to the Financial Stability Advisory Group (FSAG), the Agency has collaborated with the Bank of Albania, the Ministry of Finance and the Financial Supervision Authority in the framework of implementing the Memorandum of Understanding, signed by these institutions in 2012.

The collaboration is based on the development principles of a balanced and steady financial system, systemic risks prevention, regular information exchange and joint coordination towards sustainable solutions to problems.

The focus of FSAG's agenda for 2013 has been the information exchange on the banking and financial market performance and challenges, regulatory framework developments on economic crediting stimulation and credit restructuring process support, better standards' implementation towards transparency as well as payment ability, and financial stability of institutions that operate in these markets. The agency's contribution to FSAG's meetings has been to inform this important forum on the banking system deposits situation as well as the opportunities of obtaining additional finance sources, which will serve as a supporting instrument towards the fulfillment of objectives in terms of the intended deposit insurance fund quantity.

#### **5.5. COLLABORATION WITH INTERNATIONAL FINANCIAL INSTITUTIONS AND COUNTERPART AGENCIES**

DIA's membership into international deposit insurance organizations, collaboration with international financial institutions, and bilateral experience exchange with counterpart agencies in the region and beyond, comprise DIA's main international collaboration activities for 2013. Enrollment in international organizations provides the opportunity of updating information on the regulatory environment changes, by easing the Agency's work on establishing and maintaining its regulatory framework in accordance with best international practices. On the other hand, international financial institutions offer professional experience exchange, which is of a growing importance in light of the financial markets continual changes and the deposit insurance system societal expectations. In support to Albania's aspirations to join the European Union, the contemporary experience exchange and the harmonization of

the deposit insurance system's regulatory framework with the best European and international practices and standards, is of substantial importance.

#### **5.5.1. International Association of Deposit Insurers (IADI)**

IADI is the organization that sets standards in the deposit insurance field. This organization has claimed special international importance, due to the deposits insurance systems' role in the 2008 global financial crisis. The IADI-compiled assessment methodology on the Deposits Insurance Principles has been included in IMF's financial systems assessment program (FSAP). Starting from 2013, IADI's experts are a part of FSAP. In relation to the above and considering that both the financial system in Albania and DIA were assessed by a FSAP mission in October-November 2013, collaboration with IADI is considered to be of a primary importance.

Since its full-rights membership in 2003, the agency holds continuous relations with IADI, mainly through participation in its annual general assemblies, which serve as forums to exchange views on the deposit insurance field. DIA is included in special IADI committees and structures at a regional scale and beyond, such as the European Regional Committee, the Finance and Planning Committee and the Training and Conferences Committee.

DIA was represented by its General Director in IADI's 12th Annual Assembly and Executive Committee's session, held in Buenos Aires, Argentina, on November 2013. A number of both regional and special committee sessions took place during the assembly days. The annual conference, which is a traditional part of this activity, focused on the topic of "Navigating through the Financial Reform Landscape". The conference highlighted global financial scenario changes, the organization's approach in the framework of IMF's FSAP, the deposits insurance system and banking system reaction towards the last financial crisis, financial security networks performance, insurance system financing agreements and bank resolution reforms, and the preparation and importance of contingency plans in case of insurance claims occurrences.

#### **5.5.2. European Forum of Deposit Insurers (EFDI)**

EFDI is an international not-for-profit association established in 2002 with the support of the European Commission. EFDI's purpose is to contribute in the financial system stability by promoting European collaboration in the deposit insurance field and by facilitating discussions and experience/information exchanges on mutual matters of interest. EFDI is the European Commission's main partner on deposits insurance matters. DIA has the rights of a full member in EFDI.

IADI's Annual Assembly was held in Rome, Italy, on September 2013. This assembly was of a special importance, as it discussed the European Commission's Bank Recovery and Resolution Directive. This directive aims at equipping national financial authorities with bank crisis prevention competencies and instruments, which can also be used to carry out proper financial institution resolution, in case of failure, by simultaneously keeping essential banking operations and minimizing taxpayers' exposure to losses.

Also, in response to European financial sector developments as well as expected changes as a result of approving European Commission Draft-Directives, EFDI's Board of Directors has established a working group to prepare EFDI's statute changes. This working group is responsible for holding strategic discussions on EFDI's future and role, as well as the organization's strategy and governance. The agency is part of this working group and it has rendered an active contribution in the set objectives' fulfillment.

### **5.5.3. Bilateral meetings**

During 2013, the Agency conducted a series of bilateral meetings with financial regulatory institutions and counterpart agencies aiming at deposits insurance improvement and sector experience exchange in areas of common interest.

DIA participated in the IMF and World Bank Annual Assembly, which was held in Washington, USA, in October 2013. Part of the meeting's agenda was the self-assessment form on the deposit insurance in accordance with IADI set standards, completed by the Agency in the framework of the IMF and World Bank Mission's visit to carry out the financial system assessment, (FSAP). Additionally, discussions with IMF's Legal Department on the necessary amendments of the Law "On Deposit Insurance" were held.

Collaboration with counterpart institutions has been an important part of DIA's activity during 2013. In October 2013, The Deposit Insurance Agency's General Director met with Mr. Martin J. Gruenberg, the Head of FDIC (Federal Deposit Insurance Corporation), an independent agency of the United States of America federal government, which insures deposits by examining and supervising more than 4500 banks in the American banking system. The meeting topic was the collaboration extension between the two institutions on areas of mutual interest as well as DIA's benefit from FDIC's experience. Collaboration with FDIC is also based on the Memorandum of Understanding that was signed in April 2013 between the Bank of Albania and FDIC on experience exchange in the field of deposit insurance and compensation.

In order to intensify regional collaboration and experience exchange in the field of deposit insurance during 2013, bilateral meetings have been conducted with FYROM's Deposit Insurance Fund, Bulgaria's Deposit Insurance Fund and Croatia's State Agency for Deposit Insurance and Bank Rehabilitation. The main topics of such meetings were the deposit insurance premium policies, investment policies, compensation procedures and automated system adjustment for premium calculation and timely compensation processes.

## 6. DIA'S ORGANISATION

Based on Law No. 8873 "On Deposit Insurance", (amended), the Agency's directing bodies are the Board of Directors and the General Director. The Board of Directors' primary role is the administration of the deposit insurance system strategic orientation and financial operations. DIA's operational activity is led by the General Director.

### 6.1. BOARD OF DIRECTORS

The Deposit Insurance Agency Board of Directors is the highest decision-making and supervising organ of DIA's activity, which bases its role and task fulfillment on Law no. 8873, dated 29.03.2002 "On Deposit Insurance", (amended), the Collegial Bodies' effective legislation, other Bank of Albania sub-legal acts and approvals, other DIA's Board of Directors-approved sub-legal acts.

The Board of Directors is made up of five members, appointed by the Supervisory Authority and proposed as follows:

- Two members from the Supervisory Authority;
- Two members from the Ministry of Finance;
- One member from the Authorized Countable Experts Institute (ACEI)

The position-holding duration for each Board of Directors' member is five years, and all the duration expiry dates intend to fall distributed proportionately throughout the five-year time period.

Board of Directors' members who carried out their duties during 2013 are:

BOARD OF DIRECTORS	ROLE	PROPOSING INSTITUTION	APPOINTED
Genci Mamani	Chairman	Bank of Albania	January 2012
Toni Gogu	Member	Bank of Albania	November 2012
Lindita Rusmali	Member	Ministry of Finance	January 2012
Mimoza Vokshi	Member	Ministry of Finance	December 2008*
Doranin Agalliu	Member	Authorized Countable Experts Institute (ACEI)	March 2013

*Table 4, Board of Directors*

\*Mandate expired in December 2013.

### 6.1.1. Board of Directors' operation

Board of Director's members are subject to conflict of interest policies to prevent potential bias in their independent judgment on matters that comprise board discussion topics. The Board of Directors is responsible for a statutory requirements' series, which derive from the Law "On Deposit Insurance", the Deposit Insurance Agency Statute and the Board of Directors' Regulation.

While carrying out its duties and competencies during 2013, the Agency's Board of Directors has been involved in establishing and maintaining high standards of organizational governance.

During 2013, the Board of Directors conducted monthly meetings in order to define strategic direction and address all matters and problems related to the Agency's functional and operational activity improvement. In its meetings, the Board approved 32 Decisions, among which some of the most important were:

- The approval of the Deposit Insurance Agency periodical financial report for 2012.
- The approval of the Donation Agreement between the Deposit Insurance Agency and the European Bank for Reconstruction and Development (EBRD).
- The approval in principle to start negotiations and compile a credit line draft-agreement in order to cover fund insufficiency in case of compensation between the Deposit Insurance Agency and the European Bank for Reconstruction and Development (EBRD).
- The approval of the Deposit Insurance Agency organizational structure, personnel and number of employees.
- The approval of the Deposit Insurance Agency draft-budget for 2014.

## 6.2. ORGANISATIONAL STRUCTURE

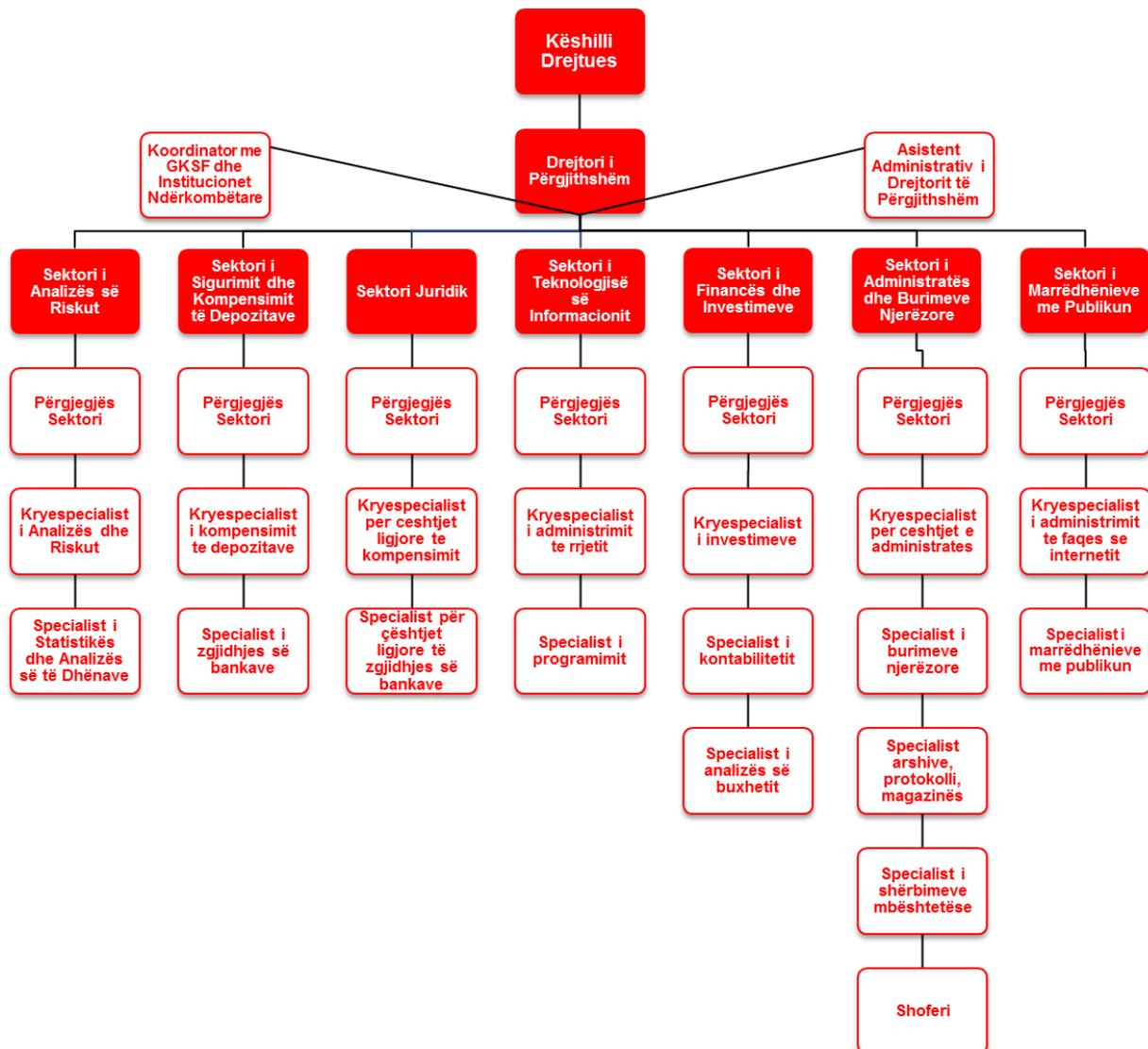
In the framework of USAID's four-year program to strengthen the financial sector in Albania, the Deposit Insurance Agency obtained in 2013 a technical assistance mission in relation to reviewing the Agency's Mandate and Organizational Structure, as well as evaluating its legal function-related operations and capacities. The assistance, enabled through FSVC's contribution, was undertaken by a FDIC chief executive, experienced in regulative matters, bank supervision and problematic institution resolution. The technical assistance mission identified the need for changes of the Agency's organizational structure through concrete recommendations. These recommendations aimed at a more efficient approach of the Agency's organizational structure towards the challenges it might face in the course of its mission's accomplishment.

Based on proposed recommendations, the Board of Directors approved the new organizational structure with Decision no. 19, dated 29.08.2013. The new structure intends to create an efficient administration culture by increasing work processes flexibility and productivity as well as a better coordination between the agency's sectors. This structure is

made up of seven sectors, which are responsible for the progress and smooth running of activities, in order to successfully fulfill its legal objectives.

The Agency is organized in strategic sectors and supportive sectors. The strategic sectors, which are responsible for fulfilling law-defined primary functions, include the Deposit Compensation Insurance Sector, the Finance and Investment Sector and the Risk Analysis Sector. The supportive sectors, which are responsible for the agency's smooth running towards fulfilling its objectives, include the Legal Sector, the Administration and Human Resources Sector, the Information Technology Sector, and the Public Relations Sector. The activity of the agency in general and that of its sectors in specific is directed by the General Director, who reports to the Board of Directors periodically.

*Pic. 4, DIA'S Organizational Structure*



### 6.2.1. Main agency structure novelties

DIA's new structure includes three new sectors, which are of a high importance in relation to the Agency objectives fulfillment and in compliance with the best international practices in the deposit insurance field. The new sectors and a summary of their main responsibilities are listed below:

### **Risk Analysis Sector**

The Risk Analysis Sector is responsible for addressing risks that the agency faces in the course of its activity, in order to develop an efficient deposit insurance system as well as to fulfill its deposit insurance institutional mandate.

The main sectoral functions and tasks are summarized as follows:

- The timely identification of risks that the Agency is exposed to, in the course of its main activity.
- The continual assessment and monitoring of risks faced by the insured institutions;
- The management of risks that might occur during DIA's asset investment;
- The timely reporting of risks identified by the Board of Directors and the General Director;
- The information exchange with the Bank of Albania and other members of the financial security network in the country, in relation to the banking system risk management.

### **Information Technology Sector**

The Information Technology sector intends to offer efficient IT services in relation to DIA's general objectives fulfillment. This sector was established to support the Agency's technological infrastructure extension, in order to increase the deposit insurance system efficiency and its strategic projects undertaken in 2013.

The sector's main functions and tasks are summarized as follows:

- Operation of information asset and equipment administration, Internet service as well as authorized information programs installed at DIA;
- Policy, procedure, project and strategy compilation to help IT smooth and quality running;
- Policy and technological procedure documentation and implementation in accordance with those of the organization to provide special sectors' efficient operation;
- New projects' planning and implementation as well as existing systems' maintenance;
- General network monitoring, administration and maintenance;
- Needs assessment and collaboration with other sectoral heads to decide on priorities, design systems, as well as implement new data processing and/or data modifying systems.

### Public Relations Sector

Considering that one of Agency's main public objectives is to develop and maintain public trust towards the banking and financial system, by keeping it informed on the deposit insurance system benefits and limitations, the Public Relations Sector was identified as a necessity for DIA's activity. The purpose of this sector is the ongoing public awareness in order to strengthen its trust in the deposit insurance system, thus contributing to the country's financial stability.

The sector's main functions and tasks are summarized as follows:

- Develop depositors and interest groups' trust towards DIA;
- Identify audience groups and sub-groups and define their right communication media;
- Design and implement the Agency's public education and information program;
- Periodically evaluate the public awareness level and the public education and information policy efficiency;
- Conduct activities/workshops with the insurance system member institutions' staffs in order to educate them about the system;
- Compile a detailed public communication plan in case of crisis.

#### 6.2.2. Human Resources Administration

DIA's staff was made of 23 employees by December 31st, 2013. The Agency's human resources' development policies for 2013, intended to attract and retain qualified and independent staff members as well as increase their work productivity and quality, by investing in the necessary infrastructure and their continual education.

*Table 5, Agency staff's composition*

FUNCTION	DECEMBER 31st, 2013
General director	1
FSAG and International Institutions Coordinator	1
Sector heads	7
Senior specialists	6
Specialists	7
Driver	1
<b>Total</b>	<b>23</b>

Just like previous years, in order to develop their professional and individual capacities, DIA's employees participated during 2013 in trainings, workshops, regional and international conferences. The main purpose of these activities were the improvement of the legal and

regulative framework, insured depositors' reimbursement claims' administration, financial asset management, bank resolution methods, risk monitoring, managing fraud cases that occur during bank resolution procedures, contingency plans' importance and preparation.

In the framework of developing capacities for difficult financial situations management and the agency structural preparation to efficiently manage such situations, specific workshops with bank resolution experts were organized. These workshops have been conducted in collaboration with the Supervision Department of the Bank of Albania and FSVC assistance.

Specifically, in November 2013, the Workshop on "Bank Intervention and Resolution" was organized. This workshop was headed by an IMF expert and it focused on regulative and legal framework topics, bank intervention and resolution processes preparation, case studies reviews, etc.

Also, in December 2013, a week-long workshop on the topic "Bank Resolution and Closure Processes" was organized. In this workshop, which was headed by two FDIC experienced experts in the field of bank resolutions, were discussed in practical terms all the processes and stages pertaining to a problematic bank.

## 7. FINANCIAL SITUATION OF DIA

### 7.1. BALANCE-SHEET

#### DEPOSIT INSURANCE AGENCY

#### Balance-sheet as of December 31, 2013 and as of December 31, 2012

*Note: The Audit of the Financial Reports is expected to finish by February 28, 2014. All the amounts and figures are in Albanian Lek, except those cases where is clearly stated.*

	December 31		Variance	
	2013	2012	Amount	as %
<b>ASSETS</b>				
Cash and Cash equivalents	330,407,939	152,453,245	177,954,694	117%
Accounts receivable Insurance premium	684,388,183	586,858,438	97,529,745	17%
Securities held to maturity (net amount)	19,391,942,528	15,959,602,922	3,432,339,606	22%
Tangible non-Current Assets (net amount [Accumulated depreciation 40,169,665 as of December 31, 2013 and 36,824,647 as of December 31, 2012])	67,802,005	56,590,297	11,211,708	20%
Non Tangible non-Current Assets (net amount [Accumulated depreciation 1,573,255 as of December 31, 2013 and 752,100 as of December 31, 2012])	3,391,745	811,500	2,580,245	318%
Other Assets	3,195,439	2,163,929	1,031,510	48%
<b>TOTAL ASSETS</b>	<b>20,481,127,839</b>	<b>16,758,480,331</b>	<b>3,722,647,508</b>	<b>22%</b>
<b>LIABILITIES</b>				
Other liabilities	4.047.510	1.759.690	2.287.820	130%
<b>TOTAL LIABILITIES</b>	<b>4.047.510</b>	<b>1.759.690</b>	<b>2.287.820</b>	<b>130%</b>
<b>INSURANCE FUND</b>				
Charter Capital	400,000,000	400,000,000	-	0%
Accumulated Fund	20,077,080,329	16,356,720,641	3,720,359,688	23%
<b>DEPOSITS INSURANCE FUND</b>	<b>20,477,080,329</b>	<b>16,756,720,641</b>	<b>3,720,359,688</b>	<b>22%</b>
<b>TOTAL LIABILITIES AND INSURANCE FUND</b>	<b>20,481,127,839</b>	<b>16,758,480,331</b>	<b>3,722,647,508</b>	<b>22%</b>

The financial indicators for 2013, compared to 2012, show a positive trend of growth of financial instruments, assets, and insurance fund of the Agency in order to fulfill her main objectives. Investment portfolio for year 2013 had a net value of 19,391,942,825 lek (22% higher compared to December 31, 2012). The book value of the assets of DIA for 2013 was 20,481,127,839 lek (22% higher compared to December 31, 2012). The insurance fund increased with 3,720,359,688 lek (or 22%) in the year 2013, resulting with a book value of 20,477,080,329 lek at December 31, 2013.

**Cash and Cash equivalents**, with a book value of 330,407,939 lek (177,954,694 lek or 117% more compared with December 31, 2012), include the balance of the current accounts of DIA and weekly interest deposits in lek at the National Albanian Bank. In order to manage the short-term engagements, DIA keeps in her current accounts in lek and foreign currency at the private bank of second levels (1,223,702 lek at December 31, 2013 and 3,265,422 lek at December 31, 2012) and at National Bank of Albania (1,52,399,867 lek at December 31, 2013 and 48,039,968 lek at December 31, 2012). At December 2013 the balance in the current accounts at National Bank of Albania included in the most part 985,000 euro from the maturity of the interest at December 27, 2013 of an Albanian Government Treasury Bills. The cash in Euro at National Bank of Albania were invested in the first days of January 2014 in Securities of Austrian Government. In order to manage the investment portfolio in foreign currency and the obligations that follow this activity, DIA keeps a current account at State Street Bank, Germany (121,080,679 lek at December 31, 2013, and 1,147,855 lek at December 31, 2012). At December 31, 2013, the balance in the current account at State Street Bank included in the most part the inflow of 1.19 million dollars from the maturity of interest in December 31, 2013, of two Securities in United States of America. The cash in USD at State Street Bank was invested in the first days of January 2014 in Securities in United States of America.

**Accounts receivables of Insurance premium**, with a book value of 684,388,183 lek (97,529,745 lek or 17% more compared with the period ended December 31, 2012), includes the total amount to be received from the banks related to the fourth installment of the annual prime for the year ended 2013. The annual prime is paid by the insured subjects in the four equal installments. The payment of the installments should be executed within the 15<sup>th</sup> day of January, April, July, and October. Comparing with a year ago, the increase in this account is because of the direct growth of the annual insurance prime. The revenues from the annual insurance prime for the year ended 2013 were higher compared with 2012, because of the direct growth of the insured deposits in the system for year ended 2012.

**Securities held to maturity, at the net amount**, with a book value of 19,391,942,528 lek (3,432,339,606 lek or 22% more compared with the year ended December 31, 2012), includes the net amount of investment portfolio of DIA. This portfolio includes Treasury Bills of the Albanian Government in lek (18,504,413,408 lek at December 31, 2013 and 14,701,622,048 lek at December 31, 2012), Treasury Bills of the Albanian Government in Euro (508,677,762 lek at December 31, 2013, and 625,318,810 lek at December 31, 2012), and Securities of United States of America in USD (378,851,358 lek at December 31, 2013, and 632,662,064 lek at December 31, 2012). Compared with a year ago, the growth in this account is because of the direct growth of the investments of the inflows from the insurance prime, along with the reinvestment of the revenues from the portfolio management of the investments.

**Tangible non-current assets, net amount**, with a book value of 67,802,005 lek (11,211,708 lek or 20% more compared with the year ended December 31, 2012), represents the balance value, after the accumulated depreciation of the non-current assets of DIA. In December 31, 2013 the book value before depreciation was 107,971,671 lek (93,414,945 lek in December 31, 2012) and the accumulated depreciation was 40,169,665 lek (36,824,648 lek in December 31, 2012). Compared with a year ago, the increase in this account is because of the direct

capital investments to facilitate the administrative activity of the Agency in the year ended 2013.

**Non-tangible non-current assets, net amount**, with a book value of 3,391,745 lek (2,580,245 lek or 318% more compared with the year ended December 31, 2012), represents the balance value, after the accumulated depreciation of the financial non-current assets of DIA. In December 31, 2013 the book value before depreciation was 4,965,000 lek (1,563,600 lek in December 31, 2012) and the accumulated depreciation was 1,573,255 lek (752,100 lek in December 31, 2012). Compared with a year ago, the increase in this account is because of the direct capital investments to facilitate the administrative activity of the Agency in the year ended 2013.

**Other assets**, with a book value of 3,195,439 lek (1,031,510 lek or 48% more compared with the year ended December 31, 2012), represents warehouse inventory with a value of 2,378,200 lek (1,566,712 lek in the year ended December 31, 2012), prepaid expenses with a value of 528,855 lek (320,635 lek in the year ended December 31, 2012), and receivables from third parties with a value of 288,384 lek (276,582 lek in the year ended December 31, 2012).

**Other liabilities**, with a book value of 4,047,510 lek (2,287,820 lek or 130% more compared with year ended December 31, 2012), represents Social and Health Insurance to be paid for the month of December with a value of 560,729 lek (346,756 lek in the year ended December 31, 2012), personal income tax for of the employees for the month of December to be paid is 623,313 lek (642,425 lek in December 31, 2012), expenses with the value of 2,265,006 lek (475,830 lek for the year ended December 31, 2012), and other suppliers with the value of 598,462 lek (294,660 lek for the year ended December 31, 2012). Compared with a year ago, the increase in this account in the most part is because of the expenses for the external audit service.

**In the Charter Capital** there is a value of 400,000,000 lek and is part of the State Budget contribution. For the year ended in 2013, there is no increase or decrease in the charter capital.

**In the Accumulated fund** there is a value of 20,077,080,329 lek (3,720,359,688 lek or 23% more compared with the year ended December 31, 2012). The accumulated fund is increased or decreased according to the DIA activity. Compared with a year ago, the increase in this account is because of the overall net revenue of the DIA activity for the year ended 2013.

## 7.2. INCOME STATEMENT

### DEPOSIT INSURANCE AGENCY

#### Income statement as of December 31, 2013 and as of December 31, 2012

*Note: The Audit of the Financial Reports is expected to finish by February 28, 2014. All the amounts and figures are in Albanian Lek, unless otherwise stated.*

	December 31		Variance	
	2013	2012	Amount	as %
<b>REVENUE</b>				
Revenue from the insurance activity	2,775,118,878	2,547,690,715	227,428,163	9%
Revenue from financial instruments management	1,029,437,021	901,488,542	127,948,479	14% 577
Other revenues	433,233	64,000	369,233	%
<b>TOTAL REVENUE</b>	<b>3,804,989,132</b>	<b>3,449,243,257</b>	<b>355,745,875</b>	<b>10%</b>
<b>EXPENSES</b>				
Operational expenses	(20,918,749)	(17,118,521)	(3,800,228)	22%
Staff expenses	(42,203,811)	(35,499,386)	(6,704,425)	19%
Financial/Commission expenses	(1,738,599)	(1,726,797)	(11,802)	1%
Depreciation of Non-Current Assets	(4,166,173)	(2,750,989)	(1,415,184)	51% 118
Currency difference from revaluation	(15,602,112)	(7,167,402)	(8,434,710)	%
<b>TOTAL EXPENSES</b>	<b>(84,629,444)</b>	<b>(64,263,095)</b>	<b>(20,366,349)</b>	<b>32%</b>
<b>OPERATIONAL INCOME</b>	<b>3,720,359,688</b>	<b>3,384,980,162</b>	<b>335,379,526</b>	<b>10%</b>
<b>TOTAL OF OTHER OVERALL INCOME, NET AMOUNT</b>	<b>3,720,359,688</b>	<b>3,384,980,162</b>	<b>335,379,526</b>	<b>10%</b>

The income of the year 2013 was 3,720,359,688 lek (335,379,526 lek or 10% higher compared with 2012). The revenue from the activity of DIA was 3,804,989,132 lek (355,745,875 lek or 10% higher compared with the year ended 2012). The expenses of the DIA activity, without including the currency differences of revaluation, were 69,027,332 lek (11,931,639 lek or 21% higher compared with 2012). The expenses from the activity, without including the currency of revaluation compose 1.8 % of the total revenue of DIA (1.7% for 2012) and 6.7 % of the incomes from funds' administration of DIA (6.3% for the year 2012).

**The incomes from the insurance activity** has been 2,775,118,878 lek (227,428,163 lek or 9% higher than 2012) as a result of revenue from the annual insurance premium of the deposits insured in the banks. The deposits' insurance premium in the banking system is the main source of the Agency's monetary means. Every insured subject pays to the Agency the annual insurance premium of the deposits which is calculated to the extent of 0.5% of the average of the insured deposits' sum which are registered at the end of each working day of the last trimester of the previous year. The increase in the revenues has come as an immediate result in the increase by 9% of the deposits insured in the banking system for the year 2012. During the 2013 and 2012 the annual rate of the deposits' insurance premium (0.5%) was the same for all the banking system. For the period of 2013 and 2012 no new bank was licensed, therefore there were no incomes from the initial contribution.

**Financial tools' administration revenues** have been 1,029,437,021 lek (127,948,479 lek or 14% higher than the year 2012) which also comprised the incomes from the DIA's investment portfolio in ALL (Albanian lek) and currency. Revenues from the interests of the one-week deposits in the Albanian Bank were 19,382,250 lek (18,629,236 lek in the year 2012). Incomes from the Securities interest in ALL value were 982,288,763 lek (867,800,183 lek for the 2012). The gains from Securities interests in Euro value were 26,925,065 lek (14,015,814 lek in the year 2012). Profits from the interests of Treasury Bonds in USD Value were 824,422 lek (1,028,121 lek in 2012). Further incomes from other banking interests were 16,501 lek (15,188 lek in 2012). These incomes' growth is a result of a direct increase in the volume of the investments' financial tools (nominal interest rate) from the receivable premium as well as from the collected and reinvested interests. This growth is partially balanced from the great reduction in the yield of The Albanian Government's Treasury Bills during the 2013.

**Other Revenues** have been registered with the value of 433,233 lek (369,233 lek or 577% higher than 2012).

**Operational Costs** have been in the value of 20,918,749 lek (3,800,228 lek or 22% higher than in 2012). These costs are directly related with the activities and the operation of the Agency in order to fulfill the legal objectives. Increases of these costs during the 2013 come as a result of the expansion of both activities and projects undertaken during the year in cooperation with the insured subjects, Supervisory Authority and international partners. For further information regarding the activities and projects attained during 2013, you can refer to Chapter 4 "Main Functions of DIA", Chapter 5 "DIA's Main Activities regarding the betterment of the insurance deposits' system" and Chapter 6 "DIA's Organization"

**Staff Expenses** for the year reach the value of 42,203,811 lek (6,704,425 lek or 19% higher than in 2012). The growth of staff expenses compared with the previous year is a consequence of the changes in the organic structure of the Agency which were approved in 2013. For further information as it regards the changes in the organic structure, please refer to Chapter 6 "DIA's Organization".

**Financial expenses/commissions** have been 1,738,599 lek (11,802 lek or 1% higher than in 2012). For the years 2013 and 2012 these expenses reflect the bank charges for Agency's financial tools administration.

**Expenses for the devaluation of sustained assets** have been calculated in 4,166,173 lek (1,415,184 lek or 51%). For the 2013 the devaluation of sustained material assets was

3,345,018 lek and the devaluation of the non-material assets was 821,155 lek. Compared with the previous year the rise in this account is a consequence of the capital investments for the support of the Agency's administrative activities during 2013.

**Revaluation's currency differences** have been calculated to the extent of -15,602,112 lek for the year 2013. The difference in the revaluation for 2013 is a result of the changes in the exchange rate during the year. As DIA presents its financial statements in Lek, they are affected by the fluctuations of the exchange rate between Lek and other currencies such as Euro and USD.

### 7.3. STATEMENT OF CHANGES IN THE INSURANCE FUND

Below the statement of changes in the insurance fund for the years 2013-2012 is presented. For 2013 and 2012 the changes in the insurance funds are a result of the DIA's activity profits.

#### THE DEPOSITS INSURANCE AGENCY

##### The statement of changes in the insurance fund for 2013 and 2012

*Note: The Audit of the Financial Reports is expected to finish by February 28, 2014. All the amounts and figures are in Albanian Lek, unless otherwise stated.*

	Charter Capital	Accumulated Fund	Insurance Fund
<b>31<sup>st</sup> December 2011</b>	<b>400.000.000</b>	<b>12.971.740.479</b>	<b>13.371.740.479</b>
Changes in the Charter Capital	-	-	-
Distribution for Insurance purposes	-	-	-
Profits from the year's operations	-	3.384.980.162	3.384.980.162
<b>31<sup>st</sup> December 2012</b>	<b>400.000.000</b>	<b>16.356.720.641</b>	<b>16.756.720.641</b>
Changes in the Charter Capital	-	-	-
Distribution for Insurance purposes	-	-	-
Profits from the year's operations	-	3.720.359.688	3.720.359.688
<b>31<sup>st</sup> December 2013</b>	<b>400.000.000</b>	<b>20.077.080.329</b>	<b>20.477.080.329</b>

## STATEMENT OF CASH FLOW

Below it is being presented the statement of cash flow from the operational and investments activities for the years 2013 and 2012. For 2013 and that of 2012 there has not been cash flow from financial activities.

### THE DEPOSITS INSURANCE AGENCY

#### Statement of cash flow for the years 2013 and 2012

*Note: The Audit of the Financial Reports is expected to finish by February 28, 2014. All the amounts and figures are in Albanian Lek, unless otherwise stated.*

	31 <sup>st</sup> December	
	2013	2012
<b>Operational Activities</b>		
Year's Profits	3,720,359,688	3,384,980,162
<i>Adjustments to reconcile change in net assets with net financial asset provided by the operational activities:</i>		
Depreciation of long-term assets	4,166,173	2,750,989
The Amortization of investments in Securities	(90,583,310)	150,703,956
Changes in receivable interest	194,341	11,397,707
Changes in the premium insurance receivable	(97,529,745)	(125,801,202)
<i>Changes in the assets and operational obligations:</i>		
Changes in other assets	(1,031,510)	(151,320)
Changes in other obligations	2,287,820	339,127
<b>Cash Flow from the operational activities</b>	<b>3,537,863,457</b>	<b>3,424,219,419</b>
<b>Investments Activities</b>		
Purchase of long-term tangible assets	(14,556,726)	(198,963)
Purchase of long-term non-tangible assets	(3,401,400)	-
Purchase of Securities held to maturity	(3,341,950,637)	(3,376,457,723)
<b>Cash flow from the investing activities</b>	<b>(3,359,908,763)</b>	<b>(3,376,656,686)</b>
<b>Net cash flow and its equivalents</b>	<b>177,954,694</b>	<b>47,562,733</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>152,453,245</b>	<b>104,890,512</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>330,407,939</b>	<b>152,453,245</b>

## 8. Objectives for 2014

Based in the quinquennial Strategic Plan and its vision, the Agency is clear and much focused in the objectives that it should achieve. All objectives of 2014 are based on a very important principle that is the support of the financial stability by protecting and compensating the depositors as soon as possible, in a correct and appropriate way. In order to implement this principle the Agency's strategy for 2014, and not only, will be based on three main pillars:

- **The betterment** of the regulatory framework for the deposits' insurance system according to the FSAP recommendations.
- **The modernization** and the implementation process completion of the reporting data system from the subject members of this system.
- **The Agency willingness** for a compensation process through the establishment of standard operational procedures and a contingency plan.
- **The betterment** of the deposits' insurance system and also of all aspects of DIA's activities will be achieved through the new Law for "The Insurance of Deposits". As it was explained on the pages of this report, the Agency during the 2013 has been subjected of a detailed self-evaluation process and later on, part of an evaluation from international financial institutions (FSAP program from FMN and BB). As a result of this process, the need for the improvement of all the regulatory framework of the deposits' insurance system was identified. The main elements which would have improved the functioning of the deposits' system in Albania are related with (i) the betterment of deposits' compensation process and its efficiency; (ii) the betterment of administration funds by taking into consideration the risk management in the Agency's activities; (iii) the Agency's growth in the autonomy and financial capacity; (iv) strengthening of legal protection for the Agency employees; (v) the specification of the coverage level and premium for the credit savings companies. Based on the work plan of the Agency's responsible structures, coordinated with the international financial institutions that have assisted DIA in this important enterprise, the new draft law for "The insurance of Deposits" is expected to be submitted for approval in the Albanian Parliament within the first trimester of 2014.
- Following the approval of the draft law, the Agency within the 2014 will prepare and adapt all the necessary regulations that are needed for the operation and best administration of its activities.

**System modernization** is one of the biggest challenges of the Agency because it will enable a fast service, correct and reliable for all the insured depositors. The central information system for the collection and reporting of data of the insured subjects will automate all the processes and work procedures regarding the gathering of the depositors' data and their administration for a potential compensation process. During 2013 the Plan for the Implementation of the system has had a performance under the provisions. This performance constitutes a guarantee that the system even during the 2014 will achieve the anticipated stages. During the first trimester of 2014 there have been planned dedicated meetings with each of the Banks so that it could encourage their internal mechanisms for achieving compliance with the system, identifying and addressing the relevant technical issues earlier in the project plan. Within May 2014, the banks will have the opportunity to test the alpha version of the system

with real data, meanwhile that the final system will be put into work in August 2014. One of the most important features that the system offers is the performing of simulations which can verify the Agency's readiness to fulfill its obligations towards the insured depositors.

**The Agency's readiness** to answer in time, firstly in the cases of financial crisis to protect the small depositors and secondly to keep the financial system stability are its objectives for 2014. Therefore the Agency has to prepare a well-detailed contingency plan for a case of compensation and it should also build the necessary infrastructure for its implementation. This plan will be accompanied with simulations which will serve in enriching the Agency's employees' skills and knowledge so that they can answer the depositors' request for a fast and quality compensation. Preparation is the key to react appropriately against a crisis; it also helps the system to eventually climb the steps of success. The contingency plan is provided to be ready together with the informatics' system in the last trimester of 2014, time which the work for simulation preparation will start.

The fulfillment of the strategy for 2014 will be accompanied as well with the intensification of the information policies and the increasing of public awareness, a closer collaboration with the subjects that are members of the system, other institutions of financial security network and also with international organizations of deposits' insurance.

## **ANNEX 1**

### **DIA's insured Subjects for 2013**

<b>1</b>	Alpha Bank
<b>2</b>	Credins Bank
<b>3</b>	United Bank of Albania
<b>4</b>	Credit Bank of Albania
<b>5</b>	The National Commercial Bank
<b>6</b>	The International Commercial Bank
<b>7</b>	Credit Agricole Bank
<b>8</b>	First Investment Bank
<b>9</b>	Intesa Sanpaolo Bank
<b>10</b>	The National Bank of Greece
<b>11</b>	ProCredit Bank
<b>12</b>	Raiffeisen Bank
<b>13</b>	Societe Generale Albania Bank
<b>14</b>	Tirana Bank
<b>15</b>	Union Bank
<b>16</b>	Veneto Bank

---

## ANNEX 2

### Abbreviations

<b>DIA</b>	Deposits' Insurance Agency
<b>IADI</b>	International Association of Deposit Insurers
<b>EFDI</b>	European Forum of Deposit Insurers
<b>FDIC</b>	Federal Deposit Insurance Corporation
<b>SCA</b>	Savings & Credit Associations
<b>FSAG</b>	Financial Stability Advisory Group
<b>FSVC</b>	Financial Service Volunteer Corpus
<b>EBRD</b>	European Bank for Reconstruction and Development
<b>FSAP</b>	Financial Sector Assessment Program

---