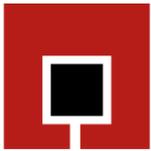




REPUBLIC OF ALBANIA



AGJENCIA
E SIGURIMIT
TË DEPOZITAVE

ANNUAL REPORT

2019

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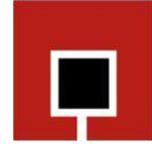


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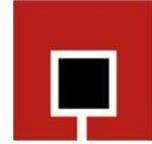
Section 1 – About the Report

This Annual Report provides an overview of the financial and administrative activity of the Deposit Insurance Agency for the period 1 January 2019 to 31 December 2019. The report reflects the main activities and initiatives, aiming to inform all beneficiaries of the deposit insurance scheme, associates, partners and the public on the principles on which is based the deposit insurance scheme in Albania and the commitment of the Agency, as its administrator, to create as much value as possible. This Annual Report has been drafted based on Law no. 53/2014, dated 22 May 2014, “On Deposit Insurance”, amended by Law no. 39/2016 and Law no. 132/2016, the Annual and Periodic Monitoring Manual approved by the Decision of the Assembly of the Republic of Albania no. 134/2018, dated 20/12/2018, as well as the legal and sub-legal acts that regulate the activity of the Agency.

The financial statements reflect the financial position of the Agency as of 31 December 2019 as well as its financial performance and cash inflows for the year ended on this date. These statements have been prepared in accordance with Law no. 25/2018, dated 10/05/2018, “On Accounting and Financial Statements”, as amended, and the International Financial Reporting Standards (“IFRS”). Based on Law no. 53/2014, dated 22 May 2014, “On Deposit Insurance”, as amended, the annual financial statements of the Agency are audited and certified by specialized external auditors.

The Annual Report and financial statements are approved by the Board of Directors of the Deposit Insurance Agency. The Board of Directors exercises the powers conferred by the Law to ensure that the Annual Report and financial statements present fairly, in all material aspects, the performance and administration of the Deposit Insurance Agency during the reporting year.

Please provide your comments on the Annual Report 2019 at info@asd.gov.al. This Annual Report, as well as previous annual reports, can be consulted in our official website www.asd.gov.al.



1.1. Message of the Chairman of the Board and General Director

Dear readers,

We are pleased to present the Annual Report of the Deposit Insurance Agency for 2019. This report aims to summarize the main developments and achievements that have characterized our activity during this year. The Report also provides information on the performance of deposits in banks and Savings and Credit Associations for this year, as well as on the main indicators of the deposit insurance scheme.

Although the indicators of the deposit insurance scheme have continued to be quite positive this year, we still believe that there is always room for improvement. For this reason, even during this year we have been fully committed to the development of capacities and standards of the deposit insurance scheme in order to be closer to the Albanian depositors, protect their interests and be attentive and ready to compensate, if necessary. Although the scheme appears strong and with growing indicators, we are aware that we must continue our efforts at all times for an effective fulfilment of our legal mandate.

Like other years, an essential element of the Agency's activity for this year has been to increase its operational readiness for a potential compensation event. For this purpose, we have conducted general simulations with the participation of agent banks, as well as technical simulations with all the banks and Savings and Credit Associations members of the deposit insurance scheme. In our experience, these simulation exercises are of particular importance as they enable to identify errors or shortcomings in our processes, identifying and correcting them in quieter times. In preparation for compensation, our staff has paid working visits to counterpart institutions in Montenegro and Ukraine to learn from compensation experiences in those countries, and in particular from challenges and lessons learned from each of them. We believe that this will help us in the future to be better prepared for a fast and efficient compensation process.

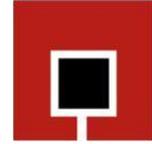
In the framework of our consolidated cooperation with the Financial Services Volunteer Corps (FSVC) and the implementation of the signed Memorandum of Understanding, this year we managed to conduct a self-assessment exercise of our scheme in relation to IADI Core Principles



of Deposit Insurance, with the assistance of experts sent by FSVC. IADI Core Principles are used by international financial authorities as part of programs that assess the state of the financial system. A comprehensive and credible assessment of the deposit insurance system against the Core Principles identifies the strengths and weaknesses of a deposit insurance scheme and guides decision-making authorities towards remedial legal measures. The self-assessment project is of crucial importance for the Agency, considering that its results determine the current stage in which the institution operates and the key strategic directions to follow in order to ensure maximal compliance with the best standards and practices in the field of deposit insurance. The project assessed the Agency in high compliance with the Core Principles.

In the past we have learned that despite clear objectives, fast working processes and the expertise and dedication of the staff, nothing will suffice without developing the right relationships with strategic partners at home and abroad. For this reason, we have worked in this direction, renewing the existing Cooperation Agreement with the Bank of Albania, in its role as the Supervisory Authority, which we consider extremely important to operationalize and consolidate our cooperation at technical level. In particular, this Agreement establishes a cooperation platform between our authorities for the emergency intervention and respective roles in this regard. At the same time, as part of the Financial Stability Advisory Group, we have continued to remain in constant contact and cooperation with the Bank of Albania, the Ministry of Finance and the Financial Supervisory Authority, in order to avoid potential crises and maintain financial stability in the country.

The development of the Agency's relations has also extended to the international level throughout this year, and we can here emphasize bilateral meetings with counterpart deposit insurance authorities, as well as various participations in forums and activities organized by international organizations such as IADI and EFDI, organizations in which the Agency adheres to. As members of IADI Regional Committee for Europe, this year we were entrusted with the organization of the annual meeting of the Committee in Tirana as well as the follow-up technical seminar. The two-day activity held in Tirana, turned out to be very fruitful, and we had the pleasure to have participants from all over Europe. We believe that such contacts enable the approximation of our

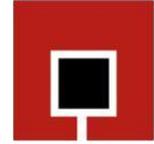


deposit insurance scheme to contemporary standards and practices in this field. At the same time, and with the same purpose, this year we also signed Cooperation Agreements with the Deposit Insurance Funds of Turkey and Italy. The institutionalization of cooperation with these authorities is an important step for ADIA, taking into account their professionalism and indisputable expertise in the administration of deposit insurance schemes and emergency interventions in their respective countries. We also deem that such cooperation is of particular importance in terms of the presence of the banking industry of both countries in the Albanian banking system. Finally, in the context of updating to the highest standards in the deposit insurance field, during this year we also renewed the Memorandum of Understanding with the Korean Deposit Compensation Fund.

The Agency's work during this year also extended to cover our role in the emergency intervention in banks. Along with the Resolution Authority - the Bank of Albania - we worked on the good administration of the Resolution Fund and the supporting role of the deposit insurance scheme in case of an emergency intervention. Our objective, in any case, is the stability of the financial and banking system in the country. The past has shown us that this can only be achieved through an effective preparatory work to manage potential cases of financial crises, which have serious consequences both economically and socially.

Another key component of our work has been raising public awareness and increasing public confidence in the deposit insurance scheme. We remain committed to our initiatives to educate the public and continuously raise public awareness on the benefits of the scheme, through production and distribution of promotional materials to financial institutions members of the deposit insurance scheme, and communication through social networks and the official website of the Agency. We have also tried to be as transparent as possible regarding our daily work and activity, through the publication of activities and official announcements for the general public and our associates.

In conclusion, we cannot go without mentioning in this introductory speech our employees and associates, without whom the good work and further development of our institution during this year would not have been possible. They have been at the centre of our projects and contributors to their success. For this, in the future we will continue to focus on increasing the operational



readiness through investment in human capital by means of ongoing learning and training processes. We also thank the Board of Directors, whose contribution and dedication has helped us achieve our goals throughout the year.

Finally, we would like to address the public, to whom we guarantee that we will continue to carefully monitor developments in the financial industry and be well prepared to respond in a timely manner to all challenges that the future will bring, with the primary goal of protecting the interests of the Albanian depositors and maximally contributing to maintaining financial stability in the country.

Thank you,

Donald Duraj

Chairman of the Board of Directors

Genci Mamani

General Director

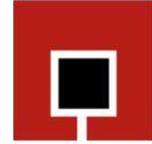


1.2. Executive Summary

At the end of December 2019, the total deposits in the banking system reached ALL 1,193 billion, of which the Agency has a liability of compensation of ALL 702.8 billion or 1,642,224 depositors. The value of eligible deposits in banks benefiting from the deposit insurance scheme reached ALL 1.141 billion, which represents 95.7% of the total deposits. Individual eligible deposits account for the largest share of eligible deposits, namely about 85.6% of them, while 14.4% are eligible deposits of traders and companies. Eligible deposits in ALL, at the end of December 2019, accounted for 48.5% of the total eligible deposits, followed by Euro deposits 45%, and USD deposits 4.5%, maintaining the same ratios as the previous year.

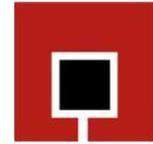
Meanwhile, the total deposits in Savings and Credit Associations is ALL 8.2 billion at the end of 2019, from ALL 6.9 billion last year, with a significant annual increase of 19%. Eligible deposits in Savings and Credit Associations account for 98.9% of the total, with a value of ALL 8.1 billion, to the benefit of 23,455 depositors. At the end of 2019, the eligible deposits in foreign currency accounted for 17.4% of the total eligible deposits in Savings and Credit Associations, while the rest are deposits in ALL. The liability for compensation of the Deposit Insurance Agency in Savings and Credit Associations is ALL 6.1 billion, or 14,482 depositors.

Deposit insurance funds in banks and Savings and Credit Associations have increased steadily during 2019. Specifically, the book value of the deposit insurance fund in banks at the end of 2019 was ALL 43.18 billion, with an annual increase of ALL 4.28 billion, or 11%. This has come as a result of the increased income from insurance premiums, which in 2019 was ALL 3.37 billion, with an increase of 3.16%, as well as the increased income from the administration of financial assets in the amount of ALL 1.08 billion, or 8.1% more than in 2018. Like the previous year, even this year the increased income from the management of financial assets was mainly a result of expanding the portfolio in bonds with a maturity of 2 and over two years. The steady growth of the deposit insurance funds in banks has led to an increase in the coverage ratio, calculated as a percentage of the deposit insurance fund in banks compared to the insured deposits, of 6.15% at the end of 2019, from 5.83% in 2018.



Meanwhile, the book value of the deposit insurance fund in Savings and Credit Associations, for the same period, is ALL 124.59 million, marking an increase of 15.89%. The annual income from the insurance premiums for 2019 was ALL 16.49 million, while the annual income from the administration of the financial assets of the deposit insurance fund in Savings and Credit Associations during 2019 was ALL 1.71 million, with an increase of 2.33%. Finally, the coverage ratio for the third year of operation of the insurance scheme for SCAs is 2.05%.

Finally, during this year, the Agency also committed to fulfilling the functions assigned by law for the administration of the Resolution Fund (RF), this being the second year of banks payment of annual contributions to this fund. The book value of the RF at the end of 2019 was ALL 1,303 billion. The total first annual contribution paid by banks was in the amount of ALL 650.33 million. The RF's financial assets were administered according to the administration policy approved by the Agency and the Bank of Albania, as the Resolution Authority.



Section 2 – Resolution of the Assembly of the Republic of Albania and the implementation of its recommendations by the Agency

The Agency, in fulfilment of its public mandate and in implementation of the legal provisions of Law no. 53/2014, dated 22 May 2014, “On Deposit Insurance”, as amended, reports to the Assembly of the Republic of Albania on its annual activity. Following the Agency’s reporting on its activity in 2018, the Assembly through the “Resolution on the Assessment of the Activity of the Deposit Insurance Agency for 2018”, approved on 08/05/2019, assessed the annual activity of the Institution and recommended three key directions on which the Agency should focus its commitment for 2019. Throughout the reporting year, the Agency through operational initiatives and strategic partnership has implemented the recommendations of the Assembly. Following you will find the recommendations of the Assembly as well as the measures taken by the Agency for their implementation.

Recommendation 1: Pursuant to the legal provisions and taking into account the economic and social conditions of the Republic of Albania as well as the compliance with the international standards of deposit insurance, to review and assess the adequacy of the indicators of the deposit insurance scheme, including among others: the insurance premium rate, the level of coverage for insured deposits, the categories of eligible deposits and deposits exempted from the insurance scheme and the target adequacy ratio of funds administered by the Agency;

Measures taken by the Agency: The Deposit Insurance Agency, based on the recommendation given by the Assembly of the Republic of Albania, has undertaken a project for the evaluation of the deposit insurance scheme and its indicators. This project is considered essential for the Agency, given that its results determine the current stage in which the institution operates, as well as the main strategic directions to follow in order to ensure the highest possible compliance with the best standards and practices in the deposit insurance field. The constant increase of the compliance level guarantees that the Agency and its staff will successfully achieve the public objectives of the scheme, thus fulfilling the Agency’s legal mandate. Also, the assessment of the compliance of the scheme is a process which must be carried out every five



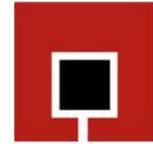
years by the Agency in implementation of the legal obligation provided for in Article 52, point 1, letter “b” of Law no. 53/2014, “On Deposit Insurance”, as amended.

Considering the complexity of the project; aiming at the most efficient distribution of human resources and the Agency’s operational capacities; and considering that the realization of this project would be an opportunity for the entire staff of the Agency to further develop their knowledge, the project was divided into two sub-projects:

(1) Project for the assessment of the compliance of the scheme with the Core Principles for an Effective Deposit Insurance System, and

(2) Project for the assessment of the adequacy of the deposit insurance scheme indicators taking into account the economic and social conditions of the Republic of Albania and compliance with the international standards of deposit insurance. The implementation of this project, which also aims to assess the adequacy of other indicators of the deposit insurance scheme, such as the insurance premium rate, the target adequacy ratio of funds administered by the Agency, etc., started with the assistance of the World Bank’s office FinSac¹. In December 2019, the first phase of the project was conducted, collecting and preparing the necessary comparative data on deposits and depositors for a period of 10 years (2009-2019), data that will serve for a study analysis of the indicators of the deposit insurance scheme, including the insurance premium rate, the level of coverage for insured deposits, the categories of eligible deposits and deposits exempted from the insurance scheme, as well as the target adequacy ratio of the Agency's funds. The next phase, which will continue in March 2020, will aim to develop a methodology for the evaluation and calculation of these indicators, as well as the assessment of their adequacy. The project is expected to be completed within the first 6 months of 2020.

¹ Financial Sector Advisory Centre is a World Bank’s office based in Vienna, Austria, which provides independent expertise, and as needed, technical assistance and support for the implementation of projects in developing European countries and Central Asia region.



The Agency in cooperation with experts proposed by IADI² and contracted through FSVC³, successfully implemented the project for the assessment of the compliance of the scheme with the Core Principles for an Effective Deposit Insurance System⁴. The process of preparation and self-assessment with the consultancy of international experts in the field ended in November 2019.

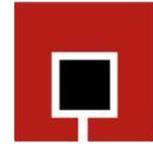
The Core Principles for Effective Deposit Insurance Systems (16) were defined by the Basel Committee on Banking Supervision and the International Association of Deposit Insurers (IADI), establishing an important standard in setting up and reforming deposit insurance systems. As part of the Financial Stability Board's Key Standards for Sound Financial Systems they are widely used by the IMF and the World Bank in Financial Sector Assessment Programs (FSAP). A comprehensive and credible assessment of the deposit insurance system against the Core Principles identifies the strengths and weaknesses of a deposit insurance scheme and orients decision-making authorities towards remedial legal measures.

The process of assessing the compliance of the deposit insurance scheme in Albania was carried out in 2011 and 2013. According to the report, the Agency has made significant progress in the level of compliance with the Core Principles for effective deposit insurance schemes, compared with the two previous evaluation processes. In relation to IADI's 16 core principles, the 2019 assessment evaluated the Agency fully and broadly in compliance with 15 of the Core Principles. Regarding the level of coverage for insured deposits and categories of eligible deposits and deposits exempted from the insurance scheme, included under Core Principle 8, it is worth noting that the Agency was assessed in full compliance with the Core Principles. The report notes that insured deposits, uninsured deposits and the level and extent of coverage are clearly and publicly defined in Law no. 53/2014, dated 22/05/2014, "On Deposit Insurance", as amended. Based on the deposit insurance scheme data in Albania, the scheme provides coverage under which most depositors in banks are fully protected, leaving a significant part of the value of deposits

² International Association of Deposit Insurers.

³ Financial Services Volunteer Corps. FSVC projects are financed by USAID.

⁴ IADI's Core Principles (CP) for Effective Deposit Insurance Systems. These principles are internationally accepted standards for the assessment of deposit insurance schemes.

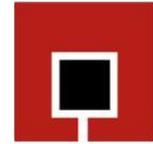


exposed to market discipline, which is in full compliance with the Core Principles for effective deposit insurance schemes.

Recommendation 2: Continue to test the system in terms of preparedness for insurance events, IT infrastructure, communication with depositors, as well as the bank in liquidation and the agent bank selected by the Agency to conduct a compensation process, carrying out technical and thematic simulations as well as engaging in inter-institutional simulations or simulations in case of emergency intervention events, in order to test the operational procedures drafted on paper;

Measures taken by the Agency: During 2019, the Agency has conducted technical simulations with all the banks and Savings and Credit Associations, members of the scheme, both in the course of verification processes within these entities and also in the periods between verifications. Technical simulations aim to prepare all the members of the deposit insurance scheme to accurately and quickly report the compensation files in case of an insurance event. These simulation exercises also intend to improve the quality of depositors and deposit data reported to the Agency's IT system. All together, they will ensure a fast and accurate execution of the deposit compensation payments, in case of an insurance event, thus contributing to maintaining the stability of the banking and financial system.

Following the simulation exercise performed in 2018 with one of the agent banks selected from the preliminary list, during 2019 the Agency has carried on meetings, trainings and consultations with another agent bank. The simulation with this bank took place during the first week of November. It should be noted that the simulation included novelties compared to the previous simulation: first, the simulation of different cases of deposit compensation (the previous simulation tested only the cash compensation of deposits, while the current simulation also conducted a test of payments through bank transfer), and secondly, a simulation of depositors' compliance process. The simulation exercise was intended to test the readiness of the agent bank, as well as to prepare its staff to accurately and quickly respond to an insurance event. At the end of the simulation exercise, the agent bank created a clear overview of the whole process, from



the agility of its stages to the necessity of qualitative interaction among all actors involved, as well as the time required for each stage of the process for successful payments in a potential insurance event. The simulation was also very effective for the organizational structures of the Agency, as lessons were learned and discussions were held on concrete findings, which are estimated to improve the institutional capacity of the Agency and increase its willingness to respond effectively to potential situations of an insurance event.

Part of the simulation exercise, as well as in the 2018 simulation, was the Payment Systems, Accounting and Finance Department at the Bank of Albania. Its involvement and engagement in transferring compensation funds within the required timeframe, according to definitions of the simulation exercise scenario, is considered a valuable element in coordinating the entire operational infrastructure of an insurance event.

Regarding the IT infrastructure, in order to be prepared in case of an insurance event, the Agency is currently undergoing a preparatory phase for the development of a module on the automation of the compensation process (relationship with the agent bank, compliance module, etc.), a process for which the Agency has consulted experts in the field.

In the course of the verification process in each institution member of the deposit insurance scheme, the Agency has paid special attention to informing depositors, through training and informing the employees of banks and Savings and Credit Associations, as intermediaries of the Agency for better information of depositors in relation to the benefits and limitations of the deposit insurance scheme. Regarding information and communication with depositors in case of an insurance event, the Agency has drafted a special strategy for this purpose. The strategy defines the tools and methods to be used for this purpose.

It should be noted that from the beginning of 2019 onwards, the Agency has maintained close training, advisory and information relationships with all the Savings and Credit Associations, as the newest members of the deposit insurance scheme.



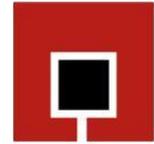
Recommendation 3: Further deepen the cooperation with the Financial Stability Advisory Group, and in particular with the Bank of Albania, taking into account the key role of this institution as the regulatory and supervisory authority responsible of the banking and financial sector as well as the joint mission of both institutions in terms of developing a healthy financial system at the service of the public and maintaining its sustainability.

Measures taken by the Agency: Pursuant to this recommendation, and in order to fulfil its mandate as administrator of the deposit insurance scheme, the Agency:

Has cooperated with the Financial Stability Advisory Group to maintain financial stability and avoid potential financial crises. The Agency has regularly participated in all meetings of this forum, reporting on its operational readiness, and focusing in particular on the performance of deposits insured in banks and Savings and Credit Associations (SCAs), financial resources available for the compensation of deposits insured in financial institutions, the members of the deposit insurance scheme, etc.

As for the cooperation with the Bank of Albania, in its role as the Supervisory Authority, the cooperation has covered all institutional aspects. It includes, inter alia, (i) consultations in view of the regulatory and legal framework for emergency intervention in banks; (ii) monitoring and supervising the activity of Savings and Credit Associations, (iii) mutual coordination to assess the compliance of the deposit insurance scheme with the Core Principles for an Effective Deposit Insurance System and a project to evaluate the financial indicators of the scheme; (iv) participation and contribution to operational and financial education-related activities; etc.

In order to implement the recommendation of the Resolution of the Albanian Parliament and aiming at deepening the institutional cooperation with the Bank of Albania, the Agency undertook the initiative to review the Cooperation Agreement in force with the Supervisory Authority. The Agreement was signed in December 2019 and aims to further develop the deposit insurance scheme, protect the interests of the Albanian depositors and strengthen the country's financial stability, through further consolidation of cooperation at technical and operational level between ADIA and the Bank of Albania in its role as the Supervisory Authority. In addition, the

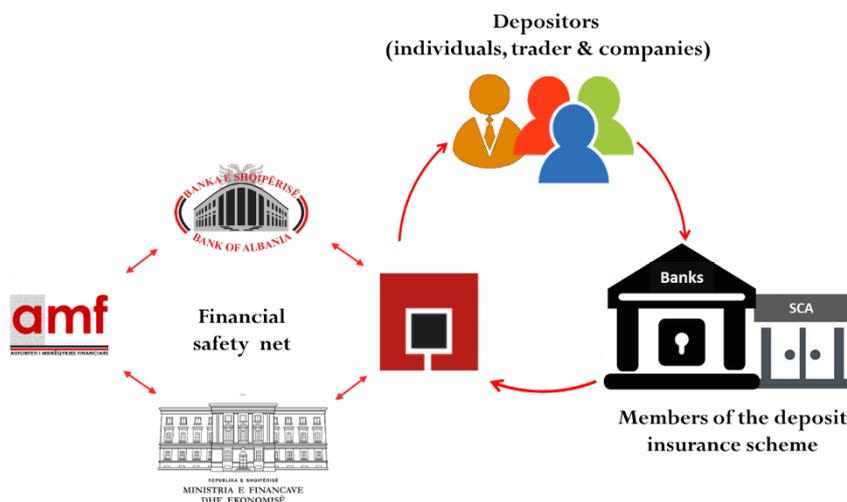


Cooperation Agreement enables an increased effectiveness in the coordination of activities and functions of the institutions, as well as a constant exchange of information and experiences for the achievement of the respective public objectives. In particular, the Agreement sets up bridges of institutional cooperation at operational level between both authorities regarding the emergency intervention and their respective roles in this regard. The institutionalization of cooperation between both authorities represents an important step in implementing the strategic priorities of the Agency.



Section 3 – Deposit insurance scheme in Albania and developments during 2019

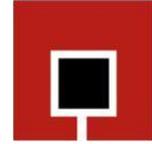
The deposit insurance scheme is one of the most important elements of the financial security network in the country and has the exclusive responsibility of mandatory deposit insurance for individuals, traders and companies, in all banks and Savings and Credit Associations, members of the scheme. The legal mandate of the scheme is to compensate depositors in case of an insurance event, as well as to contribute to maintaining the financial stability of the country. Since its inception, the deposit insurance scheme has developed steadily and in a consolidated way.



Deposit insurance and compensation scheme and financial safety network

One of the main goals of the scheme has been the constant fulfilment of the core principles and criteria for effective deposit insurance systems, approved by the International Association of Deposit Insurers (IADI). The fulfilment of this goal over the years has been made possible through reforms of the legal and sub-legal aspects of the scheme, the development of the infrastructure of the Deposit Insurance Agency, as well as the close cooperation with member entities, groups of interest and counterpart institutions.

The process would be considered incomplete without periodic assessments of the compliance of the scheme with the core principles for deposit insurers, according to the methodology approved by the International Association of Deposit Insurers (IADI), and in close cooperation with the



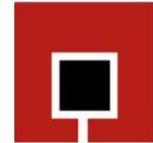
Bank of Albania. The self-assessment process of the Agency's activity, conducted in September - November 2019, showed a significant improvement in the level of compliance of the scheme with international standards.

Developments in the role of deposit insurers around the world, aiming to offer their contribution to maintaining financial stability, have found an application in our country too. The Agency is mandated by law to perform the functions of one of the sources of funding of the emergency intervention activity in banks, through transferring the deposit compensation fund in view of the implementation of emergency intervention instruments. Also, in the framework of the implementation of the legal reform on emergency intervention in banks, the Agency is committed to efficiently perform the added legal function of the administration of the Resolution Fund. To perform this function, the Agency cooperates with the Bank of Albania for the most efficient investment of the Resolution Fund as well as the adaptation of the sub-legal acts for this purpose.

During 2019, the deposit insurance scheme has continued to contribute to maintaining the financial stability in the country, rigorously fulfilling the deposit insurance activity for individuals, traders and companies in all banks and Savings and Credit Associations, members of the scheme. In line with the dynamics of developments in the banking sector, and due to its structural changes over the past year, the deposit insurance scheme has undergone changes in its membership.

In the framework of changes in the member entities, the Board of Directors of the Agency has adopted a series of decisions, with a direct impact on the composition of the membership of the scheme. Specifically, with Decision no. 23, dated 12/07/2019, the Board of Directors revoked the deposit insurance certificate to the International Commercial Bank, due to its absorption by the Union Bank. This decision followed the decision-taking of the Supervisory Council of the Bank of Albania to give prior approval to the merger by absorption of Union Bank with the International Commercial Bank. Following, Union Bank Sh.a., kept its deposits separated from the deposits of the International Commercial Bank Sh.a., for a period of three months.

In addition, the Board of Directors of the Agency with Decision no. 21, dated 19/06/2019, decided to exclude from the deposit insurance scheme the Credit Bank of Albania Sh.a., due to the initiation of the voluntary liquidation process by the bank itself. The act was approved



following the decision of the Bank of Albania to revoke the license to the Credit Bank of Albania, as a consequence of its voluntary liquidation.

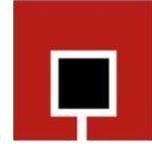
During 2019, there was a change in the shareholder structure of Societ  Generale Albania. The Board of Directors of the Agency with Decision no. 15, dated 30/04/2019, issued a deposit insurance certificate to the bank with the changed name “OTP Bank Albania Sh.a.”, which is also the buyer of shares. The decision was taken following the approval by the Bank of Albania of the name change from Societ  Generale Bank Albania to OTP Bank Albania.

In addition to changes in the member banks of the scheme, the Board of Directors of the Agency decided to grant the Savings and Credit Company “Tirana Invest Kredit 2000” membership to the deposit insurance scheme. Upon receipt of the written notification from the Supervisory Authority for the issuance of the license, the Board of Directors approved their Decision no. 3, dated 13/02/2019, on the membership of “Tirana Invest Kredit 2000” to the deposit insurance scheme.

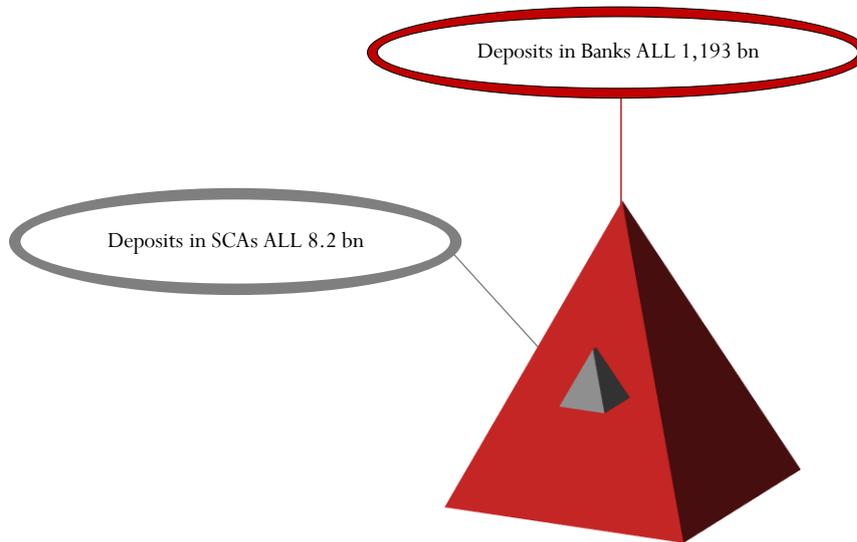
As a result of these changes, the deposit insurance scheme is currently responsible for the deposit insurance in 19 member financial entities, including 12 banks and 7 Savings and Credit Associations.

3.1. Deposits in the system

Throughout 2019, the Deposit Insurance Agency insured individual deposits in 14 banks of the system, as well as in 7 Savings and Credit Associations. The year 2019 was the year in which the Credit Bank of Albania sh.a., with the approval of the Bank of Albania, initiated the voluntary liquidation process which ended on June 19, 2019. Also, on August 1, 2019, Union Bank sh.a., completed the process of merger by absorption with the International Commercial Bank. As a result, as of August 1, 2019, the number of banks insured by the Deposit Insurance Agency is 12. At the end of 2019, the total deposits in the banking system were ALL 1,193 billion, while the total deposits in Savings and Credit Associations were ALL 8.2 billion.



Total deposits in banks and SCAs for the end of year 2019



According to the data for the end of 2019, the Agency has the obligation to compensate ALL 702.8 billion of bank deposits, or 1,642,224 depositors; as well as the obligation to compensate ALL 6.1 billion of deposits in Savings and Credit Associations, or 14,482 depositors. In the total liabilities of the Agency of ALL 708.9 billion to depositors who have placed their deposits in banks and SCAs, 99.1% is the liability of the Agency to depositors who have placed their deposits in banks, while 0.9% is the liability of the Agency to depositors who have placed their deposits in Savings and Credit Associations.

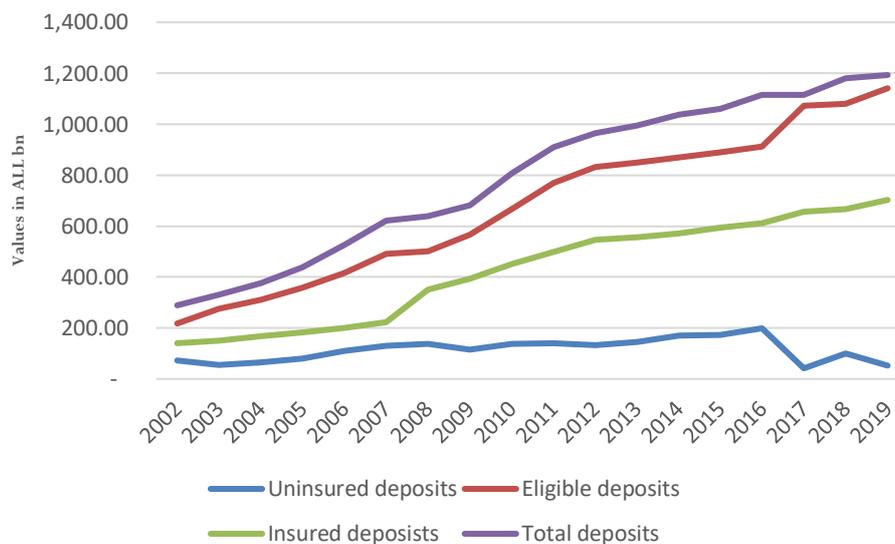
A depositor in every bank or branch of a foreign bank is insured in the amount of 100%, but in any case not more than ALL 2 500 000 (two million five hundred thousand), while a depositor in Savings and Credit Associations is insured in the amount of 100 %, but in any case not more than ALL 2 000 000 (two million), regardless of the number of deposits or the type of their currency.



3.2. Deposit insurance in banks

For most of 2019, the total deposits in the banking system had an upward trend, with relatively low monthly change rates. At the end of December 2019, the total deposits in the banking system reached ALL 1,193 billion. The average annual change rate for the last ten years is 5.9%

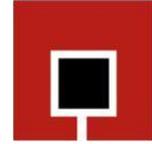
Dynamics of deposits in the banking system for the end years 2002-2019



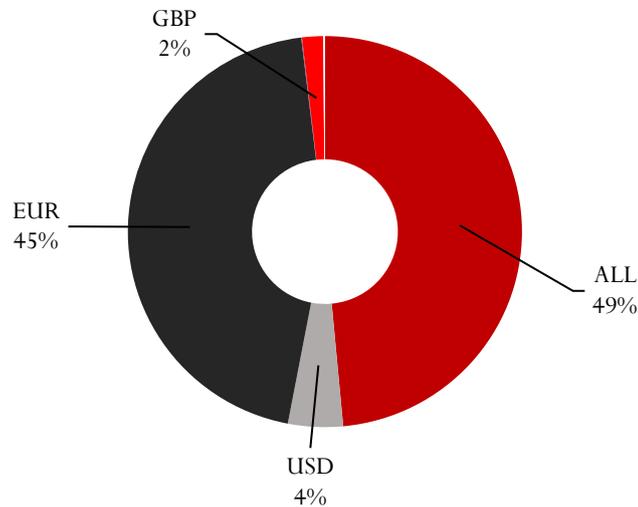
3.2.1. Eligible deposits in the banking system

At the end of 2019, the value of eligible deposits benefiting from the deposit insurance scheme reached ALL 1,141 billion, representing 95.7% of the total deposits. Compared to the previous year, deposits increased by 5.8%, while their increase in absolute value was ALL 62.3 billion. Eligible deposits include time deposits, current accounts, savings accounts, card accounts, joint accounts and other similar products.

Eligible deposits in ALL, at the end of December 2019, accounted for the largest share of the total eligible deposits of 48.5%, followed by Euro deposits 45%, and USD deposits 4.5%, maintaining almost the same ratios as a year ago.



Structure of the amount of eligible deposits in the system by currency in % - 31 December 2019



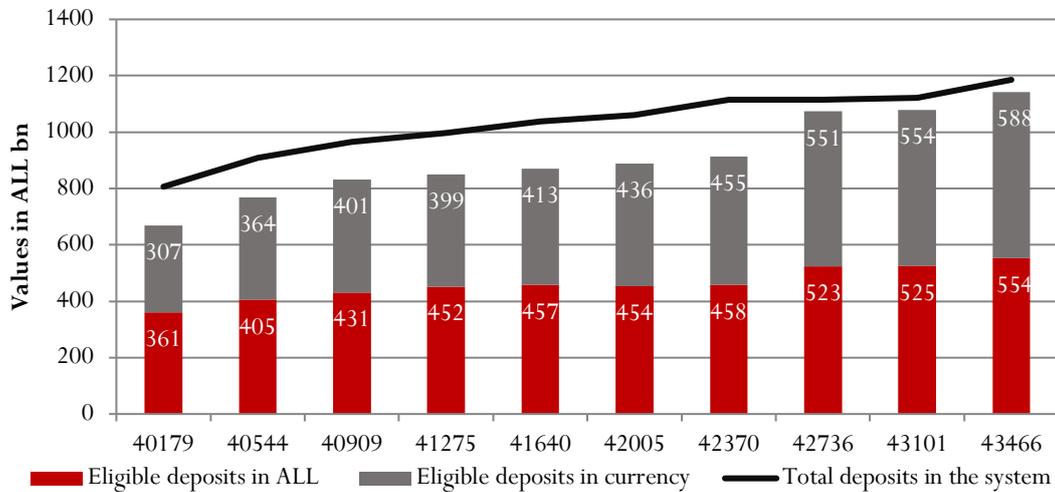
The dynamics of the eligible deposits in ALL during 2019 has been positive for most of the period, but the monthly change rates have been relatively small, and only in April and August there has been a relatively slight decline. The highest monthly change rate of +1.7% occurred at the end of December. During this period, deposits reached the value of ALL 553.8 billion. Eligible deposits in foreign currency in December 2019 accounted for 51.5% of the total eligible deposits and their countervalue in ALL was 587.6 billion. The positive monthly change rate for deposits in foreign currency was recorded in seven months of the year, and the largest increase of 3.25% was recorded at the end of August.

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

Compensation deposits of the banking system at the end of 2019, reached ALL 702.8 billion, which represents the maximum liability of the Agency to 1,642,224 individual depositors and traders and companies.

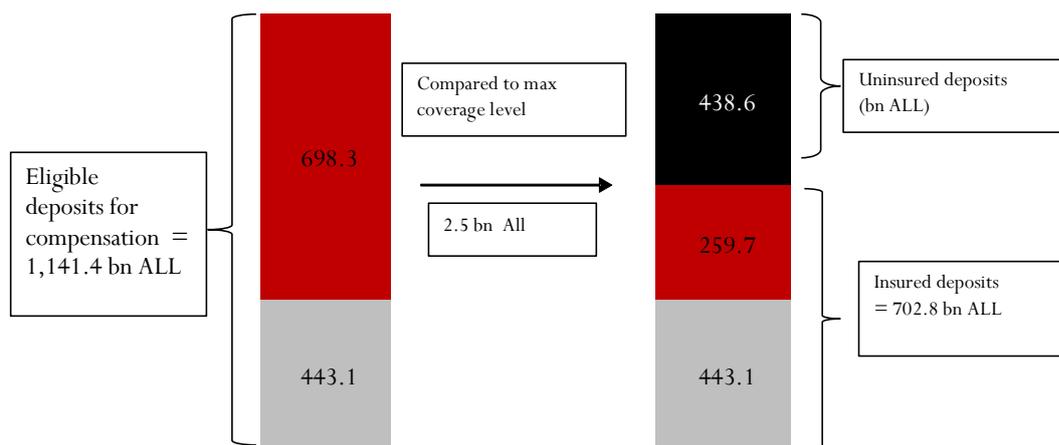


Dynamics of eligible deposits in the system by currency 2010 - 2019



At the end of December 2019, eligible deposits less than or equal to the maximum level of coverage were ALL 443.1 billion (expressed as a percentage 38.8% of the total amount of the eligible deposits), while deposits above the maximum level of coverage reached ALL 698.3 billion (or 61.2% of the total amount of the eligible deposits).

Structure of eligible deposits for compensation compared to the coverage limit 2.5 mln - December 2019



- Eligible deposits for compensation up to maximal level of coverage
- Insured deposits of depositors with deposits up to maximal level of coverage
- Eligible deposits for compensation above maximal level of coverage
- Insured deposits of depositors with deposits above maximal level of coverage
- Uninsured deposits

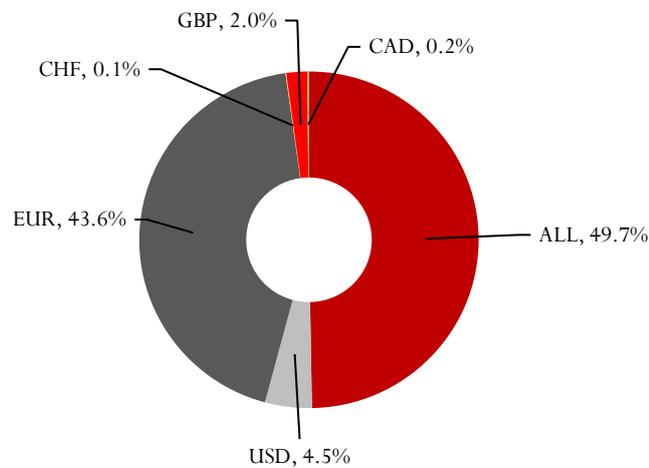


3.2.2. Individual eligible deposits

As of December 31, 2019, these deposits in the banking system amounted to ALL 976.5 billion, and constituted the largest part of the total eligible deposits, namely 85.6% of them (the annual change rate was 5.9%).

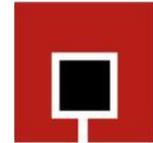
The impact on the annual growth of 5.9% of individual eligible deposits was given by Euro deposits (their share 43.6%), which expressed in their countervalue in ALL increased by 7.2%, while in original currency they increased by 8.7%. Deposits in USD (their share 4.5%) marked an annual decline of 4.9%, and their countervalue in ALL decreased by 4.2%. In December 2019, foreign currency deposits expressed in ALL countervalue accounted for 50.3%, and their annual growth was 6.1%.

Structure of the amount of individual eligible deposits in the system by currency in %- December 2019



At the end of December 2019, the individual eligible deposits in ALL in the banking system reached the amount of ALL 485.5 billion, representing 49.7% of the individual deposits, and marking an increase of ALL 25.8 billion (in percentage 5.6%) compared to the previous year.

The dynamics of individual eligible deposits by level of coverage has been almost positive throughout the year, marking a slight decline only in April and May. Compared to the end of 2018, deposits with amounts up to ALL 2.5 million have increased by 4.7%, while deposits with



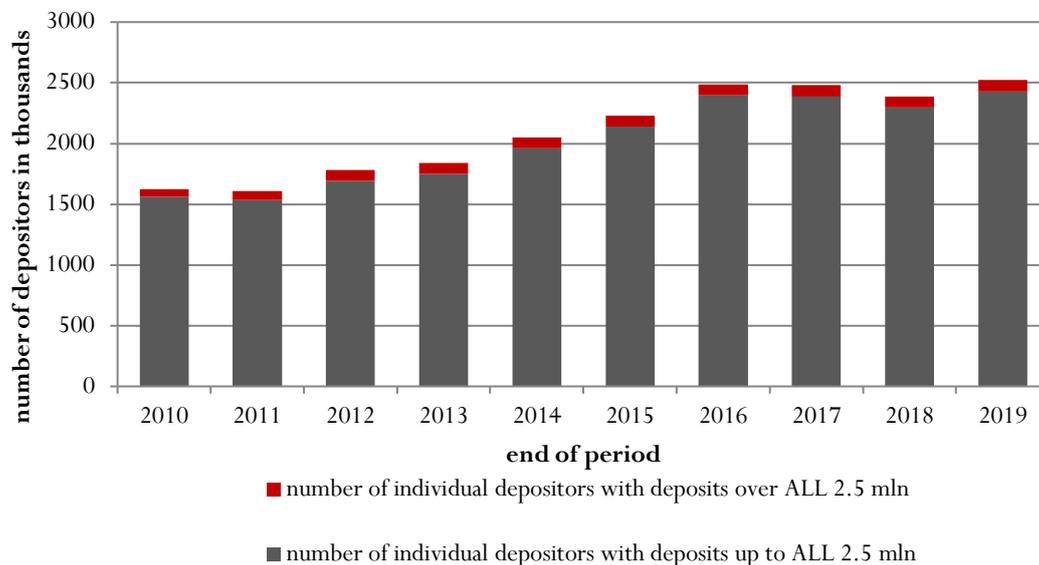
amounts above the coverage level have increased by ALL 35.2 billion or 6.8%. Since December 2019, deposits above the coverage level have the largest share against the total individual eligible deposits (56.5%), and their increasing performance has affected the annual growth of individual eligible deposits with 5.9%.

The number of individual depositors benefiting from the deposit insurance scheme in the banking system at the end of 2019 was 2,522,482⁵.

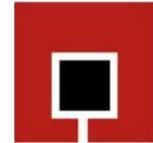
Among individual depositors with deposits greater than ALL 100, 94% of them or 1,434,747 depositors, have deposits up to the level of coverage and benefit full coverage from the deposit insurance scheme.

At the end of December 2019, individual depositors with deposits larger than ALL 2.5 million are 95,974 and the amount of their deposits reached the value of ALL 551.4 billion.

Dynamics of the number of individual depositors classified by level of coverage 2010-2019

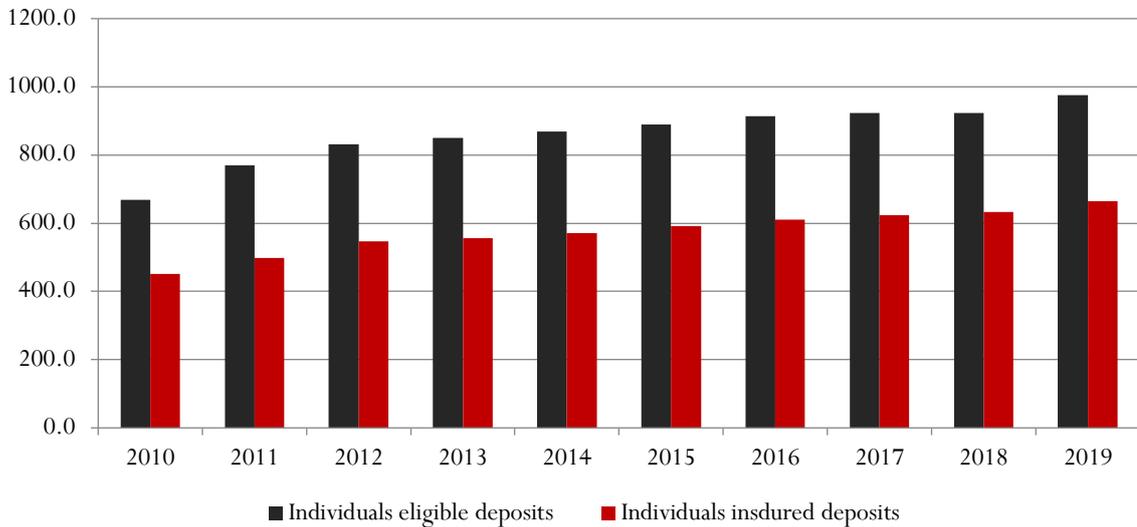


⁵ The total number of depositors is determined by collecting aggregated data reported by each bank; therefore a person who has deposits in several banks is registered several times. This figure includes depositors with zero balance up to ALL 100 (legal minimum for compensation), which in December 2009 were 991,761.



Dynamics of eligible deposits and individual insured deposits 2010-2019

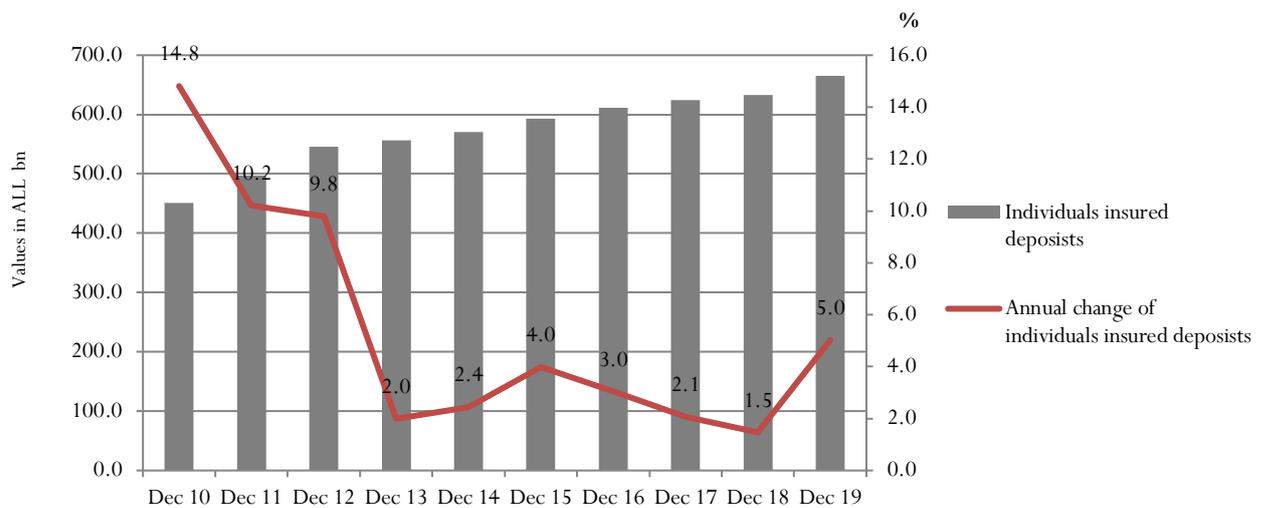
ALL bn; end of period

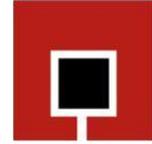


3.2.3. Individual insured deposits

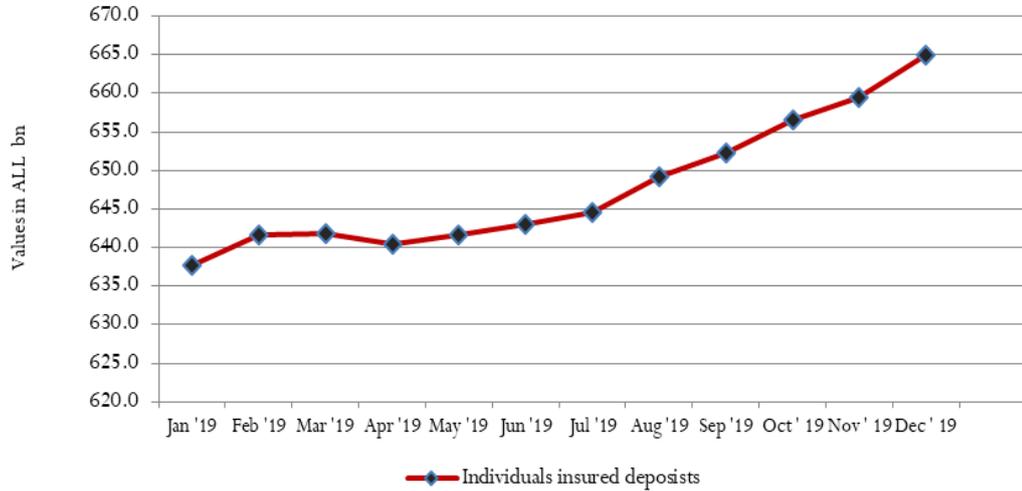
At the end of December 2019, the individual insured deposits in the banking system reached the amount of ALL 665 billion and constituted 68.1% of the value of the individual eligible deposits.

Dynamics of individual insured deposits in value and annual change in % 2010 – 2019



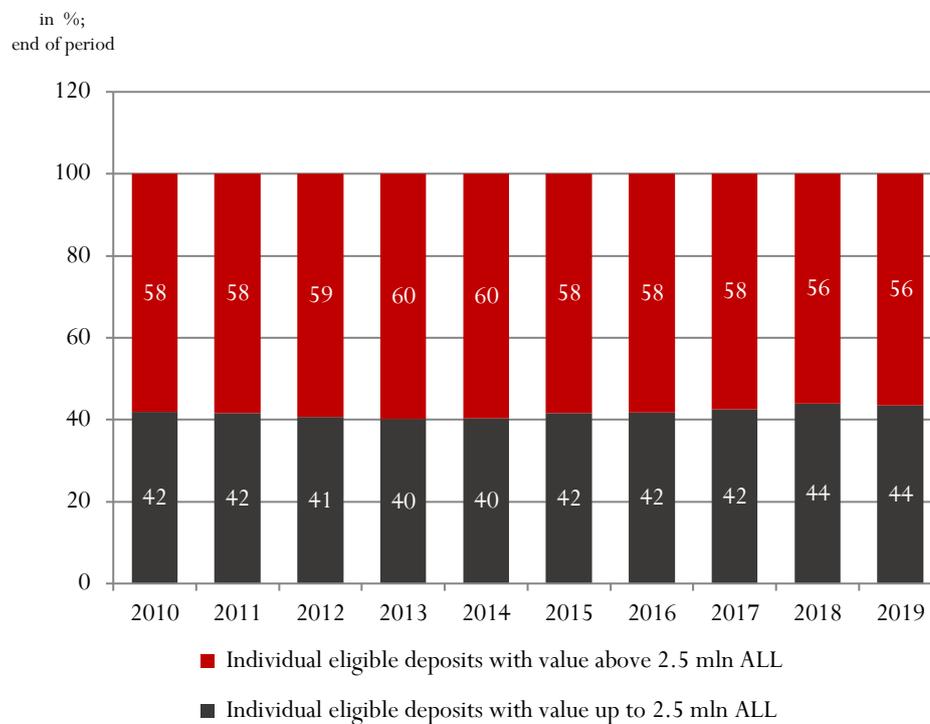


Dynamics of individual insured deposits in value during 2019



For the period 2010-2019, the percentage of individual deposits worth up to 2.5 million ALL, varies from 40% to 44% of the total eligible deposits.

Dynamics of individual deposits classified by level of coverage 2010-2019



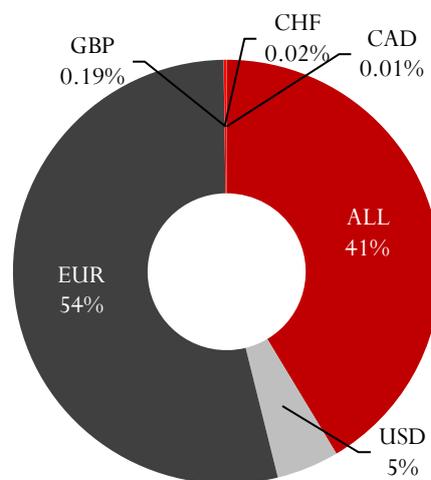


3.2.4. Eligible deposits of traders and companies

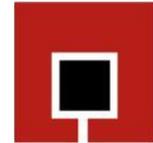
In December 2019, these deposits in the banking system reached ALL 164.9 billion and increased by 5.2% during the year. Deposits in the amount of up to ALL 2.5 million increased by 10.9%, but their share against the total eligible deposits of traders and companies was 11%, while deposits in the amount over ALL 2.5 million (weighing 89%) increased by 4.5%.

According to the type of currency, the largest impact on the annual growth of 4.5% of the eligible deposits of traders and companies, was given by Euro deposits, which in December 2019 accounted for 53.6% of their total deposits. The annual change rate for Euro deposits expressed in ALL countervalue was 8.1%. Deposits in ALL accounted for 41.4% and increased by 4.8% compared to the previous year, while USD deposits accounted for 4.7%, and compared to the previous year these deposits expressed in their countervalue in ALL decreased by 14.9%.

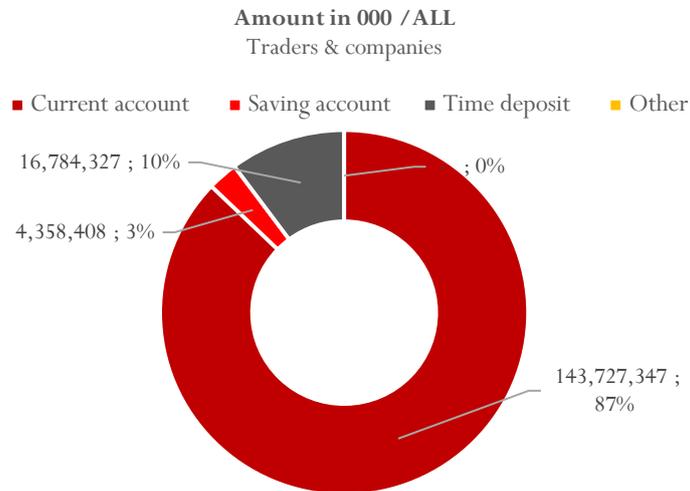
Structure of the amount of eligible deposits of traders and companies in the system by currency in % - Dec 2019



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



Structure of the amount of eligible deposits of traders & companies by products – December 2019

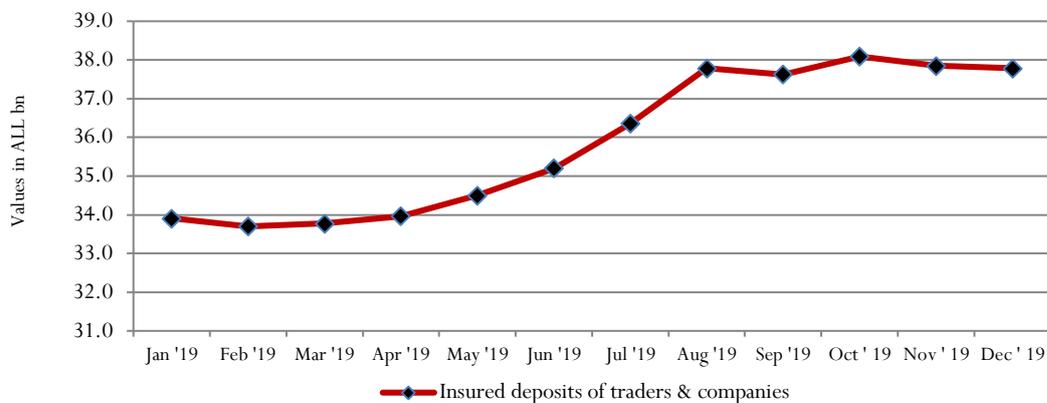


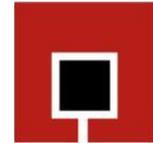
Unlike the situation of individual eligible deposits, 89% of traders and companies' deposits are amounts above the coverage level, corresponding to 7,918 depositors, who represent 5% of traders and companies. This structure has been almost at these same ratios throughout 2019.

3.2.5. Insured deposits of traders and companies

Insured deposits of traders and companies during 2019 decreased by 0.2%, and at the end of this year they reached a value of ALL 37.8 billion. The dynamics of the insured deposits of traders and companies during 2019 has been positive for seven months of the year.

Dynamics of insured deposits of traders & companies in value throughout 2019

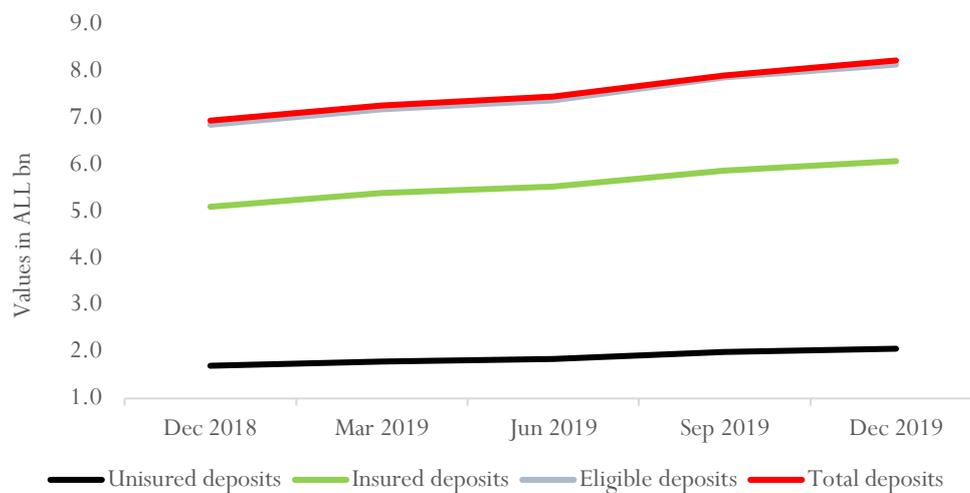




3.3. Deposit insurance in SCAs

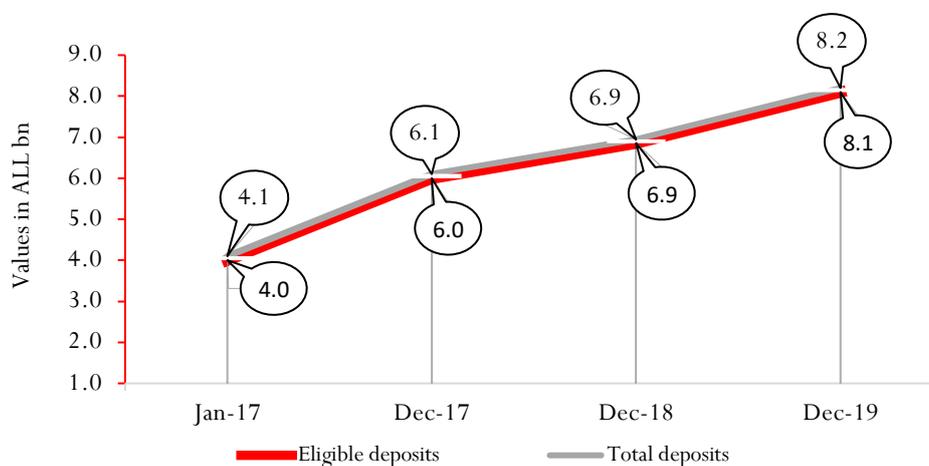
Deposits in SCAs during 2019 increased by 19% compared to a year ago and 96% compared to January 1, 2017, which is the beginning of the activity of the SCAs as members of the deposit insurance scheme. Monthly deposit growth rates varied from 0.1% to 2.8%.

Dynamics of SCAs deposits during 2019



The total SCAs deposits at the end of 2019 reached ALL 8.2 billion, from ALL 6.9 billion at the end of December 2018, marking an annual increase of 19%. While in the beginning of the activity of the SCAs as members of the deposit insurance scheme (January 2017) this amount was ALL 4.1 billion.

Dynamics of SCAs deposits during the period January 2017- December 2019





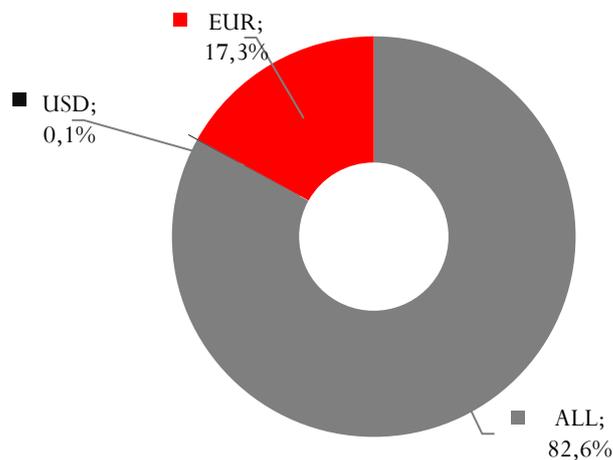
3.3.1. Eligible deposits in SCAs

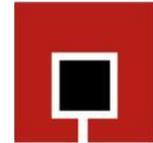
At the end of December 2019, these deposits were ALL 8.1 billion and occupied 98.9% of the total deposits, compared to ALL 6.9 billion on December 31, 2018. A total of 23,455 SCAs depositors benefited from these deposits, compared to 21,564 depositors who benefited from the deposit insurance scheme on December 31, 2018.

"Eligible deposits in SCAs include time deposits and supporting accounts of SCAs' depositors / members."

Eligible deposits at the end of December 2019 increased by 19% compared to the end of December 2018, and 97% compared to January 1, 2017, as indicated in the two graphs above. The increase in ALL deposits has had the greater impact on the annual growth of eligible deposits. ALL deposits account for the largest share of the total SCAs' eligible deposits. Their annual growth is 18.2%.

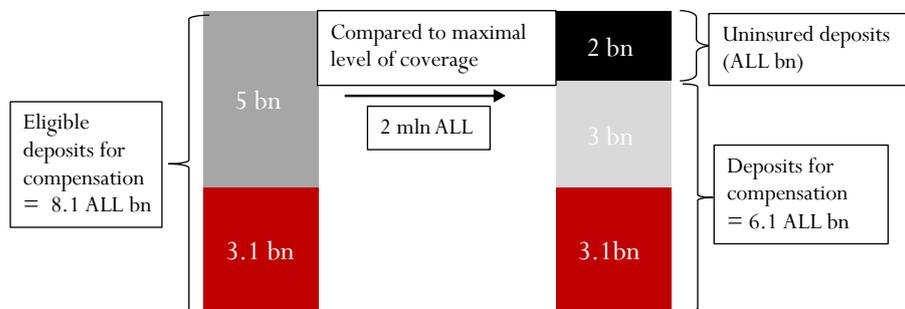
Structure of the amount of eligible deposits by currency in % - 31 December 2019





Deposits in foreign currency account for 17.4% of the total eligible deposits, due to the fact that only a part of SCAs have foreign currency deposits. At the end of December 2019, eligible deposits less than or equal to the maximum level of coverage were ALL 3.1 billion (expressed as a percentage 39% of the total amount of the eligible deposits), while deposits above the maximum level of coverage reached ALL 5 billion (or 61% of the total amount of the eligible deposits).

Structure of eligible deposits for compensation compared to the coverage limit 2 mln – December 2019



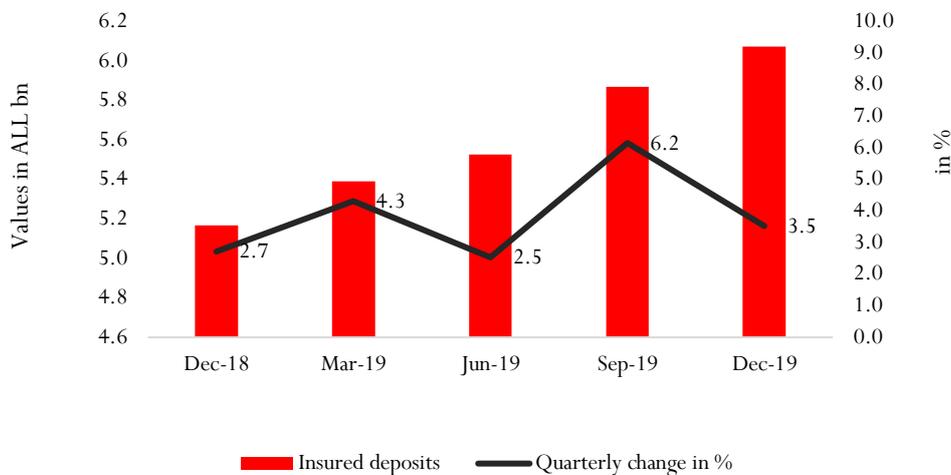
- Eligible deposits for compensation up to maximal level of coverage
- Eligible deposits for compensation above maximal level of coverage
- Deposits for compensation of depositors with deposits up to maximal level of coverage
- Deposits for compensation of depositors with deposits above maximal level of coverage
- Uninsured deposits



3.3.2. Insured deposits in SCAs

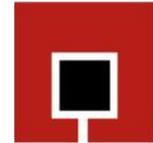
At the end of 2019, insured deposits in SCAs were ALL 6.1 billion. This amount constitutes 74% of the total deposits, or 75% of the eligible deposits.

Dynamics of insured deposits by quarters during 2019

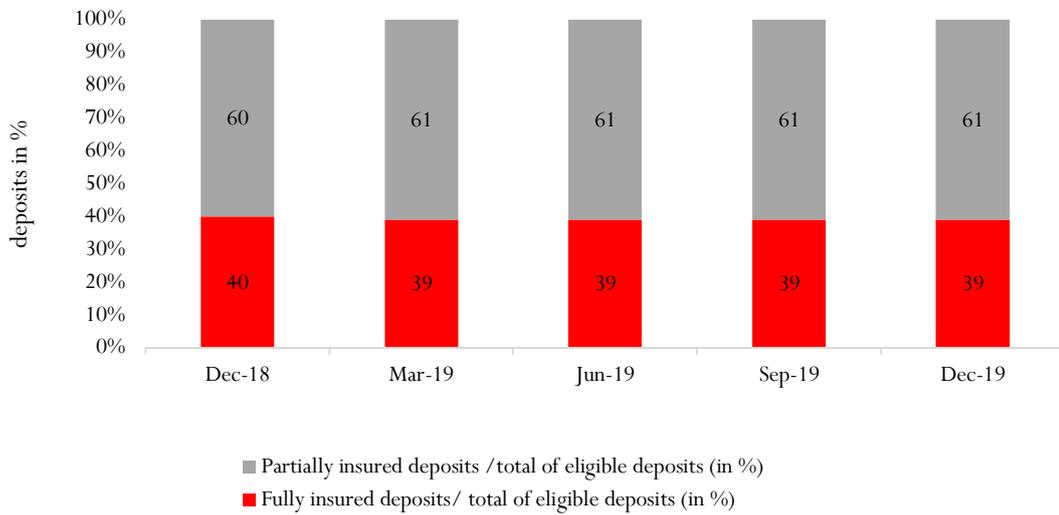


On December 31, 2019, insured deposits that are fully covered by the deposit insurance scheme (all deposits between ALL 101 and ALL 2 million) reached the value of ALL 3.1 billion and constituted 39% of the total eligible deposits. The estimated insurance amount for these deposits is the same as that of fully insured deposits.

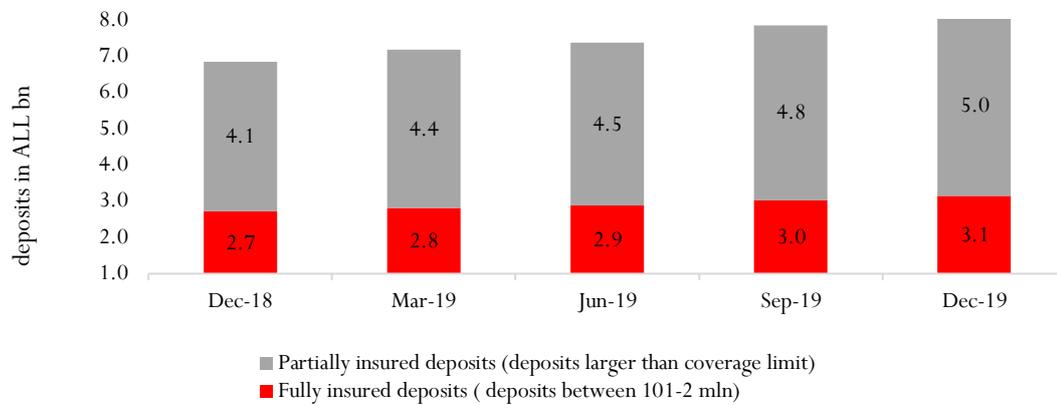
On December 31, 2019, insured deposits that are partially covered by the deposit insurance scheme (deposits larger than ALL 2 million) reached the value of ALL 5 billion and constituted 61% of the total eligible deposits. The estimated insurance amount for partially insured deposits is ALL 3 billion, and constitutes 59% of the total partially insured deposits and 36% of the total eligible deposits.

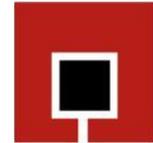


Dynamics of insured deposits versus total eligible deposits by level of coverage for quarter



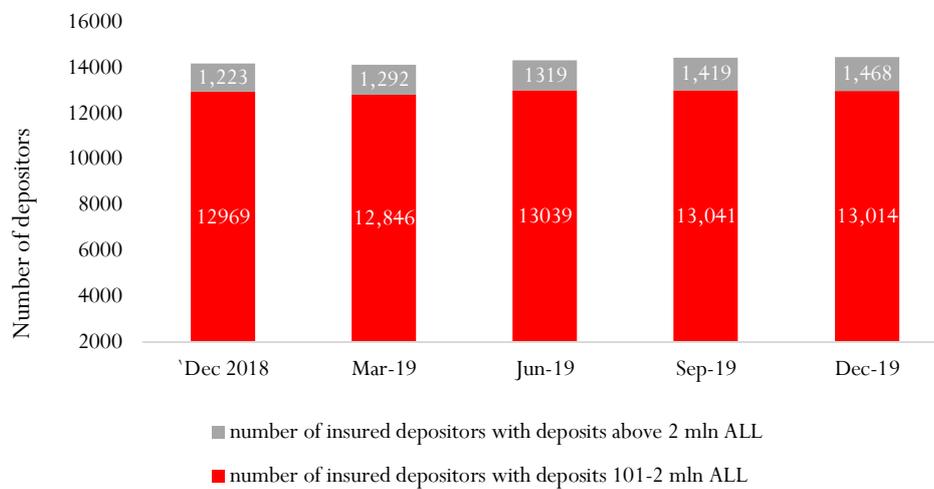
Dynamics of insured deposits by level of coverage for quarter





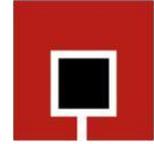
The number of depositors who had deposits up to ALL 2 million at the end of December 2019 was 13,014. They make up for 90% of the total depositors who benefit from the deposit insurance scheme. The number of depositors who had deposits to an amount of over ALL 2 million at the end of December 2019 is 1,468, and they constitute 10% of the total depositors who benefit from the scheme.

Number of insured depositors during 2019 for quarter



3.4. The verification process of entities member of the scheme

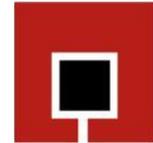
Throughout 2019, the Agency conducted verifications in all banks and Savings and Credit Associations, members of the deposit insurance scheme. The verifications were carried out in accordance with the regulatory framework in force and focused on the accurate reporting, within deadlines set by the Agency, of the simulation / compensation files for the generation of the payroll with the single customer view of depositors. The verification process of file uploading revealed a number of issues, for the addressing of which recommendations were left with defined deadlines, both for the banks and the Savings and Credit Associations. The Agency will carefully follow the fulfilment of these recommendations, taking into account the importance of the accuracy of file reporting to achieve the Agency's key objective, the compensation of depositors in case of a compensation event. Of particular importance in reporting these files is the quality of depositors' data. Based on the importance and issues revealed from the verification and reporting



of entities, the Agency is working on the project “Strategic platform to improve the quality of data on deposits and depositors.” This platform aims to improve the quality of depositors' data by setting specific deadlines and parameters, while addressing in particular the lack of a personal number, which hampers the fulfilment of the Agency’s objectives.

Another important issue, in focus during the verification process, was the verification of the accuracy of premium calculation. Performed verifications helped the accurate reporting of deposits and depositors’ data, as well as the accurate calculation of the quarterly liability of insured entities for the set-up of a compensation fund in case of an insurance event.

In addition, during the verification process in member entities, the Agency also focused on the issue of public information from entities member of the scheme. A well-informed public, aware of the benefits and limitations of the deposit insurance scheme has a positive effect on a potential compensation event, contributing to the country's financial stability. Based on the above, the Agency verifies training offered to the employees dealing with the clientele, as the first and most important conductors of information on deposit insurance and compensation. For better and more accurate information, the Agency has drafted a training material for employees dealing with the customers of member entities, to serve as a basis for the information of depositors. Deposit contracts and leaflets, as well as the websites of member entities were also verified for mandatory information on deposit insurance provided to depositors. The recommendations left, with specific deadlines to be met regarding the legal obligations for information, have brought a noticeable improvement of the work for informing the depositors.



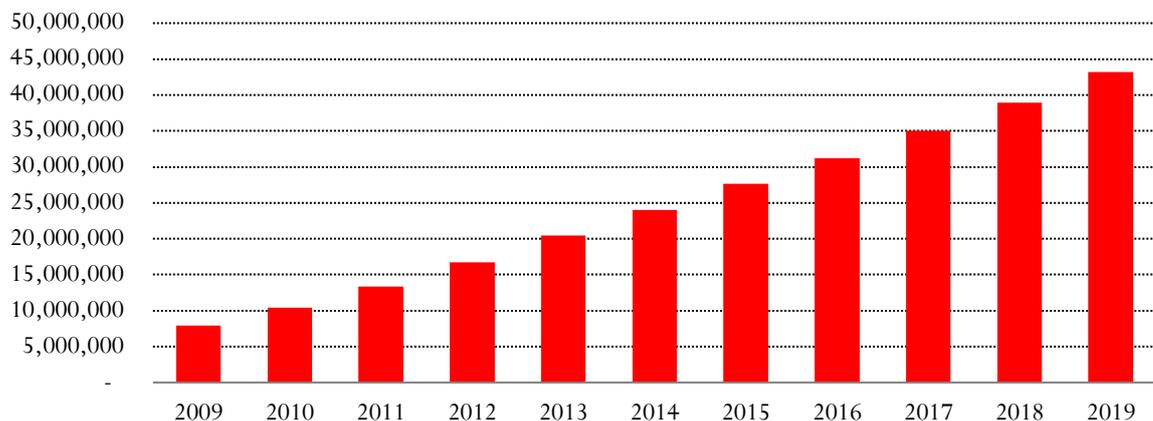
Section 4 – Administration of funds and financial sources of the Agency

4.1. Insurance deposit fund in banks

4.1.1. Dynamics of the insurance deposit fund in banks

On 31 December 2019, the book value of the deposit insurance fund in banks, consisting of a start-up capital of ALL 400 million and profits accumulated over the years was ALL 43.18 billion. Compared to the previous year, the fund has increased by about ALL 4.28 billion or 11.0%. The following chart shows the dynamics of the deposit insurance fund for the period 2009 - 2019.

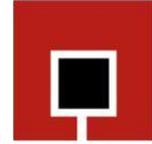
Deposit insurance fund in banks (in thousand ALL)



4.1.2. Key financial indicators of the deposit insurance fund in banks

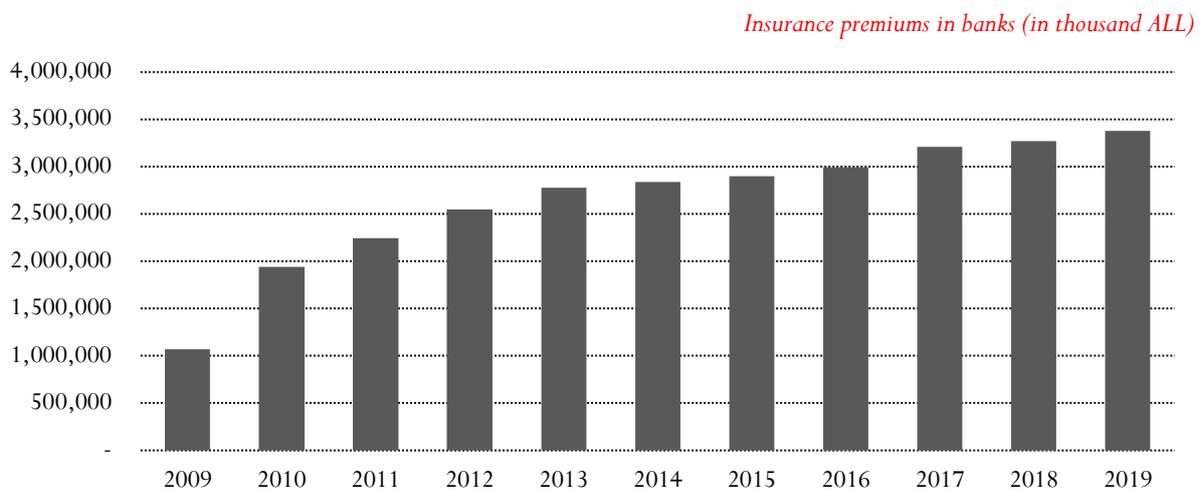
The size of the deposit insurance fund in banks is determined by the net income from the activity over the years. The main income that contributes to the increase of the deposit insurance fund in banks is the income from the insurance premium and the income from the administration of financial assets.

In accordance with the Law “On Deposit Insurance”, as amended, starting from 2015, the deposit insurance premium is calculated on a quarterly basis instead of an annual basis. The quarterly insurance premium for banks is calculated as 0.125% of the arithmetic average of the amount of insured deposits registered in the bank on the last day of each month of the previous quarter, while the quarterly insurance premium for SCAs is calculated as 0.075% of the arithmetic average

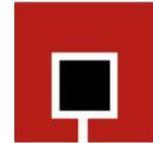


of the amount of insured deposits registered with the SCAs on the last day of each month of the previous quarter. The quarterly insurance premium for entities member of the insurance scheme is paid no later than the 15th of the first month of the quarter for which it is paid.

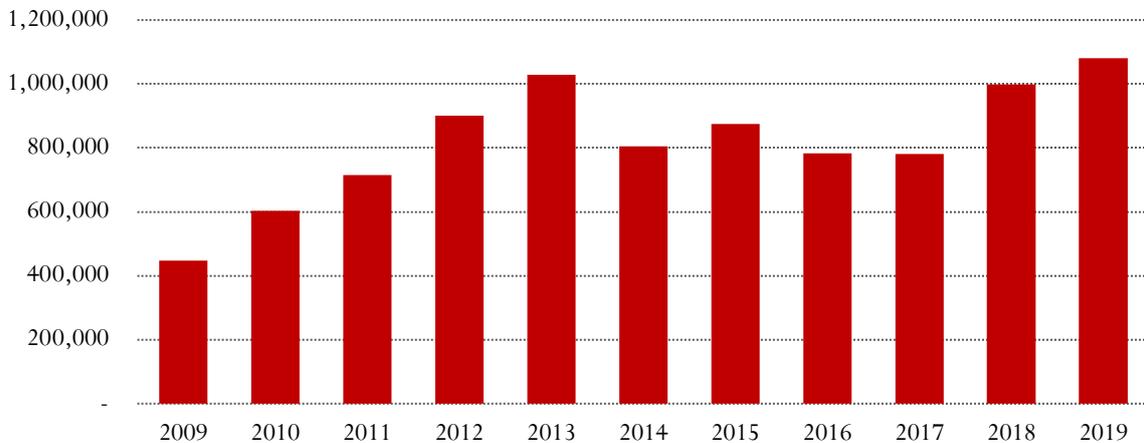
The income from insurance premiums for 2019 was ALL 3.37 billion or 3.16% higher than in 2018. The income from insurance premiums during the period 2009 - 2019 has been increasing, which is directly related to the increase of insured deposits in the banking system in these years.



The income from the administration of financial assets of the deposit insurance fund in banks for 2019 was ALL 1.08 billion or 8.1% more than in 2018. During the period 2009-2013 this income has been increasing, which is directly related with the expansion of financial assets under administration and the interest rates on securities. The income from the administration of financial assets for the years 2014-2017 has been affected by the reduction of the interest rates on Albanian Government securities. In 2018 and 2019, the increase in income from the administration of financial assets was mainly a result of the expansion of the portfolio in bonds with maturities of 2 and over two years. Despite the downward trend in interest rates, return on investment has remained at satisfactory levels as a result of portfolio diversification into several maturities.



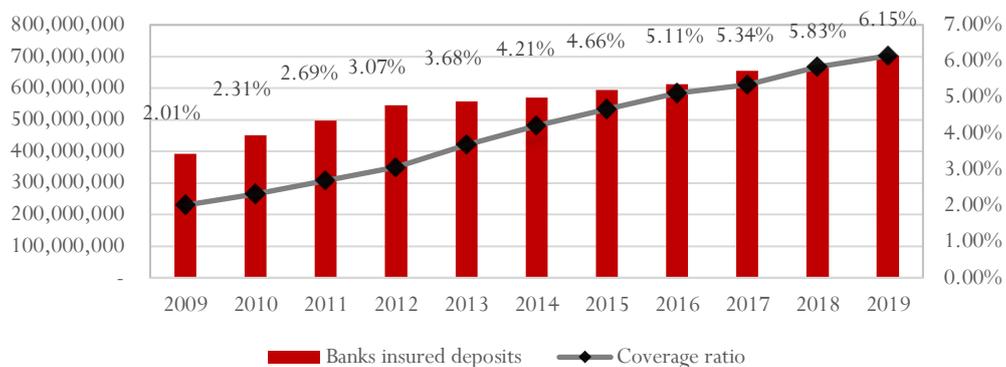
Income from the administration of financial assets of deposit insurance fund in banks (in thousand ALL)



4.1.3. Coverage ratio of insured deposits in banks

At the end of 2019, insured deposits in the banking system were ALL 702.80 billion or 5.34% higher than a year earlier. The steady growth of the deposit insurance fund in banks and the more moderate performance of insured deposits in the banking system during the period 2009 - 2019 have led to a constant increase in the coverage ratio during these years. At the end of 2019, the coverage ratio, calculated as a percentage of the deposit insurance fund in banks compared to insured deposits, was 6.15%. The following chart presents a summary of the performance of insured deposits in the banking system and the coverage ratio during 2009 - 2019. By the end of 2019, for the first time since the creation of the Deposit Insurance Agency the coverage ratio reached the level of 6.15% of insured deposits.

Coverage ratio and insured deposits in banks (in thousand ALL)



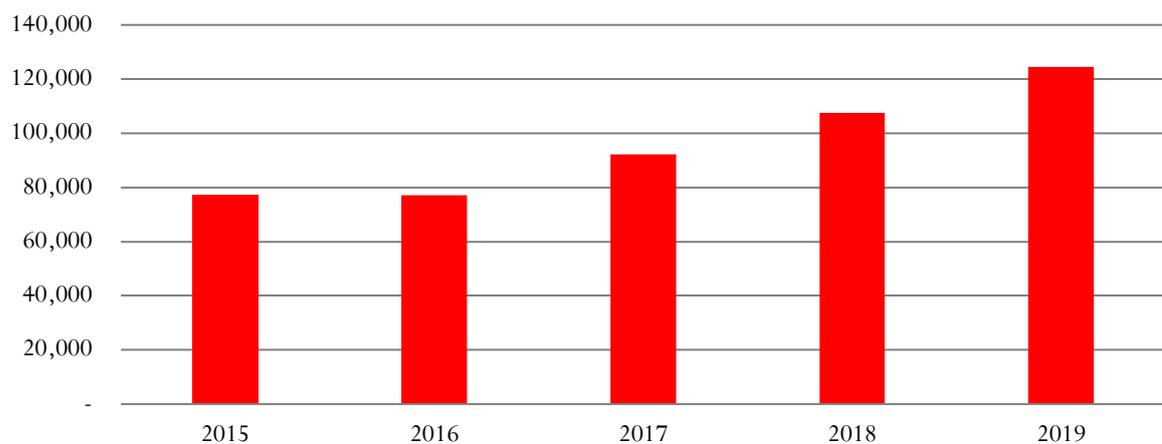


4.2. Deposit insurance fund in SCAs

4.2.1. Dynamics of the deposit insurance fund in SCAs

In accordance with the Law “On Deposit Insurance”, as amended, in January 2015, the start-up capital for deposit insurance in the SCAs, in the amount of ALL 76 million, was collected from the State Budget. The fund provided the initial financial basis for the deposit insurance fund in the 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. On December 31, 2019, the book value of the deposit insurance fund in SCAs, consisting of the start-up capital of ALL 76 million and the accumulated profits, was about ALL 124.59 million, marking an increase of 15.89% compared to 2018.

Deposit insurance fund in SCAs (in thousand ALL)



4.2.2. Key financial indicators of the deposit insurance fund in SCAs

The main income that contributes to the increase of the deposit insurance fund in banks is the income from the insurance premium and the income from the administration of the financial assets.

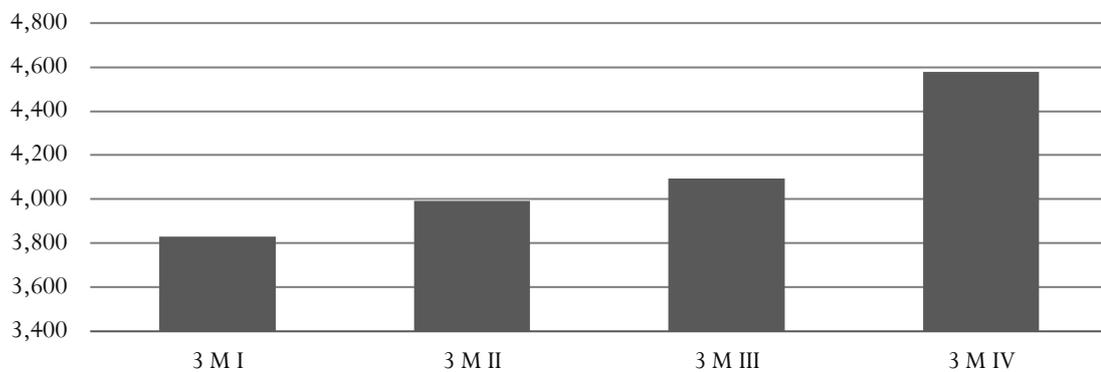
In accordance to the legislation in force, entities that were accepted to enter the scheme from January 2017, began paying quarterly insurance premiums. Meanwhile, during 2018, the entities included in the scheme have paid additional start-up capitals to the amount of ALL 474 000,



following verifications performed by the Agency. A Savings and Credit Association which became a member of the insurance scheme on February 13, 2019, also paid a start-up capital in 2018.

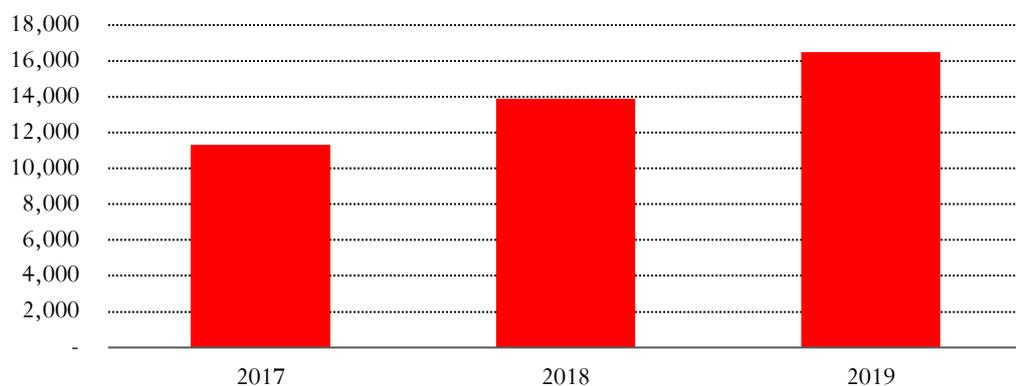
Since SCAs are new in the insurance scheme, with 2019 being the third year of operation of the insurance scheme for these companies, information is being presented regarding the performance of financial indicators for 2019 as well as a comparison with the two previous years.

Dynamics of quarterly deposit insurance premiums in SCAs (in thousand ALL)



The income from insurance premiums for the whole year 2019 was ALL 16.49 million. The income has increased from quarter to quarter throughout 2019, which is directly related to the increased insured deposits in these companies for this year.

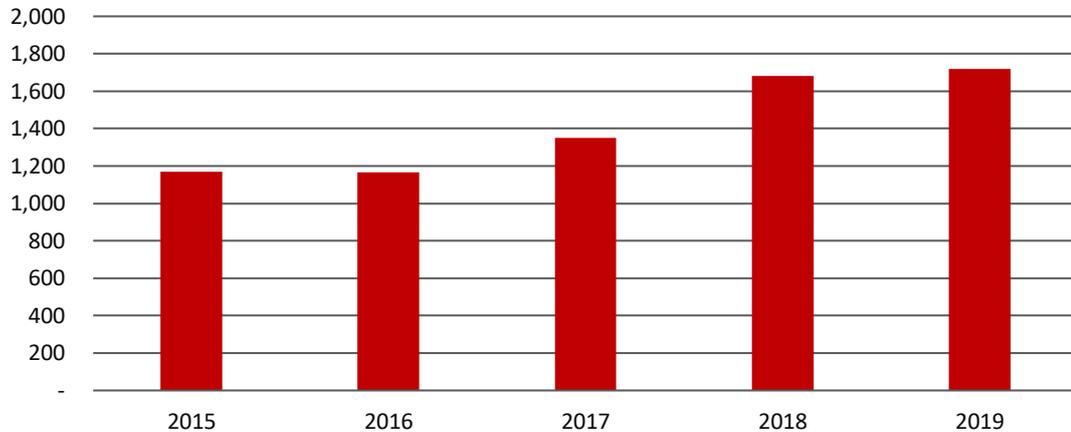
Insurance premiums in SCAs (in thousand ALL)



The income from the administration of the financial assets of the deposit insurance fund in SCAs throughout 2019 was to the amount of ALL 1.71 million, increasing by 2.33% compared to 2018.

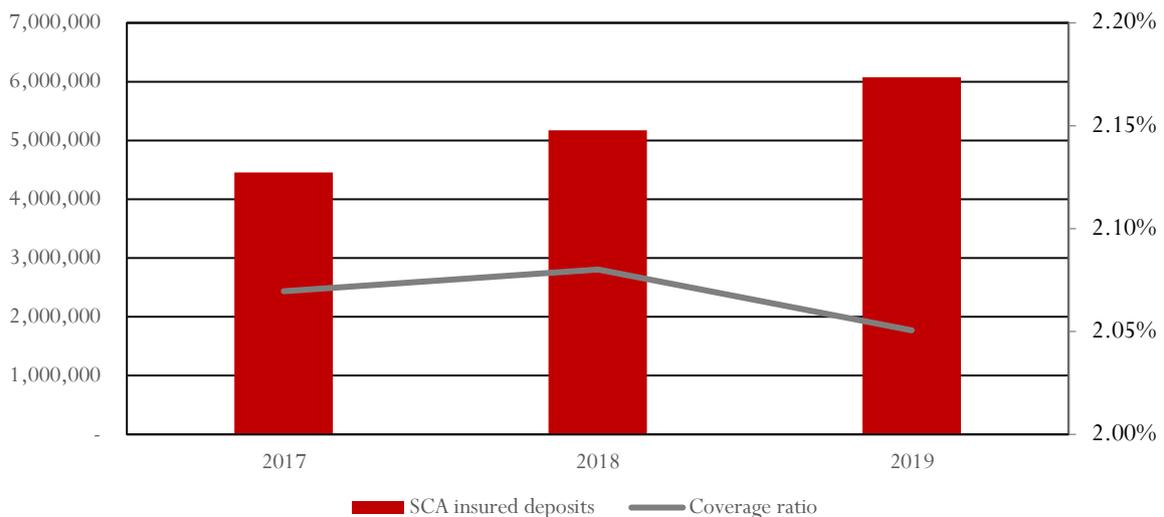


Income from the administration of the financial assets of the deposit insurance fund in SCAs (in thousand ALL)



The performance of the deposit coverage ratio in these companies during the three years of the operation of the scheme is described in the chart below. At the end of 2019, insured deposits for SCAs were about ALL 6.1 billion or 17.56% higher than the previous year. By the end of 2019, the coverage ratio, calculated as a percentage of the deposit insurance fund in SCAs compared to the insured deposits, was 2.05%. The following graph gives a summary of the performance of the insured deposits in SCAs and the coverage ratio during the years 2017 - 2019.

Coverage ratio and insured deposits in SCAs (in thousand ALL)

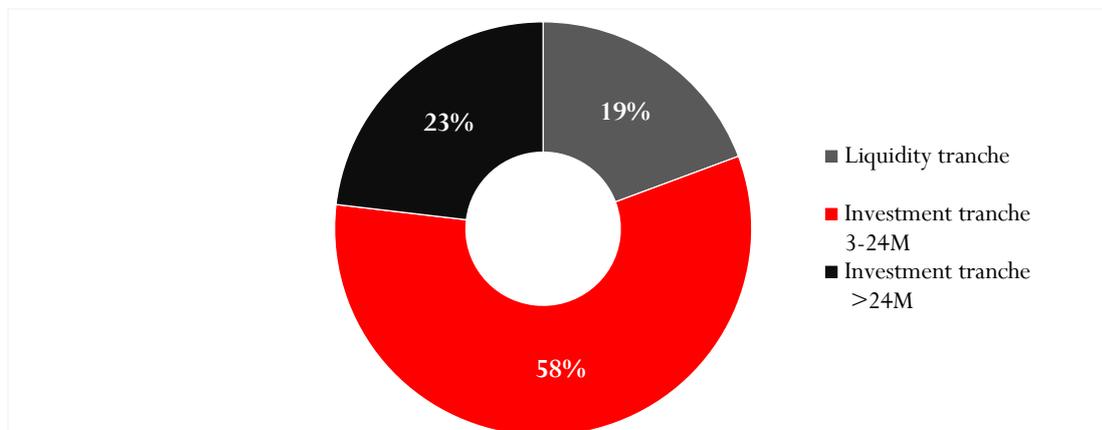




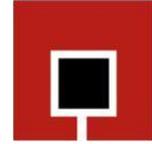
4.3. Administration of financial assets and sources

As of December 31, 2019, the financial assets of the Agency, with a nominal value of ALL 42.81 billion were all invested in Albanian Government securities, one-week deposits or account balances with the Bank of Albania and the custodian bank Raiffeisen Bank International. In order to effectively manage financial assets and guarantee at all times the needs for liquid financial assets, the Agency, according to the investment policy, at the end of 2019 had 19.30 percent of the portfolio in highly liquid instruments, such as deposits and current accounts with the Bank of Albania and several banks where the Agency holds accounts for its operational activity as well as securities with a remaining maturity of up to 90 days. The following chart gives a summary of the Agency's financial assets by investment tranches, as of December 31, 2019.

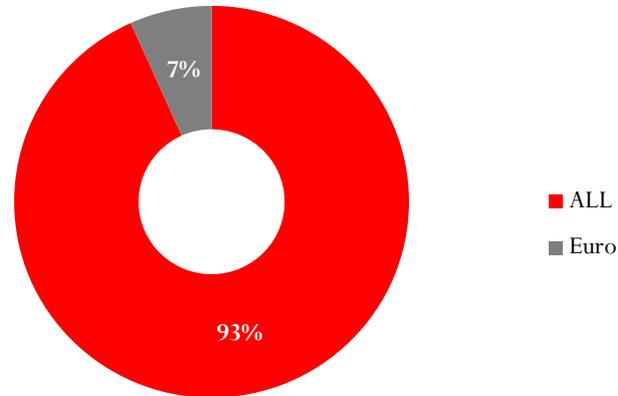
Financial assets by investment tranches



The financial means of the Agency are mostly in ALL. The Agency also holds part of its financial assets in Euro currency. In accordance with the Investment Policy, investments in foreign currencies account for 6.7% of the financial assets under administration, and in the long run the aim is to approximate the structure by currency of the Agency's portfolio with that of the insured deposits. The following chart presents a summary of the Agency's financial assets by currency, as of December 31, 2019.

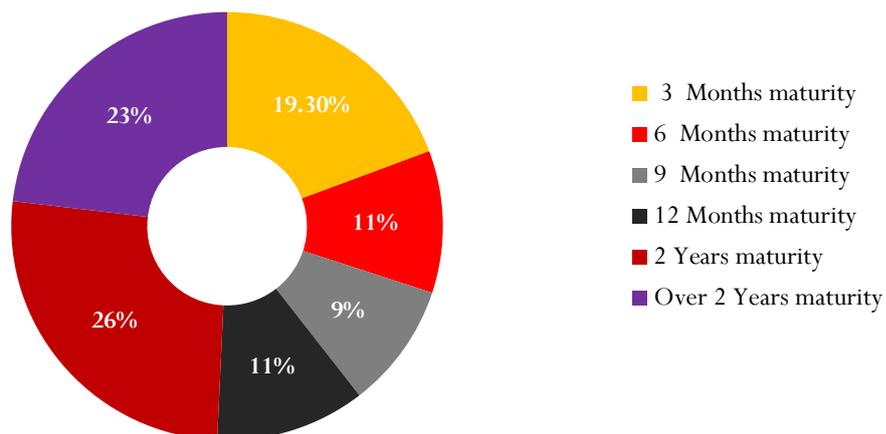


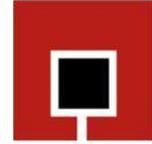
Financial assets by currency



The following chart shows the distribution of financial assets by duration up to maturity as of December 31, 2019. In order to effectively manage financial assets and guarantee at all times the needs for liquid financial assets, financial assets have a scalable distribution by duration up to maturity. Following the approval of Law no. 53/14 “On Deposit Insurance”, as amended, the Agency has shifted about 58% of its investment portfolio to instruments with a remaining maturity of 3-4 months and about 23% of its portfolio to instruments with a remaining maturity of over 24 months.

Financial assets by duration up to maturity





4.3.1. Agreements for custody service and intermediation of securities in foreign currency

Pursuant to the requirements of the Regulation on Financial Assets Management Policy, the Deposit Insurance Agency, in order to diversify and approximate its portfolio to the deposit structure in the system, holds part of its financial assets in foreign currency, respectively in Euros. This objective is supported by the fact that the credit line with the EBRD, which provided financial assets in Euro currency in case of need, has been completed. Unable to invest financial assets in foreign currency within the country, during 2019 the Agency worked intensively to establish cooperation relations with financial institutions exercising international activity related to security custody services and intermediation to international markets. The cooperation was materialized with the signature of a Custody Agreement with Raiffaisen Bank International AG in October 2019 as well as an Intermediation Agreement with ERSTE Group Bank AG in December 2019.

Both institutions selected by the Agency have an “investment grade” rating (international assessment of the long-term debt) by specialized rating agencies, are based in Vienna, and are licensed and supervised by the European Central Bank and the Financial Market Authority in Austria, while also having extensive experience in providing custody and intermediation services.

In the framework of the Custody Agreement, Raiffaisen Bank International AG ensures the purchase of securities against payment in international markets, their maintenance and periodic reporting as well as keeps the current account in foreign currency for purposes of investments in foreign markets.

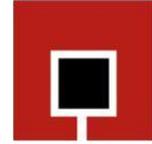
Erste Group Bank AG offers the Agency direct access to regional and international financial markets (access to almost 20 financial markets) to purchase securities in foreign currency.

With the set-up of the necessary infrastructure, in December the Agency successfully invested an amount of EUR 5.47 million in the Albanian Government Eurobond with a maturity of 7 years (October 2025), while planning to continue with additional investments in foreign currency.



4.3.2. Loan Agreement with EBRD

The Law “On Deposit Insurance”, as amended, in accordance with the basic principles and best practices in the field of deposit insurance, gives the Agency the opportunity to turn to various financial sources in order to guarantee at any time 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 line of credit up to EUR 100 million. The Loan Agreement is accompanied by a guarantee from the Albanian Government. Under the agreement, the Agency has paid an annual commitment commission for this instrument, as much as 0.5% of the amount available from the line of credit. With the gradual increase of the fund, the Agency has year after year reduced the amount available to the line of credit, as a result of the increased coverage of the accumulated fund compared to the total deposits insured in the system. Even during 2019, the Agency reduced the loan amount from 35 million Euros to 12 million Euros starting from July 1, 2019. With the notification from the EBRD on the termination of the contractual term of the Agreement, the Agency concluded the Loan Agreement in July 2019. The Ministry of Finance, as a guarantor, was informed about and got acquainted with the reduction and termination of the contractual term of the Loan Agreement.



Section 5 – Engagement with depositors and partners

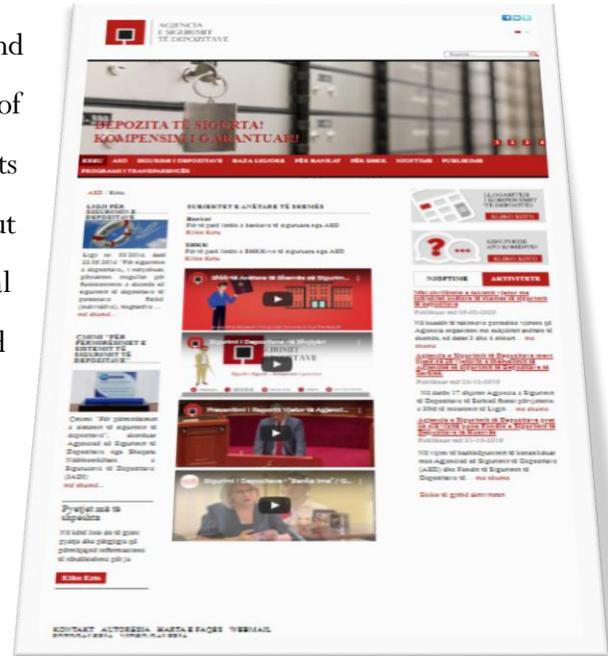
The Strategic Plan 2018-2020 sets out three strategic priorities for the Agency in the medium term. One of them is the strategic development of partnerships with partner institutions, entities member of the deposit insurance scheme, counterpart agencies and depositors. Partnership and cooperation is considered to be a resource that should be used to the maximum in order to create an environment that is as efficient as possible from the operational point of view and as safe as possible from the point of view of depositors and the public. Considering that the performance and success of the Agency are inevitably affected by the interaction with all partners, special attention was paid during 2019 to engagement with all stakeholders, including depositors, counterpart institutions, regulatory authorities, etc. In relation to the latter, the Agency, pursuant to the recommendation of the Albanian Assembly, abrogated the existing Agreement of 2002 and signed a new Cooperation Agreement with the Bank of Albania. This Agreement is referred to in Section 2 “*Resolution of the Assembly of the Republic of Albania and implementation of its recommendations by the Agency*”. The activities and initiatives described below refer to the interaction with partners, stakeholders and depositors to raise the level of awareness on the deposit insurance scheme as well as the regional and international cooperation aiming to benefit from the best experiences.

5.1. Increasing the level of public awareness

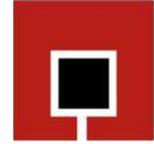
Raising public awareness on the deposit insurance scheme (benefits and limitations of the scheme) and the role and functions of the Deposit Insurance Agency as the only deposit insurance institution in the country, is considered a very important and necessary element to fulfill the Agency’s public objectives. *Strategic Plan of the Agency for the years 2018-2020* and *Public Awareness Strategy* are the basic materials to orient the Agency’s public awareness work. Given that public awareness is a long-term commitment, which is constantly carried out, the Agency has monitored the perceptions and attitudes of the public and has assessed the level of public awareness, referring to the data obtained from periodic studies and surveys. In this perspective, throughout 2019 the Agency has continued its activity related to public relations, effectively and practically combining means and methods of information, communication and education, to achieve the desired level of public awareness.



The official website of the Agency is the most comprehensive information channel for depositors and the general public interested in the deposit insurance scheme and the Agency. The site offers information and data on entities members of the scheme (banks and SCAs), ADIA's role and functions, the decision-taking of the Board of Directors, various publications and announcements with interest for the general public, etc. Throughout 2019, the Agency has continued to pay special attention to its official website, updating and enriching it transparently and in real time with all the information, announcements and activities related to the activity of the Agency, which is of interest for the general public. The official website of the Agency has been enriched with new sections, such as *Budget*, *Decision-taking of the Board of Directors*, *Registry of Public Procurement*, etc., sections that offer an even larger gamma of information than in previous years. At the same time, those interested can consult the official website to get acquainted with the important agreements, meetings and participations in which our institution is represented and which serve the objectives of the Agency to develop cooperation and exchange experiences with international institutions and organizations.



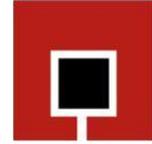
For the deposit insurance system to be effective, it is essential that the public is constantly and transparently informed about the features of the deposit insurance scheme. In this context, the Agency applies the principle of transparency and accountability through the publication of materials necessary for the public in general and depositors in particular, while increasing public access to its information through the specific menu *Transparency Program*. The information made available to the public in this section, aims to make transparent the work activity of the Agency, its regulatory acts, the Agency's good governance, etc.



Participation in financial education campaigns through open lectures with university students. For 4 years, the Deposit Insurance Agency has been supporting and contributing to activities carried out during the Money Week, organized by the Bank of Albania in cooperation with the Albanian Association of Banks and the support of the Ministry of Education, Sports and Youth. The Global Money Week is a worldwide money festival, which aims at raising awareness among the new generation to be responsible and financially capable citizens in the future. The information and



education of the new generation has always been the key word to increase public awareness about the deposit insurance scheme. Thus, in the activities that took place during the week 25-31 March 2019, under the slogan “Too young to talk in old money”, the Agency was enabled to be closer to students and inform and orient them in the right way as depositors both of the present and the future. The Agency held an open lecture with students of the finance-banking branch at the University of Shkodra. In addition, the Agency symbolically offered its financial support for the evaluation and motivation of teachers who had prepared VI-grade students from 9-year schools who were awarded prizes in the competition “Learn! Save! Win”!



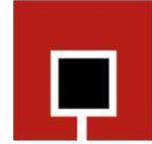
Communication and interaction with entities member of the deposit insurance scheme is a priority for the Agency. It is oriented in two directions:

1. Increasing the level of knowledge of the employees of the member entities about the deposit insurance scheme.
2. Cooperation with member entities to promote the deposit insurance scheme.

Employees of banks and SCAs are considered strategic partners of the Agency in promoting not only their products, but also the deposit insurance scheme. They directly serve and contact depositors, and have an important role to play in providing accurate and clear information to depositors. The Agency supports the entities member of the scheme in training their staff and measuring the level of their information and education. Well-trained employees, with in-depth knowledge about the elements of the scheme, can answer depositors' questions, offer personalized information to different categories of depositors (by educational level, age group, deposit amount, etc.) and provide the right options, thus helping to increase depositors' confidence in the scheme. On the other hand, increasing the level of education of the managers of member entities helps improve institutional cooperation, increase reporting quality and fulfil the obligations of the scheme. During 2019, periodic meetings with representatives of banks and SCAs as well as trainings with FIBANK and Union Bank employees were held in bank premises.

According to its legislation the **Agency carries out promotional activities** aiming to inform and educate the public. Throughout 2019, the Agency has distributed free advertising materials such as information leaflets for banks and Savings and Credit Associations and labels with the ADIA's logo, in order to provide as clear, understandable and transparent as possible information to depositors.

In the framework of the promotional activity, two **promotional and educational videos** were produced this year with the topic "Importance of accurate depositor data" and "SCAs member of the deposit insurance scheme". Given the issues identified in cooperation with banks and SCAs, videos provide information and educate depositors and the general public on currently



relevant issues. Videos are displayed on the official website of the Agency (www.asd.gov.al), its Facebook profile and the Agency's YouTube channel.



5.2. Cooperation with institutions of the banking and financial system in the country

Cooperation with institutions of the banking and financial system in the country is very important for the Agency to protect the interests of depositors, strengthen trust in the insurance scheme and consequently, contribute to financial stability in the country. In the framework of its participation to the Financial Stability Advisory Group, the Agency has cooperated at institutional level with all the authorities of the forum. Also, in order to further develop its cooperation with the Bank of Albania, as the Supervisory Authority of the Agency, and update this institutional partnership according to the legal changes to the functions of both institutions, the Cooperation Agreement was renewed, as reported in Section 2 of this Report. Strengthening the inter-institutional cooperation helps the exchange of mutual information in a timely and transparent way, as well as ensures the consistency of information transmitted to the public from different sources. During 2019, in the context of raising the awareness of society and the banking industry for a sustainable development, the Albanian Association of Banks organized its third conference “Sustainable development and the role of banks”, in which the Deposit Insurance Agency was represented by the General Director, Mr. Genci Mamani.



5.3. Regional cooperation

During the reporting period, the Agency has been highly engaged in the implementation of cooperation protocols with counterpart agencies in the region. This cooperation has been fruitful in terms of exchanged information and knowledge in joint regional forums as well as bilateral meetings and study visits, taking into account the institutional and operational similarity of the regional deposit insurance institutions.

5.3.1. 7th EFDI Balkan Region Meeting

In March 2016, the Balkan Deposit Insurance Institutions, members of the European Forum of Deposit Insurers, signed a Multilateral Cooperation Agreement to promote more fruitful cooperation through meetings and exchange of experiences. In the framework of this Agreement, the



deposit insurance authorities of Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro and Serbia organize multilateral meetings to discuss challenges and exchange experiences. Following this already consolidated tradition of meetings, the General Director of the Deposit Insurance Agency, participated in the 7th EFDI Balkan Region Meeting, organized by the Deposit Insurance Agency of Bosnia and Herzegovina. In this meeting, participants shared the latest developments in their deposit insurance schemes and the respective challenges. Among other issues, the latest structural changes in Bosnia and Croatia were discussed, as well as the recent developments related to a compensation event in Montenegro, the role of IT systems in a compensation process, simulation exercises as important tests for the operational readiness of the deposit insurance scheme, etc.



5.3.2. Visit to Tirana of the Deposit Insurance Fund of Kosovo

Following the consolidated cooperation and the Cooperation Agreement signed between the Deposit Insurance Agency and the Deposit Insurance Fund of Kosovo (DIFK), a working meeting was held in October 2019 with colleagues from both agencies, chaired by their leaders, Mrs. Arijeta Neziraj Elshani, General Director of DIFK and Mr. Genci Mamani, General Director of ADIA and attended by the respective staff.

The purpose of the meeting was to exchange experiences on internal audit issues, implementation of the EBA guidelines for risk-based premiums and “stress testing”, verification of banks member of the scheme (accuracy of premium calculation data) as well as the external audit of the premium calculation software.



5.3.3. Visit to the Deposit Insurance Fund of Montenegro

In March 2019, based on bilateral relations and the Memorandum of Understanding signed among deposit insurance authorities of the Balkan region (Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro and Serbia) representatives of the staff of the Insurance Deposit Agency, chaired by the General Director, paid a working visit to the Deposit Insurance Fund of Montenegro.

The purpose of the working visit was to benefit from the most recent experience of Montenegro counterparts in relation to the compensation of a bank put into compulsory liquidation by the Central Bank of Montenegro. This was the first compensation process performed by the Deposit Insurance Fund of Montenegro, which started at the end of January 2019.



The visit offered an exchange of experiences with the employees of the Deposit Insurance Fund of Montenegro on issues and lessons learned from the process. In addition to discussing this particular case, information was exchanged in terms of preparations for timely addressing of potential challenges of an insurance event, as well as taking immediate intervention measures to resolve them, taking into account the similar operational structures of both authorities as well as almost the same financial environment.

Heads of both institutions committed themselves to further deepen cooperation, in particular in view of the mutual participation in potential compensation situations.



5.4. International cooperation

During 2019, in view of the implementation of its policies, the Agency was committed to cooperate with deposit insurance authorities and contribute to international forums of associations where it is a member. The main focus of this commitment has been the exchange of experiences in order to benefit from the best practices in the deposit insurance field as one of the tools for increasing the professional capacity of the Agency.

5.4.1. Participation in international forums

The Deposit Insurance Agency is one of the first members of international deposit insurance forums. Participation in these forums creates an opportunity for timely information on 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 offer the opportunity to exchange professional experiences, which are of increasing importance in the context of constant changes in the financial markets and in the expectations of the society regarding the deposit insurance scheme. In support of Albania's aspirations for membership to the European Union, the exchange of contemporary



experiences and harmonization of the regulatory framework of the deposit insurance scheme with the best European and international practices and standards are of paramount importance.

In this context, during 2019 the Agency has participated in annual meetings organized by the International Association of Deposit Insurers (IADI) and the European Forum of Deposit Insurers (EFDI). The latter, EFDI, held its annual meeting and international conference on “Deposit Insurance in



Europe - Redesign the Map”, in Sarajevo, Bosnia and Herzegovina, which was attended by a delegation of the Deposit Insurance Agency. The conference was attended by personalities of the European deposit insurance schemes, financial experts from international institutions, invitees of the European Central Bank, academics, etc. The opening panel of the conference included representatives of the Balkan deposit insurance schemes and addressed the issue of harmonization of their regulatory framework with the EU *Acquis* in view of the aspirations for membership to the European Union. Part of the panel was the General Director of the Agency, Mr. Genci Mamani. In his presentation, Mr. Mamani noted that the legislation on the administration of the deposit insurance scheme in Albania is largely in line with the European Commission Directive on deposit insurance schemes. He also listed the challenges that the Agency will have to face in order to achieve full compliance with the European financial regulatory framework, for which he expressed the full commitment of the Agency.

Recently, the Agency has contributed to meetings of the IADI Regional Committees and the EFDI Thematic Committees. Appreciating the contribution and role of the Agency within its structures, for the first time ever IADI selected the Agency to organize this year the annual meeting of the European Regional Committee, which was attended by almost all European deposit insurance institutions as well as deposit insurers from all over the world. During this activity held in Tirana, a technical seminar was organized on “Contingency Plans and Crisis



Management / Cases of Emergency Intervention”. The two-day activity proved to be very fruitful and we believe that such contacts increase the exposure of our deposit insurance scheme to external factors and consequently, enable updating to contemporary standards and practices in this field.

5.4.2. European Regional Committee meeting and technical seminar in Tirana

In April 2019, the Deposit Insurance Agency, in cooperation with the International Association of Deposit Insurers (IADI), organized IADI’s European Regional Committee (ERC) meeting and the technical seminar “Contingency Plans and Crisis Management / Cases of Emergency Intervention”.



The European Regional Committee (ERC) is the largest IADI’s regional committee attended by almost all the European deposit insurance institutions. The ERC meeting, organized for the first time in a non-EU country, discussed the latest regional developments as well as deposit insurance developments in specific jurisdictions. Another topic of discussions was the role of the ERC and the relevant activities in view of IADI’s strategic objectives. Considering the importance of this activity, the ERC annual meeting was greeted by the Governor of the Bank of Albania, Mr. Gent Sejko.

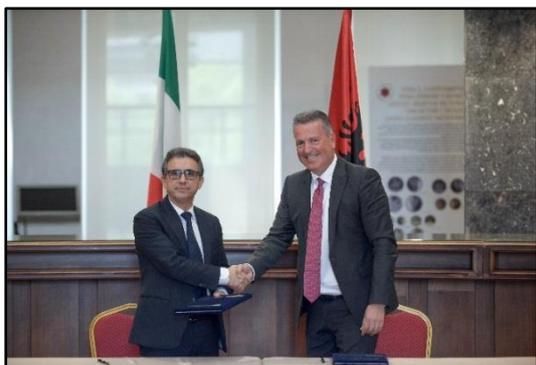
The activity organized by the Deposit Insurance Agency and attended by 70 representatives from 28 different jurisdictions, continued with the technical seminar “Contingency Plans, Crisis Management and Emergency Intervention Cases”. The key objective of the technical seminar was the in-depth discussion of the IADI’s 6 and 14 Core Principles for Effective Deposit Insurance Schemes, exploring the processes and policies a deposit insurance scheme needs to draft a



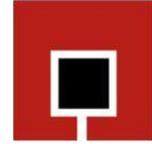
Contingency Plan, using the appropriate tools and resources to effectively deal with a potential financial crisis and emergency intervention events. During the two days of the technical seminar the participants had the opportunity, through theoretical and practical sessions, to get acquainted with and discuss presentations and case studies of experts from the European Union Emergency Intervention Board (EIB), the World Bank Financial Sector Advisory Centre and counterpart institutions from Canada, Croatia, Greece, Italy, Kosovo, the Netherlands, Poland, Romania, Russia, Turkey, the United Kingdom and the United States.

5.4.3. Cooperation Agreements

The Strategic Plan of the Agency for the period 2018-2020 identifies the international cooperation with counterpart institutions as one of the strategic initiatives within the priority for the strategic development of partnerships. The medium-term plan stipulates that the Agency should consider concluding cooperation agreements with deposit insurance authorities of those European countries, whose banking industry is present in the Albanian banking system through subsidiaries. In this regard, during 2019 the Agency focused its efforts on signing cooperation agreements with the Deposit Insurance Funds of Italy and Turkey.

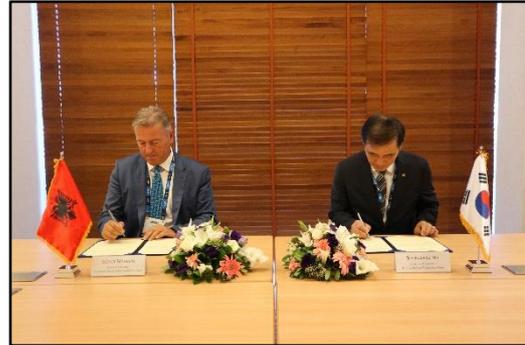


These agreements offer added value, both in terms of exchanged information in case of insurance events in parent banking institutions of members of the deposit insurance scheme in Albania, but also in terms of consultation and cooperation on the approximation of the Albanian legislation with the *acquis communautaire*, regarding among others, the deposit insurance discipline. In addition, taking into account the function given to the Agency by Law 133/2016 “On Recovery and Resolution in Banks in the Republic of Albania”, as administrator of the Resolution Fund, agreements with the deposit insurance authorities of Italy and Turkey take on special significance



in terms of increasing the operational capacity, as by mandate they are also emergency intervention authorities in their respective jurisdictions.

Also, appreciating the successful progress of bilateral relations through mutual visits with a view of exchanging professional experiences, the Deposit Insurance Agency and the Korean Deposit Insurance Fund renewed their existing Cooperation Agreement for another 5-year period. The commitment of the

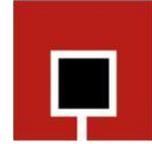


Albanian and Korean deposit insurance authorities will further continue in order to adopt the best practices in the deposit insurance discipline as an essential element for financial stability.

5.4.4. Exchange of experiences with the Deposit Guarantee Fund of Ukraine

In June 2019, a delegation from the Deposit Insurance Agency (ADIA) visited the Deposit Guarantee Fund of Ukraine (DGF) in Kiev. During this visit, meetings were held with managers, as well as representatives of the main departments of the DGF of Ukraine, who offered an overview of their extensive experience in terms of managing insurance events, the regulatory framework of the fund, as well as the operation of information technology infrastructure.

These meetings provided valuable information to the members of the delegation, which we think directly serves the work of the Agency in terms of development and further improvement of the scheme, both at organizational and operational level, in particular as concerns expanding the spectrum of technical solutions to be kept in mind for a successful fulfillment of the institutional objective of compensation of insured deposits.



Section 6 – Good governance of the organization

The Deposit Insurance Agency is a public institution established in 2002 that operates under Law no. 53/2014, dated 22 May 2014, “On Deposit Insurance”, as amended. The Agency enjoys operational and financial independence from any other entity, pursuant to the provisions of the Law “On Deposit Insurance”, as amended.

The governing structures of the Agency and work processes ensure the implementation of the approved strategies and the risk management in all aspects of the activity of the institution. Internal controls include, among others, the code of ethics, declarations of conflicts of interest, separation of duties, etc. The Board of Directors of the Agency plays an important role in establishing and maintaining an effective system of risk management and internal controls, paying particular attention to ethics, workplace culture and operational standards.

As defined in the Law, the Agency reports to the Assembly, the Council of Ministers and the Supervisory Authority on its annual activity. The internal audit service in the Deposit Insurance Agency for 2019 was performed by the company PricewaterhouseCoopers Audit sh.p.k., in accordance with the International Standards for the Professional Practice of Internal Auditing (IPPF).

6.1. Board of Directors

Based on the Law “On Deposit Insurance”, as amended, and the Statute of the Agency, the highest governing body is the Board of Directors. The Board of Directors is composed of five members appointed by the Supervisory Authority. Two members are nominated by the Supervisory Authority, two members are nominated by the Minister of Finance of the Republic of Albania and one member is nominated by the Institute of Authorized Chartered Auditors. The members of the Board of Directors are non-executive, with the exception of the member who is appointed to the position of General Director. The Law “On Deposit Insurance”, as amended, stipulates that the term of office for each member of the Board of Directors is five years, with the right of re-election, based on their activity performance indicators.

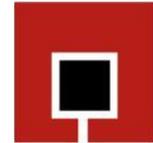


During 2019 the Board of Directors of the Agency has not changed and its composition is as follows.

BOARD OF DIRECTORS	FUNCTION	NOMINATING 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	Institute of Authorized Chartered Auditors (IEKA)

Based on the obligation to act honestly at all times and to the best interest of the Agency, the members of the Board of Directors exercise their activity in accordance with the competencies defined in the Law “On Deposit Insurance”, as amended, the Statute of the Deposit Insurance Agency, the Regulation “On Rules and Procedures on the Functioning of Meetings of the Board of Directors of the Deposit Insurance Agency” and the legislation in force on collegial bodies.

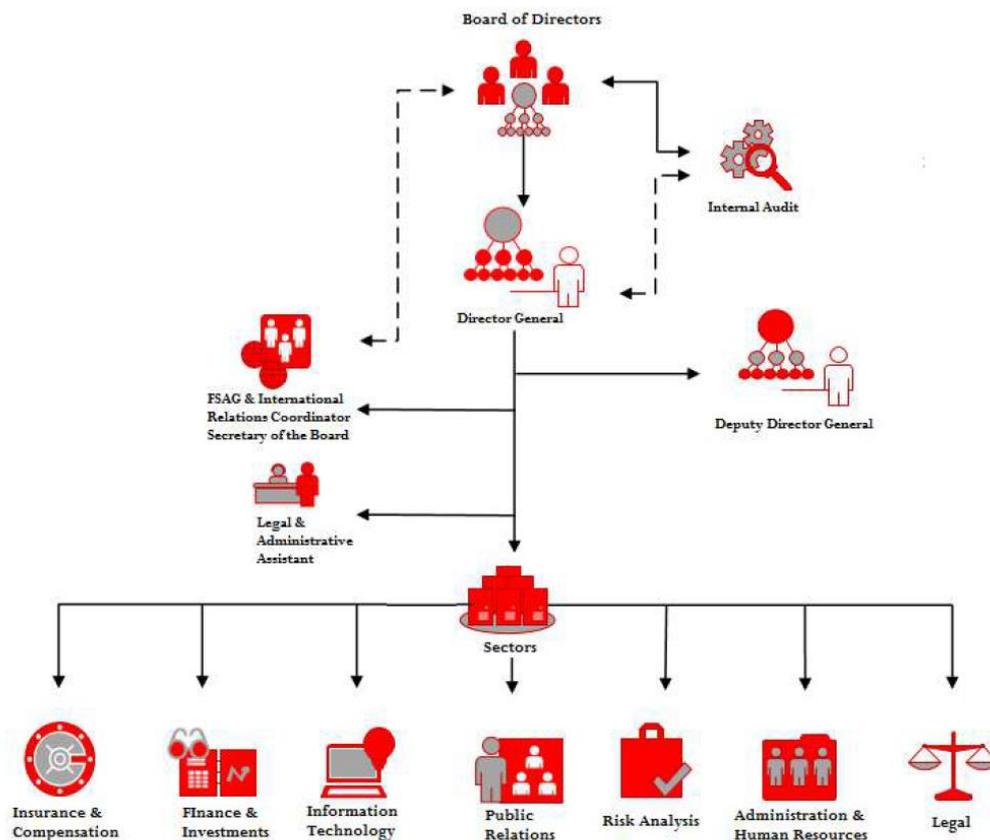
During 2019, the decision-making process of the Board of Directors has been guided by the principles of lawfulness, professionalism, independence and transparency. In 2019, the Board of Directors exercised its activity through the organization of monthly meetings. The decision-making of the Board of Directors has produced 39 decisions in order to set and maintain high standards in the good governance of the Agency and consolidate capacities to fulfill its legal mandate. The decision-making of the Board has focused mainly on the adoption of sub-legal acts to better manage and expand the deposit insurance scheme as well as the operational progress of the Agency.



6.2. Organizational structure

The organizational structure of the Deposit Insurance Agency was 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 in 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 implementation of its organizational structure, the Agency is organized hierarchically, headed by the Board of Directors and administered by the General Director. According to this structure, the Agency is composed of 7 sectors, and has a total staff of 29 employees. During 2019, the staff has been consistent, following the Agency’s policies of professional motivation. The organizational structure of the Agency did not change during 2019.





Section 7 - Independent Auditor's Report and Financial Statements of the Deposit Insurance Agency for the year ended on 31 December 2019.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Supervisory Board of Albanian Deposit Insurance Agency

Opinion

We have audited the financial statements of Albanian Insurance Deposit Agency (the "Agency"), which comprise statement of financial position As at December 31, 2019, statement income and expenses and other comprehensive income, statement of changes in deposit insurance fund and statement of cash flows for the year ended on this date, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Agency as at December 31 2019, and its financial performance and its cash flows for the year ended on this date in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Agency in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and ethical requirements that are relevant to our audit of the financial statements in Albania, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for other information. Other information includes the information provided in the Annual Report prepared by the Management of Albanian Insurance Deposit Agency in accordance with Law no.53/2014, dated 22 May 2014 "On Deposit Insurance", as amended. The Annual Report is expected to be available after the date of our audit report. Our opinion on the financial statements does not cover other information and we do not express any conclusions that provide assurance regarding this information. In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Agency's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Agency or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Agency's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Agency's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Agency to cease to continue as a going concern.



Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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Tirana, Albania
Identification number (NUIS): L41709002H



Engagement Partner
Statutory Auditor
Enida Cara

Tirana, Albania
February 27, 2020



Statement of financial position

	Notes	On 31 December 2019	On 31 Dec 2018
ACTIVES			
Monetary assets and their equivalents	8	3,035,714,526	5,350,390,547
Investments held to collect contractual inflows	9	40,212,956,768	33,597,058,369
Material long-term actives, net	10	60,096,842	64,146,294
Non-material long-term actives, net	11	6,201,241	9,327,649
Other actives, net	12	4,335,660	3,864,405
TOTAL ACTIVES		43,319,305,037	39,024,787,264
LIABILITIES			
Other liabilities	13	6,354,320	10,598,211
TOTAL LIABILITIES		6,354,320	10,598,211
DEPOSIT INSURANCE FUND			
Start-up capital for deposit insurance in banks	14	400,000,000	400,000,000
Start-up capital for deposit insurance in Savings and Credit Associations (“SCAs”)	14	76,000,000	76,000,000
Accumulated fund for deposit insurance in banks		42,788,356,194	38,506,676,717
Accumulated fund for deposit insurance in SCAs		48,594,523	31,512,336
TOTAL DEPOSIT INSURANCE FUND		43,312,950,717	39,014,189,053
TOTAL LIABILITIES AND DEPOSIT INSURANCE FUND		43,319,305,037	39,024,787,264



Statement of income and expenses and comprehensive income

	Notes	Year ended on 31 December 2019	Year ended on 31 December 2018
Operational income:			
Income from insurance premiums	15	3,392,642,125	3,286,733,568
Income from start-up capital	16	-	474,892
Income from interests	17	1,082,420,273	1,001,121,175
Other operational income	18	1,044,996	632,425
		4,476,107,394	4,288,962,060
Financial expenses:			
Losses from exchange to foreign currency		(39,878,999)	(230,324,215)
Other financial expenses	19	(12,620,913)	(23,945,556)
		(52,499,912)	(254,269,771)
Operational expenses:			
Staff expenses	20	(81,706,506)	(81,708,632)
Administrative expenses	21	(35,768,425)	(29,929,770)
Depreciation and amortization expenses	10, 11	(8,698,863)	(8,949,419)
		(126,173,794)	(120,587,821)
Retake /(Expenses) provisions monetary assets and financial actives	8, 9	1,327,975	(1,889,388)
NET SURPLUS FOR THE YEAR		4,298,761,663	3,912,215,080
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		4,298,761,663	3,912,215,080



Statement of monetary assets inflows

	Notes	Year ended on 31 December 2019	Year ended on 31 December 2018
Surplus of funds		4,298,761,663	3,912,215,080
<i>Adjustments for:</i>			
Income from interests	17	(1,082,420,273)	(1,001,121,175)
Depreciation and amortization expenses	10, 11	8,698,863	8,949,419
Provisions for financial actives	9	(2,855,979)	4,576,697
Return provisions for financial actives recognized on 1 January 2018	9	-	(7,336,348)
Changes to:			
Other actives		(471,255)	(1,398,820)
Other liabilities		(4,243,891)	182,031
Collected interest		872,079,353	880,259,310
Inflow of monetary assets generated from operational activity		4,089,548,481	3,796,326,194
INVESTING ACTIVITY			
Purchase of equipment	11	(1,523,002)	(9,589,958)
Purchase of securities		(6,402,701,500)	(2,293,584,000)
Inflow of monetary assets used in investing activity		(6,404,224,502)	(2,303,173,958)
Increase / net of monetary assets during the year		(2,314,676,021)	1,493,152,236
Monetary assets and their equivalents at the beginning of the year	8	5,350,390,547	3,857,238,311
Monetary assets and their equivalents at the end of the year	8	3,035,714,526	5,350,390,547



Statement of changes to the deposit insurance funds

	Initial capital for deposit insurance in banks	Initial capital for deposit insurance in SCAs	Accumulated fund for deposit insurance in banks	Accumulated fund for deposit insurance in SCAs	Total
On 1 January 2018	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	-	-	(7,336,349)	-	(7,336,349)
Net surplus for the year	-	-	3,896,923,104	15,291,976	3,912,215,080
Comprehensive income for the year	-	-	-	-	-
Total of comprehensive 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
Net surplus for the year	-	-	4,281,679,477	17,082,186	4,298,761,663
Comprehensive income for the year	-	-	-	-	-
Total of comprehensive income for the year	-	-	4,281,679,477	17,082,186	4,298,761,663
On 31 December 2019	400,000,000	76,000,000	42,788,356,194	48,594,523	43,312,950,717



Section 8 – Resolution Fund

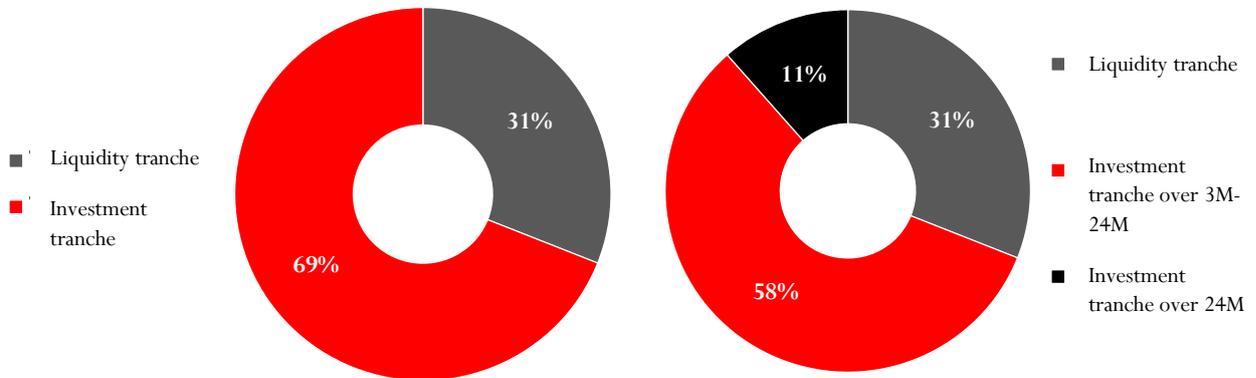
8.1. Administration of the Resolution Fund

By Law no. 133/2016, dated 22/12/2016, “On Recovery and Resolution in Banks in the Republic of Albania”, the Deposit Insurance Agency has been assigned competencies for the administration of this fund. The administration of the Resolution Fund is carried out in accordance with the Financial Assets Management Policy of the RF, approved by the Resolution Authority at the Bank of Albania. The Fund has become effective starting from January 1, 2018. The Bank of Albania is the Resolution Authority that exercises the intervention rights defined in the Law. The Bank of Albania calculates the annual contribution to be paid by the banking sector in order to reach the target level of the Resolution Fund. The annual contribution paid by the banks for the first year was to the amount of ALL 632.42 million, while for the second year it was ALL 650.33 million. As of 31 December 2019, the book value of the net actives available to the Resolution Authority was ALL 1.303 billion.

The Fund's financial assets have been invested in accordance with the Annual Investment Strategies for 2018 and 2019, approved by the Investment Committee of the Agency. These financial assets with a nominal value of ALL 1.306 billion as of December 31, 2019, are all invested in Albanian Government securities and one-week deposits and current accounts with the Bank of Albania. In order to effectively manage the financial assets of the fund, by the end of 2019, the Agency in accordance with the financial assets management policy had 31.02 percent of the portfolio in highly liquid instruments, such as current accounts and deposits with the Bank of Albania, as well as securities with a remaining maturity of up to 90 days. The following chart presents a summary of the RF's financial assets by investment tranches as of 31 December 2019.

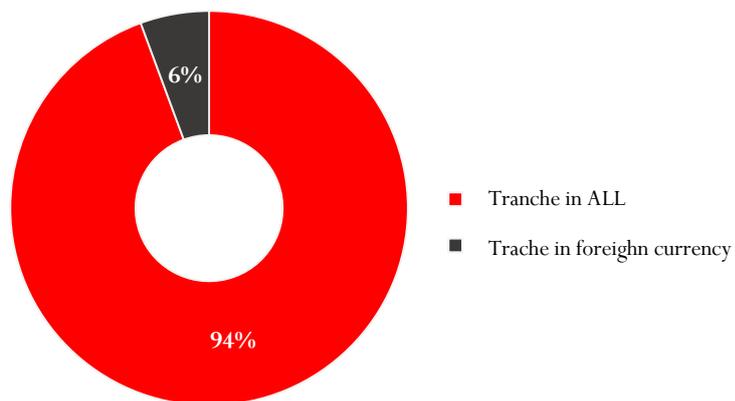


Financial assets by investment tranches

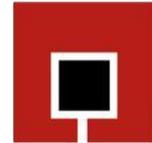


The RF's financial assets are mostly in ALL. In line with the RF's Financial Assets Management Policy, investments in foreign currency account for 5.59 percent of the financial assets under administration. The following chart presents a summary of the RF's financial assets by currency as of December 31, 2019.

Financial assets by currency



The Agency, on behalf of the Resolution Fund, administers and maintains special accounts for the financial assets of the fund. The Agency prepares and reports to the Resolution Authority the portfolio of the Fund's financial assets as well as its quarterly financial statements. The Fund's annual financial statements are audited by certified and independent auditing firms.



8.2. Independent Auditor's Report and Financial Statements of the Resolution Fund for the year ended on 31 December 2019

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To Supervisory Board of Resolution Fund

Opinion

We have audited the financial statements of Resolution Fund (the "Fund"), which comprise statement of financial position as at December 31, 2019, statement of income and expenses and other comprehensive income, statement of changes in net assets at the discretion of the Resolution Authority and statement of cash flows for the year ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31 2019, and its financial performance and its cash flows for the year ended on this date in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and ethical requirements that are relevant to our audit of the financial statements in Albania, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for other information. Other information includes the information provided in the Annual Report prepared by the Management of Resolution Fund in accordance with Law no.53/2014, dated 22 May 2014 "On Deposit Insurance", as amended. The Annual Report is expected to be available after the date of our audit report. Our opinion on the financial statements does not cover other information and we do not express any conclusions that provide assurance regarding this information. In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.



Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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Tirana, Albania
Identification number (NUIS): L41709002H



Engagement Partner
Statutory Auditor
Enida Cara

Tirana, Albania
February 27, 2020



Statement of financial position

	Notes	On 31 December 2019	On 31 Dec 2018
ACTIVES			
Monetary assets and their equivalents	8	255,035,598	66,291,242
Investments held to collect contractual inflows	9	1,050,529,040	571,698,800
TOTAL ACTIVES		1,305,564,638	637,990,042
LIABILITIES			
Other liabilities	10	1,976,995	1,314,609
TOTAL LIABILITIES		1,976,995	1,314,609
NET ACTIVES AVAILABLE TO THE RESOLUTION AUTHORITY			
Net actives available to the RA		636,675,433	-
Total comprehensive income for the year		666,912,210	636,675,433
TOTAL NET ACTIVES AVAILABLE TO THE RESOLUTION AUTHORITY		1,303,587,643	636,675,433
TOTAL LIABILITIES AND ACTIVES AVAILABLE TO THE RESOLUTION AUTHORITY			
		1,305,564,638	637,990,042



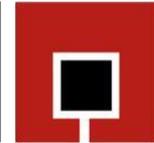
Statement of income and expenses and comprehensive income

		Year ended on 31 December 2019	Since the creation date (1 January 2018) up to 31 December 2018
	Notes		
Operational income:			
Income from annual contribution	11	650,332,126	632,174,459
Income from interests	12	20,203,798	8,437,388
Other operational income	13	-	5,712
		670,535,924	640,617,559
Financial expenses:			
Losses from exchange to foreign currency		(1,543,602)	(2,270,400)
Bank tariffs and commissions	14	(500,000)	(500,000)
		(2,043,602)	(2,770,400)
Operational expenses:			
Operational expenses from the activity	15	(1,476,995)	(1,064,425)
		(1,476,995)	(1,064,425)
Provision expenses financial actives	8	(103,117)	(107,301)
NET SURPLUS FOR THE YEAR		666,912,210	636,675,433
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		666,912,210	636,675,433



Statement of monetary assets inflow

	Notes	Year ended on 31 December 2019	Since the set-up date (1 January 2018) until 31 Dec 2018
Net surplus of the Fund		666,912,210	636,675,433
<i>Adjustments for:</i>			
Income from interests		(20,203,798)	(8,437,388)
Changes to:			
Other liabilities		662,386	1,314,609
Collected interest		19,373,558	9,738,588
Monetary assets inflow generated from operational activity		666,744,356	639,291,242
INVESTING ACTIVITY			
Purchase of securities		(478,000,000)	(573,000,000)
Inflow of monetary assets used in investing activity		(478,000,000)	(573,000,000)
Increase / net of monetary assets during the year		188,744,356	66,291,242
Monetary assets and their equivalents at the beginning of the year	8	66,291,242	-
Monetary assets and their equivalents at the end of the year	8	255,035,598	66,291,242



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

	Resolution Fund	Total
Net actives available to the Resolution Authority on 1 January 2018	-	-
Net surplus for the year	636,675,433	636,675,433
Comprehensive income for the year	-	-
Total of comprehensive income for the year	636,675,433	636,675,433
Net actives available to the Resolution Authority on 31 December 2018	636,675,433	636,675,433
Net surplus for the year	666,912,210	666,912,210
Comprehensive income for the year	-	-
Total of comprehensive income for the year	666,912,210	666,912,210
Net actives available to the Resolution Authority on 31 December 2019	1,303,587,643	1,303,587,643