

ANNUAL REPORT 2021

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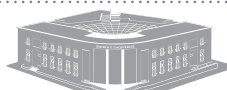
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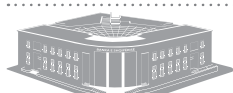


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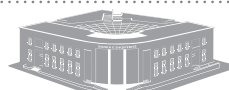
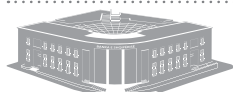


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LEGAL FRAMEWORK

The Bank of Albania is the central bank of the Republic of Albania. Article 161 of the Constitution of Albania defines the status of the Bank of Albania and Law No. 8269, dated 27.12.1997, "On the Bank of Albania", lays down its objectives, duties, relationships with the banking system and state institutions in Albania, as well as requirements for organisation and management, financial statements, and allocation of capital and profit.

The primary objective of the Bank of Albania is to achieve and maintain price stability. The Bank of Albania is autonomous and independent from any other authority in the pursuit of its objectives and the performance of its duties. The Bank of Albania is autonomous and independent from any other authority in the pursuit of its objectives and the performance of its duties.

The Bank of Albania is accountable to the Assembly of the Republic of Albania and its paid-up capital is owned exclusively by the State of Albania. The Bank of Albania is governed by the Supervisory Council, which is chaired by the Governor. The Governor also serves as the General Executive Director of the Bank.

The Bank of Albania operates in accordance with the following legislation:

- Article 161 of the Constitution of the Republic of Albania;
- Law No. 8269, dated 23.12.1997, "On the Bank of Albania", as amended;
- Law No. 9662, dated 18.12.2006, "On banks in the Republic of Albania", as amended;
- Law No. 133, dated 29.4.2013, "On payment system";
- Law No. 55/2020, dated 30.4.2020, "On Payment services";
- Law No. 52, dated 19.5.2016, "On Savings and Loan Associations and their unions";
- Law No. 133, dated 22.12.2016, "On the recovery and resolution of banks in the Republic of Albania".
- The Statute of the Bank of Albania, approved by the Decision No. 90, dated 2.12.2015 of the Supervisory Council.





GENT SEJKO, GOVERNOR OF THE BANK OF ALBANIA

FOREWORD BY THE GOVERNOR

Dear reader,

Though full of challenges and hardships, year 2021 - in its entirety - was a positive one for the Albanian economy.

The economic activity recorded a swift, broad-based and sustainable recovery. Economic growth recorded a high momentum, by exceeding our initial expectations, employment and wages increased, financial balance sheets of private sector improved, while economic and financial equilibriums of Albanian remain sound. In addition, the rapid recovery of domestic product suggests that the Albanian economy has not suffered considerable long-term damages from both the earthquake and the pandemic. The volume of economic activity has already surpassed the pre-pandemic level, in both aggregate and individual sectors levels.

Demand recovery and increased wages triggered a gradual rising trend of inflation during 2021. This indicator constitutes the primary objective of the Bank of Albania activity. In 2021, annual inflation averaged 2%, from 1.6 % in the previous year. On the other hand, the rapid upswing in inflation in the fourth quarter of year appears to have been driven by the sharp rise in prices in international market. We judge - based on the current information - that this factor will have a transitory impact on inflation in Albania and will not jeopardise price stability in the short and long term.

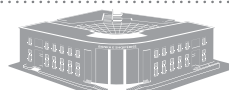
Against this backdrop, financial markets have been calm, interest rates and financing costs were low, and the exchange rate has been stable. The banking sector has maintained good indicators of profitability, liquidity and capital adequacy. In particular, I would like to highlight the non-performing loans ratio continued to decline and the direct exposure of banking sector's activity to market risks remains contained.

I am glad to affirm that the Bank of Albania has been an important factor in this progress. Through our policies and instruments, we have helped in safeguarding the monetary and financial stability of Albania and have kept financing channels opened to Albanian enterprises and households.

The Bank of Albania continued to implement a simulating monetary policy throughout 2021, for supporting the economic rebound and inflation converging to target. Our monetary stimulus has: reduced the debt financing and servicing costs; bolstered the sustained growth of credit; and helped the stability of the exchange rate.

In parallel, the Bank of Albania has been particularly attentive on the further improvement of its supervisory and regulatory framework, performing new steps towards its continuous approximation with the best standards in this field. Also, we have continued working to expanding the gamma of macroprudential tools, for the prevention of money laundering and terrorism financing, as well as for strengthening the security networks of financial sector.

Beyond these two priorities of our work, we have continued to put into practice our strategic vision in other areas as well. In this regard, I would like to emphasize some of them.



The Bank of Albania has continued its institutional investment for the establishment, maintenance and development of payment systems, by creating the premises for the establishment of a modern and inclusive market, with a view to expanding the financial inclusion of the population. We have finalised the completion of the new series of banknotes; fulfilled our obligations in the framework of Albania's process of European Integration; we have worked for the standardisation and unification of the statistics produced with intentional standards; for the strengthening of the internal systems of the institution governance; for the expansion and deepening of scientific research; for the improvement of communication and increase of financial education of the public, etc.

Following last year, we also maintained the virtual communication formats to inform the economic debate and explain our actions. Enhancing transparency and the economic and financial education are key instruments that pave the way for taking sound economic and financial decisions.

Dear reader,

Although facing unprecedented challenges, the Bank of Albania succeeded to fulfil its mandate in capacity of: the monetary authority; primary supervisor and regulator of the financial market; and promoter of the payment instruments and financial markets development. This success is attributable to the dedication of its staff, coupled with our vision to be a leading and far-sighted institution.

I am confident that we will be able to put these qualities to work in the future, for building a better, more sustainable and more comprehensive economy.

Gent Sejko

Governor

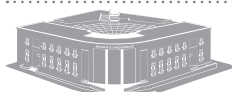


2021 YEAR IN BRIEF

- Year 2021 market a rapid rebound in demand and production, and an improved employment. A year earlier, the suspension in certain activities due to the COVID-19 pandemic, has plunged the Albanian and foreign economies into a historical contraction. In 2021, the supportive policies, vaccination of population, and reduction of containment measures, led to declined uncertainties and accelerated domestic and foreign demand.
- In the first three quarter of 2021, GDP grew 10.4%, driven by the positive contributions across all sectors. The volume of output reached both the pre-pandemic and earthquake levels. The strong simulating monetary and fiscal policies mainly underpinned the economic growth in Albania.
- Inflation averaged 2.0%. Also, core inflation was up in reflection of the expanded domestic demand. Inflation increased considerably at the end of year, due to the high prices in international markets. Inflation is expected to temporary remain high, due to developments in global markets, and to settle durably at 3.0% target in the course of 2023.
- The monetary policy of the Bank of Albania has maintained its accommodative stance, by supporting the economic growth and inflation in compliance with the preservation of price stability. The Bank of Albania has kept the policy rate unchanged, at 0.5%, thus maintaining the interest rates in economy at low levels, and bolstering credit to economy.
- The activity of financial sector improved, while risks are assessed to be contained. Assets of banks expanded, profitability and rentability rose, and the quality of credit portfolio improved. Non-performing loans ratio dropped at the lowest level in the last decade, standing at 5.65%.
- The Bank of Albania has amended the regulatory framework of banking supervision aiming at its alignment with the EU legal and regulatory act and the Basel Committee acts. The drafting of regulatory framework on the implementation of the Law "On payment services" was completed this year. Important regulatory amendments are made to strengthen consumer protection.
- The Bank of Albania under the assistance of EBRD and PwC has conducted an independent assessment on the equivalence of supervisory and regulatory frameworks with the European Banking Authority requirements. This assessment finds out that the regulatory framework and supervisory practices of the Bank of Albania are largely equivalent and aligned with the European Union standards.
- The drafting of resolution plans for all banks conducting their activity in Albania was finalised, and the regulatory framework for the implementation of the resolution Law was completed.
- Two important infrastructural projects on payment services were concluded. In October 2021, the operationalisation of interbank "Direct Debit" scheme was realised. In January 2022, the AIPS Euro started to operate, for processing euro-denominated payments within Albania for banks' clients.



- *The improved regulatory framework of payments infrastructure has driven to the increased use of electronic payment instruments. In 2021, the targets established in the Albanian National Retail Payments Strategy (2018-2023) were achieved on: (i) cashless payments per capita; and (ii) account ownership.*
- *Two denominations of the new banknotes series, 1000 Lekë and 10000 Lekë, were launched in June 2021. The denomination 10000 Lekë is the highest-value banknote and is put in circulation for the first time.*
- *Foreign exchange reserve grew by around EUR 1 billion, reaching at EUR 4.974 billion. The infrastructure and regulatory basis on the expansion of instrument class for investments is being improved in collaboration with the World Bank.*
- *In the field of statistics, the Bank of Albania has continued to work towards alignment with the *acquis communautaire* standards.*
- *In November 2021, the awareness campaign: “Neither old nor new, I am simply Lek!” was launched on the correct use of Lek terminology. The Bank of Albania has undertaken a national campaign from some years aiming at educating public at large on the correct use of the terminology in their financial transactions.*
- *The staff has worked in presence and virtually due to the pandemic. All the main activities of the Bank of Albania have continued to operate smoothly, without any interruption.*
- *In November, the Supervisory Council approved the Medium-Term Development Strategy of the Bank of Albania 2022-2024. In compliance with the objectives of this strategy the SC approved the planned medium-term budget.*



SUPERVISORY COUNCIL OF THE BANK OF ALBANIA



Mr. Gent Sejko, Chair



Ms. Luljeta Minxhozi, Deputy Chair



Ms. Natasha Ahmetaj, Member



Mr. Ridvan Bode, Member



Mr. Tonin Kola, Member



Ms. Suela Popa, Member



Ms. Edlira Luçi, Member



Ms. Violeta Staka, Member



Mr. Artan Hoxha, Member

1. SUPERVISORY COUNCIL OF THE BANK OF ALBANIA

The Supervisory Council is the highest decision-making and supervisory body of the Bank of Albania. As such, it is responsible for formulating monetary policy and approving guidelines for its implementation. The Supervisory Council has the ultimate responsibility for deciding on the strategy of the Bank of Albania, the appointment of heads of departments, approval of organizational structure, as well as the fulfilment of obligations related to risk management and compliance. The Supervisory Council performs its activity in line with the provisions of the organic law and the procedures established in the Regulation on the organisation and functioning of this body.

The internal audit functions are delegated to the Audit Committee, which is responsible for the financial reporting process and the internal audit system.

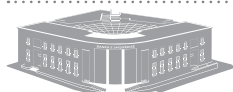
The decision-making process at the Bank of Albania is guided by the principles of lawfulness, professionalism, independence, and transparency.

Also, in 2021, the Supervisory Council focused its decision making on the mitigation of consequences derived from the COVID-19 pandemic and boosting economic growth of Albania.

The monetary policy continued to maintain the accommodative stance, by building on an environment of: low financing costs; adequate lending conditions; and a relatively stable exchange rate. The policy rate was kept unchanged throughout 2021, at 0.5%. This financial environment enabled a stable growth of credit to private sector, by supporting the increase in consumption and investments.

The Council approved in a timely manner the extension of supervisory measures implemented to reduce the impact of the pandemic on the economy, as: requirements on the classification and provisioning of loans; regulatory amendments for large exposures; the suspension of dividend allocation of banks profit for the years 2020 and 2021.

At the same time, the Supervisory Council completed the regulatory framework for the implementation of (i) the Law "On the recovery and resolution of banks in the Republic of Albania"; and (ii) the Law "On payment services". In the framework of modernising the payment system, the operationalisation of the AIPS EURO for the settlement of the domestic euro-denominated transfers, which reduces costs to the users, by enhancing the efficiency of the systems, as adopted.



Also in 2021, the Supervisory Council held the meetings virtually, pursuant to the containment measures in place due to the pandemic. Eight of these meetings focused on review and approval of monetary policy. Four meetings were dedicated to financial stability, while three meetings addressed: (i) the annual programme of the Supervisory Council; (ii) the Annual Report of the Bank of Albania; and (iii) the medium-term strategy, the annual and medium-term budget.

The Council has regularly received information about the institution's management policies and methods and procedures related to the use of financial assets for the operational activity of the Bank of Albania. The information on the financial position and result of the Bank of Albania and on the foreign currency reserve management was presented on regular basis. The Council has been regularly reported on the findings and recommendations from audits of the Audit Department, on the effectiveness and quality of internal control systems, risk management and Bank of Albania management.

The Bank of Albania has regularly submitted the fulfilment level of recommendations in the resolution on the assessment of its activity, in compliance with the obligation for the regular annual reporting to the Albanian Parliament.

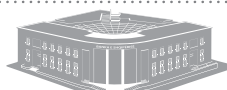
The Supervisory Council, in its last meeting decided to propose to the Parliament the candidature of Mr Gent Sejko for a second term as member of the Council. In its decision, the Council took into account the experience, qualification and personal qualities of Mr Sejko, distinguished particularly for the professionalism, reputation and the high moral integrity showed throughout its 7-year mandate of this body.

The Supervisory Council - the highest decision-making body of the Bank of Albania

The Supervisory Council has the power to approve all the decisions, regulations and guidelines of general application, issued by the Bank of Albania.

The Council held 15 meetings in 2021. Eight of these meetings focused on the review and approval of the monetary policy, based on 4 quarterly and 4 intermediate reports. During its activity throughout 2021, the Council approved 77 decisions, of which 50 were acts approved for the first time and 27 were amendments to existing acts.

These acts were issued in accordance with the duties of the Supervisory Council, as stipulated in the Law on the Bank of Albania, such as: (i) monetary stability; (ii) licencing, regulation and supervision of banks and other financial institutions; (iii) provision of financial infrastructure (currency issue; payment settlement; clearing of payments and securities; and oversight of payment systems); (iv) foreign exchange reserve management; and (v) statistics.



Management and internal organisation

The Law on the Bank of Albania stipulates that the Supervisory Council is responsible for: (i) approving the Statute and the internal regulations of the Bank of Albania; (ii) determining the organisational structure; and, (iii) approving the appointment of the heads of departments and defining employment conditions at the Bank of Albania.

In November, the Council approved the Medium-term Development Strategy of the Bank of Albania for the period of 2022-2024, keeping the Bank of Albania's mission, vision and values unchanged. The strategy is conceived and compiled as a new document serving as a main pillar to draft the budget for the next three years of the Bank of Albania's activity.

Budget

The Supervisory Council decides on the budget of the Bank of Albania, the management policies and the procedures on using financial assets to carry out the operational activity of the institution, pursuant to the Law on the Bank of Albania.

In November, the Council approved the budget of the Bank of Albania for 2022 and the planned medium-term budget for 2023-2024. The budget was drafted in accordance with the Medium-term Development Strategy of the Bank of Albania and departmental projections on medium-term incomes and expenditures.

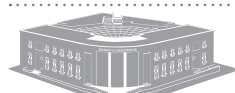
The budget of the Bank of Albania for 2023-2024 aims at: (i) normal conduction of the activity of the Bank of Albania to fulfil its legal duties, (ii) safeguarding and improving the quality of currency in circulation; (iii) improving the work and security conditions of the institution; (iv) improving and continuously updating the information technology infrastructure; and (v) retaining the human resources capacities. The capital expenditures and the projections included in the budget were preliminarily approved by the Capital Expenditures Committee

The Supervisory Council - the highest supervisory body of the Bank of Albania

To ensure compliance with the law and other acts regulating the daily activity of the Bank of Albania, the Supervisory Council is regularly informed by the internal and external auditors.

Internal audit

The internal audit is an activity independent of management. It includes the functions of compliance, internal auditing and risk management, carried out by providing evaluation, reporting and objective certainty.



1. *Control over management*

The administrators (the Governor and the two Deputy Governors) inform the Supervisory Council on a monthly basis about economic, financial and monetary developments in accordance with the legal obligations.

The Supervisory Council has been also informed about the institution's management policies and the use of financial assets for realisation of the operational activity of the Bank of Albania. The Governor is accountable to the Supervisory Council for the implementation of the approved decisions, as well as for guidance, audit and oversight of management and operations of the Bank of Albania.

The Inspector General and the Audit Department control and present the Council reports and recommendations on the accounts and books, as well as budget, accounting and audit procedures at the Bank of Albania.

2. *The Audit Committee*

In order to increase efficiency and depth in specific areas, the functions of internal audit are delegated to the Audit Committee, which exercises its duties to support the strengthening of internal and external control lines. The Audit Committee is responsible for (i) the financial reporting process; (ii) the internal control system; (iii) the internal and external audit; and (iv) compliance with the legal and sub-legal acts which are in force.

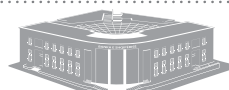
The Committee is composed of three members, namely: Ms Suela Popa (Chair), Mr Ridvan Bode and Ms. Edlira Luçi. Members are elected for a three-year term, with the right to be re-elected only once. Administrators may not be members of the Committee.

In 2021, the Audit Committee held seven meetings, and discussed issues such as: (i) the annual work plan and the commitments of the internal audit; (ii) the regular report of the Inspector General on the audit activity; (iii) the financial statements for the Bank of Albania and the Pension Fund, along with the letter on management and the opinion of the external auditor; (iv) the annual budget and the planned medium-term budget; and (v) the annual work plan for 2022 and the medium-term guiding plan 2022-2026.

The Committee has informed the Council regularly on its activity and the implementation of its responsibilities, through specific information, presented to the Council by the Chair and the members.

3. *Internal audit*

The Inspector General and the Control Department, periodically and independently: (i) assess the accounts and the accounting records, the management and operational procedures of the Bank of Albania, in order



to ensure the implementation of the legal and sub-legal acts; and (ii) offer reasonable assurance on the efficiency of the control system, risk and processes managements, for the fulfilment of the institutional objectives.

The Inspector General has reported regularly to the Council on the realisation of this plan and the result of the auditing commitments. The plan is based on the international standards for internal auditing and the updated risk assessment of the identified functions in the revised audit universe.

4. Business continuity

For the implementation of business continuity of the Bank of Albania's activity, the Inspector General has informed the Council on the implementation of the program for the business continuity management of the Bank of Albania and the relevant commitment for its improvement, in view of the lessons learned from the situations created by the earthquake and the pandemic.

External audit

The organic law provides that the Bank of Albania's accounts and records may be checked by external auditors of internationally-recognised auditing institutions appointed by the Council. The external auditor expresses his opinion if the reports prepared by the Bank of Albania represent fully and fairly the financial situation of the institution, in accordance with generally-accepted international accounting standards.

The financial statements of the Bank of Albania are audited so as to offer a reasonable reassurance that they are not inaccurate, as a result of errors or fraud. This provides the external auditor with a key role in maintaining the trust of financial markets and of the public in the financial statements of the Bank of Albania.

The Audit Committee reviews the effectiveness and appropriateness of the external audit function. Prior to submitting the opinion on the financial statements, the Committee meets with the external auditor, without the presence of the administrators, where the progress of the audit process is discussed.

Accountability and transparency

In accordance with the organic law, the Supervisory Council approves all reports and recommendations that the Bank of Albania presents to the Assembly or the Council of Ministers, as well as the annual and financial reports of the Bank of Albania. Upon approval by the Council, these reports are published.

Approval of the Annual Report

In March, the Supervisory Council approved the Annual Report 2021 and sent it to the Assembly and the Council of Ministers. The report describes the economy



and financial situation in Albania and the activity of the Bank of Albania over the reporting period. The financial statements audited and certified by the external auditor and its opinion are an integral part of the Annual Report. The financial statements for 2021 were audited by Ernst & Young (EY) – Certified Auditors, Albania Branch. In the opinion of EY Albania, the financial statements give a fair view of the Bank of Albania’s financial position as at 31 December 2021, and of its financial performance and cash flows in accordance with International Financial Reporting Standards.

In accordance with the provisions of the Annual and Periodic Monitoring Manual of independent constitutional institutions, the Report was accompanied by the information on the implementation of the Assembly’s requirements for the annual reporting of the Bank of Albania.

Other reporting to the Assembly and the Council of Ministers

In accordance with the organic law, the Bank of Albania has to publish: (i) a detailed opinion on the situation of the economy, quarterly; and (ii) a statement of threats to the stability of the financial system, half yearly.

Through compilation and publication of these quarterly and half-yearly reports, the Supervisory Council has regularly fulfilled the accountability obligations of the Bank of Albania to the Parliament and the transparency obligations to the public, financial system and media.

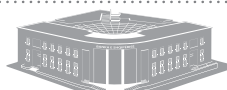
In accordance with these obligations, the Supervisory Council, in February, May, August and November, approved the quarterly monetary policy reports, which constitute the main instrument of accountability and transparency in this regard. These reports present a comprehensive description of the latest macroeconomic developments and factors that affect the performance of consumer prices in Albania.

In April and September, the Supervisory Council approved the half-yearly financial stability reports. These reports present Bank of Albania’s assessment on financial system developments in Albania, underline potential risks to financial stability and make recommendations in relation to necessary measures for reducing risks.

The reports have been sent to the Assembly of the Republic of Albania, the Council of Ministers and other central institutions

Distribution of profit

In March, the Supervisory Council approved the distribution of profit of the Bank of Albania for 2020.



The value of net profit realised during 2020 was ALL 1,433,862,950.59, around 7% higher than the net profit realised in the previous year. The value of net profit is calculated as the result of the difference between net income from the activity of the Bank of Albania (ALL 1,462,203,238.47) and net provisions (ALL 32,695,010.06).

The distribution of profit is approved by a separate decision, prior to the approval of financial statements, which represent the value of the profit to be distributed. The value of profit was set in advance by the Council, in accordance with the organic law that provides for all possible deductions, subject to approval by the Supervisory Council, before distribution.



2. THE ACTIVITY OF THE BANK OF ALBANIA

2.1. MONETARY POLICY

According to the Law “On the Bank of Albania”, our monetary policy is formulated and implemented for the purpose of achieving and maintaining price stability. The Monetary Policy Document, which details the objectives, explains the principles and lays out the monetary policy strategy, defines price stability as keeping the consumer price inflation rate at 3%, in the medium term. Through the fulfilment of this objective, the Bank of Albania contributes to the stable development of the economy and improvement in the welfare of Albanian citizens.

The Supervisory Council of the Bank of Albania makes monetary policy decisions. These decisions are based on the contemporary framework of analysis and forecast, which makes use of all available information, and is based on tested econometric models and the best practices of central banking.

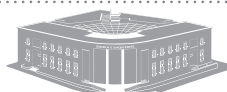
2021 was the year of economic rebound. This recovery was present in: the increased economic activity; the improved balance sheets of enterprises; the expanded employment; rise of wages; and the strengthened domestic inflationary pressures. In reflection, inflation pursued a gradual climbing trend over 2021. On the other hand, inflation picked up rapidly in the middle of fourth quarter, due to the price rises in international markets.

A range of factors, such as: reduced containment measures; improved business and consumer’s confidence, increased foreign demand, and the support with stimulating fiscal and monetary policies, underpinned the economic recovery. Particularly, the stimulating monetary policy enabled the reduction of financing costs and the stable growth of bank credit.

The economic outlook is positive. The consolidation of recovery factors, the gradual return of economy to equilibrium and of inflation to target, drive to the need for gradually reducing the macroeconomic stimuli and the normalisation of monetary and fiscal policy. Reduction of monetary stimuli will serve to safeguarding price stability, a crucial precondition for enabling a sustainable economic growth in the medium and long term.

2.1.1 MONETARY POLICY IN 2021

The Albanian economy recovered swiftly throughout 2021. According to INSTAT data, the domestic economic activity grew by 10.4% in the first nine



months of year, after the 4% contraction over 2020. This rapid growth rate was also affected by the low comparative base of 2020; in this period the Albanian economy was subject to restrictive measures in place to contain the spread of COVID-19 pandemic. Nevertheless, our analysis show that the recovery has gone beyond the base effect.¹ The increased volume of economic activity, in terms of both aggregate demand and sectoral framework, beyond the pre-pandemic and pre-earthquake levels illustrate this performance. It also shows the low impact of these shocks on the production capacities of Albania.

Economic recovery was broadly based. In terms of aggregate demand, it reflected the increase in consumption and private investments, expansion of exports and services, and the positive contribution of public expenditures. In sectoral terms, it reflected the simultaneous expansion in the activities of construction, industry and services.

Economic growth was accompanied by the increase in employment and wages. INSTAT data show, the number of employed persons rose by around 36,187 persons, or by 2.9%, during the first nine months of year. Excluding agriculture, the increase of employment was present across all other sectors of the economy. In parallel with these developments, unemployment rate dropped at 11.3% in the third quarter. The increase of the labour demand was reflected in the 5.6% rise of average wage during the first nine months of year.

Inflation has been climbing during 2021, in reflection of the domestic inflationary pressures and the upswing in prices in the international markets. In 2021, annual inflation averaged 2.0%, from 1.6 % in the previous year. Its upward trend reflected the growth of the demand, which drove to a gradual rise in employment, wages and core inflation². This inflation increased from 1.3% in December 2020, to 2.6% in December 2021. In parallel, the foreign inflationary pressure has been edging up in the second half of year, particularly in its last months, due to the sharp rise in food and energy products prices in international markets. These supply-side shocks drove inflation pushing up at 3.7% in December. Based on the available information, our analyses and projections suggest markets will normalise in the first half of 2022, and foreign shocks on inflation will have a transitory effect.

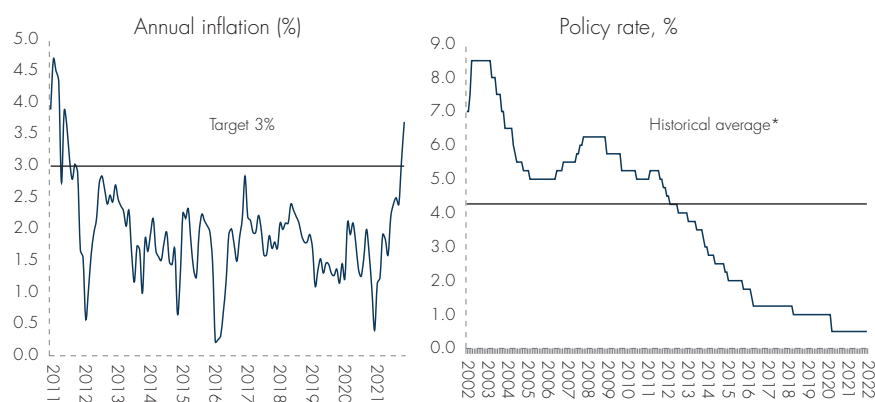
A broad gamma of factors underpinned the recovery of economy. The easing of containment measures due to the improved pandemic situation, progress in vaccinations, increased confidence, the improved external environment, and the relatively solid balance sheets of private sectors, paved the way for a rapid expansion in consumption, investments and Albanian exports.

¹ According to our calculations, the comparison with the low base of the economic activity during 2020 has yielded a positive statistical effect of four percentage points on the economic growth in the first three quarters of 2021.

² Core inflation is defined as an inflation estimate which omits the short-term fluctuations and one-time supply-side shocks. It represents the most stable part of inflation that is affected by the demand-side factors and consequently of monetary policy.



Chart 1 Inflation and policy rate (in %)



* Calculated by excluding the last two years, when the policy rate was cut at extremely low levels.

Source: INSTAT and BoA.

Particularly, the monetary stimulus have provided a vital support to the recovery process, in terms of both economic growth and safeguarding monetary and financial stability.

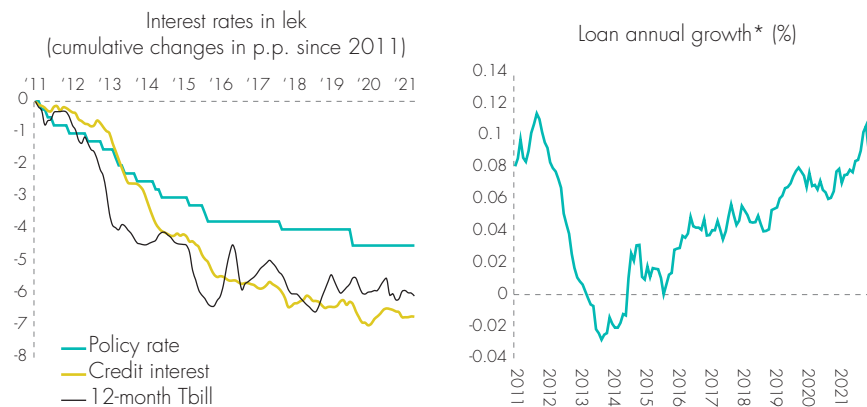
The monetary stimulus was managed through the conventional instruments of monetary policy. The policy rate remained at its historic lowest levels, of 0.5%, while the liquidity volume injected into the system increased. In parallel with them, the Bank of Albania continued to use forward guidance in the monetary policy stance.

The simulating monetary policy has continued to be transmitted in low financing costs and adequate lending conditions. Financial markets have functioned smoothly, lending costs to both public and private sectors have remained low, while the banking sector balance sheets appear sound. Also, the lek exchange rate appeared stable, reflecting a balanced ratio between the demand and supply in the market.

The monetary stimulus has enabled a rapid and sustained increase in lending to the economy. The volume of credit to private sector rose averagely by 8.4% over 2021, the highest growth rate since 2012. Its growth reflected the improved demand and the positive approach of banks to lending. In addition, lending structure has maintained certain positive features. First, credit expansion was relatively balanced towards beneficent, both businesses and households, and towards financing of investments and covering the short-term liquidity needs. Second, credit in lek continued to show high growth pace, which in turn helps increasing the monetary policy effectiveness and financial stability of the banking system. Third, the quality of credit portfolio to private sector has been improving, as illustrated by the progressive fall in the non-performing loans ratio. The latter dropped at 5.65% in December, by recording the lowest rate in the last decade.



Chart 2 Transmission of monetary stimulus to the interest rates of loans and credit performance



*Reported credit adjusted for the foreign exchange rate movements and the written off loans. Source: Bank of Albania.

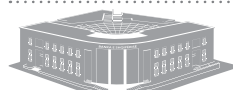
Economic outlook for Albania remains positive. The economic activity is expected to growing, supported by: a favourable financial environment; relatively solid balance sheets of the private sector; and the further rebound in the global economic activity. Economic growth close to potential will provide for the increase of employment in line with market supply and rise of wages in line with our inflation target. Inflation is likely to remain temporary elevated, owing to developments in global markets, and to settle durably at the 3.0% target in the course of 2023, upon the normalisation of the situation in international markets.

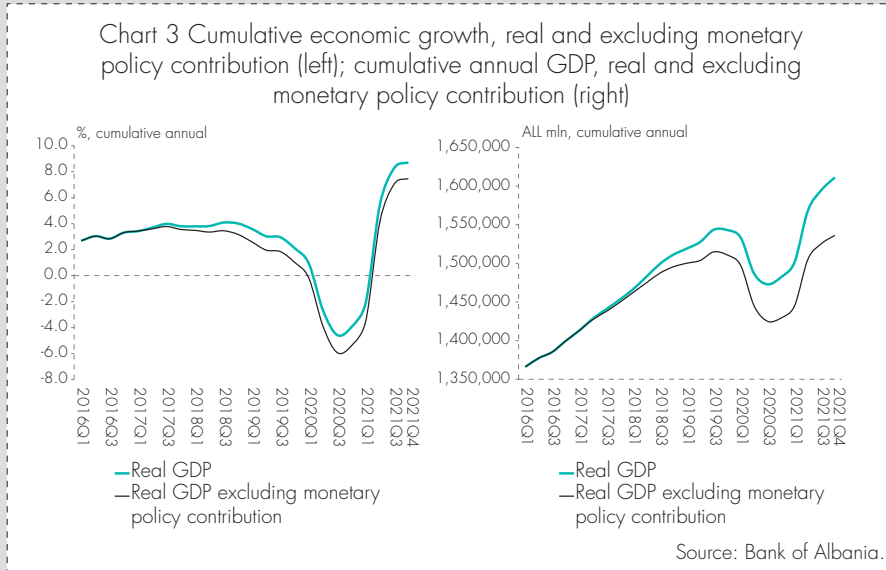
Nevertheless, the upsurge in prices in the international markets constitutes a risk factor, to both inflation rate and growth momentum over the course of 2022.

BOX 1 MONETARY POLICY CONTRIBUTION IN ECONOMIC ACTIVITY AND INFLATION*

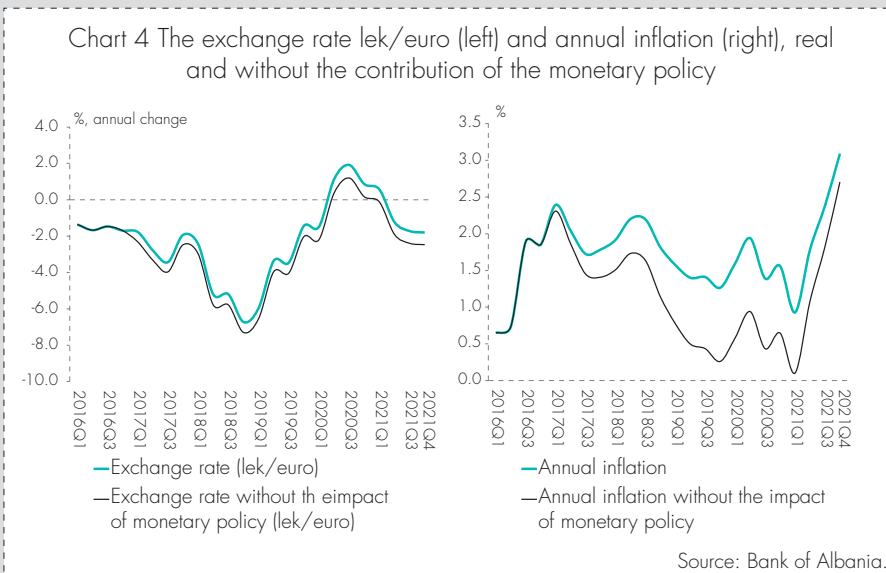
This box aims to provide an assessment of the impact of monetary policy on both economic activity and inflation throughout the period 2017-2021. Results from the assessment show an increasing effect of averagely 0.9 p.p. per year on economic activity and 0.7 p.p per year on inflation. In summary, conclusions are as follows:

- *The accommodative monetary policy stance has made a positive contribution during the period under review, with an average impact assessed at around of 0.9 p.p per year on the economic growth. The positive effect is a result of the low interest rates, low risk premia, uninterrupted lending to economy and increased competition of the Albanian exports.*
- *In 2021, the positive effect of monetary policy is assessed to be similar to that in the previous year, at around 1.3 p.p.*
- *The positive impact of monetary policy is translated into a higher trajectory of real GDP compared with its expected level in absence of monetary stimulus. Thus, the monetary stimulus has generated a volume of economic activity around 4.5 p.p. higher in 2021 Q3, from the expected level.*
- *Cumulative volume of real GDP for the 5-year period is assessed at 7.2 p.p. higher, as a result of the positive impact of monetary policy.*





- The accommodative monetary policy stance has curbed the appreciating trend of the exchange rate, with an average impact around 0.6 p.p per year, throughout the period.
- The monetary policy contribution for a higher economic activity and a more deprecating exchange rate has generated higher inflationary pressures. Annual inflation for 2017-2021 was assessed to be higher, by 0.7 p.p., on average, due to the impact of the monetary policy.



* A more detailed theoretical description of the channels of monetary policy impact on economy and the methodology implemented to assess the impact is addressed in the previous publications on measurements of the monetary policy impact^{**}. These assessments were carried out through the monetary policy model (MPM) used by the Bank of Albania for medium-term projections.

** For a more detailed discussion on the impact channels and methodology see "Box 1: Monetary policy in Albania and its contribution to economic growth", Annual Report 2017, page 27; and "Box 1: Monetary policy and its impact on the economy," Annual Report, 2019, page 24.

¹ For more information about MPM model, see: Hledik, T.; Kika, E. & Mitre, O. (2021), The Albanian medium term projection model, Bank of Albania Working Paper, 45(84) https://www.bankofalbania.org/rc/doc/Hledik_Kika_Mitre_The_Albanian_Medium_Term_Projection_Model_18790.pdf



In 2021, the Bank of Albania has continued the work on strengthening the analysing, forecasting and research capacities in the monetary policy field. Investment in this regard aims at heightening the effectiveness and flexibility of monetary policy and helps its rapid adoption with a dynamic and complex economic and financial environment. In 2021, an increased attention was paid on:

- improving the quality of economic and financial analyses, through the interconnection with a broad gamma information argued by experts and empirical results from research work;
- increasing the accuracy of forecasts and their completion with alternative and risk scenario, through enriching the forecasts models and application of new assessing methods;
- improving the monetary policy report. This, report has already a new structure, a concise content and a simpler language. This report is a product of the twining project " Enhancing Bank of Albania's alignment with EU Acquis";
- close collaboration with national and international partners, for a better coordination of the implemented policies and increase of their effectiveness.

In the next year, our priorities will aim at further improving the economic and financial analyses quality; boosting financial markets; and strengthening communication with public. Progress in these regards, will contribute in formulating and effective; efficient and coherent monetary policy.

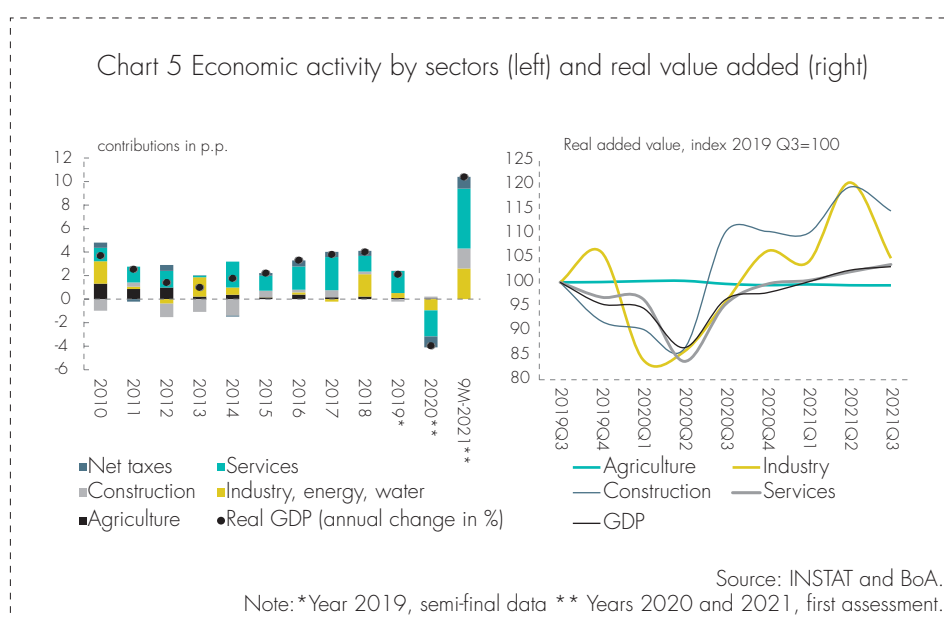
2.1.2 ECONOMIC ACTIVITY

The economic activity rebounded rapidly during the first three quarters of 2021. The economic growth was rapid and broadly-based. In sectoral terms, almost all economic sectors grew swiftly and exceeded the activity volume generated before the shocks. On the demand side, economic growth has reflected the expansion across all its components: consumption and private investments; exports of goods and services; and public investments.

GDP expanded by 10.4% in the first three quarters of 2021, after the contraction by 4.0% in 2020³. Economic growth was particularly high in the second quarter (18.4%), also affected by the effect of the low comparative base of the same quarter in the previous year, and slower in the third quarter (7.0%). Growth rates are expected to be contained in the last quarter of 2021, which is assessed to not be affected by the effects of the comparative base.

³ The information published by INSTAT on gross domestic product by the method of production and expenditures cover developments to the third quarter 2021, published on 26 December 2021.





Economic growth has been broadly-based, underpinned by the expansion in both production and services.

Production sector, whose recovery started relatively earlier, has generated a contribution of 4.3 percentage points in the growth. In this regard, sectors of “Industry” and “Construction” provided a strong impact, while “Agriculture” had no contribution in the growth.

Services⁴ provided more pronounced contributions since the second quarter of 2021, in reflection of the considerably alleviated restrictive measures on the international movement of travellers, thus affecting the growth in tourism. Overall, the contribution of services in economic growth is estimated at 5.1 percentage points, particularly the branch of “Trade, transport, accommodation and food service”, which includes the services related to tourism, as, bar-restaurants and hotels. Also, other branches of services provided positive impacts.

Table 1 Real growth (in %) and contributions of components (in percentage points)

	2016	2017	2018	2019	2020	2021 Q1	2021 Q2	2021 Q3
Agriculture	0.4	0.2	0.2	0.1	0.1	0.0	-0.2	0.0
Industry, energy, water	0.2	-0.2	1.9	0.4	-1.0	2.6	4.2	1.1
Construction	0.2	0.6	0.2	-0.2	0.2	1.3	3.5	0.4
Services	2.0	2.8	1.2	1.8	-2.3	2.0	9.1	4.2
Net taxes	0.5	0.5	0.4	0.0	-0.9	-0.2	1.8	1.3
Real growth	3.3	3.8	4.0	2.1	-4.0	5.6	18.4	7.0

Source: INSTAT and BoA.

⁴ The main branches of services are: “Trade, transport, accommodation and food service”, “Information and communication”, “Financial and insurance activities”, “Real estate activities”, “Professional activities and administrative services”, “Public administration, education and health”, “Art, entertainment, recreation and other service activities”.



Both consumption and investments have boosted the recovery of the domestic demand.

Domestic demand expanded by 8.2% in the first nine months of 2021, by considerably recovering the contraction recorded at the peak of the pandemic during 2020. This growth has reflected the simultaneous expansion in investments, private consumption and public consumption. The gradual reduction of restrictive measures, the accommodative macroeconomic policies and the improved confidence underpinned the consumption growth of enterprises and households.

Table 2 Real growth (in %) and contributions of demand components (in percentage points)

	2016	2017	2018	2019	2020	2021 Q1	2021 Q2	2021 Q3
Private consumption	1.6	1.9	2.4	2.4	-1.8	1.3	9.5	2.6
Public consumption	0.5	0.4	0.1	0.3	0.2	0.8	1.4	0.9
Investments	0.6	1.5	0.6	-0.9	-0.5	3.8	8.0	0.9
Net exports	0.0	0.0	0.2	-0.2	1.0	-2.7	4.1	2.4
Inventories and statistical discrepancy	0.6	0.1	0.8	0.6	-2.8	2.4	-4.7	0.2
Real growth	3.3	3.8	4.0	2.1	-4.0	5.6	18.4	7.0

Source: INSTAT and BoA.

Private consumption grew by 5.2% during the first three quarters of 2021.

Over the course of 2021, the private consumption recovered the pre-pandemic levels over 2021, thus becoming the main contributor in the expansion of aggregate demand. Consumption expansion was reflected in a strong increase of spending for services and in the normalisation of spending for long-term consumer goods. The reduced restrictions, the decreased uncertainty, the increased employment and wages and the favourable financing conditions underpinned the consumption growth in 2021.

Investments grew by 21% during the first three quarters of 2021.

The strong upsurge in investments, started since in the second half of 2020, continued also over the first nine months of 2021. The increased capacity utilisation rate, due to the expansion in consumer demand and exports, the favourable financing conditions, and the strengthened business confidence, resulted in the growth of investments of private sector. In parallel with them, the continued reconstruction programme and other infrastructural projects drove to the expansion of public investments.⁵ Expansion in “residential construction” continues to affect the investments of private sector. This Conclusion is based on the indirect data for the construction permits.⁶ On the other hand, statistics on the import of goods display the positive impacts from investments in “Machinery and equipment”.

⁵ INSTAT does not publish investment data divided into public and private component. The analysis of these components is based on the indirect assessments from the statistics published by the Ministry of Finance and Economy, detailed for the local and central government.s

⁶ Data available till 2021 Q3 (INSTAT).

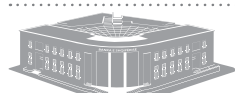
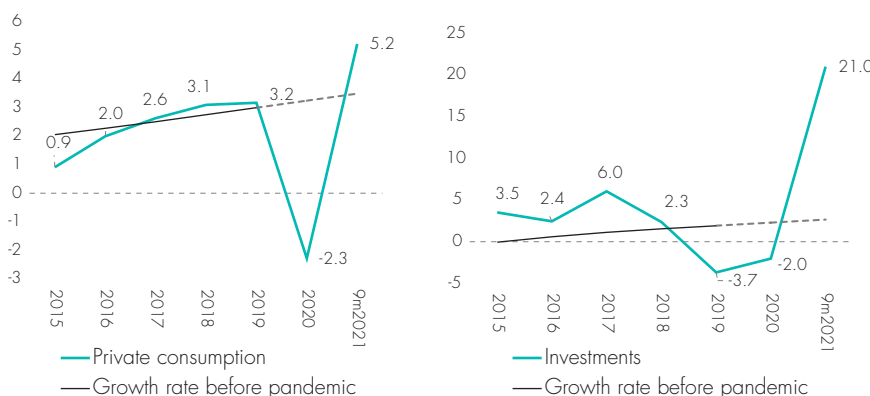


Chart 6 Consumption and investments (annual change)



Source: INSTAT and BoA.

Note: The growth trend is calculated for the increasing annual rates of consumption and investments for the 10-year period 2010-2019.

Fiscal deficit consolidated slightly in 2021, by generating a negative fiscal stimulus in the economic growth.

Both current and capital spending grew in the course of 2021. Nevertheless, the rapid expansion of revenues and the incomplete realisation of spending plan resulted in a lower budget deficit than the planned and recorded level in the previous year. These developments resulted in high liquidity surplus of the Government and contained the growth of public sector's net debt.

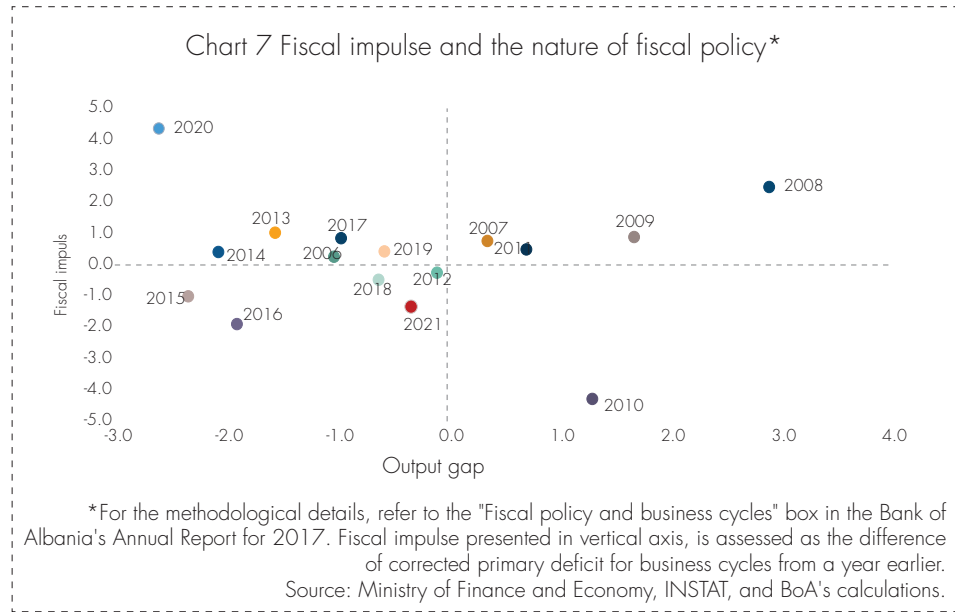
Year budget 2021 projected a positive fiscal stimulus, in the form of rapid growth in current spending and public investments, and reflected in a deficit value being projected at around 6.8% of GDP. Nevertheless, budget deficit was at 4.7% of GDP at the end of year, or ALL 86 billion from the planned ALL 120 billion, recording a fall from the previous year level. This performance - on one hand- reflected the fast increase in revenues, which were affected by the recovery of both consumption and economic activity on Albania, the improved labour market indicators, and the upsurge in prices of main commodities in international markets, and - on the other hand - the lower increase than planned of public expenditures. Thus, fiscal incentive had a negative value, assessed at around 1.3 percentage points of GDP.

The increase of borrowing in the domestic market and external market enabled debt financing. In line with the schedule approved at the beginning of year, the portfolio of Government securities issued in the domestic market grew by around ALL 49 billion. The expanded borrowing in long-term instruments - dominated by bonds with maturity of 3 -and 10-year - provided the main share in this growth, around 97%.⁷ During the year, the bond with maturity of 15-year, amounting ALL 1.1 billion, was added to the gamma of debt instruments in the domestic market. In 2021, the issuance of 10-year Eurobond (amounting EUR

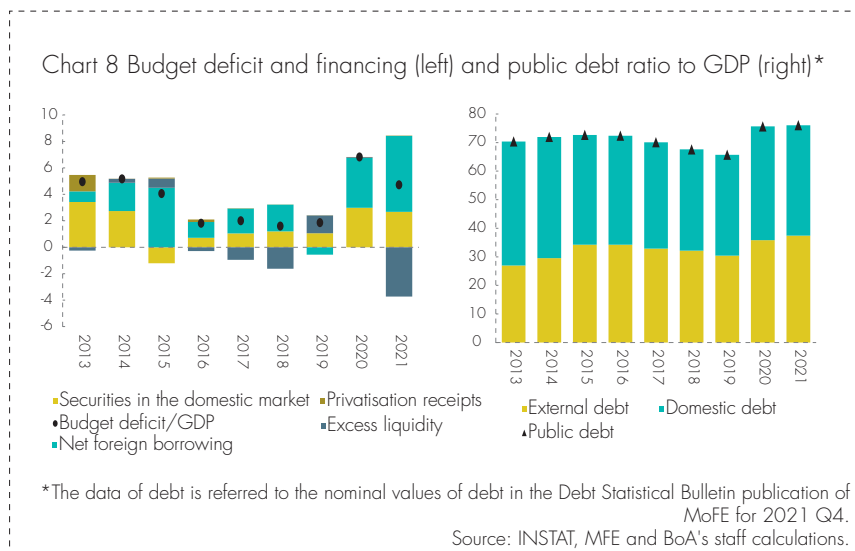
⁷ The increase of borrowing in 3-and 10-year bonds formed around 71% of total borrowing in the domestic market.



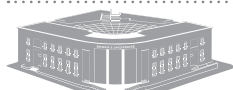
650 million), budget support from international partner (at around EUR 350 million), and other long-term loans designated for projects, were the main three sources enabling the foreign borrowing. Borrowing above the budget deficit has created high excess liquidity of Government, at around 4% of GDP, which were transferred to be used during 2022.



Public debt ratio to GDP⁸ reached at 76.1%, as at end of 2021, slightly up by 0.4 percentage point from the previous year. Foreign public debt in terms of GDP increased by around 1.6 percentage points, assessed at around 37.4% of GDP. Domestic public debt ratio to GDP reduced by 1.2 percentage points.

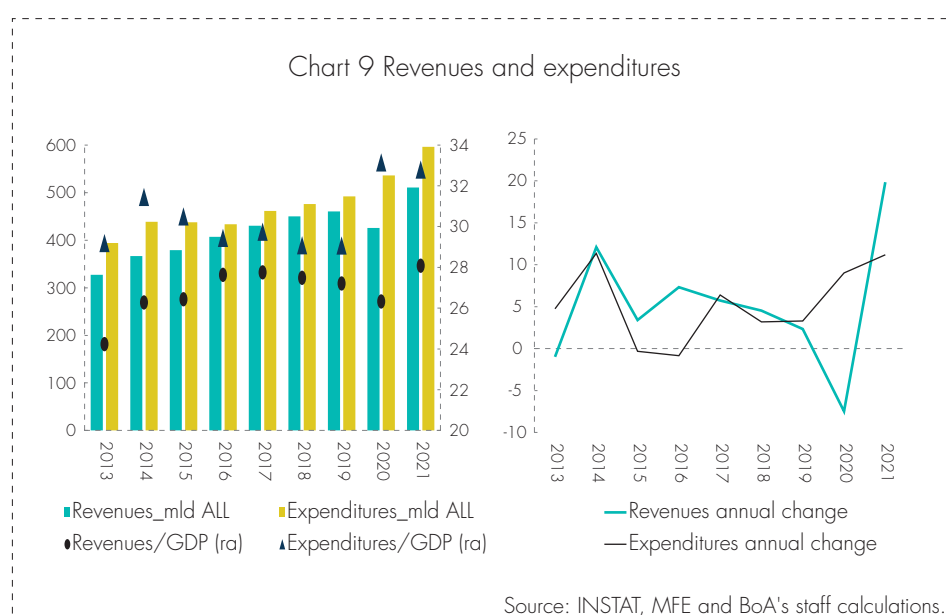


⁸ GDP as published by INSATAT for the three first quarters and BoA's estimations are employed to construct the ratios in terms of GDP. GDP annual level according to this assessment is different from the one used by the Ministry of Finance and Economy, which is referred to the recent assessments of GDP by the IMF in the World Economic Outlook, October 2021. GDP publication for the third quarter by INSTAT was still unavailable by the time WEO was published.



Budgeted expenditures in 2021 resulted around ALL 596 billion, expanding by around 11.2% from the previous year. Public investments and Reconstruction Fund affected 48% of their growth⁹. Special fund item, in reflection of increased expenditures for health system and pension scheme in Albania, provided a 3.7 percentage points impact on the increase of total expenditures.

In 2021, fiscal revenues amounted ALL 510 billion, assessed at 28.1% of GDP, the highest rate recorded in years. Annual growth of revenues in 2021 was around 20%. VAT revenues contributed by around 7.3 percentage points in total growth. Also, other revenue items, both tax and non-tax revenue, provided a positive impact on total growth, reflecting the low comparative base of the previous year, coupled with the favourable macroeconomic conditions.



BOX 2 DETERMINANTS OF PUBLIC DEBT TRAJECTORY IN ALBANIA

The COVID-19 pandemic notably worsened the fiscal positions across all counties in the world. The fall in budget revenues and the simulating fiscal policies, being implemented to: cope with expenditure on health; support employment and sectors being affected from the pandemic; in both forms, direct spending and sovereign guaranties, were translated into high fiscal deficit and increased public debt. Beyond the upswing in debt stock, its ratio to GDP pushed up due to the reduced value of GDP.

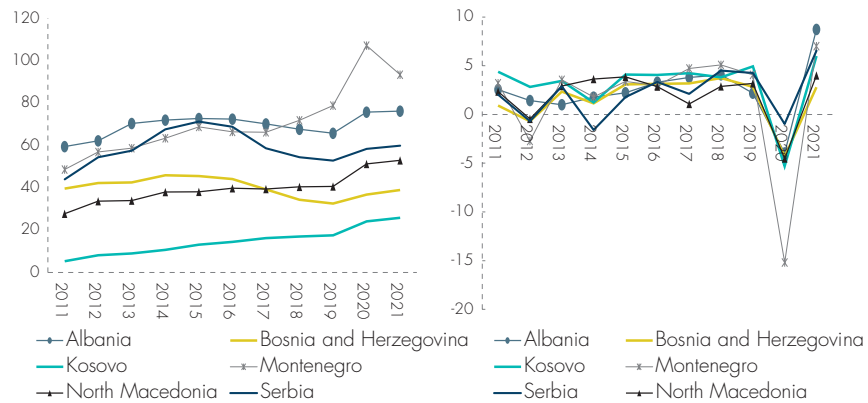
Similarly to global experience, public debt across regional countries experienced a rapid upsurge in 2020 and somewhat slower in 2021. In figures, public debt to GDP ratio in Albania climbed by around 10 percentage points in 2020, and 0.4 percentage point in 2021, reaching at 76.1%. Also, the average of public

⁹ Around ALL 30 billion from public budget were allocated for the construction of building and public infrastructure damaged from the earthquake of November 2019.



debt in regional countries is assessed at around 58% of GDP in 2021, around 10 percentage points higher than the pre-pandemic level, in 2019.

Chart 10 Public debt in % of GDP (left), and real economic growth (right)

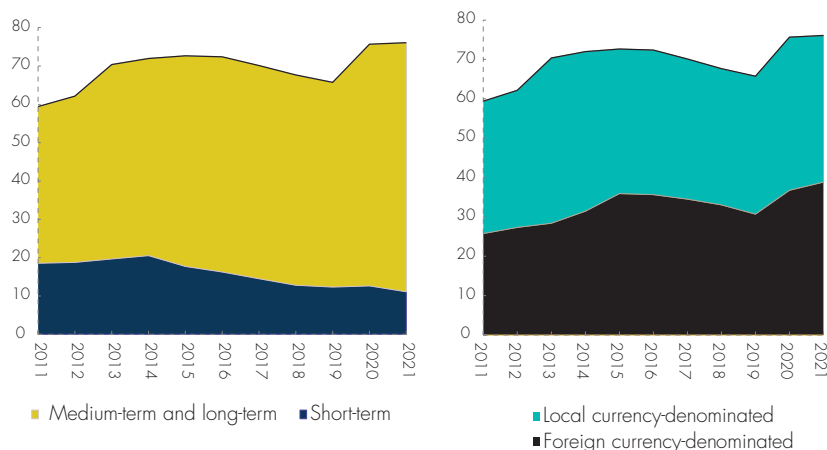


Source: FMN, WEO October 2021 database, MFE, INSTAT.

The following provides an analysis of the factors backing the public debt growth in Albania in the last 10 years.

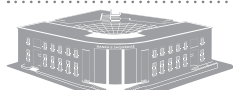
Excluding the period 2017-2019, public debt in Albania has shown an increasing trend in the last decade (Chart 11). The debt financing structure shows an increase in the share of medium-term and long-term debt, by reducing the risk of re-financing and interest rates, also a rise of external debt share, by heightening the exchange rate risk.

Chart 11 Structure of public debt by maturity (left) and currency (right)



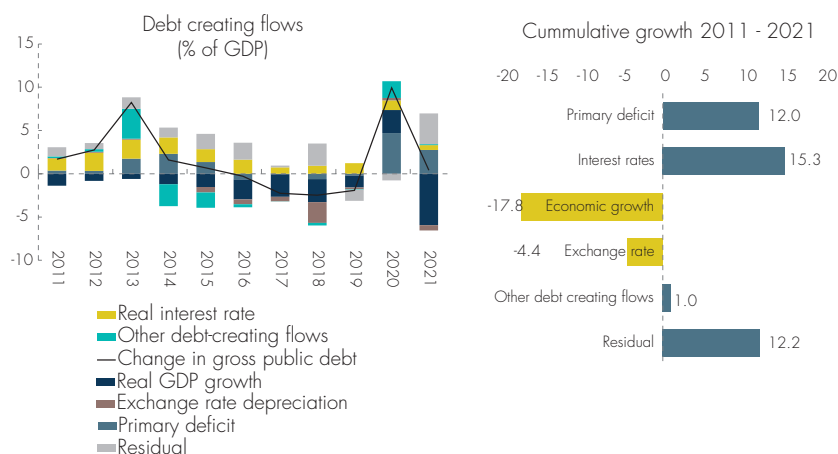
Source: Ministry of Finance and Economy, MPD calculations.

Chart 12 illustrates the contribution of various factors in the dynamic of public debt to GDP ratio in years. The increase by around 0.4 percentage point of public debt to GDP ratio in 2021, was affected by: (i) the relatively high level



of primary deficit (around 2.7 percentage points); (ii) excess funds of external borrowing which were transferred to be used in 2022 (around 3.5 percentage points); and (iii) the real interest rate effect on debt (around 0.6 percentage point). By contrast, the reduction of public debt to GDP ratio was affected by: (i) economic growth momentum (around 5.9 percentage points); and the lek appreciation against the euro (around 0.6 percentage point).

Chart 12 Change of public debt to GDP ratio and decomposition by determinants



The right panel of Chart 12 shows the cumulative effect of each factor on public debt level in the period 2011-2021. The 18.4 percentage points cumulative increase of public debt to GDP ratio is mainly attributed to real interest rates paid on debt (15.3 percentage points); the negative primary deficits, which were dominant during the period (12 percentage points); and by the residual term (12.2 percentage points), which represents excess liquidities of government, change of GDP deflator from inflation; and the impact of financial markets fluctuations, which are not explicitly modelled in this methodology, in the value of public debt. At the same time, the GDP growth and the exchange rate strengthening have contributed in the reduction of public debt to GDP ratio by 17.8 and 4.4 percentage points, respectively.

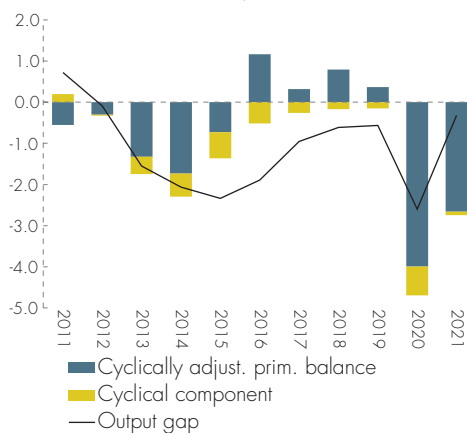
Fiscal sustainability is crucial to the economic and financial balance of a country. This indicator becomes considerably important in conditions when public finances suffer the temporary deterioration of fiscal positions coupled with the unfavourable perspective of demographic trends.

For this reason, a full analysis of the role that fiscal policy stance has on the public debt dynamic is needed. To conduct this analysis, it is important to distinguish the discretionary component and nondiscretionary component of fiscal policy. Discretionary component implies the fluctuations in the level of public revenue and expenditure, and consequently in primary deficit, over the course of business cycles. In an intuitive manner, if the economy is below its potential, public income tend to reduce and social protection spending (for example, unemployment payments) tend to increase. If the economy is above its potential. Budget revenues tend to be higher, expenses lower, and primary deficit also tends to be lower. On the other hand, discretionary component of fiscal policy includes the dynamic of deficit, which is independent form the fluctuations of fiscal indicators during the business cycles. The increase or decrease of public



investment volume and either temporary tightening or easing of taxes are typical examples of discretionary policy.

Chart 13 Decomposition of primary balance into discretionary component and cyclical component



Source: MPD's calculations.

To make the difference, we have calculated the fluctuations of cyclically-adjusted primary deficit of business (discretionary component) and their impact on primary deficit (nondiscretionary component).¹¹

Chart 13 shows that nondiscretionary component of fiscal policy has affected the increase by 3.3 percentage points of public debt to GDP ratio in the last decade. In other words, the insufficient utilisation of production capacities in economy has resulted in lower public income and higher fiscal expenditures compared with a "normal" situation, where the economy functions in equilibrium. Nevertheless, this component explains only around 25% of the total contribution of 12 percentage points that fiscal policy has had in the growth of budget level. The rest represents a discretionary fiscal stimulus, which - it should be emphasised - is generated at the most part to help economy return to equilibrium.

The above analysis suggests that fiscal policy in Albania has sufficient space to undertake discretionary fiscal policies, oriented towards the reduction of public debt. The convergence of economy close to its potential level should open the way to more active fiscal policies in this regard.

¹ The decomposition relies on the approach applied by the International Monetary Fund (2013) to analyse the macroeconomic determinants of debt dynamic.

¹¹ Gazidede A., 2013 "An alternative method of assessing the fiscal position in Albania: The budget balance corrected for business cycles" (2013).

The balance of trade exchange with abroad improved by 6.5% in real annual terms during the first three quarters of 2021¹⁰.

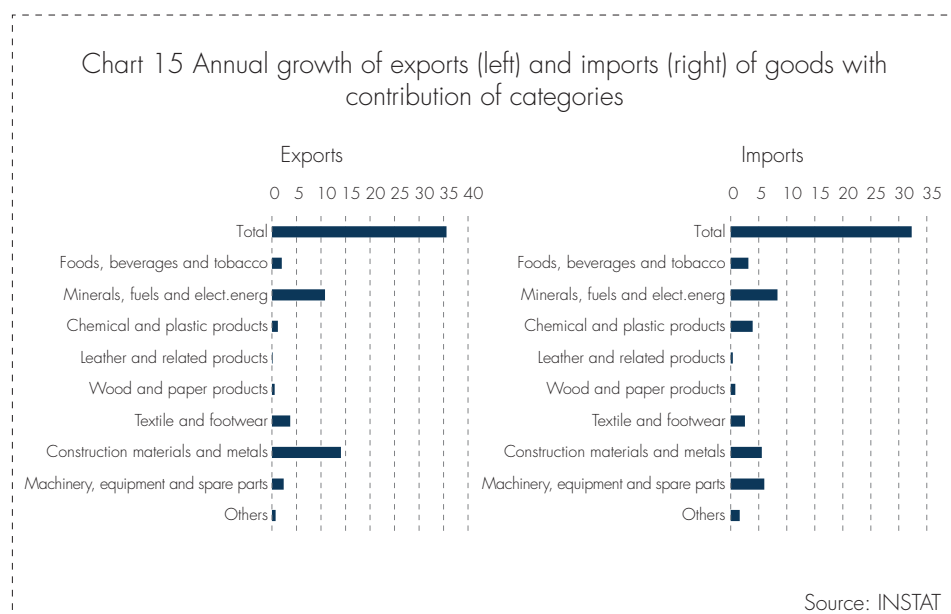
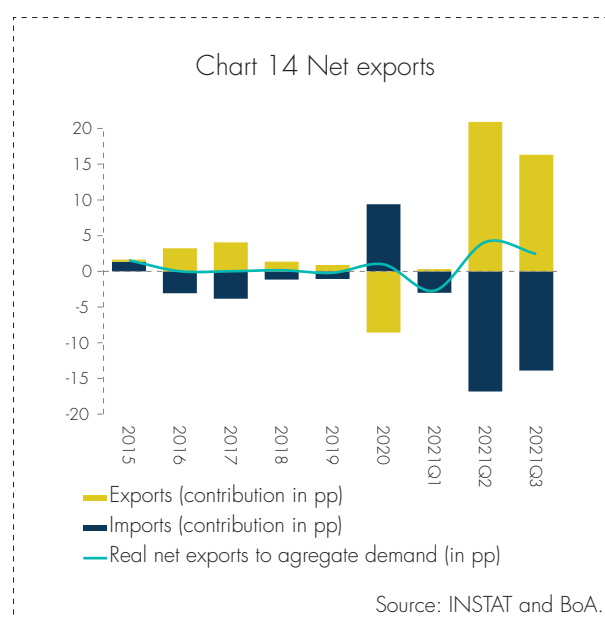
Foreign trade provided a positive impact on GDP growth during this period, mainly driven by the increase in the export and services. Net exports have generated a positive contribution in the economic growth in the first nine months of 2021. The 55.0% growth of total exports - affected by the 54.6% increase in the export of services and the 56.1% increase in the exports of goods - determined this performance. The flows of income from tourism urged the expansion in the export of services. Also, the export of goods continues the recovery trend started since the second half of 2020, by showing a broadly-based growth in the exports items. On the other hand, imports also showed a high annual growth (31.2%). In this regard, the import of goods, with an annual growth of 28.2%, provided the main contribution. Meanwhile, the growth in the import of services remains low.

¹⁰ Statistics in real terms of trade balance originate from "National accounts" and are relevant to the first nine months of 2021.



Trade exchange of goods with abroad grew rapidly during 2021¹¹. The recovery from the pandemic, coupled with the considerable upraise in prices in international markets, particularly during the second half of year, affected this growth. Both exports and imports have been characterised by high annual growth rates. The highest share that imports have in the trade balance of goods has driven the deficit of this balance expanding by 29.6% in annual terms.

In 2021, the annual growth in the export of goods resulted at 35.6%. The categories "Construction materials and metals", and the category "Minerals, fuels and electricity" provided the main contributions in this growth. In both cases, the upsurge in international prices of these products, particularly in the second half of year, are assessed as important factors driving to this growth. Category of "Textile and footwear", which has the main share in the export of goods, has continued to face difficulties in terms of recovery over 2021, thus standing below the pre-pandemic levels



Imports of goods grew by 32.3% in annual terms during 2021. In this case, categories provided broad-base contributions. The increase in international prices of fuels and electricity has driven the category "Minerals, fuels and electricity" to lead the contributions of imports. The categories related to the domestic construction sector - as the latter has been quite active throughout 2021 - have also provided significant increasing contributions. In addition, pharmaceuticals products, mainly related to the continuation of vaccines import, has also provided positive contributions in this regard.

¹¹ Data on the trade of goods throughout 2021 are in nominal terms, consequently they are different from those which are analyzed in the previous paragraph.



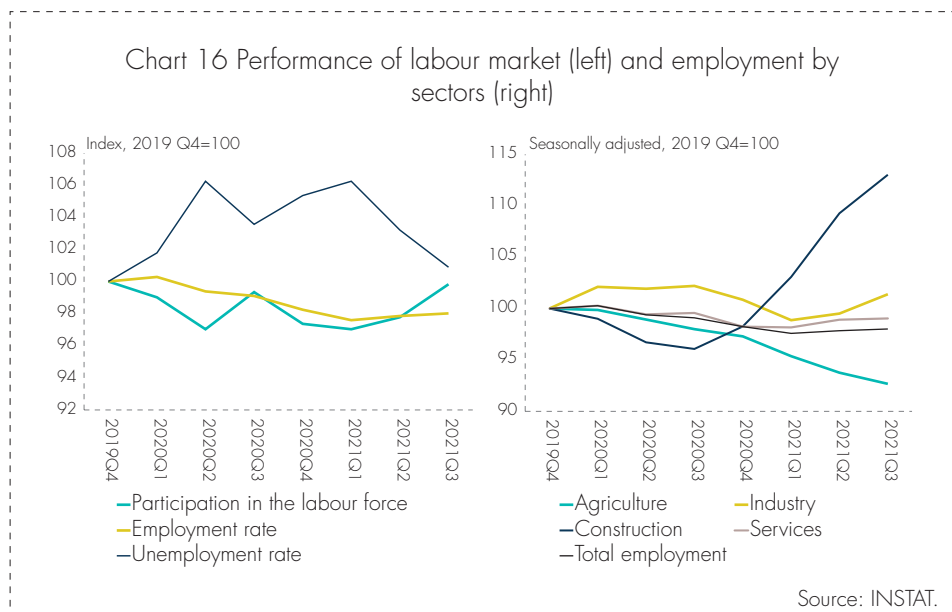
The map on the geographical dissemination of trade exchanges shows that the share of trade with Italy has declined, mainly due to the yet non-good performance of "Textiles and wear". Meanwhile, exports with other neighbors, like: Greece, Kosovo, North Macedonia, have been more stable, even with slightly positive contributions.

2.1.3 LABOUR MARKET

The fall in unemployment rate, the gradual rise in wages and the increase of employment after 2021 Q1, characterised the performance of labour market in 2021.

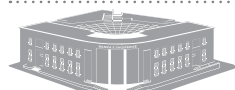
Employment, after the frequent fluctuations throughout 2020 and in 2021 Q1, returned to the positive increasing rates during the second and third quarter of 2021. Nevertheless, employment decreased averagely 0.3% in annual terms for the first nine months of 2021¹². Employment recovery in the second and third quarters was pronounced in the sectors of industry, construction and services. In contrary, agriculture pursued a reducing trend.

Expansion of employment was accompanied with the fall in unemployment rate during 2021. As at end of 2021 Q3, unemployment rate stood at 11.3%, from 11.9% in 2021 Q1. The number of unemployed persons is approaching to the pre-pandemic level. At the same time, participation in labour force has been increased, and inactivity rate has been reduced, reversing the performance in 2020¹³.



¹² Based on INSTAT publication "Quarterly Survey on Labour Force" - 2021 Q3.

¹³ The mitigation of the pandemic situation, during 2021, affirmed the return at the job placed of the most part of persons being categorises as "inactive".

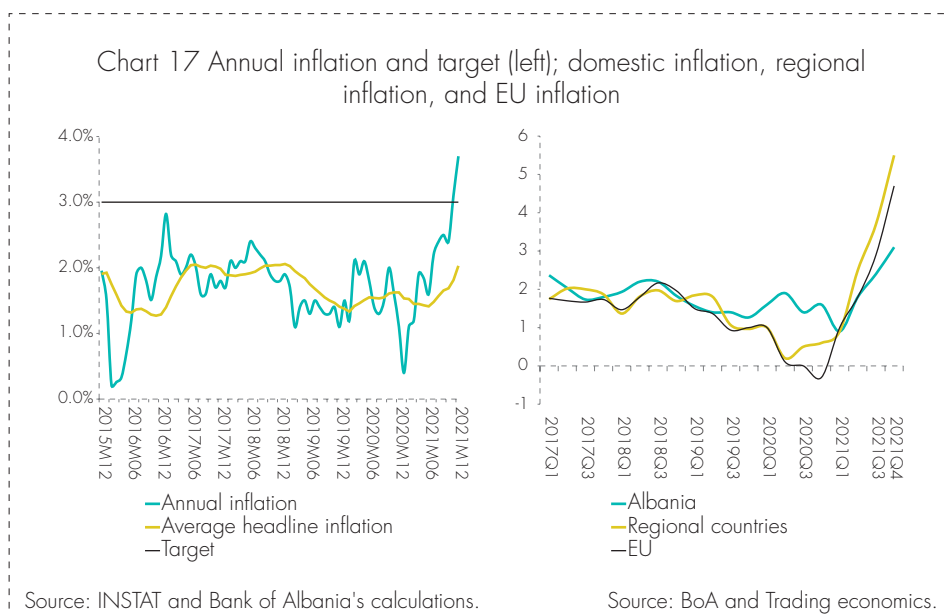


The increased demand of enterprises for work and the decreased unemployment rate have built up pressures on the increase of wages. Annual average increase of nominal wage is calculated at 5.6% in the first three quarters of 2021. Adjusted with the inflation rate, the annual growth of real wage is calculated at 3.9%. All sectors of economy have provided positive contributions in this regard. A pronounced acceleration is noted in the third quarter. The annual increase of wages reached at 6.9%, mainly affected by the private sector.

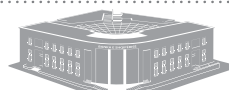
2.1.4 INFLATION AND ITS DETERMINING FACTORS

Annual inflation averaged 2.0% in 2021, from 1.6% a year earlier. The increase in inflation was driven by domestic-origin factors of the demand and external origin supply factors. Domestic inflationary pressures strengthened gradually, following the recovery of the demand and increase in employments and wages. On the other hand, the acceleration in the prices of commodities, foods and the higher production and transport costs in international markets, built-up the supply-side inflationary pressures, particularly in the last quarter.

The gradual hiking trajectory of inflation during 2021 reflected the gradual strengthening of the domestic inflationary pressures, in response to the recovered demand, coupled with the increased costs of production and services. Improvements in labour markets and the increase in wages, although contained, are assessed to have generated upward domestic inflationary pressures. Meanwhile, acceleration in prices of foods, energy and transportation costs in international markets, during 2021, have increased the supply-side pressures.



Inflation is expected to remain above the target in the short run, by reflecting the pressures from the increased operating costs chain in prices of both domestic



and imported products and services. Meanwhile, inflation, in a longer term, is expected to gradually decline towards the target, in reflection of the mitigated supply-side chocks and gradual closure of the output gap.

Group of foods and energetic goods mainly determined the value of inflation.

Group of “foods” continued to provide a considerable contribution (70%) in determining inflation. In this group, “Processed foods” provided the largest contribution during 2021. The upswing in foods prices in international markets affected the increase of prices in this category. The sub-group “Bread and grains” dominated their increased contribution. The category of “Unprocessed foods” provided a lower contribution from the previous years, but highly volatile during the year.

Table 3 Contribution of key items to annual inflation (p.p.)*

	Average contributions by year					Average contributions by quarter - 2021				Annual inflation 2021 (%)
	2016	2017	2018	2019	2020	T1	T2	T3	T4	
Processed food	0.3	0.2	0.2	0.5	0.6	0.6	0.4	0.6	0.9	3.2
Unprocessed foods	1.2	1.0	0.9	0.9	0.8	0.3	0.9	1.0	1.0	4.2
Services	0.2	0.1	0.1	0.1	0.2	0.1	0.2	0.2	0.3	1.3
Goods with regulated prices	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Housing lease	0.1	0.3	0.1	0.2	0.1	0.1	0.1	0.2	0.2	0.7
Non-food consumer goods	0.2	0.3	0.1	-0.2	0.2	-0.3	0.1	0.3	0.6	1.5
Durable consumer goods	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	1.1
Inflation (%)	2.0	2.0	1.4	1.6	2.0	0.9	1.8	2.4	3.1	2.0

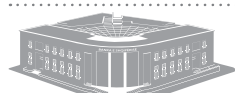
Source: INSTAT and BoA.

*The table shows some of the main groups of items.

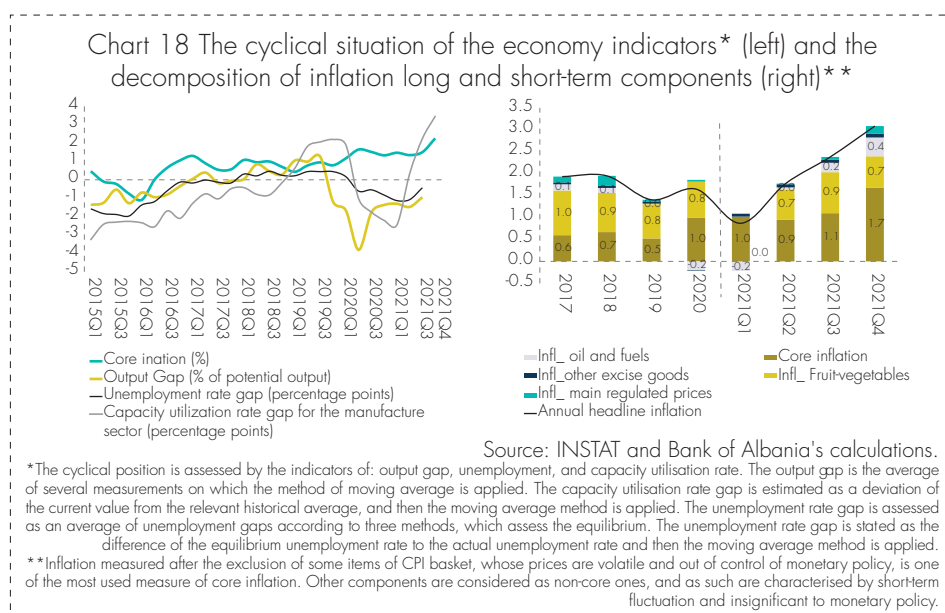
The other categories maintained almost the same contribution of the previous year. However, prices significantly fluctuated during the year within these categories as well. In particular, the “Non-food items” category resulted with higher price fluctuations. This development was caused almost entirely from oil prices in the domestic market. While the contribution of oil prices to total inflation was downward in the first months of the year, this contribution changed sides and increased at a progressive rate, starting from May. This performance reflected the significant increase of oil prices in international markets. The acceleration of prices in this category of goods, together with the steep increase of food prices in global markets, drove inflation up at the end of the year, surpassing the Bank of Albania’s target. Due to higher commodity prices, prices of other more stable components of inflation - such as services, shelter, and long-term consumption - recorded an upward trend during the year as well. More particularly, the additional contributions from the inflation of services were driven by the upsurge in the prices of hotels, tourist packages, and communication. This development was affected by the recovery of consumer demand throughout 2021.

The cyclical improvement of economy has affected the strengthening of core and domestic pressures of inflation.

Economic recovery in 2021 has affected the gradual narrowing of output and unemployment rate’s negative gaps. The eased measures coupled with



a broad vaccination roll out, established the conditions towards a rapid re-activation of factors in the production and labour markets. The utilisation of production capacities improved considerably in the course of 2021, by exceeding the pre-pandemic levels. Also, labour market reacted on the same direct. Increase of employment and reduction of unemployment rate, impacted the approaching of factual unemployment rate to the natural rate. These developments have been reflected in the gradual increase of the core and domestic inflationary pressures during 2021. Core inflation resulted around 1.7% in annual average terms, standing around 0.3 percentage point above the average of 2020. It has continued to be the main a stable contributor to the formation of headline inflation in 2021, affected by the improved demand and the narrowed negative output gap. Meanwhile, the swift increase of inflation in the last quarter reflected both the gradual increasing impact of core inflation and both the direct and indirect effect of the increased prices in international markets.



2.1.5 BALANCE OF PAYMENTS AND EXTERNAL POSITION OF THE ECONOMY

Current deficit contracted considerably during the first three quarters of 2021, mainly in reflection of the swift recovery in exports and secondary income. Financing flows related to direct investments have re-gained territory in deficit funding. At the same time, foreign debt has pursued a downward trajectory (in terms of ratio to GDP) and is accompanied by an improvement in sustainability indicators.



The current deficit to GDP ratio dropped to 6.1% during the first three quarters of 2021, from 8.8% throughout 2021.

The contraction of current deficit has reflected the rapid recovery of trade flows and particularly of services. The annual nominal growth of services export in the first nine months of 2021 was 61.2%. Exports of travelling services provided the main impact in this regard (a growth by 101.4%), which benefited from the gradual alleviation of containment measures on the international mobility of travellers, particularly since the second quarter of 2021. In addition, these flows exceeded the pre-pandemic level in 2021 Q3. At the same time, export of goods also showed a rapid annual growth (62.2%). The recovery in these flows has started earlier compared with services. For this reason, the exports of goods are regularly higher compared with the pre-pandemic period.

The growth in aggregate demand has urged the rapid recovery of imports. This is notable in case of goods import, due to the high intensity characterising our economy in this regard. In case of services, the recovery of tourist outflows was slower than exports, due to the asymmetry in easing the restrictive measures on the international mobility.

Beyond trade flows, remittances grew by around 14.6% in annual terms during the first three quarters of year. On the other hand, the increase in the employee compensation income inflows remains slow, due to the restrictions still in place on the mobility of seasonal employees. Last, income outflows of investments continue to be characterised by increasing rates compared with 2020.

Foreign Direct Investments increased the share in current account deficit funding.

The narrowing of current deficit has reduced the need for financing. At the same time, FDI flows to Albania grew only by 1.1% in annual terms, by improving the degree of current deficit covering. In parallel with them, the share of borrowing flows till the third quarter has been reduced considerably compared with the previous year, when the increased need for financing caused by the growth in public spending was accompanied with the issue of an Eurobond amounting EUR 650 million.

External debt sustainability indicators have been improved considerably after the shock suffered from the pandemic

External debt stock is estimated at EUR 8.972 billion at the end of 2021 Q3, with an annual growth 1.4%. Its ratio to nominal GDP stands at 61.8% from 65.4% at the end of 2020. "General Government" continues to be the main holder of external debt, having a share of 46.2% to total. In terms of time structure, the long-term debt is dominant, accounting for around 92.0% of total.

The expansion in both exporting flows and fiscal revenues has enabled an improvement of solvency indicators. The ratio of debt stock to the exports of goods and services dropped to 183.0% at the end of 2021 Q3, from 243.6%



at the end of 2020. Also, the ratio of foreign debt stock to fiscal revenues reduced to 233.0%, from 243.6% at the end of 2020.

At the same time, the stock of foreign currency reserve was sufficient to counter the short-term pressures of external debt. As at end -December 2021, the reserve was sufficient to cover 9.6 months of imports of goods and services or 400% of the short-term gross external debt.

Table 4 Main indicators of balance of payments and external debt (in % to GDP)

	2010	2015	2016	2017	2018	2019	2020	2021/ Q1-Q3
Current deficit	11.3	8.6	7.6	7.5	6.7	7.9	8.8	6.1
Trade Deficit	20.6	17.3	16.8	15.1	13.7	13.7	14.8	11.3
Exports	28.0	27.3	29.0	31.6	31.6	31.3	23.1	32.2
Imports	48.6	44.6	45.8	46.7	45.3	45.0	37.9	43.5
Remittance inflows	7.7	5.8	5.7	5.5	5.2	5.1	5.2	4.9
FDI inflows	9.2	8.7	8.8	7.8	7.9	7.8	7.2	6.5
External debt	45.6	74.4	73.5	68.7	65.0	59.9	65.4	61.8

Source: Bank of Albania.

2.1.6 FINANCIAL MARKETS AND MONETARY INDICATORS

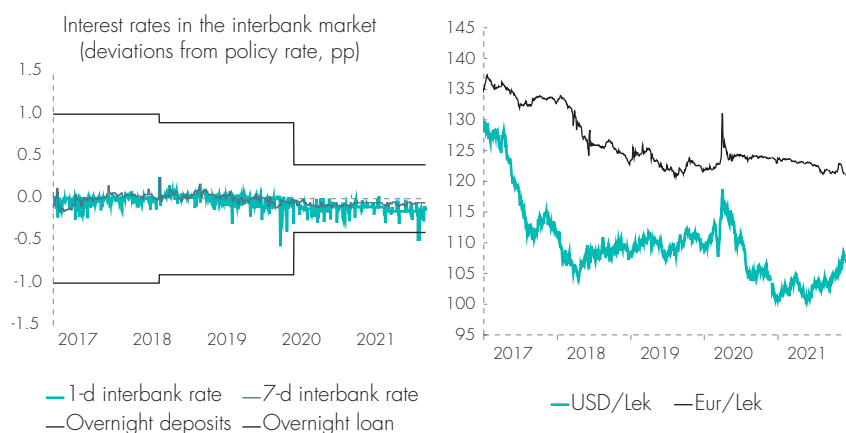
Financial markets have performed positively over 2021. The optimal liquidity situation, the sound balance sheet of banks, the recovery of the economy, and the re-established confidence, has resulted in contained risk premia. The monetary stimulus has been materialised in low financing costs for all market segments. The foreign exchange market has also been calm, characterised by low exchange rate fluctuations and a smooth market activity. Banks have significantly increased credit, supporting the rapid rebound of the economy. Also, bank deposits have grown at an accelerated pace, despite the low interest rates.

The interbank rates ranged close to the policy rate and showed low fluctuations in accordance with the operational target of the monetary policy.

The interbank market is characterised by contained liquidity premia, reflecting the sound balance sheets of banks and the low liquidity risk premia. The trading volume in this market has maintained the average level of the previous year for the 7-day segment and has recorded a decline for the 1-day one. Meanwhile, interest rates continued to fluctuate close to the policy rate. In parallel with the increase of bank financing to both the private and public sectors, the system's demand for liquidity has been slightly upwards compared to the previous year, particularly in the second half of the year. This has been fulfilled by increasing the 7-day injections, whereas 3-months maturity injections have maintained the same level as last year.



Chart 19 Performance of the interbank market (left) and the foreign exchange market (right)



Source: Bank of Albania.

The foreign exchange market appeared calm in 2021, characterised by low fluctuations and foreign currencies traded within normal market parameters.

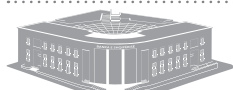
Lek appreciated slightly against the euro, reflecting the recovery of tourism after economic reopening and the restrictions on travelling. The strengthening of lek started in the second quarter of the year and was more apparent in the third quarter, in line with the seasonal behaviour of the euro/lek exchange rate. In 2021, the euro was averagely quoted at 122.4 lek/euro, with a lek appreciation of 1.1% from the previous year. Euro trading has been stable and has reflected the normal market conditions - low volatility and quotation spreads close to the historical average. In particular short-term volatilities, mainly on the appreciating side of lek, have not impeded the expectations and positions of agents in the market.

Lek depreciated against the US dollar during 2021, by reflecting the strengthening of the latter against euro in the international market. The usd/lek exchange rate increased to 106.8 lek/usd in December, from 101.6 lek/usd in previous December, with a lek appreciation of 5.2%.

Developments in the government securities market show contained risk premia

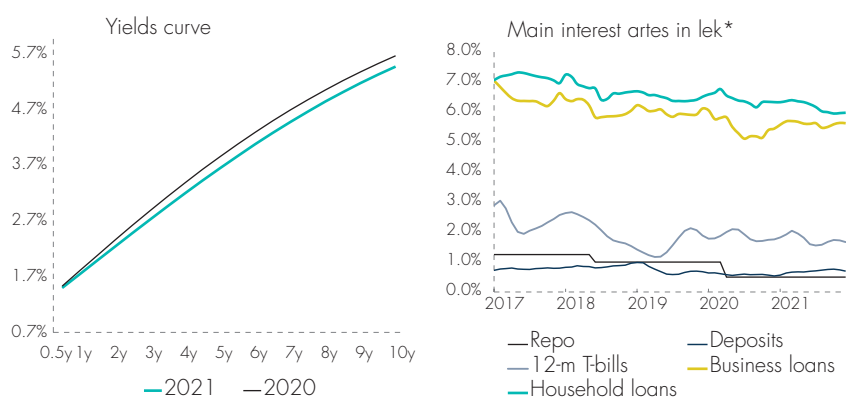
In 2021, yields on government securities have slightly decreased.¹⁴ Government's demand for funding has faced a high market engagement, confirming its positive approach towards risk taking. The rate of coverage in this year's auction has been higher, particularly for large maturities. This has caused a higher reduction of yields on these segments, by 0.23 p.p. on average, against the 0.10 p.p. reduction in yields on securities with maturity up to two years. As a result, the curve of yields was slightly flatter than in the previous year.

¹⁴ The comparison with 2020 takes into consideration yields after the policy rate change enacted in March of current year.



In November 2021, the Ministry of Finance and Economy issued 15-year bonds for the first time, in order to test the market regarding this maturity. Its demand was high and the yield was low, confirming the contained risk premia in the domestic market. In November, the government issued an Eurobond in the international market, with a 10-year maturity and 3.7% yield, which also peaked foreign investors' interest.

Chart 20 Performance of yields in the primary market and interest rates in lek



Source: Bank of Albania.

*In the interest rate chart, the interest rates on loans are shown as 6 month moving average, and the interest rates on deposits as 3 month moving average.

Interest rates on loans continued to transmit monetary stimulus to the economy and boosted the increase in consumption and investments.

The positive approach of banks on lending was reflected, inter alia, in low credit interest rates. The average interest rate on loans to enterprises was 5.6%, close to the 5.4% level of the previous year¹⁵. Households have also benefited from low interest rates from banks during this year, of 6.1%, on average, from 6.4% in the previous year. Interest rates on mortgage loans to households have significantly declined. This lending segment was dynamic and competitive, as regards both demand and supply.

Bank lending has significantly grown, playing a more active role in financing the economy.

Credit to the private sector recorded high growth rates during 2021, backed by a strong recovery of demand and a more active role of banks in intermediation, as is also shown by the low interest rates and the continuous easing of lending standards and conditions. Thus, during the year, credit¹⁶ rose by 8.4%, on average, or up by 1.6 p.p. compared to the previous year. The acceleration of the growth rate of credit is noticeable across almost all the segments, but the

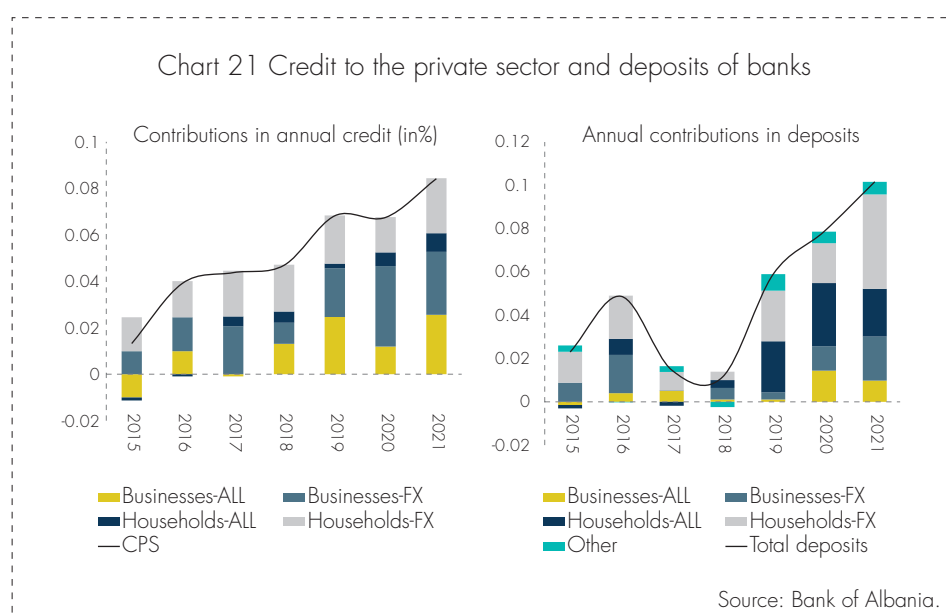
¹⁵ The low interest rate on loans to enterprises during 2020 is also driven by the impact of sovereign guarantee schemes, in the absence of which the interest would not have been this low.

¹⁶ Credit data are adjusted for the effect of loan write offs from the banks' balance sheet and the exchange rate fluctuations.



key contributors remain lending in lek and financing of enterprises. Credit to enterprises grew by 8%, slightly up from 7.1%¹⁷ in the previous year, contributing by 5.3 p.p. to the annual credit growth. Enterprises used this financing mainly for investments, but in the second half of the year, there was a revitalisation of credit demand to cover liquidity needs. Meanwhile, credit to households experienced higher growth rates, up by 9.3% on average. Mortgage loans provided the highest contribution in this growth.

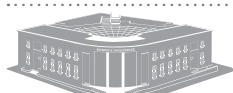
The positive lending dynamics were also noticed in the portfolio performance by currency. Credit in lek provided a higher contribution, by 5.1 p.p., on average, to the expansion of credit to the private sector. In 2021, lending in foreign currency, mainly in euro, increased compared to the previous year.



Deposits expanded with high growth rates, reflecting the improved liquidity in the economy.

Deposits in banking sector recorded an average annual growth of 8.5% in 2021. The acceleration of their growth rate was affected by the expansion of financial intermediation of banks, the increased foreign currency flow from external activity, and a high level of external sources financing budget deficit. The recovery of economic activity in Albania brought about higher liquidity levels for enterprises - as their deposits increased by around 20% year-on-year - considerably higher than in the previous year. Meanwhile, households' deposits showed similar growth rates, of around 6.4% year-on-year. In contrast to the previous year, time deposits provided a positive contribution to the expansion of total deposits in 2021 H2. The upsurge in time deposits, particularly of over-two-years deposits in foreign currency, reflects households' behaviour as they

¹⁷ Private sector enterprises was the segment that benefited the most from the 2020 measures adopted by the authorities - both the BoA which adopted the credit moratorium, restructured loans etc., as well as the government with the sovereign guarantee schemes.



search for higher profits in an environment with low interest rates and limited investment options for savings.

Table 5 Main macroeconomic and financial indicators

	2017	2018	2019	2020	2021*
Annual average inflation					
Headline inflation (in %)	2.0	2.0	1.4	1.6	2.0
Core inflation (in %)	0.8	0.9	0.7	1.4	1.7
Economic growth					
Real GDP growth (annual, in %)	3.8	4.0	2.1	-4.0	10.4
Labour Market ¹					
Participation rate in the labour force	66.8	68.3	69.6	69.1	68.9
Unemployment rate (15+)	13.8	12.3	11.6	11.7	11.6
Fiscal sector					
Budget balance (including grants, % of GDP)	-2.0	-1.6	-1.9	-6.8	-4.7
Budget revenues (as a percentage of GDP)	27.8	27.5	27.2	26.3	28.1
Budget expenditure (as a percentage of GDP)	29.8	29.1	29.1	33.2	32.8
Public debt (as a percentage of GDP)**	70.2	67.7	65.8	75.7	76.1
External sector					
Current account (official transfers exempted in % of GDP)	-8.1	-7.3	-8.4	-8.6	-6.6
Imports of goods (fob, as a percentage of GDP)	31.3	30.0	29.4	28.9	32.0
Exports of goods (fob, as a percentage of GDP)	6.9	7.7	6.6	6.1	8.3
FDIs (as a percentage of GDP)	7.8	7.9	7.9	7.8	7.2
Monetary and financial sector					
Repo rate (end of period)	1.25	1.00	1.00	0.5	0.5
M3 aggregate (annual growth, end of period)	0.3	-0.2	4.3	10.5	8.7
Credit to the private sector (annual growth, end of period) ²	3.3	1.9	6.9	8.2	8.1
Deposit/GDP ³	71.4	68.5	70.2	79.1	77.6
Credit/GDP ³	36.4	35.2	36.4	41.2	39.6
12-month average yield	2.4	2.0	1.6	1.9	1.8
ALL/USD average exchange rate	119.1	108.0	109.9	108.7	103.5
ALL/EUR average exchange rate	134.2	127.6	123.0	123.8	122.4
NEER	105.2	96.8	92.0	89.9	86.3
Banking Sector					
Non-performing loans ratio/total loans (%)	13.2	11.1	8.4	8.1	5.6

Source: INSTAT, BoA, Minister of Finance and Economy (MFE).

*Data on economic growth for labour market and the external sector are from the first 9 months of 2021.

**Statistical Debt Bulletin, MFE, 2021 Q4, on debt data and BoA's assessment on GDP.

1/ "Labour force survey results", published by INSTAT.

2/ The data is adjusted for written off loans.

3/ GDP assessment for 2021. Data as a ratio to GDP are calculated on this assessment, except for differently specified.



2.2. MONETARY OPERATIONS

The Bank of Albania implements its monetary policy by using indirect market instruments. These include open market operations, standing facilities, and a required reserve. The main market operations are the repurchase and the reverse repurchase agreement of seven-day maturity, whose interest rate represents the policy rate.

OPEN MARKET OPERATIONS AND LIQUIDITY SHORTFALL

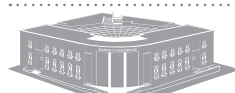
Open market operations are made up of three sub-items: main operations; fine-tuning operations; and structural operations. These are used for short-term management of liquidity in the money market, mainly aimed at accomplishing Bank of Albania's operational objective - orienting short-term interbank interest rates close to Bank of Albania's policy rate, and limiting their fluctuations.

In its response to the coronavirus (COVID-19) pandemic the Bank of Albania has continued the one-week injection auctions in the form of "fixed price" against the normal form of "variable price" during 2021 as well. This decision, adopted on 11 March 2020, has aimed at reducing liquidity risk to commercial banks. Since March 2020, the number of banks participating in injection auctions has been on average 6.5, compared to the 2.1 average of the first two months of 2020. The interest rate in the interbank market has been stably near, albeit below the policy rate.

During 2021, the average interest rate in the overnight interbank market was 0.02 percentage points under the policy rate, in contrast to an average of 0.11 percentage point under the policy rate in 2020 and 0.02 percentage point under the policy rate in 2019. Due to the form of "fixed price" auction, the interest rate in the one-week interbank market was 0.06 percentage point under the policy rate, both in 2021 and 2020, against the average 0.01-0.02 percentage point above the policy rate in the two previous years. Trade in longer maturities than one week continued to be quite rare.

The average liquidity shortfall, during 2021, increased to ALL 38.1 billion, compared to ALL 35.1 billion, on average in 2020. The growth of currency in circulation was the main factor urging the increase of liquidity shortfall in the banking system. The share of injections with longer than seven-day maturity was 41% in 2021, compared to 44% in 2020, and 39% in 2019.

In 2021, the Bank of Albania has permanently withdrawn liquidity amounting to ALL 2.2 billion, through the decrease of securities portfolio, after the increase by ALL 12.1 billion in 2020.



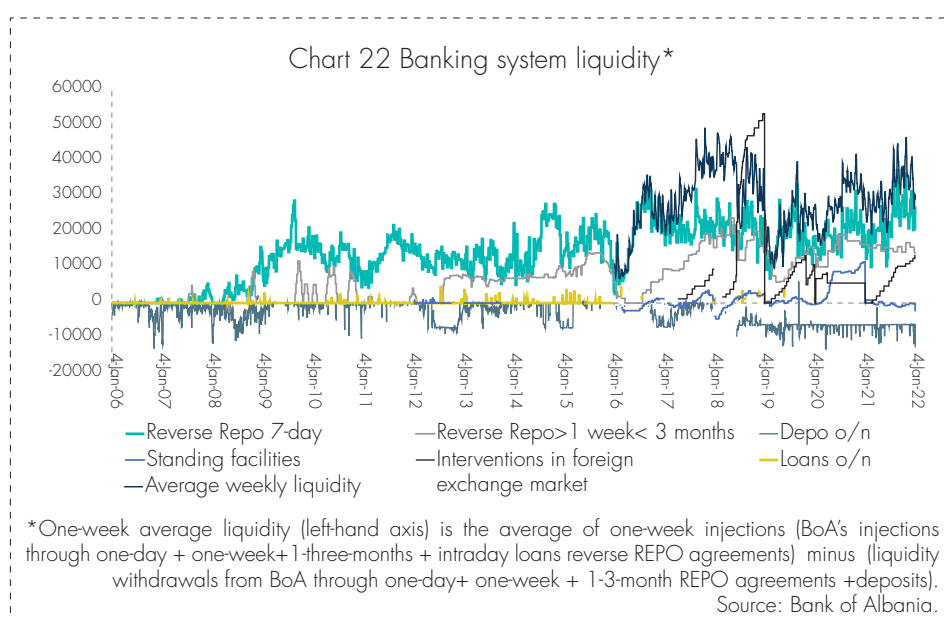


Table 2. Structure of liquidity injection operations by the BoA

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Main instrument	55%	60%	64%	55%	80.7%	61.6%	54%	61%	55.9%	59.2%
Long-term liquidity	45%	40%	36%	45%	19.3%	39.4%	46%	39%	44.1%	40.8%

Source: BOA.

At the end of 2021, the Bank of Albania has notified commercial banks that it will change the form of auction more to "fixed price auctions", starting from the auction of 23 February 2022.

STANDING FACILITIES

Standing facilities - overnight deposits and overnight loans at the Bank of Albania - are instruments available to commercial banks to manage liquidity on a daily basis and define a corridor in which interest rates fluctuate in the interbank market. After reducing the base interest rate to a record low level of 0.50%, the Bank of Albania has maintained the interest rate for the overnight deposit facility unchanged at 0.10%, and has reduced the interest rate for the overnight lending facility to 0.90%, by creating a quite narrow corridor of the interest rates.

The overnight deposit instrument has been used daily, over 2021, with an average of ALL 6.6 billion compared to an average of ALL 6.58-6.74 billion in 2019 and 2020, and ALL 4.55 billion on average in 2018.

In 2021, the use of overnight loans was absent, compared to 1 case in 2020, 16 cases in 2019, and 42 cases in 2018. The adjustment of the auction form, the increase in forecast quality and the decrease in the cost of excess liquidity affected the non-use of this instrument.



REQUIRED RESERVE

The required reserve is an instrument through which the Bank of Albania aims to adjust money supply, liquidity situation in the system and manage the interest rates in the interbank market. It implies the placement of a certain amount of reserve in Lek and in foreign currency with the Bank of Albania.

No amendments took place in the Regulations on the required reserve. We recall here, that the 1-year temporary period, when the regulatory amendments of 2018, aimed at de-euroization, were implemented, ended in 2019. The Bank of Albania decreased the remuneration rate applied on the required reserve in lek to 5.00% and 7.50%, from 10% in the previous year, and increased the remuneration rate for the required reserve in foreign currency to 12.5% and 20.0%, by applying a higher rate for banks which have a higher exposure from liabilities in foreign currency. The remuneration rate on required reserves in lek was decided to be equal to the policy rate, from 70% of policy rate it was previously.

No regulatory changes have taken place in the remuneration rate on required reserves in foreign currency and on the surplus reserves of banks at the Bank of Albania. Starting from September 2016, banks pay for the required reserve in euro an interest rate equal to the overnight deposit rate of the European Central Bank, which in 2021 remained unchanged, at -0.50%. The remuneration rate on the required reserves in US dollars has been 0% since 2011.

The remuneration rate on the surplus reserves in lek and US dollars have continued to remain 0% during 2021. The interest rate remuneration of the euro surplus remained at the level set in 2016, at 0.25 percentage point lower than the ECB's deposit interest rate.



2.3. FINANCIAL STABILITY AND MACRO-PRUDENTIAL POLICY

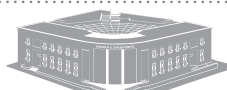
The Bank of Albania fulfils its mission of promoting financial stability through identifying and implementing the rules and instruments to prevent and manage risks to the financial system and particularly to the banking system. As a result, it naturally assumes a leading role in implementing the macro-prudential policy, which is related to supervising and preventing cyclical and structural systemic risks, and strengthening the resilience of the financial system.

The macro-prudential policy aims to prevent unfavourable developments associated with: i) risks stemming from the excess increase of lending and borrowing; ii) concentration of exposures; iii) inadequate liquid assets and lack of liquidity in the market; and iv) the contribution of systemically- important financial institutions to systemic risk. To address them, there are instruments used, mainly of a prudential nature, that aim to strengthen the financial system capacities to cope with these risks with as little loss as possible. In practice, the purpose of macro-prudential measures is to prevent the transformation of a limited risk into a systemic risk.

2.3.1. SYSTEMIC RISK ASSESSMENT AND MACROPRUDENTIAL POLICIES

For the systemic risk assessment, the Bank of Albania analyses regularly the indicators of the real economy, the banking sector and the financial indicators, as well as carries out regular surveys to evaluate the financial situation of economic agents and the performance of specific markets. Results show that financial activity was stable and was reflected in higher lending, investments, and improvement of asset quality. These helped the banking sector to heighten profit levels and productivity rates. The measures undertaken by public authorities and the banking sector to mitigate the pandemic shocks enabled the soundness of the financial activity and the performance of the banking sector.

In spite of the rapid expansion of the banking activity, macroprudential analysis shows that risks are contained and the capitalisation situation of the banking sector is satisfactory. Indicators related to credit expansion and the level of borrowing, or to liquidity situation, suggest that the situation is on an even keel. However, the surge in real estate prices over the past years requires close-up monitoring and assessment of risks related to the potential acceleration of the lending cycle from high prices. Foreign exchange market volatility has been low, and market liquidity is assessed at satisfactory and stable levels. Concentration levels in the banking sector activity signal limited systemic risk. Exposures to large borrowers, economic sectors and by currency do not indicate an exacerbation of risks. The indicators used to monitor the risks



related to systemically-important financial institution suggest that concentration in the banking sector structure remain in contained levels.

The resilience of the banking sector against risks is regularly tested through stress-tests. They continue to demonstrate that the ability of the banking sector to withstand losses stemming from the materialisation of unfavourable shocks on the real and financial sector, remains robust.

The above-mentioned developments have not required interventions with additional macroprudential measures. Macro-prudential capital buffers and the ones that aim to discourage the use of foreign currency in the banking system activity, continued to be adopted in 2021. The measures of a macro-prudential nature that eased banks' obligations on the classification and provisioning of restructured loans, which were adopted to mitigate the pandemic effects on borrowers and banks, ended at the end of March 2021. They were not accompanied by undesirable developments in the bank credit portfolio. The Bank of Albania maintained the requirement on the suspension of bank profit distribution during 2020-2021. In the framework of implementing the macroprudential policy the work regarding the operationalisation and expansion of macroprudential instruments, has continued.

Macro-prudential measures

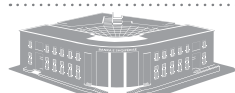
Up to the end of 2021, the Bank of Albania has implemented two groups of macro-prudential measures that aim at:

- a) increasing the use of domestic currency in the Albanian financial system activity; and
- b) strengthening the resilience of the banking system against systemic risks.

The first group of measures¹⁸ aims to reduce the use of foreign currency in the banking sector and evaluates the overall performance of selected indicators. To this end, the Bank of Albania prepares and publishes a specific semi-annual report. The report published in February 2022 remarks that although foreign currency use remains high, there is a decline observed in 2021, particularly in the activity of the banking sector. Credit portfolio of in foreign currency exposed to exchange rate has slightly shrank, and its share to the total credit of the banking sector has been decreasing. The other indicators have remained stable.

The second group consists in implementing the measures set forth for in Regulation No. 41 "On Macroprudential capital buffers." This Regulation provides the method of implementation by banks of reserved capital buffers, countercyclical capital buffers, capital buffers for systemic banks and capital buffers for systemic risk. The progress towards achieving optimal levels on

¹⁸ There were no changes made to this group of measures in 2021.



these buffers extends over a multi-annual time frame. In accordance with this Regulation, the Governor has taken decisions on a quarterly basis, which are published in the website of the Bank of Albania¹⁹.

Although the above measures are considered adequate, in 2021, the Bank of Albania has also worked on:

- a) the operationalisation of capital buffers for systemic risk. This buffer, stipulated in the above Regulation, provides an additional instrument to address the structural dimension of systemic risk. In December 2021, the methodology on the implementation of this buffer was concluded. However, given the pandemic situation, this instrument is not expected to be implemented in the short run;
- b) the operationalisation of macroprudential measures aimed at borrowers. The focus of the work has been on drafting a sub-legal act (Guideline) that will unify current banks' practices in relation to the implementation of the criteria for the "loan amount/collateral amount" indicator. This indicator will serve as a macroprudential instrument that restricts banks' exposure to unfavourable developments in the real estate market and to borrowers with lower solvency.

2.3.2. BANKING SYSTEM ACTIVITY

Year 2021 (henceforth the Period) was a good one for the financial system compared to 2020. Overall, all the financial system segments, including pension and investment funds, insurance companies, savings and loan associations, non-bank financial institutions, and the banking sector, have reported an expansion of their balance sheets and better income from their activities. This is reflected in the increased share of the financial system to GDP by 1.4 percentage points compared to the previous year, in addition to the strong GDP growth in 2021. Among the non-bank segments of the financial system, both pension and investments funds and savings and loan associations display a considerably high growth. Financial system assets expanded by around 12% in annual terms, where the growth of banking sector's balance sheet provided the main contribution. All the main indicators of the banking activity have improved significantly during the period. The growth in the assets of the banking sector is attributed to the expansion of credit portfolio and investments in securities, whereas the increase in liabilities was determined almost entirely by the growth in the stock of deposits held in commercial banks.

¹⁹ For more, see https://www.bankofalbania.org/Financial_Stability/Macro-prudential_policies/Instruments_of_Macroprudential_Policy/Instruments_and_Decisions/



Table 7 Financial system activity indicators

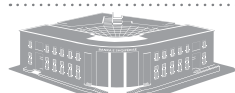
FINANCIAL SYSTEM	2021	BANKING SECTOR	2021	2020
Non-bank financial institutions (% annual changes)	8	Deposits (% annual changes)	11	8
Insurance companies (% annual changes)	4	Credit (% annual changes)	10	6
Savings and loan associations (% annual changes)	10	Operations with securities (% annual change)	21	19
Pension funds (% annual changes)	18	Net result (% annual change)	31	(12)
Investment funds (% annual changes)	11	Return on assets (%)	1.3	1.1
Banking sector (% annual changes)	12	Non-performing loans ratio (%)	5.6	8.1
Financial system assets (% to GDP)	111	Capital adequacy ratio (%)	18.0	18.7

Source: BOA.

The banking sector concluded 2021 with a positive financial result of ALL 22 billion, from ALL 17 billion in the previous year. The improvement of the financial result was reported by all banks of the sector. Interest incomes were higher, whereas interest expenses decreased compared to the previous year. This drove the net interest income up by 7%. Banks reported income also from other activities related to commissions and investments in financial instruments. The decline in loan loss provisions to non-performing loans portfolio²⁰ provided the main contribution to the improvement of the financial result in this sector, meanwhile provision expenses on other financial instruments were slightly upwards. At the end of the year, capital adequacy ratio of the banking sector was 18%.

Credit quality continued to improve during the period, recording a lower level since the 2008 financial crisis. The non-performing loans ratio dropped at 5.65% at the end of 2021, from 8.11% a year earlier. The performance of this indicator was affected by both the increase of outstanding credit by 10.2% and the contraction of non-performing loans portfolio by 23%, where the latter provided the main contribution. Banks have increased their efforts to address non-performing loans and have collected some of them. At the same time, they have continued the write-off of some lost loans from their balance sheets and the reclassification of non-performing loans to more qualitative classes. These measures have managed to considerably shrink the outstanding non-performing loans portfolio across all its classes, but the larger decline - nominal and relative - was registered in credit classified as "doubtful loans."

²⁰ This item decreased by around 9 times compared to 2020.



2.4. BANKING SUPERVISION

The supervisory function of the Bank of Albania has as its main objective the early identification and control of major risks (credit risk, liquidity risk, operational risk, interest rate risk, capital and profitability risk, reputational risk and money laundering etc.), as well as the assessment of internal control and efficient corporate governance, as important risk-mitigating factors in the activity of banks, non-bank financial institutions, and other institutions licensed by the Bank of Albania.

Timely action and effective regulatory measures through ongoing supervision and their implementation remain one of the most important steps to successfully finalize the ultimate goal - preserving the soundness of financial entities.

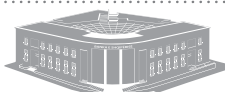
2.4.1. MAIN DEVELOPMENTS

Managing the pandemic situation

In 2021, the financial activity of banks developed under the effect of the pandemic and the measures undertaken to cope with it. Banks, economic agents, and the uncertainty about the future developments were the main factors that drove the decision-making of the Bank of Albania to extend the regulatory measures imposed in 2020 for managing the situation. This extension consisted in providing extra time for addressing the classification and provisioning of restructured credit with easier criteria, up until March 2021. The decision-making was also completed by postponing the entry into force of more restrictive regulatory criteria to 1 January 2022, from 1 January 2021. In order to facilitate the restructuring process, the final deadline of the regulation on the out-of-court treatment of distressed borrowers was extended to 31 December 2021, as the initial deadline was 31 December 2020. In the same vein, the entry into force of the Regulation on managing large exposures was postponed to 1 January 2022, initially planned on 1 June 2021.

In conclusion to these measures, special attention was paid to the performance of portfolios through both off-site analyses and on-site examinations in domestic banks, in order to identify possible negative developments with a material impact and to address them in an early stage. The situation was managed in such manner that the indicator of credit portfolio quality improved and non-performing loans ratio dropped.

The Bank of Albania decided to suspend the distribution of dividend of banks' profits during 2020, and the ones that would be generated in 2021, up



to December 2021. These measures were undertaken with a view to create capital sources for banks to cover potential capital requirements in case of negative developments, as a result of the pandemic or its secondary effects.

The equivalence assessment of the Albanian supervision regulatory framework with the requirements adopted in the EU

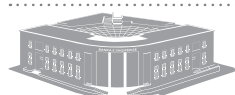
The equivalence assessment of the supervision regulatory framework in accordance with the methodology published by the European Banking Authority (EBA), aims to ensure a cross-border effective cooperation of a prudent approach among European financial institutions and those of third countries (non-EU members), for as long as the latter aspire to full EU membership and the adoption of the same standards which are in force in Member countries. Consequently, the recognition and equivalence of the supervision regulatory framework provides advantages to both the banking and financial institutions that operate in the EU and those that operate outside of it.

In this context, in 2021, the European Bank for Research and Development (EBRD) and PriceWaterhouseCooper (PwC) carried out an independent assessment of the current supervisory framework, adopting a comprehensive approach, based on the methodology and the questionnaire drafted by the EBA for this purpose. This analysis, which ended in December 2021, reached the conclusion that the procedural and regulatory framework, as well as the supervisory practices, are at a high degree of equivalence and approximation with the applicable standards of the EU countries. This approximation is assessed particularly high in relation to capital requirements, applicable mitigation techniques, large exposures, liquidity, financial leverage, macroprudential supervision, professional secrecy, and international cooperation.

BoA continues to be entirely dedicated to finalise this process. At the beginning of 2022, the BoA has required the European Commission to consider the equivalence assessment for Albania in accordance with the European Directive No. 575/2015.

Compilation of the draft Regulatory framework on Payment Services

Upon the approval of the Law no.55/2020 "On Payment services" and its entry into force in January 2021, the BoA worked on drafting the entire regulatory framework pursuant to this Law. The regulatory framework aims to ensure alignment with the EU acquis and the best practices of advanced countries, guaranteeing on the one hand adherence to the obligations on the approximation of the regulatory and legal framework, and on the other hand, enabling payment services providers and their clients the possibility to adopt the same standards with EU countries as regards these services.



Currently, a substantial part of sub-legal acts has been approved pursuant to the Law “On Payment services,” which allow new entities that require licensing as electronic payment institutions or registering as payment service providers that benefit from exceptions according to law stipulations, to commence their activity.

Implementations of recommendations of assessment report by Moneyval Committee and ICRG/FATF action-plan

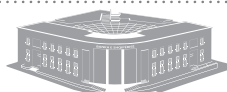
In the framework of implementing the recommendations from the Committee of experts of CoE on the evaluation of Anti-Money laundering Measures and counter terrorist Financing (MONEYVAL), the Bank of Albania is included in the implementation of the national plan of measures, in the direction of improving the regulatory framework and strengthening the effectiveness of the supervisory process, in order to address the primary issues identified in the report. In this framework, the number of on-site examinations has been increased, focusing particularly on terrorism financing issues and implementation of the international sanctions, especially on more vulnerable entities such are non-bank financial institutions (NBFIs) and foreign exchange bureaus (FEBs). Related to the identified violations, in addition to the recommendations for specific entities, also supervisory measures, such as “warnings” and “fines” are implemented. In 2021, a total of 109 examinations were carried out in the field of money laundering prevention and terrorism financing, which comprised 5 banks, 13 non-bank financial institutions, 1 SLA and 90 FEBs (of which 15 FEBs underwent the process of implementing recommendations as a result of deficiencies observed in previous examinations). Nine of these examinations were carried out in collaboration with the General Directorate for the Prevention of Money Laundering (GDPML), respectively in 2 banks, 6 non-bank financial institutions, and 1 foreign exchange bureau.

2.4.2. SPECIAL IMPACT DEVELOPMENTS

The change of reference indices for interest rates on loans

One of the consequences of the international financial crisis was the wavering of international market’s confidence in respect to reference indices on interest rates for bank and interbank products, broadly issued as IBORs (for e.g. LIBOR, EURIBOR etc.), due to their potential elements of manipulation noted in them. This event has given rise to the need for their entire review and substitution. The European Supervision Authorities have presented regulatory interventions to address this market disruption, where certain indices might not have quotations from now on.

In 2021, to address particularly reference indices related to clients, BoA undertook regulatory amendments in the Regulation No. 59, dated 29.8.2008 “On Transparency for banking and financial products and services.” These



amendments aim at safeguarding transparency in rate selection, as well as establishing a legal basis for client relationship, when contracts are changed. The stress is put on providing the borrower with full notification and information, and receiving a documented agreement on the necessary changes.

Adjusting interest rates on consumer loans

In the rapid expansion of consumer credit market, where non-bank financial institutions have been important contributors, the Bank of Albania undertook an initiative to regulate these loans by implementing regulatory amendments in the Regulation No. 48, dated 1.7.2015 "On consumer and mortgage loans." These amendments introduce for the first time the concept of Maximum Effective Interest Rate (Maximum EIR), which is the maximum possible threshold of the effective interest rate that is applicable to clients of consumer credit, and which is calculated by the BoA based on the semi-annual average adopted by the market on products and certain amounts of consumer loans. In order to carry out these amendments, the BoA followed the best EU practices.

The purpose of these amendments is to protect the consumer through regulating the Maximum EIR, which in many cases is identified to be at high burdensome levels for the consumer. The designated thresholds allow for a 33% above-the-average margin, therefore a relative limit subject of change in periodical intervals. In this context, this is not an inflexible threshold, but rather has an indicator that continuously adapts to market conditions. Its goal is to cushion the large differences and asymmetries between costs charged on consumers by various institutions, for products of similar features.

2.4.3. ON-SITE EXAMINATIONS

A considerable part of time and supervisory resources were dedicated to assessing the management of the pandemic situation and its impact, especially concerning credit portfolio. The conclusions reached in this assessment reconfirmed the ones of the previous examinations with the same focus - banks have adopted a cautious approach oriented towards supporting regular clients. Providing facilitations for customers facing problems has been conditioned by their track record in implementing the agreements.

In total, 14 full-scope and partial examinations were performed, with a higher trend toward partial examinations, due to the health guidelines on reduced staff numbers, as well as to achieve a thorough assessment of weightier risks on the activity of bank and non-bank institutions.

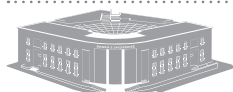


Table 8. Number of examinations by years and subject

Examined institutions	Strategic Risk	Organisational Risk	Credit Risk	Liquidity Risk	Interest Rate Risk	Market Risk	Information and Communication Technology	Operational risk	Reputational Risk	Profitability	Capital
2018	8	10	9	8	8	8	9	8	28*	9	8
2019	13	13	16	13	13	14	13	13	14	13	15
2020	2	8	15	11	2	5	5	5	88**	2	6
2021	7	7	12	7	7	7	8	8	109***	6	6

Source: Bank of Albania.

* In 2018, 28 examinations were carried out at Foreign Exchange Bureaus on Reputational Risk. 10 examinations regarding this risk were carried out with the General Directorate for the Prevention of Money laundering.

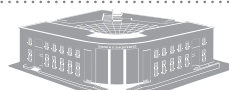
** In 2020, 74 examinations were carried out at Foreign Exchange Bureaus on Reputational Risk and 14 other examinations regarding this risk were carried out in banks and non-bank financial institutions. Among these, examinations on 2 banks, 1 non-bank financial institutions and 1 Foreign Exchange Bureau,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

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

The examinations performed in 2021 while mainly focusing on the credit risk, have also considered other aspects of the banking activity. Special attention was paid to operational risk and information technology risk, as well as financial risks (liquidity risk, interest rate risk, market risk).

Operational risk and information technology risk are always present in the activity of licensed entities, but in the last two years, due to the significant increase in the number of electronic transactions and the fast orientation of banks towards e-banking services, ensuring business continuity and a quick response to operational interruptions and incidents, has become indispensable. Therefore, the examinations' main objective has been to assess the availability of systems and organisational structures to promptly react to incidents, as well as assess the efficiency of the measures undertaken to guarantee work continuity. The relevant recommendations are oriented toward possible procedural improvements, as well as identifying the need for investments in high-quality technology and supportive systems.

Examinations of non-bank financial institutions focused mainly on entities that carry out the activity of lending, leasing and microcredit, by combining full-scope and thematic examinations to verify the implementation of recommendations. Examinations identify that non-bank entities are generally involved to address structural and organisational weaknesses, with a view to increase the quality of governance and the functioning of control systems. Other issues that need to be better addressed by these entities are related to reporting accuracy,



improvement of information technology systems, prevention of fraud cases, strengthening of the risk management function, client transparency etc.

In accordance with the plan and supervisory priorities, the examination of recently licensed SLAs were also in focus during 2021. The main purpose was to address in a timely manner the issues and weaknesses that new SLAs may manifest, since these entities have a broad base of participants.

2.4.4. LICENSING FRAMEWORK AND APPROVALS

In 2021, the Albanian banking sector continues to be dominated by foreign banking group subsidiaries with capital originating from the EU. The number of banks that were operating at the end of 2021 continued to be 12 (banks).

Table 9 Banks' ownership structure, number of banks (at period-end)

	2015	2016	2017	2018	2019	2020	2021
Banks in Albania, of which:	16	16	16	14	12	12	12
I. Majority foreign owned ¹	13	13	13	11	8	8	8
• EU-based banks	9	9	9	7	6	6	6 ²
• Turkish based	1	1	1	1	1	1	1 ³
• Majority owned by an international financial institution (Saudi Arabia)	1	1	1	1	1	1	1 ⁴
II. Majority Albanian owned	3	3	3	3	4	4	4 ⁵

Source: Bank of Albania.

¹ "Majority" is in any case the simple majority of 50 per cent plus 1 vote.

² Banks with capital origin from EU countries at the end of 2021 are from: Italy (Intesa Sanpaolo Albania), Austria (Raiffeisen), Germany (Procredit), Hungary (OTP Bank, Albania), Greece (Alpha Bank Albania), and Bulgaria (First Investments Bank Albania).

³ National Commercial Bank.

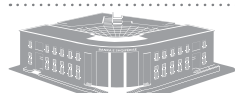
⁴ United Bank of Albania.

⁵ Majority Albanian owned banks at the end of 2021, are: Union Bank, Credins Bank, American Bank of Investments and Tirana Bank

In 2021, the Bank of Albania issued preliminary approval for: changes in the ownership of the qualifying holding of shares of banks; opening new representations; increasing the financial activity; amendments to capital, management or bank statutes etc.

In 2021, the number of bank branches and agencies decreased by 4 compared to the previous year, reaching 421 at the end of the year. More specifically, in 2021, 2 new bank branches were opened, while 6 existing branches and agencies were closed.

Based on submission of applications, the Bank of Albania licensed: 4 electronic financial institutions (PAYSERVA Ltd, eReja Ltd, RPAY Ltd and SOFT & SOLUTION Ltd); and one non-bank financial institution for the exercise of the financial activity of leasing (ANTIGONE FINANCIAL ENTERPRISE Ltd). At the end of 2021, there were 35 non-bank financial institutions, microcredit institutions, and electronic money institutions exercising their financial activity.



In 2021, there were new savings and loan associations licensed: "FAST CREDIT ALBANIA" in Tirana and "RRUSHKULL ONE" in Durrës, as well as preliminary approvals were issued for the appointment/reappointment of the Chairmen of the Steering Council, the Chairmen of the Control Council and the administrators of 4 SLAs.

During 2021, 41 new foreign exchange bureaus were licensed, while licences were revoked for 23 existing foreign exchange bureaus. As of the end of 2021, 538 foreign exchange bureaus were operating in the foreign exchange market.

Table 10 Number of banks, non-bank financial institutions, savings and loan associations and foreign exchange bureaus licensed by the Bank of Albania (end-period)

	2015	2016	2017	2018	2019	2020	2021
Banks	16	16	16	14	12	12	12
Non-bank financial institutions	27	28	31	30	32	30	35
Foreign exchange bureaus	397	428	426	463	503	538	556
Unions of savings and loan associations	2	2	1	1	1	1	1
Savings and Loan Associations	111	13	13	13	14	14	16

Source: Bank of Albania.

REVIEW OF THE LEGAL AND METHODOLOGY FRAMEWORK

- I. **In the framework of drafting and reviewing the regulatory acts with a view to further the approximation with the European Union acquis and the best European practices the following were approved:**
 - Amendments to the Regulation "On the net stable funding ratio of banks", which consist mainly in the addition of the reporting forms and explanatory guidelines to fill them, as well as revisions on some requirements in compliance with the EU Regulation 2019/876/EU (CRR2);
 - Amendment to the Regulation "On liquidity coverage ratio", which consists in the revision of the definition "significant currency", in compliance with the EU Regulation 2019/876 (CRR2). The revised concept shall be applicable to both the regulation in question as well as the Regulation "On the net stable funding ratio of banks";
 - Amendments to the Regulation "On Consumer Credit and Mortgage Credit", which ensure approximation with the best European practices (taking after the models adopted by the Bank of Portugal, France and Belgium) to determine i) the limitations on the Effective Interest Rate (EIR), as a comprehensive indicator of known credit costs, based on the calculation of the market average for this indicator, as well as ii) a limit for penalties and late fees, which are paid by borrowers. Amendments aim at providing fair practices



- in the market related to the interest rate level, late payments, and implemented penalties, particularly from non-bank financial institutions for the consumer credit;
- Amendments to the Regulation "On the functioning of Credit Registry at the Bank of Albania, and the conditions and procedures on the information, use and revision of data being administered in this Registry" were realised as a result of the amendments in the Regulation "On Consumer Credit and Mortgage Credit", aimed at data reporting by entities, which is conducive to the calculation of the maximum effective interest rate by the BoA;
 - Amendments to the Regulation "On Transparency for banking and financial products and services", which consists in the change/ substitute of reference rates (reference indices/IBOR-s) and the presentation of the "clause of changing the orienting index" with a view to mitigate the risks of adopting the new reference rates in the most normal and effective manners. These amendments spring from the reform adopted on reference indices around the world including the European Union²¹, as the banking system in Albania is affected by such reforms. The same processes were applied in other countries or economic environments. Currently, this process is reaching its conclusive phase in order to fulfil the good management of transferring to new reference indices;
 - New Guideline "On the internal capital adequacy assessment process". The purpose of this Guideline is to set out supervisory requirements relating to the strategies, strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk so as to ensure that the banks maintain adequate levels of liquidity buffers. The Guideline was drafted in accordance with the requirements of the European Directive 2013/36/EU on the internal liquidity adequacy assessment process (ILAAP)²² and the Guidelines²³ of the European Banking Authority (EBA)²⁴, which specify the common procedures and methodologies for the supervisory review and evaluation process (SREP)²⁵, supervisory stress testing, as well as the draft-methodology for the liquidity and funding risk assessment, etc.;
 - Amendments in the Regulation "On capital adequacy ratio", based

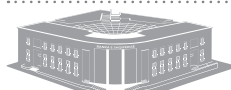
²¹ Regulation 2016/1011 of the European Parliament and of the Council of 8 June 2016, also known as "Benchmark Regulation", which entered into force in 1 January 2018, aims to improve the process of governing "critical indices," improve data quality that serve as input, based on considerable transaction volumes, improve their calculation methodology, protect the consumer, and increase transparency for various investors.

²² Internal Liquidity Assessment Process.

²³ EBA/GL/2014/13, dated 19 December 2014 "On common procedures and methodologies for the supervisory review and evaluation process (SREP)" and EBA/GL/2016/10 dated 03 November 2016 "Guidelines on ICAAP and ILAAP information collected for SREP purposes".

²⁴ European Banking Authority.

²⁵ Supervisory Review and Evaluation Process.



on the provisions laid down in the European Regulation CRR (2013/575/EU) and CRR2 (2019/876/EU), in order to further comply with the EU standards, which predict new requirements in relation to credit risk, mainly on banks' exposures to collective investments enterprises and small and medium enterprises (SMEs) etc.;

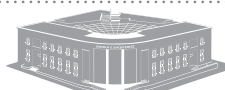
- Amendments in the Regulation "On Consumer Credit and Mortgage Credit", which aim to achieve a greater harmonisation with the European Union Directive 2008/48/BE in order to further improve the requirements of the regulatory authority on consumer protection.

II. In the framework of the measures taken due to the Covid-19, the following were approved:

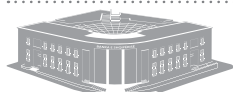
- Decision "On the Suspension of the Profit Distribution from Banks", which stipulates, up to the end of December 2021, the suspension of the distribution by banks of the 2020 profits and the profits that will be realised during 2021;
- Amendment to the Regulation "On credit risk management from banks and branches of foreign banks" which stipulates that the classification and provisioning of restructured loans up to 31 March 2021 will maintain the same classification and provisioning they had prior to restructuring;
- Extending on 1 January 2022 the entry into force of the amendments to Regulation "On the risk management from large exposures of banks" and Regulation "On the consolidated supervision," approved in September 2020;
- Amendments to the Regulation "On capital adequacy ratio" which aim to provide a more favourable treatment for risk weights applied to exposures of banks to Albanian government securities in foreign currency issued during 2021, as well as for the 2021 credit to OSHEE, guaranteed by the Albanian government.

III. With a view to fulfil the regulatory framework on the implementation of the Law "On Payment Services" the following were approved:

- Regulation "On licensing payment institutions and electronic money institutions, as well as registering payment services providers", which sets out the conditions, requirements, time frame, documentation and procedures for licensing the providers of payment services and electronic money institutions and for registering in the public registrar the payment service providers in the Republic of Albania, which benefit from exceptions in accordance with the Law "On Payment Services," for granting approvals by the Bank of Albania and the obligation of notification by entities to the Bank of Albania, during the exercise of their activity;
- Amendments to the Regulation "On licensing and activity of



- non-bank financial institutions”, which consist in repealing from this Regulation all the requirements related to non-bank financial institutions, which provide payment services and money transfers, electronic money institutions, as well as their agents, since from now on these requirements are stipulated in accordance with the new legal and regulatory requirements provided for in the specific acts;
- Amendments to the Regulation “On granting the license and the exercise of banking activity of banks and branches of foreign banks in the Republic of Albania,” which consist mainly in adding some requirements on the agents of banks, when the latter operate with agents who only serve as payment services providers;
 - Amendments to the Regulation “On licensing and activity of savings and loan associations and their Unions” which aim to ensure compliance with the new legal and regulatory requirements. The Savings and Loans Associations (SLAs), which will carry out the financial activity of payment services, will be granted with a special license as payment institution in addition to the SLA license.
 - Amendments to the Regulation “On minimum security requirements regarding premises where banking and financial activities are conducted and transportation of monetary values” which mainly consist in including the payment institutions and electronic money institutions as entities subject to this Regulation. Whereas as regards banks, they are responsible to verify the compliance with the requirements of the regulation from their agents, when the latter provide payment services through agents.



2.5. RESOLUTION

In accordance with the Law No. 133/2016 “On the recovery and resolution of banks in the Republic of Albania”, the Bank of Albania is the Resolution Authority for banks and branches of foreign banks operating in Albania.

In 2021, in capacity of the Resolution Authority and supporting the medium-term strategy, the Bank of Albania oriented its annual activity toward:

1. Concluding the full cycle of drafting the resolution plan and strengthening resolution in banks;
2. Communicating the “Minimum requirement for regulatory capital instruments and eligible liabilities”;
3. Developing the regulatory and methodological framework in accordance with best European practices;
4. Completing and consistently monitoring the Resolution Fund.

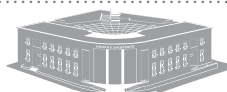
In the course of this year, the dialogue between the BoA and the banking industry has been stable, conducive to developing the resolution framework. The Bank of Albania has also cooperated with various domestic institutions and homologue institutions in Europe. The BoA has been invited by the Resolution Colleges of European banking groups with subsidiaries in Albania, in the framework of the annual cycle of the Resolution Plan.

2.5.1. STRENGTHENING RESOLUTION IN BANKS

In the role of Resolution Authority, the Bank of Albania must ensure higher capacities for resolution in banks, in order to make it possible to implement the resolution for insolvent banks, which will minimise their impact on the real economy, public finances, and the financial stability of Albania. In order to achieve this goal, a considerable amount of work has been dedicated to drafting the resolution plans, determining the final and intermediary objective regarding the minimum requirement of capital and eligible liabilities (MREL), and identifying potential obstacles to the capacity for resolution.

Resolution plans in 2021

Over 2021, in congruence with the legal framework on resolution, the Bank of Albania completed the drafting of resolution plans for all banks operating in the Albanian market. This process was fully finalised by drafting the plans for systemic and non-systemic banks and communicating their executive summary to each bank.



The plan prepared in the previous year was updated and enriched with the analysis of critical functions and the assessment of public interest test for each bank. Then, in 2021, an important element was added to the resolution plans that of the “minimum requirement for regulatory capital instruments and eligible liabilities” (MREL), which guarantees the financial resources that a bank must allocate in order to implement the resolution plan.

Upon concluding the annual cycle of the resolution plan and communicating it to each bank, the latter were required to carry out a self-evaluation process regarding their ability to effectively implement the resolution plan and handle potential impediments identified. This process was also carried forward by conducting on-site examinations in banks and following BoA’s recommendations.

BOX 3 PUBLIC INTEREST EVALUATION

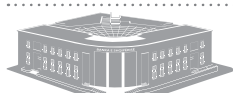
Every year, the Bank of Albania assesses the presence of public interest to implement resolution in banks, as part of drafting the resolution plan. This assessment is based on the provisions laid down in the Law no.133/2016 “On the recovery and resolution of banks in the Republic of Albania” and the regulatory framework for drafting the resolution plans.

More specifically, pursuant to Article 21, paragraph 1 (c) of this Law “the Resolution Authority initiates the resolution of the bank when it shall establish that the following conditions are met:

- a. the bank is considered to be close to a situation of insolvency;*
- b. there is no possibility that any other measure taken by the bank, the banking group or the shareholders of the bank, a supervisory or early intervention measure taken by the Supervisory Authority pursuant to the legislation in force on banks in the Republic of Albania or pursuant to this law, to restore the bank within a reasonable period in good financial conditions and within the supervisory indicators;*
- c. the bank’s resolution is necessary in the public interest.*

Pursuant to Article 21, paragraph 4 of the Law no.133/2016 resolution shall be deemed to be in the public interest if it is considered necessary for protecting financial stability and for achieving one or more resolution objectives.

The assessment of the public interest is carried out annually during the drafting of the resolution plans, as well as at the moment when the bank is deemed insolvent. During the phase of drafting the resolution plans, the Bank of Albania conducts a preliminary assessment if there is public interest to initiate resolution in banks by implementing resolution instruments and competencies. This preliminary assessment is constituent of the resolution plan for the bank. It is specifically included in the part that evaluates the credibility of liquidity according to compulsory liquidity or according to resolution. If the BoA is in the decision-making stage of whether to implement the resolution scheme on the insolvent bank, it will carry out a final public interest assessment. The starting point of the final assessment is the assessment that was carried out in the



resolution plan, taking into consideration the developments that have occurred at the decision-making time.

In general, public interest assessment includes three stages:

- a. *realising whether any of the resolution's objectives is affected if the bank is deemed insolvent;*
- b. *testing the resolution strategy against the resolution objectives;*
- c. *comparing resolution with compulsory liquidity.*

In order to determine whether the resolution's objectives are under threat, if the bank is close to insolvency, the Bank of Albania assesses the impact of bank's insolvency through two approaches:

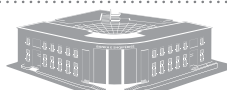
1. *Initially, the BoA assumes an insolvency scenario for the bank which causes its abrupt exit from the market. To this end, the BoA evaluates whether the bank carries out a critical function such that its suspension will have a negative impact on financial stability or other resolution's objectives.*
2. *Then, the BoA evaluates the potential impact of the compulsory liquidity procedure on the bank, third parties, and resolution objectives laid out in the Law no. 133/2016. To this end, the Bank of Albania assesses the credibility and ability to implement the bank's compulsory liquidation, while taking into consideration whether compulsory liquidation fulfils resolution objectives at the same measure as resolution.*

The public interest assessment comprised in the resolution plan determines the preferred strategy for resolution as well. In cases when the act of undertaking resolution is also corroborated by public interest, the Bank of Albania identifies the adequate strategy and specific instruments to fulfil resolution objectives, taking into account the structure and business model of the bank.

The minimum requirements for regulatory capital instruments and eligible liabilities (MREL)

During 2021, entered into force the Regulation no.78/2020 "On the minimum requirement for regulatory capital instruments and eligible liabilities", which provides a new regulatory requirement (MREL) for the banking sector and is communicated as part of draft resolution plans. In accordance with the legal and regulatory framework on resolution, the Bank of Albania determines "the minimum requirement for regulatory capital instruments and eligible liabilities" (MREL) in order to ensure that a bank, at all times, holds adequate and sufficient instruments that enable the implementation of the preferred resolution strategy and the alternative strategy stipulated in the plan.

The BoA estimates and communicates every year "The minimum requirement for regulatory capital instruments and eligible liabilities" as part of the annual cycle of drafting the resolution plans for each bank. In 2021, the Bank of Albania calculated the MREL for each bank, by communicating the intermediary



requirement that must be fulfilled within 2022 and the final requirement that must be fulfilled within 2027, in compliance with the regulatory framework in force.

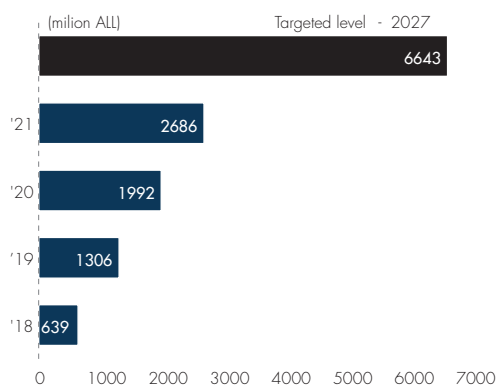
Potential obstacles to resolution

In 2021, the BoA has identified potential obstacles to resolution for each bank, which banks will include in their working plan to strengthen the ability to implement resolution. Following this process, the BoA continuously monitors the performance of the measures undertaken by banks to eliminate potential obstacles to the implementation of resolution plans. The monitoring process was also realised by carrying out on-site examinations in banks and issuing periodical reports regarding the fulfilment of recommendations.

In 2021, the Bank of Albania completed the full examination of systemic banks regarding resolution. Overall, the examination’s objective was to assess the infrastructure banks had dedicated to resolution, evaluate the ability to implement resolution in banks, and improve the quality of information required in drafting the resolution plans. In 2021, the focus of examination concentrated on the following issues: assessing bank’s funding resources and the capacities of information and data generation systems; assessing operational continuity and access to the financial market infrastructure etc. During the examination, attention was also paid to the forms reported for the purpose of resolution plans, in order to ensure correct and full information in relation to the process of resolution planning.

In conclusion of the examination process, specific recommendations were left to each bank. The fulfilment of these recommendations will continue be monitored by the Bank of Albania.

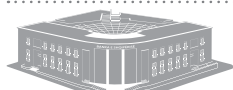
Chart 23 The Resolution Fund build up throughout the years and the targeted level for 2027 (ALL million)



Source: Bank of Albania.

2.5.2. RESOLUTION FUND

The Resolution Fund was established in 2018 through the financial contribution of all banks operating in Albania. It will be gradually built up until 2027 to reach 0.5% of the total liabilities of the banking sector (after deducting the regulatory capital). In 2021, the BoA estimated both the target level of the fund for 2027 and the annual contribution that banks must pay, at ALL 6.64 billion and ALL 664 million, respectively. In spite of the COVID-19 pandemic situation, the banking sector has fully paid the financial contribution to the Resolution Fund.



Pursuant to Law No.133/2016, the Resolution Fund is managed by the Deposit Insurance Agency (DIA). The DIA determines the method of investment and the instruments where the financial assets of the Resolution Fund may be invested, in accordance with the approved BoA's policy.

At the end of 2021, the size of portfolio of²⁶ the Fund's financial assets was around ALL 2.7 billion. The financial assets of the Resolution Fund are held in deposits, current accounts, and Albanian government securities, abiding by the thresholds laid down in the Fund's management policy.

LEGAL AND METHODOLOGY FRAMEWORK

The approved regulations

In 2021, the Bank of Albania finalized Regulations pursuant to Law no.133/2016 "On recovery and resolution in banks in the Republic of Albania." Following this process, as well as in accordance with the National Plan for European Integration 2021-2023, in order to ensure harmonisation with the European legislation, in 2021, the following regulations were drafted and approved:

1. **Regulation 20/2021 "On the contractual recognition of write-down and conversion powers"**, which lays down the content of contractual terms as regards the contractual recognition of write-down and conversion powers and the liabilities to which the exclusion from the obligation to include the contractual term applies.
2. **Regulation 33/2021 "On the organization and functioning of the assets management company"**, which lays down the conditions for the establishment and functioning of the Assets Management Company, as a resolution tool.
3. **Regulation 34/2021 "On the criteria for setting the rate of conversion of liabilities to capital"**, which lays down the criteria and principles of the Bank of Albania for setting of the conversion rates of liabilities to capital, when exercising the write-down and conversion powers or while applying the bail-in tool.
4. **Regulation 35/2021 "On classes of arrangements to be protected in a partial transfer"**, which lays down the conditions regarding the types of arrangements which are protected during the partial transfer of assets, rights and liabilities of a bank under resolution.

These Regulations were drafted through active consultation with the banking sector and the FINSAC programme of the World Bank, which has incessantly supported the development of the resolution fund framework of the Bank of Albania.

²⁶ According to the preliminary data of the Resolution Fund's portfolio in 2021.



Methodological documents

In accordance with the regulatory requirements, the Bank of Albania develops and updates, on a regular basis, the specific methodologies and policies to fulfil “the minimum requirement of regulatory capital instruments and accepted liabilities” and publishes them. In 2021, the Bank of Albania drafted the methodological document “On the methodology, policies and the manner of fulfilling the minimum requirement for regulatory capital instruments and eligible liabilities.” The technical methodology was drafted in accordance with the European practice drafted by the Single Resolution Board (SRB) and in a widespread consultation with the banking sector, and was published on the official website of the BoA. This methodology describes the calculation method of MREL requirement for 2021, determines the BoA’s stance on the additional capital requirements, and explains the method of distribution, across the years, of the intermediary and final MREL.



2.6. CURRENCY ISSUE

The Bank of Albania has the exclusive right for the issue and circulation of the national currency, the Albanian lek. The Bank of Albania determines the forms, measures, weights, model, and other characteristics of Albanian banknotes and coins of legal tender in Albania, as well as coins and banknotes to be minted/printed for numismatic purposes.

The Bank of Albania's objectives for banknotes and coins include improving the quality of banknotes in circulation, higher engagement with regard to protection against counterfeiting, and reviewing themes, design and security features in the series of Albanian banknotes with legal tender.

One of the main responsibilities of the Bank of Albania is to continuously ensure public confidence in the national currency. The central bank fulfils this responsibility by issuing a banknote that communicates security and stability to the Albanian public. Banknotes represent the most tangible form of money and are at the service of all citizens

To fulfil its constitutional and legal mission of putting into circulation the national currency and safeguarding its credibility, the Bank of Albania has continued to print the two latest denominations of the new and improves series of Albanian banknotes of legal tender. After putting into circulation the 1000 Lekë and



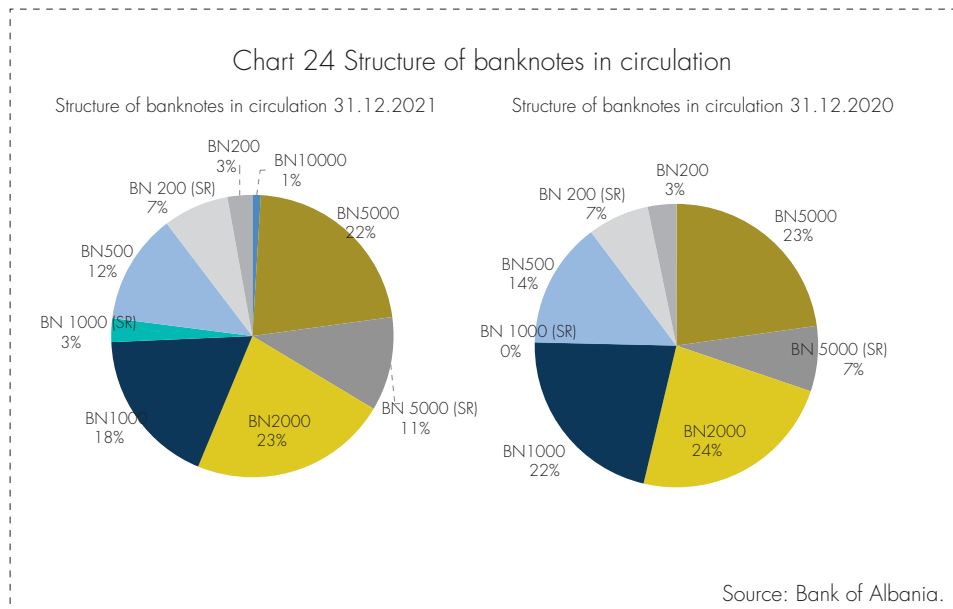
10000 Lekë banknotes in 2021, the work to complete the new series of 500 Lekë and 2000 Lekë denomination banknotes has continued.

Completing the new series of banknotes with contemporary and sophisticated security features, has endowed the Albanian banknote with more durability, quality and credibility, and has given it a modern appearance.

The number and value of banknotes and coins in circulation²⁷ increased in 2021.

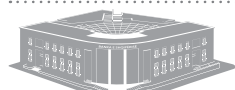
At the end of 2021, there were about 1.54 million notes in circulation worth about ALL 372.2 billion. Compared to 2020, the number of banknotes decreased by 2.2 million notes (1.4%), while in value there was an increase of ALL 22.5 billion (6.4%). The change in this indicators is attributable to the trend of the structure of banknotes in circulation in favour of banknotes with a nominal value of 5000 Lekë and 2000 Lekë, and the issue in circulation of the new series of banknotes that of 10,000 Lekë and 1000 Lekë. The average value of a banknote in circulation at the end of 2021 reached ALL 2,421, from ALL 2,242 at the end of 2020.

At the end of 2021, there were 241 million coins, from 226 million at the end of 2020. The value of coins at the end of 2021 reached ALL 5.96 billion, from ALL 5.58 billion at the end of 2020.



The speed of cash recirculation decreased and the quality of banknotes in circulation is kept under control.

²⁷ It is the number and value of banknotes put into circulation by the Bank of Albania.



In 2021, around 94.7 million banknotes were processed, which were checked for authenticity and fitness for recirculation. The sorting rate²⁸ was 19% compared to 19.6% in 2020. Unfit banknotes were replaced case-by-case with new banknotes fit for circulation.

The²⁹ banknote circulation coefficient for 2021 was 0.61, implying that a banknote is returned to the cash desks of the Bank of Albania, on average less than once a year. This rate is higher for 500 Lekë and 1000 Lekë banknotes (around 1.27 and 0.94, respectively) and lower for 5000 Lekë, around 0.16 respectively, which shows that the latter are returned more rarely at the cash desks of the BoA.

Bank of Albania aims to increase and strengthen technological and administrative capacities dedicated to protecting banknotes from counterfeiting.

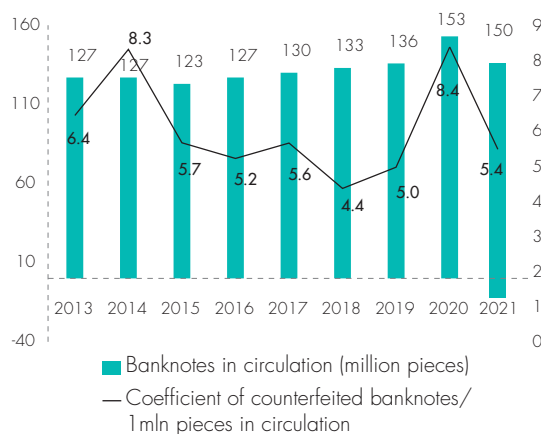
In view of safeguarding the currency from counterfeiting, the Bank of Albania has complemented the regulatory framework by approving two new regulations: "On medals and tokens similar to euro coins" and "On the criteria for the reproduction of banknotes and/or coins in the Republic of Albania." A cooperation agreement was signed with the ECB this year, in the field of safeguarding euro from counterfeiting, increasing the scale of approximation of our regulatory framework with that of the European Union. Also, actions designed to prevent counterfeiting have continued to be organised for professional staff and other money handlers.

In 2021, the quantity of counterfeited banknotes in circulation decreased. The coefficient of counterfeited banknotes per 1 million banknotes in circulation remains low (5.4 in 2021).

By structure the 5000 Lekë and the 1000 Lekë denominations have the main share in the total counterfeit banknotes, followed by the 2000 Lekë and the 500 Lekë denominations. Amongst counterfeit coins, the 50 Lekë denomination continues to be the most counterfeited, in insignificant amounts compared with the genuine coins.

From the technical and/or technological aspect of counterfeiting Albanian banknotes, colour digital printings dominate, mainly ink-jet accompanied by the use of additive artisanal and technological methods to imitate security elements.

Chart 25 Counterfeited banknotes statistics



Source: Bank of Albania.

²⁸ Ratio of unfit banknotes and coins to the total number of banknotes and coins sorted during one year.

²⁹ Ratio of the number of banknotes returned to the Bank of Albania cash desks to the average annual number of banknotes in circulation.



Security feature imitations in counterfeit banknotes, readable by authenticating/sorting equipment has not been encountered in any case. The Bank of Albania recommends the public to be careful during the exchange of banknotes, checking their authenticity using the "Feel, Look and Tilt" method published on the BoA's website.



2.7. PAYMENT SYSTEMS

Operation, oversight and reform of payment systems are some of the main functions of the Bank of Albania. Their implementation guarantees the security, sustainability and efficiency of the basic infrastructure of payments in lek. This is a crucial precondition for transmitting the monetary policy, safeguarding financial stability and the overall economic growth.

In fulfilment of these responsibilities, the Bank of Albania, beyond the stable operation of payment systems, has paid particular attention to the oversight and catalysing role in the fulfilment of the national Retail Payments Strategy.

2.7.1. PERFORMANCE OF AIPS AND AECH SYSTEMS

AIPS and AECH systems are managed and operated by the Bank of Albania. Both these systems are considered as the main infrastructure for processing interbank payments in Albania: AIPS system is considered the core infrastructure for the settlement of payments in the national currency, the settlement of transactions of financial markets, as well as the implementation of the monetary policy. On the other hand, the AECH system, which accommodates the clearing of interbank transactions with small value - lower than ALL 1.5 billion - is the only system in the Albanian market that clears payments of banks' clients (households and enterprises). The safety and well-functioning of these systems is of crucial importance for the operation of financial markets and the economy overall. Both systems have run smoothly and in accordance with the rules and schedules provided in the respective regulations, offering maximum availability. In the role of the payment system reformer and in compliance with the National Strategy for Small-Value Payments, the Bank of Albania has worked to put into operation the AIPS-EURO system, which is a system that settles euro payments domestically.

Albanian interbank payment system for large-value payments (AIPS)

A volume of 138,548 transactions was settled during 2021, with a total liquidity circulating in the system of ALL 10,758 billion. Compared to the previous year, the volume and the value of settled transactions reflected an annual increase by 8.67% and 8.61%, respectively. The value of transactions processed in AIPS as a ratio to the GDP is also assessed upwards, indicating an ever increasing use of the system. As regards transaction distribution by typology, the item "Payments for Clients" (with main share of payments in terms of figures, 67.6%) continues to register increasing rates in AIPS system.

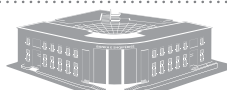
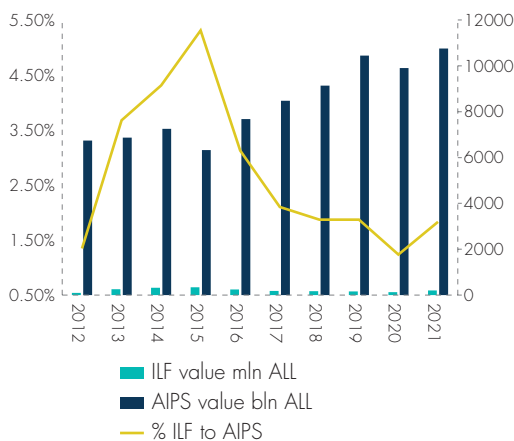


Chart 26 Number and value of transactions processed in AIPS (left) and as a percentage to GDP (right)



Source: Bank of Albania.

Chart 27 Intraday Loan Facility (ILF) ratio to total value settled in AIPS



Source: Bank of Albania.

The intraday loan facility (ILF) is an AIPS system instrument offered by the Bank of Albania to participating banks in order to manage daily liquidity and ensure normal continuation of interbank payments operation. The ILF ratio to total AIPS system activity was 2.04%, reflecting a decline in the share of funding this system's activity with BoA's liquidity and of the exposure of the system to liquidity risk.

Albanian electronic clearing house for retail payments (AECH)

The activity of the AECH continued to increase in 2021. In annual terms, the number and value of AECH payments have increased by 26.4% and 23.6%, respectively.

The level of AECH transactions as a ratio to the population has also increased. The continuous increase of the use of AECH transactions, mainly payments for bank clients³⁰, indicates the efficiency of the measures taken by the Bank of Albania on commissions applied by banks (in 2011 and also in 2020³¹) on the final user in order to expand the use of this system. These measures have

³⁰ The analysis of the payment distribution indicator according to the participants is evidence that customer payments initiated by banks continue to hold the main share of transactions processed in the AECH system, dominating the transactions initiated by other participants (Ministry of Finance and economy, the Bank of Albania).

³¹ The Regulatory amendments in 2020 provide the elimination of commissions for retail payments initiated electronically through home banking services for up to 20,000 Lekë and the differentiation of commission for the other payment part initiated through home banking for up to 50% of commissions applied for paper format payments.

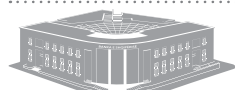
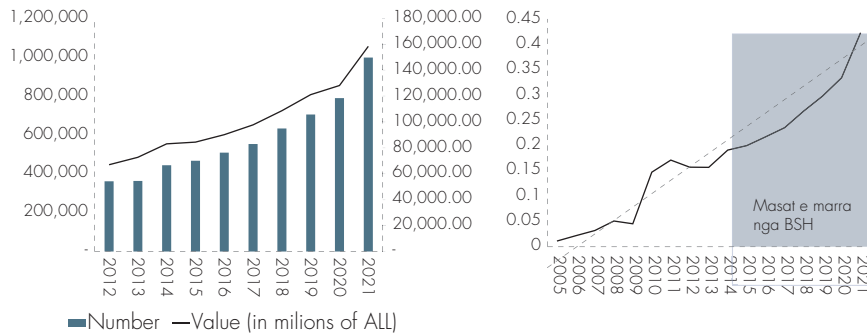


Chart 28 Number of AECH transactions in years (left) and the ratio of transactions processed in AECH in relation to population over 15 years old* (right)



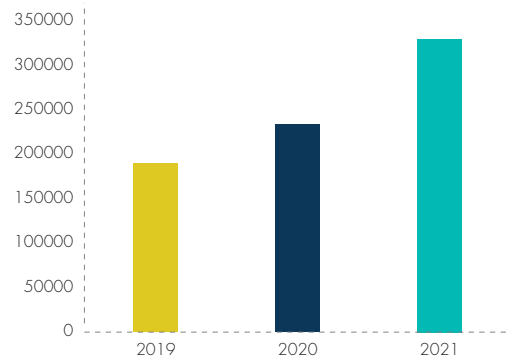
■ Number — Value (in millions of ALL)

*Implies that 42.28 % of the population over the age of 15 conducts an interbank transaction through the AECH system. This value marked a continuous increase which becomes relevant when taking into consideration the fact that in Albania around 40% of the population (Findex 2014 assessment, World Bank) possesses a bank account for carrying out interbank payments.

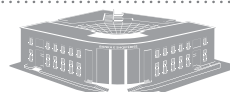
Source: Bank of Albania.

caused payments below ALL 20,000 to increase more rapidly, showing that electronic transfers are being used daily by the wider public.

Chart 29 Increase in transactions number below ALL 20,000 in AECH



Source: Bank of Albania.



BOX 4 THE AIPS EURO SYSTEM FOR THE SETTLEMENT OF THE DOMESTIC EURO DENOMINATED TRANSFERS WITHIN ALBANIA

In the framework of the National Strategy for Small-Value Payments in Albania (2018-2023) and its implementation plan, the Bank of Albania and other important stakeholders such as the Ministry of Finance and Economy and the banking and financial system, through the National Payment System Committee (NPSC), aim to create a modern and comprehensive market of small-value payments in Albania, supported by a secure and efficient infrastructure. In line with this, among the strategic fields and actions is the implementation of the settlement of domestic euro transfers by the Bank of Albania.

This project was conceptualised since 2016, where the possibility and the need to create a national infrastructure for euro settlements was analysed, in the framework of the NPSC recommendations. The study carried out by the Bank of Albania in cooperation with the Albanian Association of Banks, identified a cost of ALL 718 million for the banking system from the current method of conducting transactions. Based on this analysis and market research, this project was included in the Strategy's action plan, in order to reform and modernise payment systems.

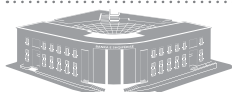
The Bank of Albania toiled at an intensive pace in 2021 to finalise the project on payment of domestic transfers for clients in Euro. This project is realised through developing the necessary infrastructure and creating a regulatory framework for the operation and functioning of AIPS-EURO system. The system is functional since 24 January 2022. The AIPS-EURO system will be used to settle only "transfers for clients" of banks and will allow Albanian citizens to conduct euro payments domestically, at very low costs and for a shorter time period compared with the previous process of corresponding banks.

Also, this project has a wider impact on several economic factors, as the considerable commissions that were held by corresponding banks will be kept in the domestic economy, and financial and monetary stability will be safeguarded, with all the necessary monitoring mechanisms available to this segment of the market.

Indirectly, this project has also an impact on the well-being of clients, banks and overall economy. Since payments are now processed domestically, it would be much easier to resolve issues in case of an error in payment processing. Furthermore, another positive fact is that domestic euro payments are regulated by the prudential legal and regulatory framework on consumer protection, laid down in the Law "On Payment Services".

The project is assessed to have quite positive effects also as regards banks' management of cash in euro, as well as to have a positive impact on the formalisation of the economy, encouraging financial inclusion, and the reduction of cash.

Reducing commissions for banks' clients, beyond the natural reflection of lower costs due to the elimination of time-consuming cycles of processes of corresponding banks, also reflects the BoA's policies on the limits of commissions applied by banks to clients. The main objective of this regulation was to encourage the formalisation of euro payments, as well as promote more efficient payments processes for clients in Euro, but simultaneously giving priority/encouragement to payments in Lek, which continue to be cheaper, based on the ceiling values.



The following table summarizes the commission applied before 24 January and the ones applied once the operation of AIPS-EURO commenced.

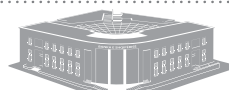
	Until 24 January 2022	After 24 January 2022	
	Paper-based payments and non-paper based/ electronic payments	Paper-based payments	Electronic payments
OUTGOING TRANSACTIONS ►			
MIN-Euro per transaction	Max 30 Euro	Max 6 Euro	Max 3 Euro
% above the amount	Max 3%	Max 0.2% Up to 10,000 euro	Max 0.1% Up to 10,000 euro
MAX-Euro per transaction	Max 300 Euro	Max 50 Euro	Max 25 Euro
INCOMING TRANSACTIONS ◀			
MIN-Euro per transaction	20.00	0	0
% above the amount	0.2 %	0	0
MAX-Euro per transaction	200.00	0	0
Swift Commission MAX-Euro per transaction	10.00	0	0

2.7.2. PAYMENT INSTRUMENTS

In 2021, the use of electronic payment instruments increased by 29.51% in annual terms, reaching a total of 28.6 million payments. In terms of value, it increased by 20.62% or ALL 5,291 compared to the previous year. The increase of electronic payments is reflected in a continuous contraction of credit transfers in paper form, which in 2021 accounted for around 20.65% of the total payment volume.

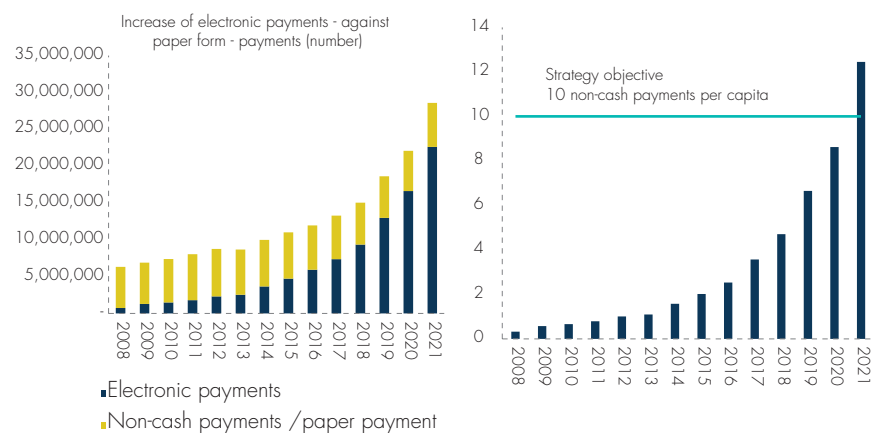
Card payments are the main payment instruments accounting for 55.57% of the volume, surpassing for second consecutive years credit transfers in paper form, the most frequently used payment instruments throughout years.

It is encouraging to see the fast upward trend in the use of the electronic payment instruments of home banking, singling out the number of payments conducted through mobile banking, which reached 1.7 million transactions, up by 46.78% compared to the previous year. The value of these transactions reached ALL 219 billion, with an annual growth of 47.36%. Also, an upward trend is noted in the use of E-money, an instrument offered by banks and electronic money institutions.



Developments in electronic payments throughout 2021 have contributed in meeting the quantitative objectives of the National Strategy for Small-Value Payments (2018-2023). The use of electronic payments reached 12.5 per capita, from the 10 payments objective outlined in this strategy. Furthermore, positive developments were also recorded in the framework of expanding the share of the population that owns a payment account. Thus, in 2021, around 69%³² of adult population owns a payment account, considerably approaching the 70% objective outlined in the strategy.

Chart 30 Volume of electronic and paper payment instruments in years (left) and the volume of payments per person (+15 years-old) in years (right)



Home Banking

The initiation of credit transfers in electronic form is realised through “home banking³³” services, which are provided by 11 banks and are increasingly widespread in the Albanian market. In 2021, there is a noticeable increase in the volume of payments and transaction value of “home banking”, by 24.5% and 15.45%, respectively, compared to the previous year. Contributions to the upward trend of “home banking” transactions were assessed to be: the measures undertaken by the Bank of Albania in 2020 (outlined above); the expansion of possibilities to access internet; and, familiarisation of banks’ clients with this instrument. Also, the policies of banks for promoting these alternative payment means, were assessed to have played a positive role, being reflected in an increase in remote accessible accounts by 20.98%, compared with the same period in 2020. Online accessible accounts to total accounts of clients account for 23.25% in 2021.

³² Based on the Credit Registry National of Accounts data.

³³ These products provide remote access to the bank account, via on-line, telephone or software that the bank makes available to its clients.

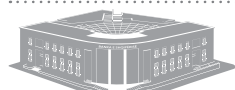
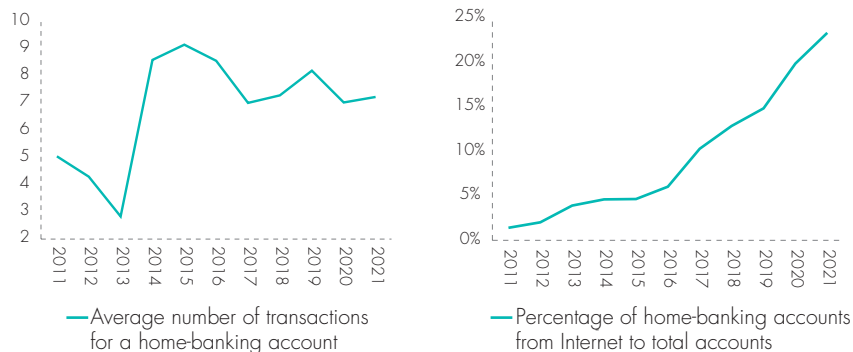


Chart 31 Volume of home banking transactions to total accounts and online accessible account*



*The utilisation ratio shows how much on average an account is used on-line to carry out transactions. Source: Bank of Albania.

Bank cards

At the end of 2021, all the banks that operate in the Republic of Albania were licensed as card issuers, of which seven were licensed also as card accepters. The infrastructure provided by these banks has trended upward in terms of the number of POS terminals (increasing significantly by 13.12% compared with 2020). A positive development can be considered the increase of the gradual distribution of POS terminals in other regions in the territory of the Republic of Albania, beyond the District of Tirana, which has had and continues to have a dominant position (at 82.77%)

Meanwhile, the number of ATMs has significantly increased by 11.38%, compared with 2020. Despite the fact that ATMs are mainly used for cash withdrawals, during 2021 we have an expansion of the function of ATMs that enable deposits, a function which is used at higher levels than in 2020 (both in number and in value).

Terminals for the use of electronic money cards also recorded positive developments. They showed an upward pace at 16.03% compared with end-2020. The promotion of the use of the electronic money instruments is assessed to have effected the financial inclusion of the population, by providing access to bank services (opening of an electronic money account and the owning of a pre-paid card) to categories of population who may not access other services, i.e they do not receive a wage.

Debit card issuance increased slightly by 2.4%, while credit card issuance decreased by 2.12% The end of 2021 marked an increase of 0.61% of cards functioning as electronic money, compared to the previous year. Developments in terms of infrastructure and cards in circulation are reflected in an increase in

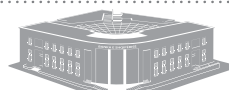
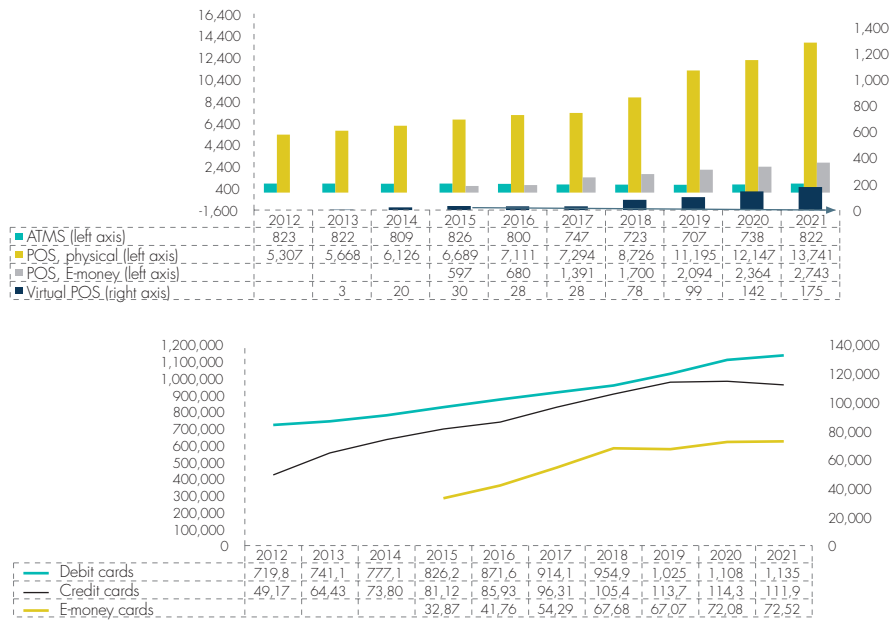


Chart 32 Developments related to ATMs and POS (left), as well as related to debit, credit and pre-paid cards (right)



Source: Bank of Albania.

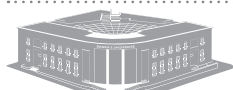
the number and value of card payments in 2021, respectively by 43.63% and 49.87%, compared to 2020.

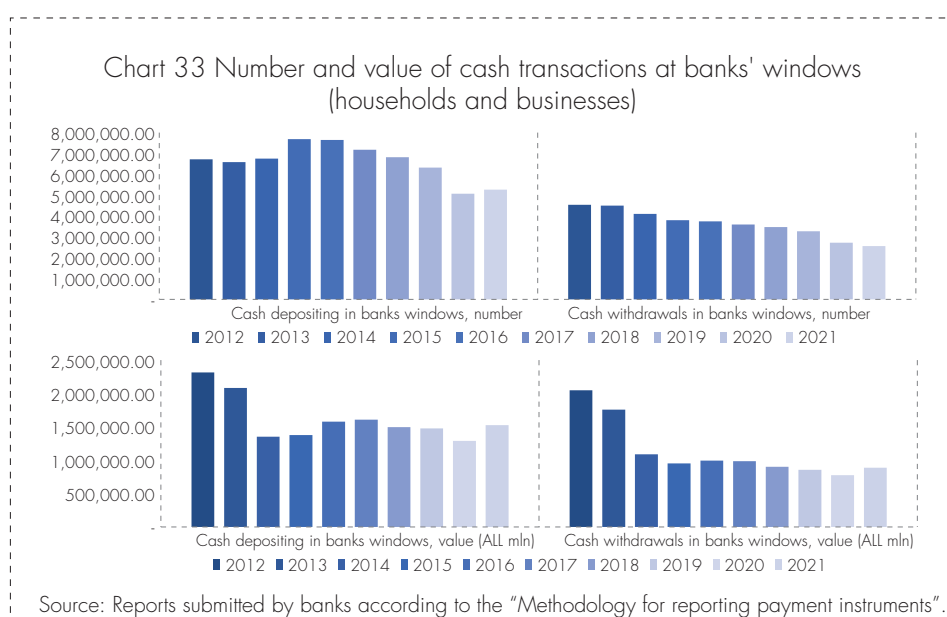
Despite the positive developments, the use of bank cards in ATM and POS terminals shows that the main share of card transactions is carried out by cash withdrawals from ATMs. In 2021, the number and value of card payments in physical and virtual POSs increased by 35.8% and 36.93%, respectively. In relative terms, the payments through via pre-paid cards point at 5.75% of payments through debit and credit cards.

Cash transactions

Regarding cash transactions conducted by customers at banks' cash windows, in 2021, we observe an increase in number and value compared with the previous year. This year cash deposit transactions increased both in number and value, respectively by 3.86% and 18.31%, compared with the previous year.

The use of cash in the Albanian economy still remains a prevailing phenomenon, which carries high costs for various stakeholders and the economy in general. In this framework the coordination of efforts at market level to encourage the use of efficient instruments at low costs is of special importance and one of the priorities of the Bank of Albania.





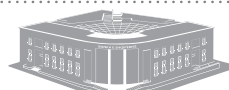
2.7.3. ELECTRONIC MONEY INSTITUTIONS

Electronic money products are also offered by non-bank financial institutions, licensed as electronic money institutions. During 2021, 7 electronic money institutions operated in the Albanian market, from which only 3 managed to still operate at by end of 2020. The increase in the number of electronic money institutions is a result of the adoption of the law "On payment services" in 2020. In total, the number of electronic money payments has significantly increase in both, number and value during 2021, respectively by 79.04% and 44.8%. Although the volume of electronic money payment transactions has reached almost 24% of the total of all payments passing through the banking system, in value they cover less than 0.5% of the total value of payments made by electronic money institutions and banks that emit electronic money. During 2021, these institutions together have carried out a volume of around 6.8 million electronic money payments, with a value of ALL 15.63 milliard.

The increase in number of electronic money institutions has led to the increase of terminals in the territory of the Republic of Albania, providing facilities in the form of increased flexibility for carrying out payments, as well as a lower cost for payments such as fines, monthly utility bills, etc.

2.7.4. PAYMENT SYSTEM OVERSIGHT AND THE REFORMATORY ROLE

In the role of the catalyst / reformer of payment systems, the BoA has continued its efforts to implement the action plan of the National Retail Payments Strategy (2018-2023), in order to modernize this market and expand the financial inclusion of population and use of the electronic payments in the Albanian



market. In this regard, during 2021 a series of legal and regulatory measures have been taken, as well as infrastructural developments. From the point of view of legal and regulatory improvements, during this year a series of legal acts have been drafted to supplement the regulatory framework in implementation of the requirements of law 55/2020 "On payment services".³⁴

From the infrastructural developments point of view, we can mention the operationalization of the payment service provider scheme for "Direct Debit". This scheme enables utility companies to use only one payment account to collect the liabilities of their customers throughout the market, in order to more efficiently manage liquidity. From the clients' point of view, this scheme creates flexibility, thus enabling the use of the instrument, regardless of whether the bank / non-bank financial institution has an agreement with the utility company in which the client wants to make payments. Also, the Direct Debit Regulation and the Law on Payment Services create a prudent framework for consumer protection. The regulation and operationalization of this scheme marks another step towards integration with the Single Euro Payment Area.

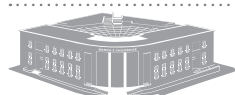
Another important development is the operationalization of the AIPS EURO system for the settlement of payments in euro in the country for bank customers, analyzed in Information Box 4, above.

For the purposes of continuing the project for fast payments, during this year, a report was finalized regarding "Fast Payments in Albania". This report aims to identify the needs that the project will address, the areas that require intervention, and the preliminary measures to create a solution for fast payments, as well as the various options for the implementation of this project. The study identifies the most feasible option for the Albanian market. This report has been prepared with the technical assistance of the World Bank in Albania and will serve as a guide for the implementation of the project in the Albanian market.

The BoA has taken an important step in promoting financial inclusion. During 2021, was worked on compiling drafts-acts which transpose Directive 2014/92 / EU of the European Parliament and of the Council, dated 3 July 2014, "on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features". In this regard, the draft regulation "On transparency of fees related to the payment account and on payment account switching" , has been drafted. This draft regulation has been adapted to our regulatory framework. Its purpose is to determine the requirements for transparency and comparability of fees charged to customers for their payment accounts, as well as to determine the requirements for the transfer of payment accounts between payment service providers.

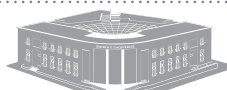
During this year, the draft law "On the account of payments with basic services" was drafted. The object of this draft law is to determine the rules and

³⁴ The list of approved acts is mentioned in the sub-chapter "Banking supervision".



conditions for opening and using the account of payments with basic services for households in the Republic of Albania, including especially consumers and households not covered by banking services, regardless of income level, employment status and solvency history.

In the framework of fulfilling its catalyst role, the Bank of Albania has supported and organized a series of meetings and consultations with various actors, in order to implement the action plan of the National Strategy for Low Value Payments (2018-2023). Also, BoA organized the VII meeting of the National Payment Systems Committee in December 2021, in order to further promote the ongoing projects.



2.8. FOREIGN RESERVE MANAGEMENT

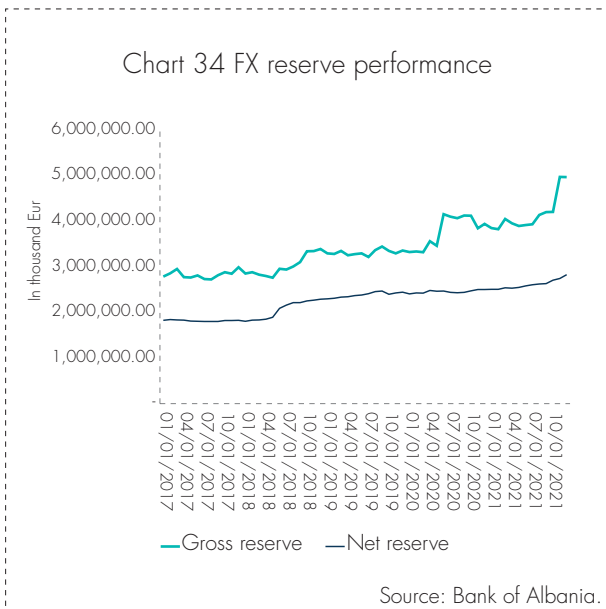
The Bank of Albania is the authority responsible for maintaining and managing the international reserve of the Republic of Albania. It uses its best opportunities to achieve and maintain a certain level of international reserve, conducive to Albania’s financial stability, and in accordance with the monetary policy.

The Regulation “On the policy and management of the foreign reserve”, approved by the Supervisory Council, lays down the purposes of maintaining the foreign reserve. In compliance with the best international practices, the purpose of maintaining the international reserve is implementation and support of monetary policy and exchange rate policy, as well as safeguarding of financial stability. The primary objectives of international reserve management are liquidity and security. Ensuring returns from reserve funds management represents a third objective, as long as it does not infringe the objective for liquidity and security.

The Supervisory Council also approves the qualitative principles and criteria for the development of international reserve management. In order to implement these criteria, the Investment Committee approves the quantitative indicators and follows the application of the investment policy through the periodical publications.

The Investment Committee approves the names of entities where foreign reserves may be invested. These names include the governments of the USA, Japan, United Kingdom and those in the euro area, which are generally are generally rated at least A- (for euro area governments the accepted minimum rate is BBB³⁵). The entities allowed for investment also include agencies or institutions related to governments, multilateral institutions or other institutions rated at least AA-, (for banks / other financial institutions the minimum accepted level is A-).

At the end of December 2021, the stock of gross foreign currency reserve was EUR 4,974.02 million, including monetary gold, (about 88.2 thousand ounces or 2.5 tons).



³⁵ 22 Names/instruments listed up to BBB- are included in the category “For investment” (investment grade).



Composition of the reserve portfolio by currency

At the end of December 2021, the composition of the gross international reserve was: USD 17.0%; EUR 66.4%; GBP 2.1%; JPY 1.9%; AUD 1.0%; SDR 6.9%; Gold 2.9%; RMB 1.9%. Exposure in the currencies AUD (Australian dollar) and RMB (Chinese renminbi) reflects the decision of the Supervisory Council to invest part of the reserve in accordance with the SDR basket. The share of the currency RMB is allocated in two currencies, RMB and AUD, in accordance to a ratio approved by the Investment Committee.

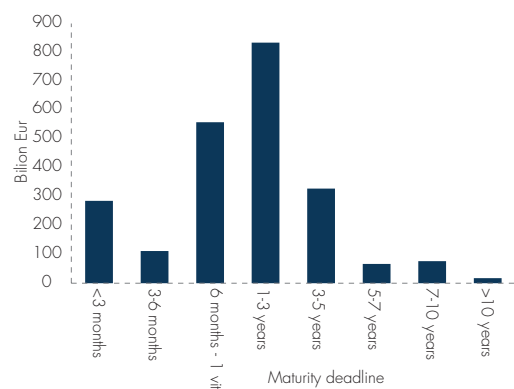
The composition of reserve portfolio by maturity term

Around 85% of the international reserve portfolio resulted invested in names with high quality rating (class AAA and AA including exposures in current accounts). By type, exposures of issuer/counterparties are represented by governments/central banks (74%), followed by multilateral institutions (9.8%), banks/other financial institutions (7.5%), agencies (5.9%), government-guaranteed institutions (1.4%) and government authorities/public bodies (1.4%).

Composition of the reserve portfolio by rating and type of issuer/ counterparty

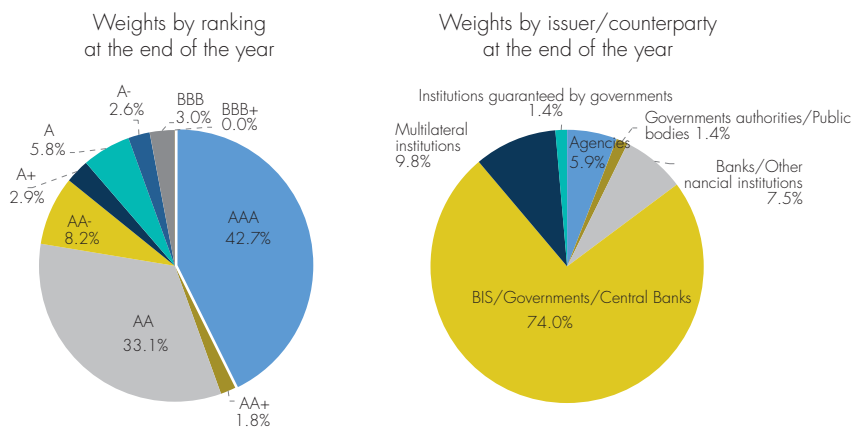
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Chart 35 Distribution of reserve by maturity of instruments*



*The Chart does not reflect the funds kept in current accounts. The current account balance at the end of 2021 is EUR 2.07 billion. Source: Bank of Albania.

Chart 36 Composition of the reserve portfolio by evaluation (left) and counterparty (right)

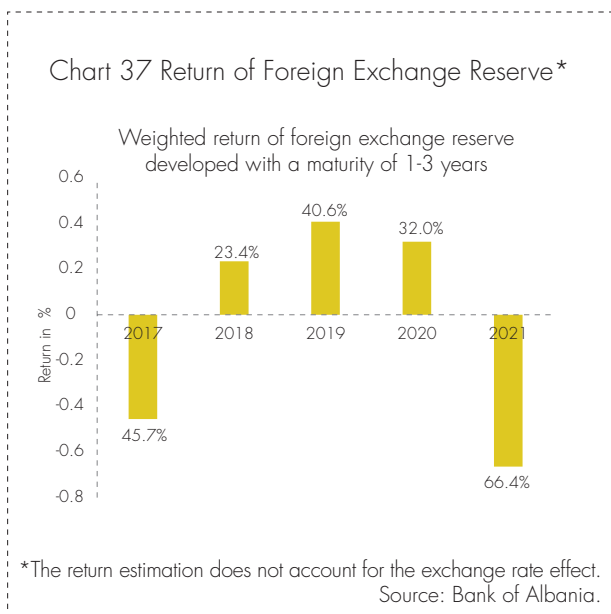


Source: Bank of Albania.



Return on the investment of reserve portfolio

The absolute return of reserve in total (excluding the fund managed by the World Bank as external administrator), was a negative, at -0.64%³⁶, in 2021. The return created by the active management of the reserve portfolio was positive.



The absolute return of foreign reserve again at negative levels reflects the continuation of an environment still with low interest rates, in the main currencies/ market where the foreign reserve portfolio is invested. Interest rates on treasury bills in Euro continue to remain in negative territory. At end-2021, the situation in the current account was around 42.0% of the total reserve portfolio, reflecting the efforts to minimise investment costs. Investments in securities in the portfolio in euro resulted with a negative interest rate that varies from -0.3 basis point to -80 basis point. The contribution in the return of the USD and other reserve currencies was also mainly negative, as a result of the sharp rise in interest rates, especially at the end of the year, in response to the recovery of major economies, increase of inflation expectations and expectations for monetary tightening by central banks.

The increase of interest rates has given the main contribution to the negative value of the absolute return of the reserve, but at the same time has created room for the realization of new liquidity investments with a higher interest rate, although still negative.

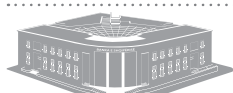
Other developments related to the international reserve

Management function

Considering the primary objectives of the foreign exchange reserve management process, which are liquidity and security, new agreements have been concluded or existing agreements have been renewed to keep some mechanisms available to the BoA, in order to provide the necessary liquidity to maintain and support the country’s financial stability. In 2021, the signing of a new agreement with the European Central Bank, through the Bank of France, for the establishment of a collateralized credit line for the amount of 400 million euros was finalized. Also, the Repo-based agreements and the SWAP agreements were renewed, respectively with the Bank for International Settlements (BIS), for the amount of EUR 500 million, and with the People’s Bank of China, for the amount of RMB 2 billion.

The regulatory framework and infrastructure that supports the foreign exchange reserve management activity has been updated in order to create opportunities

³⁶ Including the fund administered by the World Bank, the absolute return for 2021 is estimated at 0.61%.



to start investing in new classes of instruments, such as MBS (mortgage-backed securities), and to establish new business relationships, to enable the resumption of investment in futures contracts. Also, a code of ethics has been adopted dedicated to the performance of duties and responsibilities in accordance with the highest principles that guide the process of foreign exchange reserve management.

In the framework of the periodic revaluation of the share of monetary gold in the foreign exchange reserve, during 2021 there were no new sale-purchase actions in this part of the portfolio.

BOX 5 FLOWS AFFECTING INTERNATIONAL RESERVE IN 2021

Gross international reserve, increased by around EUR 1,028.73 million, in 2021, standing at EUR 4,974.02 million as of the end of December. The main factors that have affected the gross reserve are grouped below:

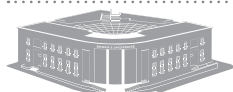
- > *Transactions with the Ministry of Finance and Economy provided a positive impact, estimated at EUR 642.44 million, according to the following items:*
 - *net inflows from extension of various loans from the IMF and the World Bank and the EC at EUR 627.34 million;*
 - *inflows from the issue of foreign currency debt in the foreign market, at EUR 635.83 million;*
 - *outflows for debt service and other, in the amount of EUR 620.73 million.*
- > *Commercial banks and other entities' transactions provided a positive impact, at EUR 42.12 million, according to the following items:*
 - *Commercial banks' inflows at their accounts with the Bank of Albania to fulfil the required reserve, management of balance sheet exposures etc., at EUR 2,238.47 million;*
 - *transfers (outflows) from commercial banks, in the amount of EUR 2,201.68 million;*
 - *net income on behalf of other entities (ADIA etc.), in the amount of EUR 5.33 million.*
- > *Bank of Albania's transactions provided a positive impact, estimated at EUR 298.23 million, according to the following items:*
 - *Buying foreign currency from commercial banks and other institutions, at EUR 292.01 million:*
 - *by commercial banks, at EUR 116.80 million;*
 - *From the Ministry of Finance and Economy, at EUR 163.7 million;*
 - *by other institutions, at EUR 11.51 million;*
 - *Inflows from interests, coupons, etc. (calculated in cash) generated from international reserve investments, at around EUR 18.86 million;*
 - *Outflows transfers amounted at EUR 12.64 million.*
- > *Market factors provided a positive impact, estimated at EUR 45.94 million, according to the following items:*



- *fluctuations of the foreign exchange rate of currencies composing the international reserve affected positively the gross reserve reported in EUR, at around EUR 82.51 million;*
- *The portfolio re-valuation effect, as a result of interest rate volatility, is estimated at a negative value of EUR 36.57 millionⁱ;*

ⁱ *The net effect of SWAP transactions carried out with the Ministry of Finance and Economy for 2021 is positive, at EUR 129.5 million, reducing the position in SWAP compared to 2020, while the total volume (considered purchase-sell) is EUR 2,214 million.*

ⁱⁱ *This value contains also the impact created from the payment of coupons and securities and is corrected for transactions of purchase/sale/maturity of securities on cash basis.*



2.9. STATISTICS

The BoA creates, collects, compiles and shares a wide range of statistics and data needed to support its functions: monetary policy, safeguarding of financial stability, banking supervision and the proper functioning of payment systems. These statistics are also used by other public authorities, international organizations, financial market participants, media and the general public, as well as help the Bank of Albania in increasing the transparency of its work.

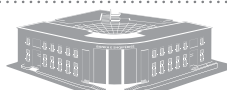
The statistical function in the BoA is continuously adapted to an organizational level that meets the requirement of independence and ensures its interaction and cooperation with other departments of the bank and other institutions with responsibilities in the field of statistics, such as INSTAT, MFE, the European Commission (Eurostat), Organization for Economic Co-operation and Development, IMF or other central banks.

The statistical function of the BoA has seen significant progress during 2021. In the context of the consistency of statistics, as well as the meeting of the regulatory framework for EU membership, the BoA, as an integral part of joint projects with national and international institutions, achieved several important objectives, from which we would highlight:

- *The approximation of Regulation No. 1071/2013 of the European Central Bank on the balance sheet of monetary and financial institutions within the National Plan for EU Integration Program (2021-2023).*

This regulation, approved in December 2021, completes the framework for compiling monetary statistics in approximation to international standards. The adoption of this act enabled the fulfilment of one of the BoA commitments in the approximation of the regulatory basis with the EU acquis in the field of statistics (full approximation of regulation (EU) No. 2021/379 of the ECB, on the balance sheet of the monetary financial institutions sector (reviewed) (ECB / 2021/2).

This regulatory basis aims to adapt and standardize the reporting system of financial institutions for the compilation of monetary statistics. The BoA is the only institution that collects, compiles and publishes monetary data. This data have of particular importance for the fulfilment of its main function, the drafting and implementation of monetary policy. Furthermore, they play an important role in macroeconomic analysis and policies, as well as help to prepare comparative analyses on a regional and basis and beyond, due to their high level of standardization.



- *Compliance with reporting standards in accordance with EC regulation³⁷ in regard to the Balance of Payment statistics*

During 2021, the BoA has achieved a high degree of compliance in the transmission of PB data to Eurostat, with the 6th edition of the PB Manual and the Investment Position. According to the assessment of the European Commission³⁸, the BoA has significantly improved the timely transmission of data, in number of indicators and in accuracy, as a reflection of its reporting system, in accordance with the requirements of internationally accepted standards.

- *Successful completion of the 2-year project for the development of macroeconomic imbalance indicators (MIP indicators) for Albania*

In cooperation with INSTAT and with expertise from the EU, it was possible to complete the very important project "Identification of Macroeconomic Imbalances" (MIP), - part of the regulatory package aimed at improving EU economic governance. MIP is an instrument for assessing and preventing macroeconomic imbalances of member states and the EU as a whole. Identifying Macroeconomic Imbalances is an obligation stemming from the country's EU membership process.

The project was finalized in August 2021, at the end of which the BoA identified and sent to Eurostat all indicators that fall within its area of competence. It was also possible for the BoA to report to Eurostat the quality document of financial accounts data and Balance of Payments statistics, the production of which is under the BoA responsibility.

- *Implementation of the Project between the BoA and the Bank of Portugal "Integrating micro-databases in the data warehouse for statistical purposes"*

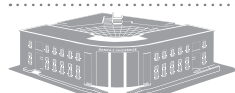
During 2021, with the assistance of the Bank of Portugal, the project of integration of micro-databases in the data warehouse system for statistical purposes came to life. At its conclusion, the project enabled the research and design of the main elements that will serve in a second phase to increase professional capacity and find appropriate technological solutions for the integration of granular information in the process of compiling statistics.

- *Harmonization of Government financial accounts with other government statistics, within the project "On government finance statistics - Excess Deficit Procedure (EDP) and government financial accounts according to methodological standards and international best practices"³⁹*

³⁷ (Regulation (EC) No 184/2005 of the European Parliament and of the Council of 12 January 2005 on Community statistics concerning balance of payments, international trade in services and foreign direct investment (OJ L 35, 8.2.2005, p. 23).)

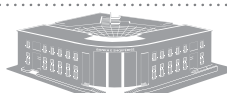
³⁸ European Commission Progress Report for Albania, October 2021.

³⁹ In cooperation with INSTAT, MFE and the IMF expertise.



The Excessive Deficit Procedure (EDP) is one of the basic instruments through which the EU fiscal policy framework is implemented, which derives from the Treaty on the Functioning of the European Union (TFEU). Starting from November 2014, Albania regularly reports the EDP tables to Eurostat. During 2021, some very important improvements were made regarding the GFS statistics, as follows:

- EDP notification tables for 2017-2020 have been reported, where for the first time the data of extra-budgetary units have been included;
- the compilation of Maastricht debt data on accrual basis has been finalized, with quarterly periodicity for budgetary data, and annual periodicity for budgetary and extra-budgetary data (including extra-budgetary units).



2.10. RESEARCH

The Bank of Albania aims to base its decision-making process on the solid foundation of a body of knowledge tested on the Albanian economy. Investment in creating solid research capacities contributes to improving the Bank of Albania's qualitative work, reputation and credibility as an institution with the methodologies and required knowledge to guarantee the macroeconomic equilibriums of Albania.

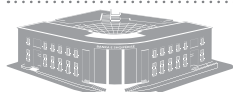
The focus of scientific research at the Bank of Albania in 2021 was mainly towards identifying and assessing the structural consequences of COVID-19 on economics and the financial market, and their implications for monetary policy and financial stability. Other research papers addressed issues on development economics, increasing financial literacy, and banking challenges in the future. In accordance with its medium-term strategy, scientific research continued to support the decision-making process for drafting and implementing the policies of the Bank of Albania, testing new empirical methodologies and enriching the portfolio of econometric models on which decision-making is based.

Research projects in function of monetary policy decision-making and / or financial stability are focused on the efficiency of monetary policy actions transmitted through the key interest rate; in the mechanism of monetary transmission through the bank credit channel in Albania and in some countries of Central, Eastern and South-eastern Europe; in measuring the (imbalance) of inflation risks; as well as in assessing a hypothesis on the possible stalemate in the credit market in Albania, especially after the global financial crisis.

The assessment of the real natural interest rate shows that the monetary policy in the last decade has operated in conditions of slowing down the real equilibrium interest rate in Albania, influenced by a number of factors, such as demographic changes, increased demand for financial instruments to invest savings of the population or and slowing down of the potential growth of the economy in the long run. The lower real interest rate in equilibrium means a reduction of the monetary policy response, makes it possible to reach the lower limit of the key interest rate, and increases the need to use unconventional monetary policy instruments.

The BoA pays special attention to assessing the effectiveness of various monetary policy instruments in the transmission mechanism. A recent study in this regard attempts to measure the empirical validity of the importance of money as an informative indicator. Preliminary results conclude that monetary indicators, especially the broad money indicator, show satisfactory links with prices and the exchange rate, but not much with economic activity.

Monetary transmission is analysed through the credit channel in financial



institutions with different characteristics such as size, capitalization, etc., for CEE countries, during the period 2010-2018. Preliminary results suggest that monetary expansion stimulates lending in all CEE countries, but the magnitude of the effect varies among them. The level of capitalization affects the lending behaviour of banks mainly in countries with moderate and high banking development, while the size of banks is important for other countries.

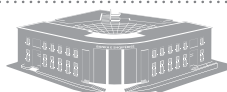
The study on the demand and supply of bank loans presents an empirical analysis of the hypothesis of “rationing” in the credit market in Albania during the period after the global financial crisis. The main results do not support the hypothesis of a strong credit market imbalance in the country.

The central bank’s assessment of inflation risks may affect agents’ expectations and, consequently, their consumption and investment decisions. In this perspective, the study of inflation risks tries to assess the asymmetries in the impact of macroeconomic factors along different intervals of inflation distribution in Albania, using a new method with quantitative regression. The analysis shows that during January 2010 - December 2021 there are significant changes in the form of inflation distribution over time, and nonlinearity in the impact of explanatory indicators.

Other research projects have focused on the challenges posed by new developments in financial technology, in terms of a financial literacy of households, still far from developed countries. Innovations in the field of digital currencies pose new risks to the stability of the financial system, arising from the wider use of FinTek (financial technology) products and services. These innovations bring a lot of uncertainty in a country with insufficient financial literacy such as Albania, as it results from the Survey on Measuring the Financial Literacy of the Population conducted by the BoA in 2019. As a result, financial education has become a strategic priority for the BoA and, during 2021, efforts have been made to gather information on current and expected initiatives under the National Financial Education Strategy.

These and other studies have been discussed in activities and conferences organized by the BoA or other institutions in the “15th Regional Research Meeting for Southeast Europe”, on 6-7 December 2021, organized by the Bank of Albania. This annual on-line event served as a platform to enhance regional cooperation in South-east Europe and beyond, increasing the central bank’s potential contribution to financial markets, the economy and society.

A more complete and detailed information on the research papers of the Bank of Albania is found at the official website of the Bank of Albania in the sub-category “Publications/Researches and Working papers” . Other research works are published as articles in the “Economic Review” of the Bank of Albania. The semi-annual magazine “Scientific novelties at the Bank of Albania” informs about the newly completed research materials or about those in process, materials presented in the “Friday Seminars”, or in other activities organized by the Bank of Albania throughout the year.



2.11. EUROPEAN INTEGRATION AND INTERNATIONAL COLLABORATION

The Bank of Albania has continued to contribute to the fulfilment of the obligations stemming from the Stabilization and Association Agreement, the Progress Reports of the European Commission, joint EU-Albania subcommittees and the National Plan for European Integration. It chairs two Inter-institutional Work Groups for 2 chapter of the acquis.

Albania has continued to implement the obligations stemming from the Stabilization and Association Agreement (SAA) as well as from bilateral EU-Albania meetings. On 25 March 2020, the Council of the European Union approved the proposition of the European Commission on opening Albania's membership negotiation. Albania has continued to show commitment in carrying out reforms and achieving concrete and sustainable results. In the annual report of 2021 of the European Commission it is estimated that Albania has met all the conditions for holding the First Intergovernmental Conference.

The Bank of Albania has continued to contribute to the fulfilment of the obligations stemming from the Stabilization and Association Agreement, the Progress Reports of the European Commission, joint EU-Albania subcommittees and the National Plan for European Integration.

The Bank of Albania has continued to chair Two Inter-institutional Work Group for chapters of the EU acquis: Chapter 17 - "Economic and Monetary Policy" and Chapter 4 - "Free Movement of Capital". At the same time, the Bank of Albania has continued to actively contribute to other chapters, where we mention: Chapter 9 - Financial Services; Chapter - Economic Criteria; Chapter 18 - Statistics and Chapter 32 - Financial Control. The BoA periodically prepares reports on the progress of the areas covered by the above-mentioned chapters, and has contributed to the drafting of the PKIE 2022 -2024, identifying the measures envisaged for further alignment with the EU acquis.

The Bank of Albania was represented at the annual high-level meeting of the Stabilization and Association Committee and in the meetings of two subcommittees: 1) Domestic Market and Competition as well as 2) Economic, Financial and Statistical Issues, as well as Economic and Financial Dialogue between the EU and Western Balkan Countries and Turkey. In the above mentioned meetings, issues such as: drafting and implementation of monetary policy, financial stability, indicators and developments of the banking sector, financial inclusion of the population, etc. were discussed at the political and technical level.



In October 2021, the European Commission published the Progress Report 2021 for Albania, which describes the progress made by Albania during June 2020 - June 2021. The report assesses the work of the BoA in terms of monetary policy formulation, aimed at maintaining price stability, in terms of maintaining financial stability; approximation of legislation in the field of banking supervision; extraordinary intervention and systems of payments etc.

RELATIONS WITH THE INTERNATIONAL MONETARY FUND

The Republic of Albania continues to have SDR 139.3 million quotas and owns 2,858 votes or 0.06% of the total sum of the votes of all members of the IMF. It is in the same constituency with Italy, Greece, Portugal, Malta, and San Marino. This constituency has a total of 207,948 votes (or about 4.13% of total votes of all IMF members). The total amount allocated and disbursed up to 31 December 2021 is SDR 344.44 million.

Albania's relations with the IMF continue to be focused on Article IV consultations. On 6 December 2021, the Executive Board of the IMF concluded the Article IV consultations with Albania, at the end of which it published the assessments on the performance of the Albanian economy and made the relevant recommendations.

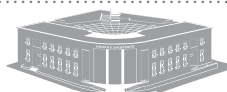
RELATIONS WITH THE WORLD BANK GROUP

The World Bank Group started its work in Albania in 1991 and has supported a number of projects aiming at immediate poverty alleviation and the provision of sustainable and long-term development tools to drive further growth.

Albania is part of the constituency composed by Greece, Italy, Portugal, Malta and Timor-Leste. Governor Sejko reiterated his appreciation especially as regards the contribution of the WB in the area of resolution and more concretely in the operationalization of the regulatory framework approximated to that of the European Union. Thus, during 2017-2021, progress has been made towards the sub-legal framework related to resolution, through the drafting of 15 regulatory acts in accordance with Law 133/2016 "On recovery and resolution in banks in the Republic of Albania"

TECHNICAL COOPERATION

Also, the 2-year project titled "Programme for capacity strengthening programme in the Western Balkans focused on integration into the European System of Central Banks" has continued. The project consists of two pillars. The first component includes a series of trainings by experts of central banks from the ESCB and the ECB, while the second component consists of bilateral cooperation. The areas covered by this project are those of banking supervision, financial stability, recovery and resolution, monetary policy, payment systems, statistics, compliance and EU integration, governance, accountability and internal auditing policies.

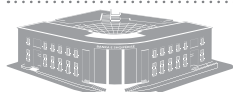


Due to the situation created by the Covid-19 pandemic, this project was initially suspended only to continue on-line. However, during 2021, some of the planned activities were also carried out in the "on-site" format. Areas of activity developed during 2021 were related to financial supervision, European integration, internal audit, monetary policy, payment systems, recovery and resolution, statistics, etc.

Participation in international conferences, forums and seminars

The following is a summary of international activities, attended by the Administrators of the Bank of Albania:

- On 12-14 January 2021, the Governor of the Bank of the Bank of Albania attended the Central and Eastern European Forum (CEE). It is an annual Euromoney event that brings together renowned figures of politics, economy and finance from CEE countries to discuss the latest economic developments in European countries and beyond. The proceedings of this forum took place virtually due to Covid-19 pandemic.
- On 9 February 2021, the Governor of the BoA participated in the Scientific Conference "Pandemic and Recovery - Coping Strategies and Expectations", organized by the Albanian Parliament and the Albanian Academy of Sciences.
- In the framework of post-program monitoring, in March, June and September 2021,, Governor Sejko and other representatives of the BoA held concluding online meetings with the IMF Mission in Albania, represented by Ms. Yan Sun, Mission Chief for Albania. Issues discussed were macroeconomic developments, expectations for economic recovery, inflation, exchange rate, developments in the banking and financial sector, as well as the proper orientation of economic policies to meet the objectives of sustainable development of the country.
- On 2-12 April and 13-20 October 2021, Governor Sejko participated in the Annual Meetings of the International Monetary Fund (IMF) and the World Bank Group (WBG), virtually. In these meetings, the senior decision-makers of the IMF and the WB, the governors and the finance ministers of the member countries, discuss the latest developments and the expectations for the future of the world economy.
- On 15 September 2021, Governor Sejko participated in a round table organized by the British Embassy in Tirana. Governor Sejko attended the roundtable organized by the British Embassy in Tirana, in order to discuss the main issues that Albania is currently facing, such as: the challenges posed by rapid climate change; economic difficulties stemming from the country's history; the situation created due to the COVID-19 pandemic; as well as governance challenges.



- On 7 October 2021, Governor Sejko delivered a public lecture, virtually, hosted by the London School of Economics and Political Science (LSE), on: "Planning for the Post-COVID world: central bank policies in emerging economies". The presentation focused on the experience of the countries of the South-east European region in dealing with the most recent three crises: the global financial crisis, 2008-2009; European sovereign debt crisis, 2010-2012; and the current COVID-19 pandemic crisis.

COOPERATION AGREEMENT

In order to cope with possible emergencies for liquidity in euro by non-euro area countries, including Albania, the ECB decided to extend the term of use of liquidity lines in euro by nine more months, until March of 2022. For the BoA this line is available in the amount of EUR 400 million.

Despite the fact that so far this collateralized loan agreement (REPO) has not been needed to be used, the BoA considers that this reserve instrument remains useful in the framework of being aware of the effects of the pandemic on the financial market.

The Bank of Albania and the European Central Bank signed the cooperation agreement on the exchange of information in the field of the protection of the euro against counterfeiting. This agreement aims to regulate and facilitate the cooperation procedures between the two central authorities in the field of protection of the euro against counterfeiting in the territory of Albania. The agreement shall standardise the technical information in order to strengthen the technical capacities for the monitoring and prevention of counterfeiting euro banknotes in Albania.



2.12. CONSULTING AND COORDINATION WITH OTHER PUBLIC INSTITUTIONS

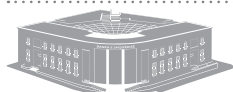
The Bank of Albania is independent in formulating and implementing its monetary policy. In addition to its primary objective, the Bank of Albania is committed to helping the sound and sustainable development of the country's economy. To realize these commitments, it coordinates its work with various public institutions, international ones and other interested parties. In order to harmonize its decision-making with other economic and financial policies, the Bank of Albania has exercised its role as an advisor by providing opinions and suggestions on the policies of partner institutions.

During 2021, the Bank of Albania has given its opinion on the Medium-Term Debt Management Strategy, 2021-2023. In addition to its continued emphasis on public debt consolidation to ensure the maintenance of macroeconomic stability in the country, the opinion given by it also focused on reducing the weight of short-term debt to improve the risk indicators of its management. The concrete steps for the implementation of this strategy are subject to the work of the Internal Debt Committee. The BoA is represented in this committee and contributes with its opinion regarding the management of liquidity in the internal market, with the lowest possible cost and efficient distribution, coordinating the work to avoid difficult situations.

The BoA continued its active engagement in the projects undertaken for the development of the primary and secondary securities market, giving its opinion on the laws and draft regulations drafted by the MFE, as well as by the AFSA. The issuance of reference securities through selected financial intermediaries has continued to be the main project undertaken in terms of promoting the trading of securities in the primary and secondary markets, which will contribute to competitiveness and the correct price-setting in these markets.

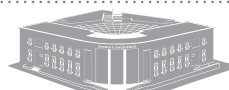
Pursuant to its medium-term strategy, the BoA is committed to supporting the development of financial instruments in the domestic foreign exchange market. With the help of the IMF technical mission, it has established an action plan to take a series of measures over a period of several years. These measures aim to encourage domestic foreign exchange market actors to develop and use hedging financial instruments for exchange rate risk. The use of these instruments is also integrated in the relevant BoA regulations on foreign exchange market interventions.

The Bank of Albania is a member of the Financial Stability Advisory Group (FSAG). During 2021, the exchange of information between the participating institutions and the cooperation in the processes defined by the legal framework



has been ongoing. The focus of the cooperation has been on improving data on financial markets, liaison between financial institutions and developing infrastructure for the repayment of non-public debt securities. At the meeting of the FSAG held at the end of 2021, the participating authorities were acquainted with the latest analysis of developments in the respective markets, the challenges encountered and the improvements in the legal basis, positively assessing the stability of markets and the financial system against the effects of the pandemic. FSAG highlighted the importance of monitoring the financial developments, as both the economic situation and the public health are continuously faced with challenges.

As chair of the National Payment System Committee (NPS), and in fulfilling its reform / catalytic role in the field of payment systems, the BoA has continued its efforts to complete the action plan of the National Retail Payments Strategy (2018-2023). In this regard, it is worth noting that the measures taken so far by the NPSC have contributed to a very satisfactory fulfilment of the quantitative objectives targeted by this strategy, thus in 2021, using electronic payments per capita 12.5 by 10 payments that is the target of this strategy, and expanding the percentage of the population that owns a bank account to about 69% from the target of 70% set in the strategy.



2.13. TRANSPARENCY AND PUBLIC COMMUNICATION

Public communication constitutes an important link in the Bank of Albania's activity, in fulfilling the obligation to provide maximum transparency of its decision-making and effectiveness, as well as to achieve the permanent objective of increasing the confidence in this central institution. In this framework, to the Bank of Albania the interacting communication with the public is a primary issue of strategic importance, to transmit its monetary policy directly and comprehensively to the public.

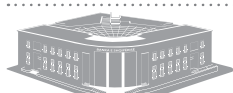
AN OPEN AND TRANSPARENT CENTRAL BANK

Beyond legal obligations, the Bank of Albania communicates a variety of information to the public regarding its role and activity, ranging from the decision-making of the Supervisory Council to its daily operational activity. This transparent communication helps increasing the effectiveness of policies pursued by the Bank of Albania, prompting the public to understand the decisions taken by it in time and clearly, and also to be able to fairly evaluate them.

In this context, Bank of Albania uses a variety of communication channels, in order to explain the role and its main objective more clearly, to maintain price stability as well the way of its realisation.

Year 2021 was a difficult and challenging year for the Albanian economy due to the situation created by the pandemic and communication with the public has responded to the challenges created by this situation. In this context, the communication with the public aimed to inform it with the immediate and continuous measures taken by the Bank of Albania to minimize the consequences of the pandemic on the Albanian economy and financial system in particular and to support citizens and businesses affected by the aggravated financial situation created by pandemic.

Monetary Policy strategy is based on a defined decision-making cycle in an annual calendar of 8 meetings of the Supervisory Council. Governor press conference is held after each meeting. Its aim is to explain the decision taken by the Supervisory Council and the analysis used to support this decision, to the public. Relevant press conferences were organized in response to this cycle, in 2021, during which the Governor has responded to the media interest on various issues related to the Bank of Albania. Press conferences were followed by the publication of the Governor speeches, and the related Q&A in Albanian and English.

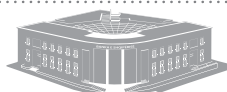


Also, during 2021, each meeting was followed by a publication of a brief summary of the main decisions taken by the Supervisory Council of the Bank of Albania. All public decisions of the Supervisory Council, as well as orders or acts of the administrators, applicable by entities licensed by the Bank of Albania, were published in full in the Official Bulletin of the Bank of Albania, in 12 issues of this publication.

Bank of Albania's communication is further complemented continuously and in real time with a number of periodic reports, observations, analyses, data, evaluations and opinions of the Bank of Albania on the macroeconomic situation of Albania and the role of the Bank in supporting its financial stability.

Communication with the public is directed toward the interest, academic level and professional training of targeted groups of the Bank of Albania, among which, media has an important role. In this framework, the media is continuously informed and sensitized on issues related to BoA and on economic and financial performance of Albania. During 2021 as well, communication with the media has continued through press conferences, speeches, presentations and press releases held in activities organized by the Bank of Albania or other domestic and foreign institutions. It has continued through interviews or participation in dedicated TV programmes, expression of views on specific issues of interest to the Bank of Albania or other public activities of the Governor and its other representatives. During 2021, the activity of the Bank of Albania is presented to the public primarily through 100 public announcements, press releases, speeches, interviews and participations in TV shows. Seven presentations of its periodic reports were held "off the records" for the media during this year. These meetings aim to direct the media toward a correct understanding of the decision-making of the Bank of Albania and are seen as effective means of communication with the public.

To promote interaction with the public, in 2021, we introduced the digital communication through the social networks Twitter (information), Facebook (financial education), YouTube (video and Flickr (photo) to present the general activities of the Bank of Albania to the public, in a timely and comprehensive manner.



ACTIVITIES WITHIN THE COUNTRY

- Today, on 18 January 2021, it was held virtually the closing ceremony of the Twinning Project "Enhancing Bank of Albania's alignment with EU Acquis" The project was implemented by the Bank of Albania, Banca d'Italia and Deutsche Bundesbank. Meanwhile, certain components were implemented by Banque de France and National Bank of Romania. Its primary goal was the improvement of work practices at the Bank of Albania and their alignment with the practices of the European System of Central Banks (ESCB). Thanks to the training provided to the Bank of Albania's experts, it brought the EU expertise and the experience of central banks of two EU founder countries to the benefit of the Albanian banking system, thus helping the economic integration of Albania with the EU.
- On 11 June 2021, the BoA held the presentation ceremony for two consecutive denominations of the new series of Albanian banknotes, 1000 Lekë and 10000 Lekë, respectively. The printing and putting into circulation for the first time of the new banknote with the largest value, 10000 lek, represents in itself, the adoption of the banknotes' structure to the evolution of the structure of prices and wages, the development of the electronic payments, and of the other indicators related to the management of currency.
- On 17 November 2021, the Bank of Albania launched the awareness campaign, in a ceremony organised for this occasion at its premises. This initiative of the Bank of Albania aims at making the public aware on the elimination of the outdated terms "new lek" -"old lek" in their financial interactions. The use of this terminology continues to originate confusion over times.
- On 6-7 December 2021, the Bank of Albania organizes the 15th SEE Economic Research Workshop. This workshop, organised for the 15th year in a row, aims at providing a discussion forum on the research work and projects carried out by the Bank throughout 2021, as well as on the research works by the colleagues and researched from other central banks and prestigious universities in Albania and abroad.
- On 16 December 2021, the BoA hosted the 7th Meeting of the National Payment System Committee, virtually. As a result of the work of this Committee, the following have been realized: drafting of the law "On payment services", approval of the regulatory framework for direct debit, drafting of the draft law "On the basic account", finalization of the project "On settlement of euro payments within the country" " In this meeting it was stressed the importance of financial education in order to materialize in the most effective way the measures taken so far and for achieving the following objectives.
- On 20 December 2021, Governor Sejko, held the ceremony for the "Governor's Award for the Best Diploma Thesis - 2021", virtually. This years the winners were: first prize award Ms Ervi Kosta, student of Master of Sciences at the Faculty of Economics and Agribusiness, Agriculture University of Tirana, elaborating on the topic of: "Diversification of income and its impact on the financial performance of commercial banks." The second prize was awarded to Ms Marina Poppa, student of Master's



Degree on Economy Development at City University, London, for the study on: "Assessing the role of the macroeconomic and institutional environment in the performance of micro-financial institutions in Albania." The third prize was awarded to Ms Kristjana Proko, student of Master of Sciences at the Faculty of Economy at the University of Tirana, for the study on: "Optimal taxation on wage revenues – the Albanian case."

A RESPONSIBLE AND ACCOUNTABLE CENTRAL BANK

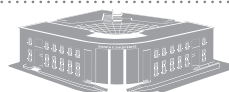
Bank of Albania aims to inform citizens, and in particular the Parliament, on all its activities. Institutional relations with the Assembly develop in several directions, where the most significant ones are the Governor's hearing sessions in the Parliamentary Commission of Economy and Finance (CEF) and plenary sessions of the Assembly. In April 2021, the Governor presented the Annual Report of the Bank of Albania to CEF and after August to the Assembly of Albania, responding to MP's interest in related matters. As every year, the Governor presented in November 2021, in a special hearing of the CEF, the opinion of the Bank of Albania regarding government' draft-budget for the upcoming year (2022).

More comprehensive and up-to-date information on the financial and economic situation as well as on main macroeconomic developments, the role and the contribution of the Bank of Albania in this regard, can be find on the official website www.bankofalbania.org. During 2021, the Bank of Albania continued its regular update of its website, which had around 1.5 million visitors, who visited our website around 4 million times and browsed in total around 6.7 million sections.

Our website is constantly enriched with a broad statistics system for many sector of the Albanian economy, such as: banking sector, fiscal sector, real sector and external sector, which are published according to a defined schedule that is updated semi-annually. Bank of Albania's statistics are also found in the monthly statistical reports and in quarterly monetary policy reports.

Bank of Albania publications provide detailed and updated information on Albanian and global economy developments in the banking and financial system, currency and financial stability, amendments and enrichment of the banking legislation and its regulatory framework, as well as other relevant issues. Bank of Albania publications are consolidated sources of accurate and reliable information for the public.

Periodic and non-periodic publications, in 2021, consisted of about 3400 pages of analyses, statistics and research in both Albanian and English. The set of periodic reports was the same as in the previous year: Annual Report, Quarterly Monetary Policy Report (quarterly), Financial Stability Report (semi-



annual) and Supervision Report (Annual). In addition to periodic reports, the following were published with the Official Bulletin (depending on the meeting of the Supervisory Council), , the semi-annual Economic Magazine of the Bank of Albania, the semi-annual magazine " Research newsletter", as well as various study and educational papers.

During 2021, the Bank of Albania continued to distribute free all its publications, taking into account the social responsibility regarding reducing paper publications.

In order to inform the public, the Bank of Albania informs its citizens in writing or in electronic form, depending on how they want to receive this information. During 2021, were answered 60 official request directed to the coordinator for the right of information, around 425 e-mails directed to the public e-mail address of the Bank of Albania and around 270 comments with request for information directed at our page on Facebook.



2.14. FINANCIAL LITERACY

Public financial literacy is a significant part of the activity of the Bank of Albania. It is realised through educational activities and programmes, visits at the Museum, exhibits, as well as periodic and non-period publications. Two are the main goals of the activities prepared by the Bank of Albania: presenting the central bank, its functions and role to the public; and cultivating and strengthening financial literacy in the Albanian society.

Educational publications

During 2021, the distribution of textbooks "Personal finances in your hands" for 3 high schools, which have chosen to develop the subject (a total of 255 textbooks) has continued as well as the distribution of brochures and educational materials prepared in previous years mainly for Museum visitors.

BoA Museum

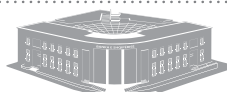
Since October 2015, the museum of the Bank of Albania has served as a promoter of the communication between the Bank and the public. Tour guides, exhibits, interactive games, as well as the information published at the Museum acquaint the visitor with the history of monetary circulation over the centuries, as well as with concepts of financial literacy. In this Museum, those who are passionate about the field of numismatics and financial and economic history also find themselves. During 2021, due to the COVID-19 pandemic, the Museum of the Bank of Albania was visited by a small number of around 610 visitors. However, all measures have been taken to keep the Museum open, implementing anti-COVID measures.

Promotion of the numismatic collection of the Bank of Albania:

At the Museum of the Bank of Albania, visitors and the general public can buy the numismatic collection of Albanian coins and banknotes. The number of people interested in purchasing this collection remained high even during 2021. The prices of the numismatic collection for sale are published on the official website of the Bank of Albania. To whom it may interest, the "Catalogue of Numismatic Collection" was published at the e BoA Museum online Store, which presents numismatic items for sale with pictures, information on emissions and related prices.

National Strategy for Financial Education

The year 2021 marked the beginning of the BoA's efforts in cooperation with decision-making authorities and other market actors to design and implement a national strategy for financial education, which will aim to improve the culture and financial inclusion of the general public. In close collaboration with academic and financial market actors, it will focus on developing and



coordinating research and analytical work on goal setting, designing education and financial inclusion programs, communication, creating implementation instruments, monitoring and evaluation of the progress of the strategy, communication, measuring the effectiveness of financial education programs at the national level and finally, it will focus on the adaptation and implementation of a “National Strategy for financial education”.

Awareness campaign “Neither old nor new, I am simply Lek!”

The monetary reform in 1965 replaced the earliest banknotes Lek with new ones, in ratio of 10 to 1, by changing at the same degree the expression of prices, wages and of any other financial operation. Since that time, most of citizens have not been adopted yet with this change and communicated with the notion “old lek”, driving to confusion in the communication of prices of goods and services and in the right reading of both economic and financial indicators.

For all these reasons, the Bank of Albania has undertaken this awareness campaign, which will extend in time and will aim at being a comprehensive one, affecting various groups of interest. However, the fact that this misuse of the words been used in everyday speech for over 55 years, proves that a joint and coordinated commitment is needed between the central institutions of the country, the media and other relevant actors to fix this phenomenon. Particularly, the role of media is important in this campaign, which through the transmission power to the public, has the skill to affect the mentality and communication pattern of the public. School, is an other crucial factor in establishment and cultivation of a new mentality. School may help in disruption of this 55-year chain and not transmitting it to the new generation.

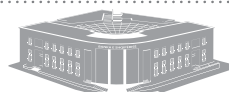
The campaign has just started. However, since its beginning, it has been supported by the entire banking industry, various companies and the public. The BoA has openly expressed its commitment to conduct educational and awareness-raising activities, which will invite the public to abandon once and for all the use of this wrong terminology in economic and financial relations, to finally turn it into something of the past.

Educational activities

On March 23, 2021, the opening ceremony of Global Money Week for 2021 (22-26 March 2021) was organized on-line, and its theme was “Take care of yourself, take care of your money!” The Bank of Albania participated for the seventh time in this celebration, where in cooperation with the Albanian Association of Banks, with the support of the Ministry of Education, Sport and Youth, and the Deposit Insurance Agency (ASD), held educational and awareness activities. The opening activity of Money Week 2021 was greeted by Governor Sejko, the Minister of Education, Sports and Youth, Ms Evis Kushi, and the Chairman of the Albanian Association of Banks, Mr Silvio Pedrazzi, who stressed the importance of financial literature and called for raising awareness of the younger generation to be financially responsible citizens in



the future. Despite difficulties as a result of complying with COVID-19 pandemic restraining measures, the organized activities directly involved around 4,500 pupils and students, and indirectly around 300,000 individuals.



3. HUMAN RESOURCES AND INFRASTRUCTURE CAPACITIES

The activities and policies of the Human Resources as well as technological developments in their service, aim to create a motivating working place, which helps the professional growth of employees, adoption of the best standards of central banks and the continuous improvement of administrative processes of the institution.

3.1. HUMAN RESOURCES

In accordance with the medium-term strategic objectives of the Bank, human resources management has aimed to continuously adopt and implement the best practices and examples in this field, which are applied in similar institutions in European Union countries, taking into account the new conditions and developments that arose as a result of the pandemic during the last year. Although the pandemic affected the personal and professional lives of the staff in various ways, the institution was constantly engaged to motivate the staff and to better manage the priorities created by the situation.

Proper human resources management requires adapting the institution's regulatory infrastructure to the best standards, by providing promotion opportunities for professional employees, aiming at increasing employee motivation and work effectiveness. Through policies for professional motivation, the goal is to retain the staff and to identify new talents, which are considered as one of the main challenges faced by central banks. The institution has done its best to continuously provide the staff with opportunities for them to reveal their full potential throughout the exercise of the duty.

The pursuit of consolidated policies on employment, management and career promotion of human capacities for a structured professional and flexible organization remains one of the main goals of the Bank. We also emphasise, that rationalising the organizational structure and improving the Bank's effectiveness, in line with its strategic objectives and the relevant regulatory framework, are a priority of these policies.

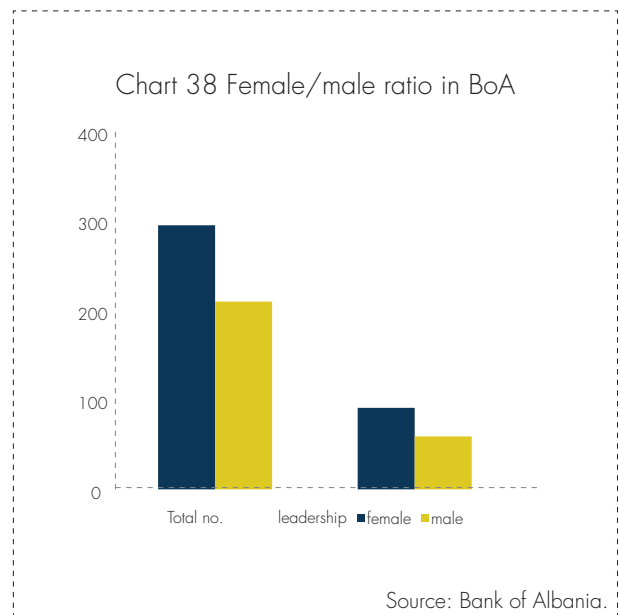
Gender representation at the level of specialists and managers is balanced. The ratio of women to men in total employees is 58% - 42%, while this ratio at the management level is 60% - 40%.



In 2021, in the framework of redesigning the role of some units of the Bank, some changes were made to the organizational structure of the Bank. These changes aimed to improve and strengthen some important processes, as well as better adaptation of the structures of some of the Bank's units with specific tasks stemming from the objectives and activity of the institution.

Special attention is given to the combination of the professional staff to the new one, currently the average age of the staff is 43 years old. Regarding vocational training, about 88% of the Bank's employees have an university degree and 58% of them have completed postgraduate studies at Master / PhD level and have obtained professional certificates recognized by international institutions.

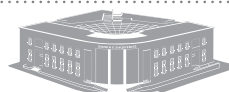
Around 38% have completed postgraduate studies in the country and 20% in prestigious universities abroad.



Another important element of human resources policy is the identification of interpersonal and professional skills and their usage to train and professional develop the employees. Bank of Albania staff has grown professionally because of the professional trainings they have attended in Albania and abroad. Participation in these specialized training, organized by central banks, international financial institutions (IFIs) or other institutions, besides increasing the professional knowledge, serves the staff of the Bank also to exchange professional and managerial experiences with representatives of these institutions.

The training activities were conducted with central banks in Europe, with international financial institutions (IMF, World Bank), as well as with other organizers such as: Centre of Excellence in Finance (CEF), EUROSTAT, Joint Vienna Institute (JVI) etc.

During 2021 as well, part of the activities were realized in the framework of the cooperation agreements of the Bank with homologue institutions such as: Bank of Kosovo, SECO (State Secretariat for Economic Affairs), European Commission, ECB and Bank of Germany, EBA (European Banking Authority), etc. 14 different activities with the participation of 57 employees are realised in the framework of these agreements, aiming at acquiring the targeted and specific information.



3.2. INFRASTRUCTURE IMPROVEMENTS

During 2021, the focus has been on several aspects of technological improvement in line with the Bank's strategic objectives.

In the field of information technology, work has been done in the direction of: information security, increase and improvement of electronic services that the BoA provides to third parties; further automation of internal processes and expansion and further improvement of infrastructure. Given the COVID-19 situation, communication at work was carried out on-line, thus guaranteeing the continuation of the Bank of Albania activities with no interruption.

In the field of information security in general and cyber security in particular, during the year work was done to further improve the regulatory and procedural basis in compliance with international standards and best practices, accompanied by an ongoing process of education and awareness regarding cyber threats. Special attention has been paid to the steps that the BoA has followed in the implementation of the project on a global scale CSP (Customer Security Program), undertaken by SWIFT for all financial institutions, to meet the highest security standards above all the infrastructure of this system.

In terms of **increasing and improving electronic services that the BoA offers to third parties**, we can single out the project for the implementation of the system of real-time gross settlement of euro transfers within the country and the further modernization of payment systems, reducing significantly the processing time and corresponding processing costs for payments. An important project, successfully finalized earlier this year, has been the improvement and updating of the Credit Registry, where in addition to improving technology and functionalities for reporters, it has provided borrowers the opportunity to access their data. In addition to the above, work has continued on further automation of the Bank's internal processes, responding to the needs of operational activities in order to increase efficiency and effectiveness; as well as for the expansion and improvement of network infrastructure, as an ongoing process aimed at optimizing and virtualizing central equipment for a better management of them, improved costs and services, as well as the adoption of new technologies for environmental protection and energy efficiency.



4. INTERNAL AUDIT

Internal audit at the Bank of Albania is carried out by the Control Department. The main objective of the Control Department is to ensure compliance with the laws and by-laws in the activity of the Bank of Albania. The internal audit function ensures periodically and independently to the Bank's Administrators and the Supervisory Council the verification and evaluation of internal audit systems by testing certain controls and procedures but not being their substitute.

4.1. IMPORTANT DEVELOPMENTS IN THE INTERNAL AUDIT ACTIVITY

A. *Implementation of the Internal Audit Policy*

The Annual Internal Audit Plan at the Bank of Albania was reviewed and approved in accordance with International Standards on Auditing. The annual plan for 2021 was drafted by the Department of Audit and the Inspector General and it was submitted for review by the Audit Committee. Further this plan was approved by the Supervisory Council with Decision No.2, dated 13.01.2021.

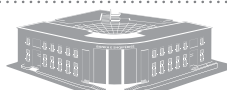
B. *Internal Audit Quality Assessment Programme*

Standards for the Professional Practice of Internal Auditing (Standards) require that an external quality assessment (EQA) of the internal audit activity to be performed at least once every five years by a qualified, independent appraiser or evaluation team from outside the institution.

The last assessment was conducted in 2020, by an independent team of the Audit Department of the Central Bank of the Republic of Turkey (CBRT). This is the second assessment conducted by external experts, after the one conducted by the Bank of the Netherlands in 2015.

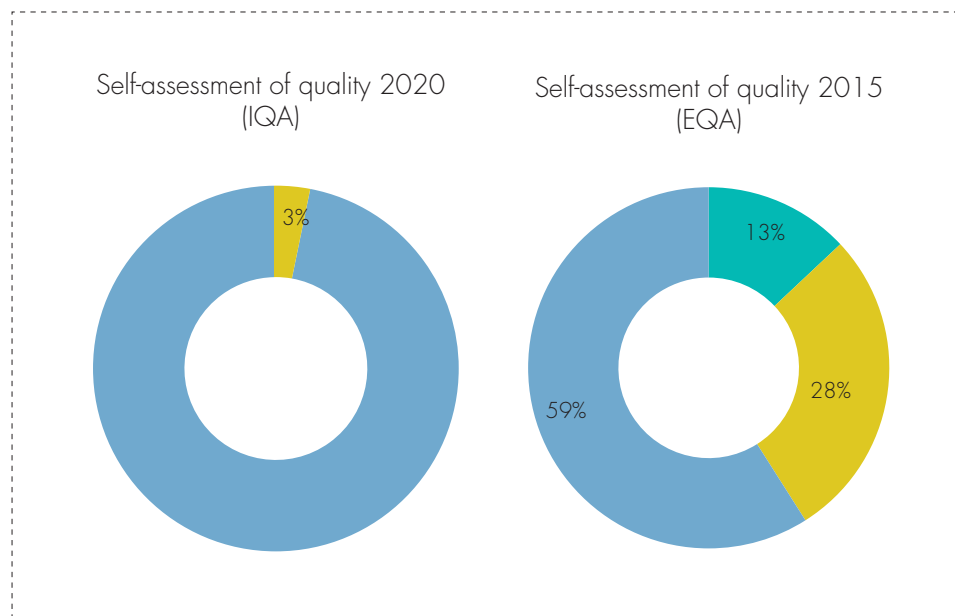
The general opinion is that the BoA's internal audit activity results in "**Overall Compliance**"⁴⁰. This is the highest rating according to the Standards of the Institute of Internal Auditors (IIA) and the Code of Ethics according to the IIA Quality Assessment Manual. This level of compliance demonstrates a clear goal and commitment to achieving the Essential Principles for the Professional Practice of Internal Audit and the Definition of Internal Audit.

⁴⁰ The IIA Quality Assessment Manual suggests a three-point scale, "Overall compliant", "Partially compliant" and "Non compliant".



The following are the improvements in the BoA’s Internal Audit practice according to EQA estimates, in 2020 and 2015, respectively:

Compliance levels according EQA	Standards assessed during EQA by level of compatibility 2020	Standards assessed during EQA by level of compatibility 2015
Non-compliant	0	14
Partially compliant	3	29
Overall compliant	101	61
Overall assessment	Overall compliant	Partially compliant
Total	104	104



During 2021, the Audit Department revised the Internal Audit Manual with the latest International Professional Practices Standards of Internal Auditing. The review of this Manual addresses the main part of the recommendations left in the final Internal Audit Quality Assessment (EQA).

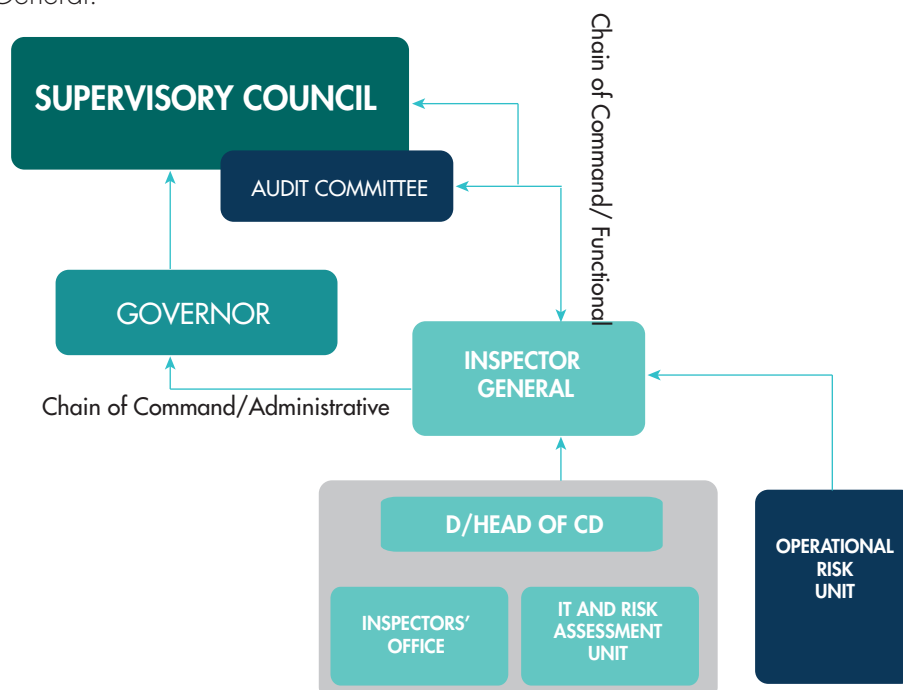
4.2. ABOUT THE CONTROL DEPARTMENT

In accordance with the Law “On the Bank of Albania”, the statute of the Bank of Albania, the policy and regulation of the Internal Audit and the regulation of the Audit Committee, the structure of the Control Department is presented in the following chart. Its purpose is to preserve the objectivity, independence, integrity of information, the efficient use of resources and the effectiveness of internal control systems at the Bank of Albania.



A. Organizational structure of Audit Department

Following is provided the organizational structure managed by the Inspector General:



B. Professional capacity building and continuous training

In order to meet the strategic objective regarding capacity building of internal audit staff members, the audit inspectors have participated in online training programmes for internal audit and risk management provided by central banks. At the same time they have attended individual programmes for their professional development; and have taken professional membership/certification exams from international institutions in the field of finance and audit. The audit inspectors continued attending the ACCA, CIA, CISA certification programmes and minimum mandatory classes for upholding CIDA, ACCA, CA titles.

4.3. ENGAGEMENTS AND MAIN FINDINGS IN 2020

Audit engagements in 2021 focused on: giving an opinion on the adequacy of the internal audits set by the Management for the audited functions/processes, including applications supporting activities.

In 2021, in total, 31 recommendations resulted from 11 audit engagements for security. The recommendations mainly addressed the need for reviewing the regulatory base (26%), improving the processes (48%) and implementation of the regulatory base (26%).



The findings and recommendations for each of the audits carried out during this period were first addressed to the heads of the units and then to the Bank of Albania's Administrators.

4.4. OPERATIONAL RISK MANAGEMENT

The main objective of Operational Risk Management is to: manage uncertainties and possible risk to the activity of the Bank; inform at any time the Administrators; assist the decision-making process on risks that may hinder the achievement of Bank of Albania's objectives or have adverse financial and/or reputational impacts.

A. Development on operational risk management in 2021

In 2021, the Operational Risk Management Unit continued to monitor and review identified risks within the Bank units, and compiled regular reports for the Administrators, the Audit Committee and the Supervisory Council, on the results and analyses of the Banks' exposure to operational risk.

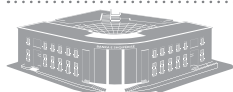
The main focus of ORM during this period has been carrying out the periodic process of reviewing and evaluating all processes carried out at the bank level, reassessing operational risks, monitoring and reviewing action plans and within the framework of Business continuity management (BCM), the reviewing of activity continuity plans with the latest updates.

B. Business continuity management (bcm) at the bank of albania

The BoA already has a full framework approved by the Supervisory Board regarding the business continuity management. The purpose of Business Continuity Management is that in case of operational interruptions during a Crisis/Emergency, to support the Bank in its efforts to improve response capacity, ensuring the continuation of critical processes and recovering the normal business of the Bank as fast as possible.

In the framework of improving the Bank's responsiveness, an integral part of this regulatory framework are the individual business continuity plans for each department, the strategies followed as well as the tasks and responsibilities for each participant. Based on the BCM Policy, the periodic review of its elements is carried out minimally every two years. For this reason, the process of reviewing operational risks included the review of business continuity management plans based on the lessons learned from the last two crises.

Crises expose the strengths and weaknesses of any organization's governance, as well as their ability and flexibility to manage through the crisis. The earthquake and the Covid-19 pandemic during 2020 were challenges, were overcome successfully and with lessons learned on risk and the business continuity



management at the Bank of Albania (BCM). Risk prevention, continuity planning and improvement in the management of major shocks are crucial to ensure the sustainability of the institution.

All the main activities of the Bank of Albania have continued to operate smoothly, without any interruption. Operational teams have fulfilled their duties and responsibilities in the face of the emergency created.

C. Whistleblowing function at the bank of albania

Consolidation of the whistleblowing function has helped the Operational Risk Management as well. In compliance with the Law No.60/2016 "On Signalling (Whistleblowing) and Protection of whistle-blowers", this unit aims to:

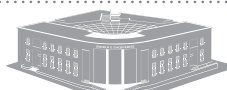
- a) prevent and suppress corruption at the Bank of Albania;
- b) promote alerts on suspected corruption acts or practices;
- c) protect whistle-blowers who signal suspected corruption acts or practices in their workplace.

With the approval of the regulation "On administrative investigation of signalling, protection of confidentiality and protection from revenge in the Bank of Albania", the Bank has operated with a full regulatory framework, with all the necessary guidelines and tools to enable employees to signal the suspicious cases.

Following the recommendation at the end of the control exercised by HIDAACI, the Signalling Unit drafted two separate guidelines in accordance with the law and the internal regulation of the BoA:

1. Instruction "On the administrative investigation of signalling and protection of confidentiality in the Bank of Albania";
2. Instruction "On the administrative investigation of the whistle-blower request for protection from revenge".

The above have been reported to HIDAACI according to legal requirements.



5. MEDIUM-TERM DEVELOPMENT STRATEGY OF THE BANK OF ALBANIA 2022–2024

The strategy sets out the main objectives of the BoA for 2022-2024, by planning the necessary activities to accomplish them.

The Strategy serves as a guiding framework for the budgeting process in the Bank of Albania. The process of forecasting expenditures and revenues is organized in order to fulfil the duties assigned by the organic law and strategic objectives.

The approval of the Strategy by the Supervisory Council is an important aspect of the role of the highest decision-making and supervisory body of the Bank of Albania. This is also an essential element of good governance of the institution, in terms of division of responsibilities, between governing bodies, to set priorities, determine the means for their fulfilment and monitor the performance achieved.

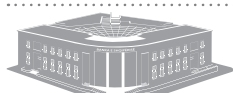
The strategy describes concisely, the primary commitments over the next three years, given the latest developments in the domestic and international economy, the need for economic recovery after the Covid-19 pandemic and the need for further modernization and refinement of technological services provided.

The mission, vision and core values of the Strategy are based on the priorities of the BoA's activity set out in the organic law. In line with this main objective, the Bank of Albania promotes and supports the: (i) foreign exchange system; (ii) internal financial market; (iii) payment systems; and (iv) helps of the improvement of monetary and lending conditions in support of the country's stability and economic developments.

Other objectives are conditioned by the primary objective of the Bank of Albania, promote maintaining the liquidity level and the smooth functioning of a banking system based on market principles.

The tasks addressed in the Resolute of the Parliament on the assessment of the Bank of Albania activity are automatically included in the strategic objectives, according to the respective fields.

The strategy is composed of three main parts addressing the implementation of the Mission, Vision and Values of the Bank of Albania. Each part is divided in chapter accordingly to the main fields the institution is responsible for. The objectives of the strategy aim to be: (i) clear and understandable; (ii) feasible considering the human and financial resources, staff experience and



qualification, and the external factors; and (iii) achievable within the medium-term period.

The main challenges to the Bank of Albania during the three-year period are:

a) *Maintaining monetary stability*

The main challenges to the Bank of Albania during the three-year period are: (i) further improve the monetary policy drafting and implementation framework with a view to effectiveness, efficiency and coherence in fulfilling its role; (ii) increase coordination with fiscal and macro-prudential policies; (iii) boost the development of domestic financial markets; (iv) further improve transparency and understanding to the public; and (v) strengthen dialogue and cooperation with national and international partners.

The monetary policy strategy will be guided by: (i) analysis and implementation of lessons learned from dealing with the Covid-19 pandemic; (ii) analysis of the implications of ongoing innovation in financial markets and products; (iii) monitoring of climate risks for the economic and financial environment; and (iv) best central banking practices.

b) *Promoting financial system stability*

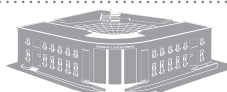
The BoA aims to strengthen its role within the macroprudential policy, by drafting the sub-legal framework for the instruments placed on the borrower and for the operationalization of the macroprudential capital increase for systemic risk. In line with global commitments to assess and monitor climate change, an assessment will be made of the impact of climate change risks on banking and financial activity, as well as possible instruments to address them.

Adoption of the international standards on capital and liquidity of Basel III and their implementing acts in the European Union (regulation and directive on capital requirements) aims at strengthening the banking sector's resilience, to be at a rather good position for absorbing shocks. It also aims at urging banks to continue to finance the economic activity and growth.

In its capacity as the Resolution Authority, the Bank of Albania will focus on continuously strengthening the banking sector's capacity to implement resolution, as well as regularly updating the methodology for defining the minimum requirement.

c) *Promoting the smooth operation of payment system*

In the field of payment systems, the implementation of regulatory and infrastructural innovations undertaken so far will continue, such as the: (i) operationalisation of Direct Debit scheme; (ii) expansion of participation in payment system with new actors in the market; and (iii) operationalisation of payment settlement in Euro within Albania; At the same time, work will continue to improve households' access to bank accounts.



d) *Improving currency quality*

BoA aims to maintain the quality of the banknotes in circulation, in order to increase the trust of the public in the currency. For this reason, the production of banknotes with improved design and their issuance during 2022 will be completed.

e) *Foreign reserve management*

The Bank of Albania adopts and implements the exchange rate policy and manages the foreign exchange reserve of the Republic of Albania, in accordance with the best international practices. In order to improve management, the BoA aims to diversify investment instruments.

f) *Drafting and distribution of statistics*

The key objectives in the field of preparation and distribution of statistics are: (I) development and implementation of international standards and requirements; (ii) improving the infrastructure in the collection, processing and distribution of statistical information; and (iii) the addition of new statistical indicators, in line with the obligations for the candidate countries in the European Union.

g) *Strengthening the good governance of the institution*

Strengthening the governance of the BoA aims, firstly to increase the independence of the institution, in accordance with the standards of the European System of Central Banks. Good governance also means accountability for the functions, physical, human and financial resources of the institution. This includes further harmonisation with the International Standards of Financial Reporting and the improvement of the interconnection of the processes of strategic planning and budgeting. In this context, the completion of the accounting manual in accordance with IFRS within the context of the BoA operations / transactions will continue.

Internal Audit serves as a trusted advisor to administrators and the Audit Committee. Its activity will focus on ensuring compliance with international standards of internal audit and increasing support for the Audit Committee.

The focus will also be on improving the operational risk management framework through the implementation of a program for maintaining, analysing and generating risk reports, as well as improving reporting on the effectiveness of action plans, in order to reduce operational risk.

Business continuity management framework will be updated, considering the issues as a result of the pandemic.

In the field of information technology, will be worked towards further modernization of the collection and processing of statistical data.

The BoA aims to increase transparency by expanding information and continuously improving communication channels with the public and various stakeholders, as well as improving education and financial inclusion.



**FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31
DECEMBER 2021**
(WITH INDEPENDENT AUDITORS' REPORT THEREON)





Building a better
working world

INDEPENDENT AUDITOR'S REPORT

To the Supervisory Council of Bank of Albania

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of the Bank of Albania (the "Bank"), which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2021 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

BASIS FOR OPINION

We conducted our audit in accordance with the International Standards on Auditing ("ISA"). 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 Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") and with the Institute of Authorized Chartered Auditors of Albania Code of Ethics ("IEKA Code"), together with the ethical requirements of the Law No. 10091, dated March 5, 2009 "On the statutory audit and the organization of the statutory auditors and chartered accountants professions", amended, 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 and the IESBA Code.

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



Other information included in the Bank of Albania 2021 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

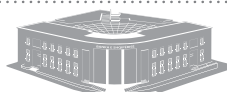
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Those charged with governance are responsible for overseeing the Bank'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 Bank'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 Bank of Albania'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.
- 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 true and fair presentation.

We communicate with those charged with governance of the Bank of Albania 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.

Ernst & Young Statutory Auditors,
Branch in Albania

Ernst & Young Certified Auditors

Mario Vangel
Statutory Auditor

March 23, 2022
Tirana, Albania



Nikolay Garnev
Partner, Audit
Ernst & Young Audit (OOD)

Nikolay Garnev



STATEMENT OF FINANCIAL POSITION

In ALL million	Note	31 December 2021	31 December 2020
ASSETS			
Cash and balances with banks	9	274,725	200,578
Trading assets	13	14,767	14,213
Monetary gold	10	17,101	16,817
Accounts with the International Monetary Fund	11	58,141	44,720
Loans to banks	12	41,583	32,671
Investment in debt securities	14	318,478	295,201
Property, equipment, right-of-use and intangible assets	15	21,031	20,364
Other assets	16	3,683	2,836
TOTAL ASSETS		749,509	627,401
LIABILITIES			
Currency in circulation	17	378,142	355,238
Due to banks	18	186,733	178,815
Deposits and borrowings from third parties	19	2,772	2,485
Due to Government and public institutions	20	106,510	34,431
Due to the International Monetary Fund	11	43,723	23,219
Other liabilities	21	1,333	995
TOTAL LIABILITIES		719,213	595,184
CAPITAL AND RESERVES			
Capital		2,500	2,500
Reserves	22	28,092	29,716
Retained earnings / (Accumulated losses)		(296)	-
TOTAL CAPITAL AND RESERVES		30,296	32,216
TOTAL LIABILITIES, CAPITAL AND RESERVES		749,509	627,401

The notes on pages 127 to 190 are an integral part of these financial statements.

The financial statements were authorized for issuance by the Supervisory Council of the Bank of Albania and signed on 23 March 2022 on its behalf by:



 Gent Sejko
 Governor



 Ledia Bregu
 Director, Payment Systems, Accounting and Finance Department

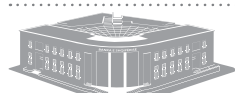




STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In ALL million	Note	2021	2020
Interest income calculated using the effective interest method	23	2,300	2,663
Interest expense	23	(1,125)	(960)
Net interest income		1,175	1,703
Fee and commission income		123	94
Fee and commission expense		(46)	(51)
Net income from fees and commissions		77	43
Net trading income	24	617	877
Net Income from sales of Financial assets at FVOCI	25	281	1,120
Net other income		47	44
Net gain from changes in the fair value of monetary gold	10	284	2,226
Net foreign exchange gains\losses	22	625	(2,911)
Total income from banking operations		3,106	3,101
Impairment losses on financial instruments, net	8(E)(vi)(b)	(1)	(10)
Employee benefit expenses	26	(1,517)	(1,420)
Depreciation and amortization	15	(380)	(370)
Other general and administrative expenses	27	(648)	(553)
Net profit for year		560	749
Other comprehensive income:			
<i>Items that cannot be reclassified to profit or loss at a future point in time</i>			-
<i>Items that can be reclassified to profit or loss at a future point in time</i>		(2,481)	1,243
Debt instruments at FVOCI – net change in fair value	22	(2,481)	1,243
Other comprehensive income, loss for the year		(2,481)	1,243
Total comprehensive (loss)\income for the year		(1,921)	1,991

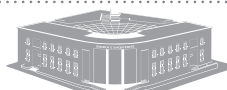
The notes on pages 127 to 190 are an integral part of these financial statements.



STATEMENT OF CHANGES IN EQUITY

In ALL million	Capital	Legal reserve	Revaluation reserve	Fair value reserve	Other reserves	Retained earnings / (Accumulated losses)	Total
As at 1 January 2020	2,500	12,500	(6,219)	865	22,065		31,712
Total comprehensive income							
Net profit of year	-	-	-	-	-	749	749
Other comprehensive income							
Fair value reserve (debt instruments FVOCI)	-	-	-	1,243	-	-	1,243
Other comprehensive income, net of tax	-	-	-	1,243	-	-	1,243
Total comprehensive income				1,243		749	1,991
Contributions and distributions							
Distribution to Government of Albania (Note 20)	-	-	-	-	(52)	(1,435)	(1,487)
Total contributions and distributions	-	-	-	-	(52)	(1,435)	(1,487)
Transfers to reserves (Note 22)			(686)	18	(18)	686	-
As at 31 December 2020	2,500	12,500	(6,904)	2,126	21,995	-	32,216
Total comprehensive income							
Net profit of year	-	-	-	-	-	560	560
Other comprehensive income							
Fair value reserve (debt instruments FVOCI)	-	-	-	(2,481)	-	-	(2,481)
Other comprehensive income, net of tax	-	-	-	(2,481)	-	560	(1,921)
Total comprehensive income				(2,481)		560	(1,921)
Contributions and distributions							
Distribution to Government of Albania (Note 20)	-	-	-	-	-	-	-
Total contributions and distributions	-	-	-	-	-	-	-
Transfers to reserves (Note 22)	-	-	909	-	(53)	(857)	-
As at 31 December 2021	2,500	12,500	(5,995)	(355)	21,942	(296)	30,296

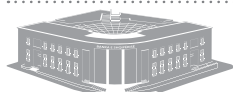
The notes on pages 127 to 190 are an integral part of these financial statements.



STATEMENT OF CASH FLOWS

In ALL million	Note	2021	2020
Cash flows from operating activities			
Net profit for year		560	749
Adjustments for:			
Depreciation and amortization	15	379	370
Net impairment loss on financials instruments	8(d)vi b)	1	10
Net interest income	23	(1,175)	(1,703)
Net trading income	24	(1,411)	217
Net Gain/(Loss) on sale of investments in debt securities	25	280	(1,120)
Net loss from changes in the fair value of monetary gold	10	(284)	(2,226)
Net realized gain from foreign exchange	22	169	1,817
		(1,481)	(1,887)
Changes in:			
Trading assets		834	193
Monetary Gold	10	-	-
Accounts with the International Monetary Fund	11	(12,931)	(15,880)
Loans to and deposits with banks	12	4,047	2,908
Other assets		(847)	124
Currency in circulation		22,904	52,389
Due to banks		9,116	47,791
Deposits and borrowings from third parties		293	(830)
Due to Government and state institutions		72,750	(10,020)
Due to the International Monetary Fund		20,505	(817)
Other liabilities		272	(462)
Reserve		(54)	(47)
Other		71	(51)
		115,479	73,411
Interest received		2,875	2,864
Interest paid		(1,165)	(966)
Net cash (used in)/generated from operating activities		117,189	75,310
Cash flows from investing activities			
Acquisition of investment securities		(248,558)	(221,874)
Proceeds from sold and matured investment securities		223,202	195,220
Acquisition of property, equipment and intangible assets		(1,046)	(463)
Net cash generated from investing activities		(26,402)	(27,117)
Cash flows from financing activities			
Distributions to Government	20	-	(1,398)
Net cash used in financing activities		-	(1,398)
Increase in cash and cash equivalents		90,787	46,794
Cash and cash equivalents at the beginning of the year		187,601	138,706
Effect of movements in exchange rates on cash held		(3,663)	2,101
Cash and cash equivalents at the end of the year	9	274,725	187,602

The notes on pages 127 to 190 are an integral part of these financial statements.



NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts in ALL million, unless otherwise stated)

1. GENERAL

The Bank of Albania (the 'Bank') is the central bank of the Republic of Albania established pursuant to the Law No. 8269, dated 23 December 1997 'On the Bank of Albania', as amended.

Pursuant to this Law, the Bank's main responsibilities include:

- formulating, adopting and executing the monetary policy of Albania, which shall be consistent with its primary objective;
- formulating, adopting and executing the foreign exchange arrangement and the exchange rate policy of Albania;
- issuing or revoking licenses and supervising banks that engage in the banking business in order to secure the stability of the banking system;
- holding and managing its official foreign reserves;
- acting as banker and adviser to, and as fiscal agent of, the Government of the Republic of Albania; and
- promoting an effective operation of payment systems.

Nowadays the whole world and Albania have been faced with the health crisis caused by Covid-19, which has obliged governments to undertake extreme measures and disrupt a range of activities in the public life. In this framework, the main public institutions in Albania have undertaken continuous coordinated measures, to highly coordinate the joint efforts against this extreme situation and the damages it is causing in our everyday life. In response to this situation, the Bank of Albania undertook immediate measures to support the Albanian economy which is hit by the coronavirus pandemic. The undertaken measures aim at mitigating the negative impacts on the welfare of enterprises and households, as well as establishing the premises for a very rapid recovery of economy in the following period.

Following such measures, the Albanian banking system's soundness remains valid and in more concrete terms:

- Albania enjoys a good economic and financial soundness;
 - The parameters of the economy and banking sector functioning are sound;
 - Liquidity and capital reserves of the Albanian banking sector are high.
- Refer to note 11, 12, 13, 14 and 17 for more detailed information.

The Bank is subject to the regulatory requirements of the Assembly of the Republic of Albania and the Law 'On the Bank of Albania'.



2. BASIS OF ACCOUNTING

These financial statements have been prepared in accordance with the International Financial Reporting Standards ('IFRS'), as issued by the International Accounting Standards Board (IASB).

3. FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Albanian Lek ('Lek'), which is the Bank's functional currency. All amounts have been rounded to the nearest million, except when otherwise indicated.

4. BASIS OF MEASUREMENT

These financial statements have been prepared on a historical cost basis, except for the following items:

Items	Basis of measurement
Monetary gold	Fair value
Financial instruments at FVTPL	Fair value
Financial assets at FVOCI	Fair value

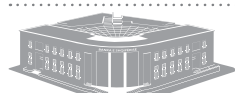
5. USE OF ESTIMATES AND JUDGMENTS

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

A. Judgments

Information about judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Applicable to 2021 and 2020:
 - Note 7(A)(ii) and Note 8(A)– classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding;
 - Note 8(E) (vi) (a): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and



- approval of models used to measure ECL.
- Note 7(B) – currency in circulation: classification of cash in circulation as a financial liability; and
- Note 7(G) – monetary gold: measurement of monetary gold at fair value with changes in fair value recognized in profit or loss.
- Note 7(V) - The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2021 is included in the following notes:

- Applicable to 2021 and 2020:
 - Note 8(E)(vi)(a) and Note 7(A)(vii) – impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information and key assumptions used in estimating recoverable cash flows;
 - Note 7(A)(vi) – determination of the fair value of financial instruments with significant unobservable inputs; and use of fair value models.
 - Note 7(V) - The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (“IBR”) to measure lease liabilities. The IBR is the rate of the interest that the Bank would have to pay to borrow over a similar term, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment, which requires estimation when no observable rate is available, or when they need to be adjusted to reflect the terms and condition of the lease (e.g. when leases are not in functional currency). The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain adjustments to reflect term and conditions of the lease.

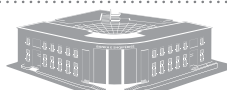
6. CHANGES IN ACCOUNTING POLICIES

The following standards were issued and effective for the annual period starting from 1 January 2021, but do not have an impact on the Bank’s financial statements. The Bank has consistently applied the accounting policies as set out in Note 7 to all periods presented in these financial statements.

Other standards and amendments

Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)

- Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7,



IFRS 4 and IFRS 16 (Amendments) - In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, Bank is not required to restate prior periods.

The Bank generally invests in instruments with applicable fixed rates and has limited financial assets and liabilities with interest rates based on Euribor and Libor benchmarks so the amendment has no significant impact on the Bank.

- Investments in securities are with fixed interest rates.
- Current accounts and deposits generally have fixed interest rates with no reference to EURIBOR and LIBOR
- Accounts with IMF are remunerated with interest rate that have no reference to EURIBOR and LIBOR

Covid-19 Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)

IASB amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. The Bank did not negotiate any Covid-19 related rent concessions with its lessors and has no impact from this amendment.

7. SIGNIFICANT ACCOUNTING POLICIES

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

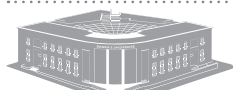
The Bank may recognise a financial asset or liability in its balance sheet if, and only if it becomes a party to the contractual terms of the financial instruments used. The Bank derecognises a financial asset from its balance sheet:

- when it loses control over the contractual rights that constitute the financial asset;
- when the obligation stated in the contract is extinguished, cancelled or expired.

A. Financial instruments

(i) Recognition and initial measurement

The Bank initially recognises loans and advances and deposits on the date on which they are originated. All other financial instruments (including regular-way



purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Financial assets and liabilities are recognised in off-balance-sheet accounts from the trade date to the date of their settlement and are recorded in the Bank of Albania's balance sheet at the settlement date (value date). The initial recognition is at acquisition cost, i.e. the fair price paid on acquisition. Transaction costs are included in the acquisition cost of all assets and liabilities, except for financial assets and financial liabilities recorded at FVPL where transaction costs are added to, or subtracted from, this amount. From that moment on, any changes in their fair value are recognised by the Bank as income or expense.

(ii) Classification

On initial recognition, a financial asset is classified as measured at either one of the following categories:

- amortised cost (AC),
- fair value through other comprehensive income (FVOCI), or
- fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

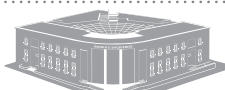
The business model of financial assets held to collect contractual cash flows includes all current accounts and deposits of the Bank with foreign correspondents, and the cash flows under the model used for these assets represent only principal and interest payments.

These financial assets are measured at amortised cost.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

Business model assessment

- the asset is held within a business model whose objective is achieved



- by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The business model of financial assets held to collect contractual cash flows and for sale includes: securities and investment. Assets in this group are measured, as follows:

- debt securities: at fair value in other comprehensive income.

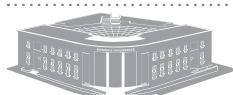
All other financial assets are classified as measured at FVTPL.

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how future cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL, because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest ("SPPI")



For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms; and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial liabilities

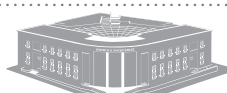
The Bank classifies its financial liabilities as measured at amortised cost. For details, refer to (B), (D) and (H).

(iii) Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of: (i) the consideration received (including any new asset obtained less any new liability assumed), and (ii) any cumulative gain or loss that had been recognised in other comprehensive income ('OCI'), is recognised in profit or loss.



Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them.

In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) Modifications of financial assets and financial liabilities

Financial assets

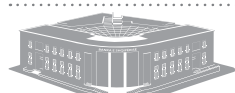
If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (refer to (vii)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as a separate line as a "modification profit or loss" (refer to Note 7(L)).

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new



financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss.

(v) *Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under the IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

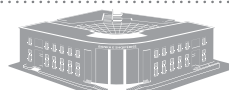
(vi) *Fair value measurement*

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as "active" if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is



wholly supported by observable market data or the transaction is closed out. If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period, during which the change has occurred.

(vii) Impairment

The Bank recognizes loss allowances for expected credit losses "ECL" for financial assets that are debt instruments and are not measured at FVTPL.

The Bank measures loss allowances at an amount equal to lifetime ECL except for the following for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments for which credit risk has not increased significantly since initial recognition.

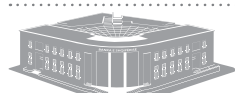
The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'. 12-month ECL are the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses and are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the



difference between the gross carrying amount and the present value of estimated future cash flows.

For more details, refer to Note 8(D)(vi)(b).

Credit impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; and
- the disappearance of an active market for a security because of financial difficulties.

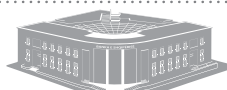
In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors:

- the market's assessment of creditworthiness as reflected in the bond yields;
- the rating agencies' assessments of creditworthiness;
- the country's ability to access the capital markets for new debt issuance;
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; and
- the international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of



these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

B. *Currency in circulation*

Currency in circulation includes banknotes and coins in circulation and is presented under liabilities as a net of nominal value of all the banknotes and coins issued and the nominal value of the banknotes and coins on hand as at the reporting date.

C. *Cash and cash equivalent*

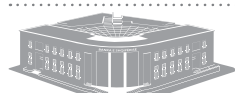
Cash and cash equivalents include banknotes and coins on hand in foreign currency and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

D. *Financial assets and liabilities at fair value through profit or loss (Trading assets and liabilities)*

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the statement of financial position, with transaction costs recognized in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.



E. Financial assets and liabilities at fair value through other comprehensive income

Financial assets and liabilities at fair value through other comprehensive income represent those for which the Bank expects to collect contractual cash flows by either holding or selling the instrument. Investment securities include debt securities measured at FVOCI; gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

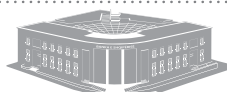
F. Loans and receivables

Loans and receivables include loans measured at amortised cost (refer to Note 7(A)(ii)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method. When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

G. Monetary Gold

The Bank of Albania as a central bank maintains particular volumes of gold as part of Albania's international reserves. In compliance with the requirements of the Law on the Bank of Albania, the Bank may take any necessary action in connection with the acquisition, possession and sale of gross international reserves, including monetary gold. Consequently, monetary gold as part of international reserves may be immediately used by the Bank without further constraints which determines it as a monetary asset. Pursuant to the requirements of the 'General Provisions for Defining the Valuation Basis in the Financial Statements' to the IFRS, the Bank defines the recognition and valuation of the monetary gold as an asset reported at fair value through profit or loss as the most reliable and appropriate base for a subsequent valuation of this monetary asset. Gold is measured at market value based on the London Bullion Market fixing in US dollar at the reporting date. Gold in standard form (monetary gold) is initially recognised at acquisition cost.

Monetary gold is valued at its fair value being the market value based on the official London Bullion Market price at the reporting date. Changes in the fair



value are recognized in profit or loss and accumulated in the "Revaluation Reserve" in Capital and Reserves in accordance with Article 64 (a) of the Law 'On the Bank of Albania'. Unrealised gains and losses on the revaluation of the monetary gold and other gold instruments of the Bank are recognised in the income statement.

H. Deposits and borrowings

Deposits and borrowings are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

I. Printing and minting costs

The costs of printing banknotes and minting coins, which have not yet been put into circulation, are initially recognized as assets at acquisition cost and subsequently amortized on a straight-line basis over 5 years and 10 years, respectively.

J. Intangible assets

Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Bank and the cost of the asset can be measured reliably. Intangible assets are comprised of computer software and licenses.

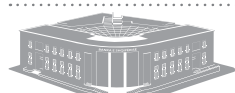
Intangible assets acquired by the Bank are stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use. Work in progress is not amortized.

The estimated useful lives are as follows:

- Software and licenses	4 years
- Other intangible asset	6.6 years



K. *Property and equipment*

(i) *Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

The cost of certain items of property and equipment was determined by reference to fair value at 31 December 2014, which the Bank elected to apply as deemed cost as part of the transition to IFRS. Adjustments to the accounting records, as well as the relevant recognition records in the revaluation reserve are reported in accordance with International Financial Reporting Standards.

(ii) *Subsequent costs*

The cost of replacing a part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised.

The costs of the maintenance of property and equipment are recognised in profit or loss as incurred.

(iii) *Depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land, work in progress, and numismatic coins and objects are not depreciated.

The estimated useful lives are as follows:

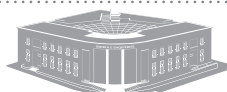
– Buildings	25 - 70 years
– Installations	4 – 20 years
– Vehicles	5 - 10 years
– Furniture and equipment	4 - 20 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

L. *Interest*

Effective interest rate

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument to:



- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount recognized and the maturity amount and for, financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

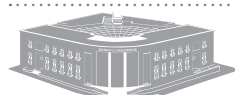
Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, refer to Note 7(A) (vii).



As at 31 December 2021 and 31 December 2020 there are no credit-impaired financial assets.

Presentation

Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and
- interest on debt instruments measured at FVOCI calculated on an effective interest basis.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income (refer to Note 7(O)). Profits and losses arising from changes in the fair value of financial instruments reported at fair value through profit or loss are recognised in the income statement.

Interest income and expense are recognised on an accrual basis in accordance with the Bank's interest rate policy and concluded agreements with international financial institutions and customers of the Bank. Interest income and expense are recognised in the income statement. Interest income and expense also include the amortisation of the discount and premium calculated on the basis of the effective interest rate.

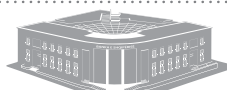
Interest income on foreign securities held in the Bank of Albania's portfolio includes interest rates on interest coupons of securities issued. Interest income on deposits includes interest income on deposits in foreign currency and in gold.

Other financial income/expenses include income and expenses from sales and changes in the fair value of financial assets and liabilities held for trading and assets available for sale.

Net gains/losses from financial assets and liabilities at fair value through profit or loss include net gains from operations in securities, net gains from operations in foreign currency, net revaluation gains on securities, net gains from gold revaluation, net gains from revaluation of futures, and net gains from revaluation of assets and liabilities denominated in foreign currency.

M. Fees and commissions

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.



Other fees and commission income, including account servicing fees, fund transfer fees, placement fees and credit registry fees are recognised at the moment the related services are performed.

In accordance with IFRS 15, revenue from contracts with customers is recognised when the Bank has fulfilled its performance obligations by transferring the promised services to the customer. Revenue is recognised at an amount reflecting the consideration expected to be received in return. No changes in the valuation and recognition of fees and commissions have occurred as a result of the entry into effect of IFRS 15. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

N. Transactions in foreign currency

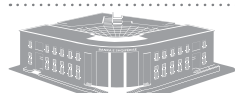
Transactions in foreign currencies are translated into the functional currency at the spot exchange rates at the date of the transactions. The exchange rates of the major foreign currencies as of 31 December 2021 and 31 December 2020 are disclosed in Note 8 F(ii).

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date when the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on translation and those arising from available-for-sale investments are recognised in profit or loss.

According to the Law No. 8269, dated 23 December 1997 'On the Bank of Albania' and the Decision No. 104 dated 27 December 2006 of the Supervisory Council, the net gains/(losses) from foreign exchange that are recognised in profit or loss in the period are accumulated to the 'Revaluation reserve' included in Capital and Reserves. According to Article 64 (b) in the above mentioned law, the Government of Albania issues debt securities at market interest rates to cover any negative balance of the revaluation reserve arising from the Bank's activity.



O. Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, and foreign exchange differences.

P. Taxation and profit distribution policy of the Bank

Based on the Law 'On the Bank of Albania', the Bank is not subject to income tax. The Bank's policy of distribution of profit from banking operations is defined in the Law 'On the Bank of Albania'. According to Article 10(2) of this Law, the Bank allocates all the realised profit to the State Budget after having fulfilled its requirement for the reserve fund pursuant to the Law and as determined by the Supervisory Council of the Bank.

According to Article 11 of the Law 'On the Bank of Albania', no transfer, redemption or payment under Articles 8, 9 or 10 of this Law shall be made if the assets of the Bank are less than the sum of its liabilities and paid-up capital. If such conditions arise, based on Article 7 of the Law 'On the Bank of Albania', the Ministry of Finance and Economy shall transfer interest bearing negotiable government securities to the Bank, in such amount as would be necessary to remedy the deficiency.

Q. Employee benefits*(i) Defined contribution plans*

Obligations for contributions to defined contribution plans are recognized in profit or loss as the related service is provided and included in personnel expenses.

(ii) Social and health contributions

The Bank makes compulsory social security and health contributions in a fund operated by the Albanian state that provide pension, health and other social benefits for employees. Obligations for such contributions are recognized in profit or loss when they are due and included in personnel expenses. The Albanian state provides the legally set minimum threshold for such contributions.

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognized for the amount expected to be paid under short-term cash bonus if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.



R. Leases

The Bank assesses at contract inception whether a contract is, or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank applies a single recognition and measurement approach for all leases, except for the short term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and Right-of-use assets representing the right to use the underlying assets.

Right-of-use asset

The Bank recognises right-of-use assets at the commencement date of the lease. Right-of use assets are measured of cost, less any depreciation or impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of the right-of-use assets include the amount of the lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated in a straight-line basis over the lease term.

The right-of-use assets are presented within Note 15 Property, equipment, right-of-use and intangible assets.

Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any incentive receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalty for terminating the lease, if the lease reflects exercising the option to terminate.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

S. Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.



The recoverable amount of an asset is the highest of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if a change has occurred in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

T. Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognised as a provision is measured as the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

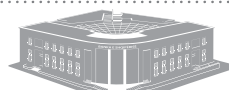
U. Grants

Grants are recognized initially as deferred income when there is reasonable assurance that they will be received and that the Bank will comply with the conditions associated with the grant. Grants that compensate the Bank for expenses incurred are recognized in profit or loss on a systematic basis over the period in which the related expenses are recognized. Grants that compensate the Bank for the cost of an asset are recognized in profit or loss on a systematic basis over the expected life of the asset.

V. Standards issued and not yet adopted

A number of new Standards and amendments to Standards are issued and become effective for annual periods beginning on or after 1 January 2022 and earlier application is permitted; however the Bank has not early adopted them in preparing these financial statements. The following amendments are not expected to have a significant impact on the Bank's financial statement:

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** – The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale

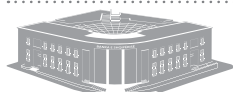


or contribution of assets between an investor and its associate or joint venture. The Bank is neither a parent nor it has any associates.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)** - The amendments are effective for annual reporting periods beginning on or after 1 January 2022 with earlier application permitted. However, in response to the Covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendment may impact the Bank only in terms of disclosures of maturities of liabilities, because it presents the financial statements in order of liquidity.
- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)** - The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:
 - **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
 - **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.
 - **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
 - **Annual Improvements 2018-2020** make minor amendments to IFRS 1. First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

Management has assessed that these standards will not have an impact to the financial statements.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)** - The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty.
- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities**



arising from a Single Transaction (Amendments) -The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations

- **IFRS 17 Insurance contracts**, effective on or after 1 January 2023 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied.
- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)** - The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted.

8. FINANCIAL INSTRUMENTS: CLASSIFICATION, RISK MANAGEMENT AND FAIR VALUES

A. *Classification of financial assets and financial liabilities*

The Bank's accounting policies on the classification of financial instruments under IFRS 9 are set out in note 7(A)(ii).

- On the adoption of IFRS 9, the Bank has classified the exposures with IMF as debt instruments measured at amortised cost, given the long-term strategic objective of the Bank to hold these instruments and their contractual cash flows meeting the SPPI criteria.
- Investment debt securities are held by the Bank in separate portfolios to meet everyday liquidity needs. The Bank seeks to minimise the costs of managing those liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Bank considers that under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. See accounting policies in Note 7(A)(ii).

The following table provides reconciliation between line items in the statement of financial position and categories of financial instruments.



31 December 2021	FVTPL	FVOCI – debt instru- ments	Amortised cost	Total car- rying Amount
ASSETS				
Cash and balances with banks	-	-	274,725	274,725
Trading assets	14,767	-	-	14,767
Accounts with the International Monetary Fund	-	-	58,141	58,141
Loans to banks	-	-	41,583	41,583
Investment securities FVOCI	-	318,478	-	318,478
Other assets	-	-	2,180	2,180
Total financial assets	14,767	318,478	376,629	709,874
LIABILITIES				
Currency in circulation	-	-	378,142	378,142
Due to banks	-	-	186,733	186,733
Deposits and borrowings from third parties	-	-	2,772	2,772
Due to Government and state institutions	-	-	106,510	106,510
Due to the International Monetary Fund	-	-	43,723	43,723
Other liabilities	-	-	1,207	1,207
Total financial liabilities	-	-	719,087	719,087

31 December 2020	FVTPL	FVOCI – debt instru- ments	Amortised cost	Total car- rying Amount
ASSETS				
Cash and balances with banks	-	-	200,578	200,578
Trading assets	14,213	-	-	14,213
Accounts with the International Monetary Fund	-	-	44,720	44,720
Loans to banks	-	-	32,671	32,671
Investment securities at FVOCI	-	295,201	-	295,201
Other assets	-	-	2,039	2,039
Total financial assets	14,213	295,201	280,008	589,422
LIABILITIES				
Currency in circulation	-	-	355,238	355,238
Due to banks	-	-	178,815	178,815
Deposits and borrowings from third parties	-	-	2,485	2,485
Due to Government and state institutions	-	-	34,431	34,431
Due to the International Monetary Fund	-	-	23,219	23,219
Other liabilities	-	-	864	864
Total financial liabilities	-	-	595,052	595,052

B. Risk management framework

The financial instruments of the Bank are mainly used for the purposes of the foreign reserve management and monetary policy implementation. The Bank has exposure to the liquidity risk, credit risk, market risk, legal risk and operational risk from investments in financial instruments.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk.

Pursuant to the legal requirements, the Bank holds and manages the foreign reserves of the Republic of Albania. The Supervisory Council has the overall



responsibility for the establishment of the risk management framework and reserve management policies.

The Supervisory Council has approved the regulation 'On the functions of the management structure in the decision-making process of the management of the reserves'. This regulation defines the responsibilities of : the management; the Supervisory Council; the Governor; the Investment Committee; and the Monetary Operations Department, in managing the foreign reserves.

The Supervisory Council is responsible for approving the regulation 'On the policy and management of the foreign reserve', the Investment Committee is responsible for approving the document 'Operational Guidelines for Investment', while the Governor approves other guidelines to ensure a more comprehensive regulation of the reserve management function.

The regulation 'On the policy and management of the foreign reserve' defines the objectives of the portfolio management ranked by priority, and the principles and qualitative criteria used as the basis of the risk management.

The Investment Committee approves the quantitative criteria based on the limits set forth by the Supervisory Council and monitors the compliance with the restrictions for permitted level of risk and foreign reserve investment portfolio performance.

In accordance with the decisions of the Supervisory Council on the eligible instruments, the reserve is invested in fixed or floating income securities, in deposits or certificates of deposit, and in derivative instruments related with these instruments.

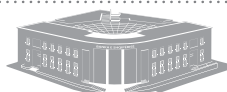
The remaining foreign reserves are held in Special Drawing Rights ("SDR") and in monetary gold. Monetary gold is managed in accordance with the regulation 'On the policy and the management of gold', approved by the Supervisory Council.

Following the review of the accounting policy for monetary gold (see Notes 5(A) and 7(G)) in 2016, the Bank concluded that monetary gold is not a financial instrument.

C. *Liquidity risk*

Liquidity risk is the risk that:

- a) the Bank will encounter difficulty in meeting obligations associated with its financial liabilities in due time; and
- b) the Bank will not be able to sell a financial instrument within a specific time frame without causing significant loss compared to the market value.



Liquidity is amongst the primary objectives of the foreign reserve management and is defined as the goal to insure the availability at all times of sufficient funds to meet the liquidity needs associated with:

- implementing the monetary policy and the exchange rate policy of the Bank; and
- maintaining financial stability and meeting the needs of the country in periods of crisis.

The implementation of these objectives is performed through the breakdown of the foreign reserve in certain tranches that, within the context of a prudent management of the liquidity risk, serve specific purposes and carry specific features.

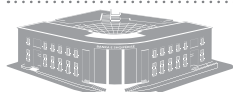
The foreign currency liability tranche represents investments in assets that are financed by the liabilities in foreign currency, which are mainly composed by the funds deposited by commercial banks as part of the reserve requirement and by the government.

The net reserve is composed of:

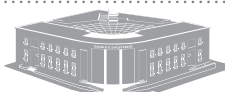
1. the working capital tranche: designed to meet the monthly liquidity needs arising within one month;
2. the liquidity tranche: designed to meet the liquidity needs arising within one year;
3. the investment tranche: it represents the remaining balance as surplus and is designed to meet the liquidity needs arising beyond the timeframes described in the first two tranches.

The selection of the financial instruments in which the majority of each tranche is invested, (the 'benchmark portfolios') and the duration of each benchmark portfolio are determined in line with the use of each tranche to meet the liquidity needs of the Bank and with the objectives determined by the Supervisory Council.

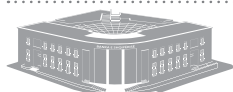
The tables below set out the remaining contractual maturities of the Bank's financial liabilities and financial assets. The Bank's expected cash flows on these instruments may vary from the contractual cash flows.



31 December 2021	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity	Total
Financial assets								
Non-derivative assets								
Cash and balances with banks	264,463	10,262	-	-	-	-	-	274,725
Trading assets	37,378	371	54	797	13,521	-	-	14,743
Account with the IMF	33,816	-	-	-	-	-	20,763	58,141
Loans to banks	5,495	7,767	-	-	-	-	-	41,583
Investment securities	2	17,807	8,378	33,588	216,200	37,010	-	318,478
Other assets (note 1c)	341,155	36,207	8,432	34,385	229,739	39,170	20,763	709,851
Derivative assets								
Exchange rate future contracts	-	18	2	2	-	-	-	22
Interest rate future contracts	-	1	-	-	-	-	-	1
Total financial assets	341,155	36,226	8,434	34,387	229,739	39,170	20,763	709,874
Financial liabilities								
Non-derivative liabilities								
Currency in circulation	-	-	-	-	-	-	378,142	378,142
Due to banks	186,733	-	-	-	-	-	-	186,733
Deposits and borrowings from third parties	2,772	-	-	-	-	-	-	2,772
Due to Government and state institutions	106,010	-	-	-	-	-	500	106,510
Due to the IMF	16,887	-	-	-	-	-	26,836	43,723
Other liabilities	1,207	-	-	-	-	-	-	1,207
Total financial liabilities	313,609	-	-	-	-	-	405,478	719,087
Asset-liability maturity mismatch as at 31 December 2021	27,546	36,226	8,434	34,387	229,739	39,170	(384,715)	(9,213)



31 December 2020	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity	Total
Financial assets								
Non-derivative assets								
Cash and balances with banks	182,190	5,413	12,975	-	-	-	-	200,578
Trading assets	743	348	387	961	11,592	-	-	14,031
Account with the IMF	24,473	-	-	-	-	-	20,248	44,720
Loans to banks	22,610	10,061	-	-	-	-	-	32,671
Investment securities	2,539	17,999	23,675	22,992	198,105	29,891	-	295,201
Other assets (note 16)	2	-	-	1	3	2,033	-	2,039
Derivative assets	232,557	33,820	37,037	23,953	209,700	31,924	20,248	589,240
Exchange rate future contracts	-	133	48	2	-	-	-	183
Total financial assets	232,557	33,954	37,085	23,955	209,700	31,924	20,248	589,422
Financial liabilities								
Non-derivative liabilities								
Currency in circulation	-	-	-	-	-	-	355,238	355,238
Due to banks	178,815	-	-	-	-	-	-	178,815
Deposits and borrowings from third parties	2,485	-	-	-	-	-	-	2,485
Due to Government and state institutions	32,445	-	1,486	-	-	-	500	34,431
Due to the IMF	16,473	-	-	-	-	-	6,746	23,219
Other liabilities	829	-	-	35	-	-	-	864
Total financial liabilities	231,047	-	1,486	35	-	-	362,484	595,052
Asset-liability maturity mismatch as at 31 December 2020	1,510	33,954	35,598	23,920	209,700	31,924	(342,236)	(5,630)



D. Credit risk

Credit risk is the risk of financial loss to the Bank, if counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector's risks).

The risk in respect of changes in value in trading assets arising from changes in market spreads applied to debt securities and derivatives is managed as a component of market risk (see (D) below).

(i) Settlement risk

Foreign reserve management activity may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed. The Bank minimizes settlement risk through implementation of best practices for the recognition and ongoing monitoring of settlement procedures and conditions.

(ii) Custody risk

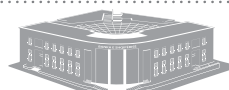
Custody risk is the risk of a loss of assets placed in custody in the case of insolvency, negligence, fraud, mismanagement or inadequate portfolio maintenance practices by the custodian. The Bank minimizes this risk by selecting for securities' custody services reputable international financial institutions with a minimum of USD 1,000 billion in assets under custody.

(iii) Management of credit risk

The following table sets out the carrying amounts of the financial assets that are exposed to credit risk as at 31 December 2021 and 31 December 2020:

	31 December 2021	31 December 2020
Assets		
Cash and balances with banks (excluding cash on hand - Note 9)	274,698	200,549
Accounts with the IMF (Note 11)	58,141	44,720
Loans to banks (Note 12)	41,583	32,671
Trading assets (Note 13)	14,767	14,213
Investment securities (Note 14)	318,478	295,201
Other financial assets (loans to employees) (Note 16)	2,180	2,039
Total	709,847	589,393

Assets denominated in foreign currencies - For the management of credit risk related to foreign exchange reserve exposures the Supervisory Council has established base criteria of exposure to counterparties, and by type of



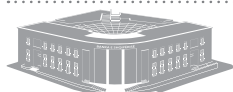
investment, issuer, credit rating band, market liquidity, with the governments and central banks issues prioritized. The evaluation and monitoring process of the credit rating of the eligible issuers is based on the analysis and the rating determined by the principal rating agencies, including Standard & Poor's, Moody's and Fitch, as well as in the reviewing processes, on a daily basis, of the performance of several market indicators of the quality of the credit rating of the issuer. In accordance with the limits imposed by the Supervisory Council, the Investment Committee and then the Director of the Monetary Operations Department are authorized to establish other qualitative and/or quantitative limits on the exposure level for the issuer/financial institution on an individual basis, category, or combined category and instrument basis. Depending on the market environment and conditions, the Bank may decide to adapt even more conservative limits for an issuer/financial institution.

Assets denominated in foreign currency that are part of the foreign exchange reserve, include cash and balances with banks (excluding cash on hand), trading assets, account with the IMF and investment securities denominated in foreign currency. The investment of the foreign exchange reserve is limited to: government/central bank issues with minimum credit ratings of A- (BBB- for governments of the euro area); sovereign agencies, multilateral institutions and public entities with a minimum credit rating of AA-; and banks and other financial institutions with a minimum credit rating of A-.

The credit rating refers to the credit rating of an issuer/financial institution, and if such rating is not provided, the credit rating of the long-term debt of the financial institution is used. For the purpose of the reserve management implementation operations and for payments, the Bank may operate through current accounts opened with banks with a minimum credit rating of BBB.

For the purpose of the management of foreign reserves portfolio, as a first step the Bank monitors economic developments in the economies in which Bank is exposed through investments in securities. The extent of monitoring and the level of management input vary. For the major currencies, the Bank considers that the rating agencies' credit ratings and other public information are reflected in the prices and data for Expected Credit Loss (ECL). In addition, the portfolio manager and the risk unit monitor the creditworthiness of each borrower using market research and other sources such as public financial statements. The PDs associated with each grade are determined based on long time historical realized default rates updated on an annual basis, as published by the rating agency.

Due to the prompt fiscal and monetary intervention from major governments and central banks, the economies of most advanced countries are showing signs of recovery from the recession as a result of Covid-19 pandemic. The vaccination process has continued on a strong pace in most developed countries. As a result of a stronger than expected growth in GDP and inflation many central banks have started to gradually reduce monetary support. This has resulted in higher interest rates and financial conditions becoming tighter in developed economies.



By end of 2021 the overall effect of the pandemic on Bank of Albania's well diversified and high quality portfolio has been neutral in terms of potential losses from credit risk. Risk management processes and the tools and methodologies applied for this purpose, especially as related to the portfolio of forex reserves, have proved well suited to ensure compliance with the risk budget approved by the Supervisory Council of the Bank of Albania, even during events characterized by a significant degree of volatility in the financial markets.

Assets denominated in domestic currency

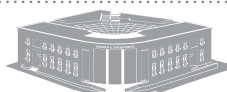
Assets denominated in domestic currency include loans to banks, investment debt securities issued by the Albanian Government and loans to employees included in other financial assets.

The Bank does not actively manage the credit risk for assets denominated in domestic currency, as they are largely originated for the purposes of the monetary policy implementation operations. For the monitoring of credit risk for these assets the Bank uses both external and internally developed analysis and information, which includes also information available to the Bank due to its role as regulator and Central Bank.

For loans to domestic commercial banks (overnight loans and reverse repo transactions), the Bank mitigates the credit risk through the collateral, which consists of debt securities issued by the Albanian Government. The collateral value for each transaction is not lower than the value of the granted loan plus a certain margin. If the value of the security placed as collateral drops under a defined level, Bank of Albania asks commercial banks to place additional collateral, based on the revaluation of the securities.

The risk grading model used by the Bank for the assessment of ECLs for loans to domestic commercial banks is based on criteria that are similar to those used for supervisory purposes, such as the capital adequacy, credit growth, liquidity and profitability of the counterparties. The risk grades and the methodology are subject to regular reviews by the Bank. Investment securities denominated in domestic currency consist of Treasury Bills issued by the Albanian Government, with maturity of up to one year. This portfolio is originated as the Bank of Albania intervenes in the money market through outright transactions, intended to manage the liquidity structure of the banking system with potential impact in the short-term interest rates in this market.

The credit risk of the portfolio of investment securities denominated in domestic currency is assessed based on historical data and assessment of the ability of the Albanian Government to meet its contractual cash flows obligations in domestic currency in the near term. For loans to employees the Bank assesses ECLs based on historic loss ratios, adjusted for forward-looking macroeconomic information.



(iv) Credit quality analysis

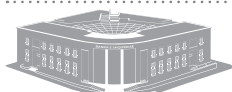
The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms: 'Stage 1', 'Stage 2' and 'Stage 3' are included in Note 7(A)(vii). The credit ratings show the second best rating amongst Standard & Poor's, Moody's and Fitch.

	2021				2020
	Stage 1	Stage 2	Stage 3	Total	Total
Cash and balances with banks at amortised cost					
Rated AAA	82,789	-	-	82,789	31,483
Rated AA- to AA+	145,402	-	-	145,402	140,512
Rated A- to A+	42,031	-	-	42,031	23,739
Rated BBB+ and below	-	-	-	-	662
Albanian Government B+*	9	-	-	9	8
BIS Basel	4,482	-	-	4,482	4,158
	274,713			274,713	200,561
Loss allowance	(15)	-	-	(15)	(12)
Carrying amount	274,698	-	-	274,698	200,549
Accounts with IMF**					
Unrated	58,141	-	-	58,141	44,720
	58,141	-	-	58,141	44,720
Loss allowance	-	-	-	-	-
Carrying amount	58,141	-	-	58,141	44,720
Loans to banks at amortised cost					
Grade: Low-fair risk	-	-	-	-	-
Grade: Low risk	41,583	-	-	41,583	32,671
Grade: Average risk	-	-	-	-	-
Grade: Moderately high risk	-	-	-	-	-
Grade: High risk	-	-	-	-	-
	41,583	-	-	41,583	32,671
Loss allowance	-	-	-	-	-
Carrying amount	41,583	-	-	41,583	32,671
Debt investment securities at FVOCI					
Rated AAA	106,666	-	-	106,666	93,732
Rated AA- to AA+	89,841	-	-	89,841	89,480
Rated A- to A+	24,088	-	-	24,088	29,320
Rated BBB+ and below	17,452	-	-	17,452	8,842
Albanian Government (B+)*	65,268	-	-	65,268	67,205
BIS Basel	15,163	-	-	15,163	6,622
Carrying amount – fair value	318,478	-	-	318,478	295,201
Loss allowance	(22)	-	-	(22)	(24)
Carrying amount – fair value	318,478	-	-	318,478	295,201
Other financial assets at amortised cost					
Unrated	2,185	-	-	2,185	2,044
	2,185	-	-	2,185	2,044
Loss allowance	(6)	-	-	(6)	(6)
Carrying amount	2,180	-	-	2,180	2,039

* The Albanian Government is rated as B+, stable, based on the credit rating of Standard & Poor's and B1, stable, based on the credit rating of Moody's.

** The currency value of the SDR is determined by summing the values in the US dollar, based on market exchange rates, of a basket of major currencies (US dollar, Euro, Pound sterling, Chinese yuan and Japanese yen). The SDR currency value is calculated daily and the valuation basket is reviewed and adjusted every five years.



The following table sets out the credit quality of trading debt securities. The analysis has been based on the second best rating amongst Standard & Poor's, Moody's and Fitch ratings.

	2021	2020
Bonds of foreign agencies		
Rated AAA	828	1,925
Rated AA- to AA+	2,821	1,711
	3,649	3,636
Bonds of foreign governments and multilateral institutions		
Rated AAA	9,548	9,579
Rated AA- to AA+	1,546	816
	11,094	10,395
Total trading debt securities	14,743	14,031

(v) *Collateral held and other credit enhancements*

The Bank holds collateral and other credit enhancements against certain credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

	Note	Percentage of exposure that is subject to collateral requirements		Principal type of collateral held
		31 December 2021	31 December 2020	
Loans to banks Reverse repurchase agreements and overnight loans	12	100	100	Albanian Government debt securities
Other financial assets Loans to employees	16	100	100	Mortgage or contract guarantees

At 31 December 2021, the Bank held loans to banks of ALL 41,583 million (31 December 2020: ALL 32,671 million), for which no loss allowance is recognised because of full collateral coverage.

(vi) *Amounts arising from ECL*

(a) *Inputs, assumptions and techniques used for estimating impairment*

For more details refer to accounting policy in Note 7(A)(vii).

Significant increase in credit risk

When determining whether the risk of default of the invested amount on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and credit risk specialists assessment and including forward-looking information.



The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk grades/ratings

For assessing the risk of default, at initial recognition, the Bank assigns to each exposure in foreign currency the second best rating amongst Standard & Poor’s, Moody’s and Fitch for that particular counterparty.

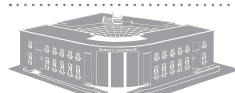
The Bank, at initial recognition, allocates each exposure to banks to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade/rating. The monitoring typically involves use of the following data.

Foreign currency exposures	Domestic currency exposures	Other assets
– Data from credit rating agencies, press articles, changes in external credit ratings	– Internally collected data on banks and supervisory indicators	– Repayment history – this includes overdue status and financial situation of the borrower.
– Quoted bond prices for the counterparty, where available	– Existing and forecast changes in business, financial and economic conditions	– Existing and forecast changes in financial and economic conditions
– Actual and expected significant changes in the political, regulatory and technological environment of the counterparty or in its business activities	– Affordability metrics	

Generating the term structure of probability of default “PD”

Credit risk grades/ratings are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by counterparty as well as by credit risk grading/ratings.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected



to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors. Key macro-economic indicators include: GDP growth, exchange rates, benchmark interest rates and credit growth. The methodology for determining PDs for domestic commercial banks is based on the Risk Assessment System (RAS) used for supervisory purposes. Factors considered by this system include the capital adequacy, credit risk, liquidity and profitability of the counterparty. The PDs are calculated as the average weighted PDs for each factor, where the weights are determined based on the importance of the factor. For the assets denominated in foreign currency, Bank uses 12-month PDs for sovereign and non-sovereign issuances, estimated based on transition matrices published by S&P which indicate a possibility of bankruptcy over 12 months for issuers per each respective rating category. For the sovereign issuance, a long-term transition matrix is used.

For non-sovereign issuance, two matrices are used, a long-term transition matrix of financial institutions (base scenario) and the transition matrix of a financial crisis year (alternative recession scenario), weighted against respective probabilities of the different scenarios happening in the future.

For exposures to the Albanian Government in domestic currency, the estimated PD considers the short-term maturity of such exposures, the absence of historical defaults and detailed assessments of the ability of the Albanian Government to fulfil its contractual cash flow obligations in the short-term which consider also the macroeconomic indicators over the assessment period.

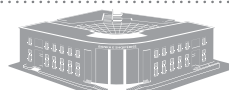
Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure in foreign currency is deemed to have increased significantly since initial recognition if:

- the credit rating from all the three rating agencies (Standard & Poor's, Moody's and Fitch) falls below BBB- (or its' equivalent); or
- the credit rating from one of the above agencies is downgraded to BB-; or
- there is a delay in the repayment of an obligation to the Bank by more than or equal to 30 days. In this case the credit risk will be deemed to have significantly increased for all exposures to that issuer.

The credit risk of a particular exposure in domestic currency for commercial banks is deemed to have increased significantly since initial recognition if one of the following criteria is met:



- a commercial bank receives Emergency Liquidity Assistance (ELA) loan and the PD is over 30%;
- the PD is higher than 40% in the reporting period;
- the PD is higher than 25%, and it has increased by more than 5 percentage points in the reporting period compared to the initial recognition period; or
- there is a delay in the repayment of an obligation (excluding ELA) to the Bank by more than or equal to 30 days. In this case the credit risk will be deemed to have significantly increased for all exposures to that counterparty.

Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which due instalment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

For exposures toward Albanian government the credit risk is considered to be increased significantly since initial recognition if there is delay of 30 days or more in the repayment of an obligation to the Bank.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that the criteria are capable of identifying significant increases in credit risk before an exposure is in default.

Definition of default

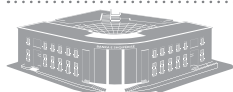
The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative – e.g. breaches of covenants;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.



Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

For exposures in domestic currency, the Bank formulates a 'baseline scenario' view of the future direction of relevant economic variables (GDP growth, exchange rates, benchmark interest rates and credit growth) as well as a representative range of other possible forecast scenarios "moderate scenario", considering the relative probabilities of each outcome by comparing the results of previous stress tests with financial agents' economic indicators during the reference period. The base scenario represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and forecasting. The other scenarios "moderate scenario" represents more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

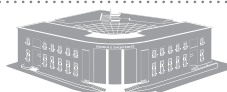
For non-sovereign issuances in foreign currency, forward-looking information is incorporated in the assessment of the probability of defaults, as the probability of the normal scenario and alternative scenario is calculated based on the probability of recession of major economies (as one of the main indicators of increased probability of default for non-sovereign issuers), to which additional quality factors may be applied. For sovereign issuances in foreign currency forward-looking economic variable are incorporated in the determination of the PD through respective rating in transition matrices published by external rating agencies. These variables are reviewed periodically and in case of significant market changes by the credit rating agencies.

Modified financial assets

The contractual terms of a financial asset may be modified for a number of reasons, including changing market conditions and other factors not related to a current or potential credit deterioration of the counterparty. An existing asset whose terms have been modified may be derecognised and the renegotiated asset recognised as a new one at fair value in accordance with the accounting policy set out in Note 7(A)(iv).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.



The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

Measurement of ECL

These parameters are derived from internally developed statistical models, globally recognized external developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Transition matrixes data are used to derive the PD for foreign counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates, or parameters calculated by rating agencies and regulatory institutions such as BIS Basel, of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. EAD estimates are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance. Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:



- instrument type;
- credit risk grading;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

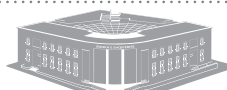
For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL comprise financial assets in foreign currency as follows:

In ALL Million	Exposure	External benchmarks used	
		PD	LGD
Cash and balances with banks (current accounts and deposits)	274,027	2nd Best Rating (from: S&P, Moody's and Fitch)	Moody's recovery studies
Investment securities in foreign currency	253,210	2nd Best Rating (from: S&P, Moody's and Fitch)	Moody's recovery studies

(b) Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Explanation of the terms: 'Stage 1', 'Stage 2' and 'Stage 3' and credit-impaired assets are included in Note 7(A)(vii).

	2021				2020
	Stage 1	Stage 2	Stage 3	Total	Total
Cash and balances with banks					
Balance at 1 January	12	-	-	12	8
Net remeasurement of loss allowance	3	-	-	3	4
Balance at end of the period	15	-	-	15	12
Other assets at amortised cost					
Balance at 1 January	6	-	-	6	6
Net remeasurement of loss allowance	-	-	-	-	-
Balance at end of the period	6	-	-	6	6
Investment debt securities at FVOCI					
Balance at the beginning of the period	24	-	-	24	18
Net remeasurement of loss allowance	(2)	-	-	(2)	6
Balance at end of the period	22	-	-	22	24
Total					
Balance at the beginning of the period	43	-	-	43	33
Net remeasurement of loss allowance	1	-	-	1	10
Balance at end of the period	44	-	-	44	43



The above loss allowance for debt investment securities at FVOCI is not recognized in the statement of financial position because the carrying amount of these assets is their fair value.

(c) Credit-impaired financial assets

For more details refer to accounting policy in Note 7(A)(vii).

As at 31 December 2021 and 31 December 2020, the Bank had no credit-impaired financial assets.

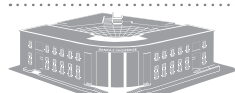
(vii) Concentrations of credit risk

The Bank monitors concentrations of credit risk by geographic location and by counterparty type. An analysis of concentrations of credit risk is shown below. Concentration by location for investment securities is based on the country of domicile of the issuer of the security. Concentration by counterparty type is based on the customer's country of domicile

A segregation of the financial assets by geography is set out below:

31 December 2021	Germany	France	Other EU countries	Switzerland	United States of America	Republic of Albania	Other	Total
Accounts and deposits with financial institutions (Note 9)	68,998	130,612	29,899	4,481	15,173	9	25,526	274,698
Trading assets	1,308	1,307	1,854	-	8,413	22	1,863	14,767
Accounts with the IMF	-	-	-	-	-	-	58,141	58,141
Loans to banks	-	-	-	-	-	41,583	-	41,583
Investment securities	23,648	17,776	104,977	27,309	51,080	65,268	28,420	318,478
Other assets (Note 16)	-	-	-	-	-	2,180	-	2,180
Total	93,954	149,695	136,730	31,790	74,666	109,062	113,950	709,847

31 December 2020	Germany	France	Other EU countries	Switzerland	United States of America	Republic of Albania	Other	Total
Accounts and deposits with financial institutions (Note 9)	12,670	130,090	14,211	7,864	15,765	8	19,941	200,549
Trading assets	1,343	1,577	2,220	51	7,483	183	1,357	14,213
Accounts with the IMF	-	-	-	-	-	-	44,720	44,720
Loans to banks	-	-	-	-	-	32,671	-	32,671
Investment securities	24,248	15,534	102,821	12,829	42,776	67,205	29,787	295,201
Other assets (Note 16)	-	-	-	-	-	2,039	-	2,039
Total	38,262	147,201	119,252	20,744	66,024	102,106	95,806	589,394



A segregation of the financial assets by counterparty type is set out below:

31 December 2021	Accounts and deposits with financial institutions	Trading assets	Accounts with the IMF	Loans to banks	Investment securities	Other assets	Total
Central Banks	259,248	8,349	58,141	-	-	-	325,738
Bank for International Settlements ("BIS Basel")	4,481	-	-	-	15,163	-	19,644
Foreign governments and multilateral institutions	-	1,785	-	-	154,381	-	156,166
Foreign agencies	-	3,790	-	-	50,659	-	54,449
Commercial Banks	10,969	820	-	41,583	30,666	-	84,038
Albanian Government	-	23	-	-	65,268	-	65,291
Other	-	-	-	-	2,341	2,180	4,521
Total	274,698	14,767	58,141	41,583	318,478	2,180	709,847

31 December 2020	Accounts and deposits with financial institutions	Trading assets	Accounts with the IMF	Loans to banks	Investments securities	Other assets	Total
Central Banks	171,191	7,301	44,720	-	-	-	223,212
Bank for International Settlements ("BIS Basel")	4,157	-	-	-	12,829	-	16,986
Foreign governments and multilateral institutions	-	2,235	-	-	130,734	-	132,969
Foreign agencies	-	4,081	-	-	42,814	-	46,895
Commercial Banks	25,201	414	-	32,671	41,618	-	99,905
Albanian Government	-	183	-	-	67,205	-	67,388
Other	-	-	-	-	-	2,038	2,038
Total	200,549	14,213	44,720	32,671	295,201	2,038	589,394

E. Market risk

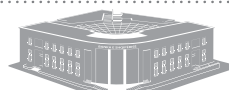
Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank of Albania's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The key elements of price risk affecting the Bank are:

- Interest rate risk associated with fluctuations in the fair value of financial instruments due to changes in market interest rates; and
- Currency risk associated with fluctuations in the fair value of financial instruments due to changes in foreign exchange rates.

The Bank's exposure to currency risk is monitored on a continuous basis. Financial assets and liabilities denominated in foreign currencies are disclosed in the relevant notes of the financial statements.

For the purpose of foreign reserve management, function performed by the Monetary Operations Department, Supervisory Council has established a set of criteria for the currency composition of the foreign reserve, in accordance



with the objectives of holding the reserves. This serves as a reference for the management of the exchange rate risk. As a result, the Bank is passive in the management of the exchange rate risk. The Investment Committee defines a set of narrow ranges of the currency composition of some of the tranches of the foreign exchange reserve. The limits are monitored by the Monetary Operations Department, which carries out the necessary rebalancing operations in order to preserve the required weights of the currencies' composition.

(i) Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations, which affect the prices of interest-earning assets (including investments) and interest-bearing liabilities.

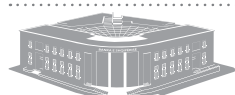
The Monetary Operations Department of the Bank monitors the interest rate risk. The Bank mitigates such risks by maintaining a significant excess of interest-bearing assets over liabilities. The Bank maintains a portfolio of interest-bearing financial assets and liabilities, in such a manner, that the net interest income is significantly higher than operating needs, in order to minimize the potential adverse effects of interest rate fluctuations. Interest rates applicable to financial assets and liabilities are disclosed in the relevant notes to the financial statements.

The interest rate risk management, for the purpose of foreign reserve management, in its core process includes the selection of the portfolio/duration benchmark for each market (currency) in which the foreign reserves are held. The benchmark selection is reviewed at least annually or whenever changes in market conditions require a reassessment. Besides determining the benchmark portfolio, the Investment Committee, in accordance with the limits imposed by the Supervisory Council, determines limits for active management at the tranche level. The limits for active management at portfolio level are established by the Director of the Monetary Operations Department.

The principal tools used to measure the interest rate risk for individual portfolios within the foreign exchange reserve are Duration and Value at Risk ("VaR").

- Duration measures the sensitivity of the price of a fixed-income security due to the volatility of the interest rates in the market.
- The VaR is defined as the estimated maximum loss that will arise on a portfolio over a specified time horizon due to its exposure to the risk factors with a specified confidence interval.

For the purposes of foreign reserve management, the calculated VaR includes only the exposure to the risk of changes in interest rates for all positions, including benchmark instruments and non-benchmark instruments.



For benchmark instruments, the data used encompasses changes in interest rates for treasury issues or high quality agency issues, depending on the specific benchmark for each currency and for non-benchmark instruments the data used encompasses changes in interest rates for issues rated as AA, given that this rating constitutes the major share of non-benchmark instruments of the reserve portfolios.

The following is a summary of the VaR (95%) position of the Bank's portfolios at 31 December 2021 and 2020:

	31 December 2021	31 December 2020
VaR (95%) in ALL million	(2,680)	(1,868)

Furthermore, an important method to measure market risk is the sensitivity analysis of the value of the reserve to hypothetical changes in market factors. The data used in the sensitivity analysis calculations include the duration of portfolios and weight of each currency. The duration of the portfolio shows the degree of change in the market value of the portfolio, assuming a parallel shift of the yield curve based on interest rates for all the instruments within the portfolio.

Assuming an immediate parallel increase (decrease) in interest rates by 50 basis points and 100 basis points and a correlation equal to 1 between the curves, and based on the duration of the aggregate foreign exchange reserves, the estimated loss (gain) for each scenario is as follows:

Estimated effect on Profit/(loss) ALL million	2021		2020	
	100 bp	50 bp	100 bp	50 bp
Increase	(6,012)	(3,006)	(4,591)	(2,295)
Decrease	6,012	3,006	4,591	2,295

Assets and liabilities with variable interest rates carry the risk of changing the base that serves to determine interest rates.

The position of the Bank's sensitivity to interest rate by contractual repricing is presented in the following table, showing the carrying amounts of financial instruments classified by contractual repricing or maturity date.

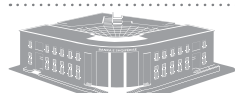


31 December 2021	Total	Floating rate instruments	Fixed rate instruments			Non-interest bearing instruments
			Up to 1 month	From 1 to 3 months	Over 3 months	
Interest-earning assets						
Cash and balances with banks	274,725	249,288	14,478	10,262	-	697
Trading assets	14,767	-	41	219	14,484	23
Accounts with the IMF	58,141	37,378	-	-	-	20,763
Loans to banks	41,583	-	33,816	7,767	-	-
Investment securities	318,478	1,449	9,019	29,074	278,936	-
Other assets (Note 16)	2,180	-	2	-	2,178	-
Total	709,874	288,115	57,356	47,322	295,598	21,483
Interest-bearing liabilities						
Currency in circulation	378,142	-	-	-	-	378,142
Due to banks	186,733	-	186,733	-	-	-
Deposits and borrowings from third parties	2,772	-	2,772	-	-	-
Due to Government and state institutions	106,510	500	-	-	-	106,010
Due to the IMF	43,723	26,837	-	-	-	16,886
Other liabilities	1,207	-	-	-	-	1,207
Total	719,087	27,337	189,505	-	-	502,245
Interest-bearing financial instruments gap	(9,213)	260,778	(132,149)	47,322	295,598	(480,762)

31 December 2020	Total	Floating rate instruments	Fixed rate instruments			Non-interest bearing instruments
			Up to 1 month	From 1 to 3 months	Over 3 months	
Interest-earning assets						
Cash and balances with banks	200,578	165,167	15,345	5,413	12,975	1,678
Trading assets	14,213	202	743	247	12,839	183
Accounts with the IMF	44,720	24,473	-	-	-	20,248
Loans to banks	32,671	-	22,610	10,061	-	-
Investment securities	295,201	2,129	2,539	17,999	272,533	-
Other assets (Note 16)	2,039	-	2	-	2,037	-
Total	589,422	191,971	41,239	33,720	300,384	22,109
Interest-bearing liabilities						
Currency in circulation	355,238	-	-	-	-	355,238
Due to banks	178,815	-	178,815	-	-	-
Deposits and borrowings from third parties	2,485	-	2,409	-	-	77
Due to Government and state institutions	34,431	500	-	-	-	33,931
Due to the IMF	23,219	6,748	-	-	-	16,472
Other liabilities	864	-	-	-	35	829
Total	595,053	7,248	181,224	-	35	406,546
Interest-bearing financial instruments gap	(5,631)	184,723	(139,985)	33,720	300,349	(384,438)

Future contracts

A future contract is a standardized contract to buy or sell a financial or non-financial asset, at a certain date in the future and at a market determined price. To minimize the credit risk, depending on the type of instrument, the investor should post a margin to the clearing house. This margin or performance bond is valued every day according to the prices in the market (mark to market), which means that every change in value is shown in the account of investor at the end of each trading day until the expiry day.



The net fair value of future contracts as at 31 December 2021 is ALL 1 million (2020: ALL 0 million) (see Note 13).

The nominal value of these contracts as at 31 December 2021 is composed by the following:

- buy contracts in the amount of ALL 666 million (2020: ALL 478 million); and
- sell contracts in the amount of ALL 512 million (2020: ALL 1,504 million).

(ii) Exchange rate risk

Exchange rate risk results from the difference between the currency structure of assets and liabilities. From an accounting point of view, the Bank is exposed to currency risk due to its principal central bank functions.

This risk can affect the size of its capital. In order to manage this type of exposure, over the years, action is taken to increase capital, inflow of funds and, in exceptional cases, when the balance of the revaluation reserve is negative, debt instruments of the Republic of Albania were issued in compliance with the provisions of the law 'On the Bank of Albania' (Note (7(N) and 22).

Forward contracts

Trading derivatives include forward exchange contracts that are entered into by the Bank with the Albanian Government. These instruments are not usually closed out before contractual maturity.

The fair value of foreign exchange forward contracts at 31 December 2021 is ALL 22 million (2020: 183 million) (see Note 13).

The following significant exchange rates have been applied.

ALL	Average		Year-end spot rate	
	2021	2020	2021	2020
United States Dollar (USD)	103.52	101.84	106.54	100.84
European Union Currency Unit (EUR)	122.46	123.89	120.76	123.70
British Pound (GBP)	142.41	139.61	143.95	137.93
Special Drawing Rights (SDR)	147.48	151.42	149.11	145.24
Japanese Yen (JPY)	0.94	1.02	0.92	0.98
Chinese Yuan (offshore) (CNH)	16.05	15.76	16.8	15.50

Sensitivity analysis

A reasonably possible strengthening (weakening) of the EUR, USD, GBP or other currencies by 10% against ALL at 31 December 2021 would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below.



F. Fair value of financial instruments

i) Determination of fair values

The determination of fair values of financial assets and liabilities for which there is no observable market price requires the use of valuation techniques described in the accounting policy. For financial instruments that are traded infrequently and whose price is not transparent, the fair value is less objective and requires an expert's judgement depending on liquidity, concentration, market factors uncertainty, pricing assumptions, and other risks affecting the particular instrument.

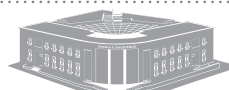
ii) Valuation of financial instruments

The Bank measures the fair value of financial instruments using the following hierarchy of methods:

- Level 1: Quoted market price or closing price for positions for which there is a reliable market.
- Level 2: Valuation techniques based on observable market information about the yield curve. This category of methods is used to measure debt securities for which there is no reliable market.
- Level 3: Valuation techniques, where inputs on financial assets and liabilities are not based on observable market data.

The fair values of financial assets and liabilities traded in international financial markets for which there is available market information are based on market quotations or closing market prices. The use of observable market prices and information reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. The availability of actual market prices and information varies depending on products and markets and changes because of specific events and the general conditions of financial markets.

The Bank determines the fair values of all other financial instruments for which there are no current market quotes by using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The net present value is computed by means of market yield curves and credit spreads, where necessary, for the relevant instrument. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.



The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and the counterparty where appropriate. Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective and yields ranges of possible inputs and estimates of fair value, and management judgment is required to select the most appropriate point in the range. For all other financial instruments, the Bank determines fair values using valuation techniques.

Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Financial instruments measured at fair value – Fair value hierarchy

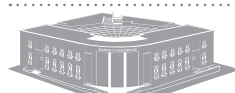
The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognised in the statement of financial position.

31 December 2021	Note	Level 1	Level 2	Level 3	Total
Financial assets					
Non-derivative trading assets	13	14,744	-	-	14,744
Derivative trading assets	13	1	-	22	23
Investments in securities	14	231,952	86,526	-	318,478
Total		246,697	86,526	22	333,245

31 December 2020	Note	Level 1	Level 2	Level 3	Total
Financial assets					
Non-derivative trading assets	13	14,031	-	-	14,031
Derivative trading assets	13	-	-	183	183
Investments in securities	14	196,761	98,440	-	295,201
Total		210,792	98,440	183	309,414

Financial instruments not measured at fair value

The fair value of balances with/due to banks balances with/due to the IMF, liabilities to banks and other financial institutions and of liabilities to government institutions is approximately equal to the reporting value as they are short-term. The following table sets out the fair values of certain financial instruments not



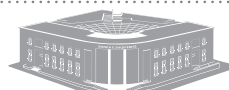
measured at fair value by the level in the fair value hierarchy into which each fair value measurement is categorised. Other financial assets consist of loans granted to employees (see note 16) pursuant to Article 4 point (b) of the Law No. 8269 "On the Bank of Albania" as amended.

	Note	31 December 2021		31 December 2020	
		Fair value Level 2	Carrying amount	Fair value Level 2	Carrying amount
Assets					
Cash and balances with banks	9	274,725	274,725	200,578	200,578
Loans to banks	12	41,583	41,583	32,671	32,671
Accounts with the IMF	11	58,141	58,141	44,720	44,720
Liabilities					
Due to the IMF	11	43,723	43,723	23,219	23,219
Due to banks	18	186,733	186,733	178,815	178,815
Deposits and borrowings from third parties	19	2,772	2,772	2,485	2,485
Due to Government and state institutions	20	106,510	106,510	34,431	34,431
Other liabilities	21	1,207	1,207	864	864

G. Operational risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations. Operational risk management is supported by the internal control systems on several activities of the Bank of Albania and standards for the management of operational risk and a wide range of common policies, staff management regulations and obligatory requirements.

In response to the situation created from COVID-19 pandemic, the Bank of Albania has been implementing its Business Continuity Management Policy of the Bank of Albania, which has been adopted by the Supervisory Council in 2019. In this framework, the Bank of Albania has undertaken a set of necessary measures in line with the decisions of the Government and the Ministry of Health to face the situation created from the spread of coronavirus in Albania, which aims at safeguarding the health of the employees, and at the same time, to carry out of its main functions, as the central monetary authority, in supporting the economy in Albania. During 2021, the Bank of Albania has worked with reduced staff within its physical premises, and complete staff from home. The Bank of Albania is implementing the protocols on the distant communication and work safely and efficiently of the employees, which support them to contribute with their expertise and professionalism in the decision taking of the Bank of Albania, notwithstanding the physical obstacles. All the core activities of the Bank of Albania has continued normally, with no disruption, by providing to it the possibility to continue to be a responsible institution, able to successfully deal with this type of situation, for the good of public health and social welfare.

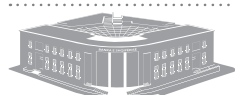


H. Maturity structure of assets and liabilities

The Bank's assets and liabilities, analysed by residual term to maturity from the date of the statement of financial position to the date of any subsequent agreement or contractual maturity, are as follows:

31 December 2021	< 12 months	>12 months	Undefined maturity	Total
ASSETS				
Cash and balances with banks	274,725	-	-	274,725
Trading assets	1,134	13,633	-	14,767
Monetary gold	-	-	17,101	17,101
Accounts with the International Monetary Fund	37,378	-	20,763	58,141
Loans to banks	41,583	-	-	41,583
Investment securities	159,008	159,470	-	318,478
Property, equipment, right-of-use and intangible assets	-	-	21,031	21,031
Other assets	2	2,178	1,503	3,683
TOTAL ASSETS	513,830	175,281	60,398	749,509
LIABILITIES				
Currency in circulation	-	-	378,142	378,142
Due to banks	186,733	-	-	186,733
Deposits and borrowings from third parties	2,772	-	-	2,772
Due to Government and state institutions	106,010	-	500	106,510
Due to the International Monetary Fund	16,886	-	26,837	43,723
Other liabilities	1,333	-	-	1,333
TOTAL LIABILITIES	313,734	-	405,479	719,213
Assets – Liabilities maturity mismatch	200,096	175,281	(345,081)	30,296

31 December 2020	< 12 months	>12 months	Undefined maturity	Total
ASSETS				
Cash and balances with banks	200,578	-	-	200,578
Trading assets	2,622	11,592	-	14,213
Monetary gold	-	-	16,817	16,817
Accounts with the International Monetary Fund	24,473	-	20,248	44,720
Loans to banks	32,671	-	-	32,671
Investment securities	67,205	227,996	-	295,201
Property, equipment, right-of-use and intangible assets	-	-	20,364	20,364
Other assets	193	2,299	344	2,836
TOTAL ASSETS	327,742	241,887	57,773	627,401
LIABILITIES				
Currency in circulation	-	-	355,238	355,238
Due to banks	178,815	-	-	178,815
Deposits and borrowings from third parties	2,485	-	-	2,485
Due to Government and state institutions	33,931	-	500	34,431
Due to the International Monetary Fund	16,473	-	6,746	23,219
Other liabilities	995	-	-	995
TOTAL LIABILITIES	232,699	-	362,484	595,184
Assets – Liabilities maturity mismatch	95,043	241,887	(304,711)	32,216



9. CASH AND BALANCES WITH BANKS

	31 December 2021	31 December 2020
Cash	27	29
Current accounts	249,971	166,827
Deposits maturing within three months	24,741	20,758
Less impairment loss allowance	(15)	(12)
Cash and cash equivalent	274,725	187,602
Deposits maturing after more than three months	-	12,976
Total	274,725	200,578

The interest rates for current accounts are as follows:

In %	EUR	USD	GBP	AUD	JPY	CNY	CNH
31 December 2021	0.00 - (0.67)	0.00 - 0.05	0.00 - 0.00	0.00 - 0.00	0.00 - (0.35)	0.00 - 2.1	0.00 - 2.1
31 December 2020	(0.23) - (0.67)	0.00 - 0.00	0.00 - 0.00	0.00 - 0.00	(0.3) - (0.35)	0.00 - 2.00	0.00 - 1.9

The annual interest rates for short-term deposits are as follows:

In %	EUR	USD	CNH
31 December 2021	(0.53)	0.05	-
31 December 2020	(0.52) - (0.50)	0	1.68 - 2.58

10. MONETARY GOLD

	31 December 2021	31 December 2020
Monetary gold	17,101	16,817
Total	17,101	16,817

The monetary gold is placed in current account (2020: current account) with foreign banks. The increase of ALL 284 million compared to the previous year is a result of the monetary gold revaluating at the market price at the reporting date, and is recognized in profit or loss, and accumulated to the revaluation reserve (refer to Note 22).

11. ACCOUNTS WITH/DUE TO THE INTERNATIONAL MONETARY FUND (IMF)

<i>Accounts with the IMF</i>	31 December 2021	31 December 2020
Quotas with IMF	20,763	20,248
Special Drawing Rights ("SDR") held	37,378	24,473
Total assets	58,141	44,720
<i>Due to the IMF</i>	31 December 2021	31 December 2020
SDR allocations	26,834	6,746
IMF securities account	14,703	14,341
IMF account No.1	2,184	2,130
IMF account No.2	1	1
Accrued interest	2	1
Total liabilities	43,723	23,219

Quotas with the IMF of ALL 20,763 million or SDR 139 million (2020: ALL 20,248 million or SDR 139 million) originate from the membership of the



Republic of Albania in the IMF, according to the Law No.8269, dated 23 December 1997 'On the Bank of Albania', as amended. The SDR holdings of ALL 37,378 million or SDR 251 million (2020: ALL 24,473 million or SDR 168 million) represent deposits with the IMF. During 2020, in response to the two events, the earthquake that hit the country and the Covid – 19 pandemic situation, the government of Albania requested and obtained an emergency financing from the IMF in the amount of SDR 139 million, corresponding to the purchase of 100% of Albania's quota under the Rapid Financing Instrument (RFI). The SDR holdings bear interest, which is determined on a weekly basis. The interest rate at 31 December 2021 is 0.077% p.a. (2020: 0.072% p.a.).

SDR Allocations of ALL 26,834 million or SDR 180 million (2020: ALL 6,746 million or SDR 46 million) represent amounts borrowed from the IMF with two tranches in August and September 2009, whose purpose is to provide immediate response to the short-term and long-term liquidity needs of the member countries. The SDR Allocations bear interest, which is determined on a weekly basis and is payable on a quarterly basis. As at 31 December 2021, the interest rate is 0.077% p.a. (2020: 0.072% p.a.). The IMF pays remuneration to members with remunerated reserve tranche positions, at 0.077% p.a. (2020: 0.738% p.a.). The reserve tranche position is calculated as the difference between Quotas in the IMF and the currency holdings in the IMF accounts, excluding holdings acquired as a result of the use of the Fund credit and holdings in the IMF account No.2. In August 2021, the IMF decided to have a SDR allocation to all Fund members to help build reserve buffers, smooth adjustments, and mitigate the risks of economic stagnation in global growth. The allocation of SDRs was distributed in proportion to members' paid Fund quota shares. To Albania, were allocated an amount of SDR 133 million or ALL 19,640 million. Based on the concept of SDR allocation the member has a high degree of flexibility of using it. If the member decide to use (Bank of Albania or the Ministry of Finance and Economy), will bear the cost of using it (normally interest rate and not principal).

Direct budget support provided by the IMF

Funds provided for direct budget support by the IMF to the Government of Albania which are initially deposited in the Government accounts at the Bank, are not recognised as a liability of the Bank to the IMF. The Government assumes the obligation to repay the funds to IMF whereas the Bank processes such repayments on behalf of the Government. The IMF disbursed such funds in tranches during the years 2014 - 2017, as part of the EFF facility program approved by the IMF in favour of Albania and in the year 2020 in one payment, as part of RFI facility due to the Covid-19 pandemic situation. These tranches are used to provide direct budget financing to the Government of Albania represented by the Ministry of Finance and Economy. The borrowing is repayable within 3 years, by the Albanian Government through the accounts of the Bank with the IMF. The Albanian Government shall deposit in its accounts at the Bank sufficient funds to repay all principal, interest and any other expenses associated with the above tranches as such repayments fall due. In relation to this borrowing, the Ministry



of Finance and Economy issued promissory notes in favour of the IMF. The Government started to repay the facility in October 2018. As at 31 December 2021, the facility amounted to ALL 51,336 million (2020: ALL 56,538 million).

12. LOANS TO BANKS

The measures taken by the Bank in response to the health crisis caused by the Covid-19 pandemic in the field of monetary policy aims at reducing the borrowing cost and the continuous lending to economy. In strengthening the accommodative monetary policy stance, so far implemented by the Bank, starting from middle of March 2020, the auction for the weekly injection of liquidity has changed from limited amount to fixed price auction. This change provides room to commercial banks to take from the Bank of Albania liquidity with no limit, at the cost of the policy rate set out by the Bank. Also, the Bank of Albania has increased the size of liquidity injection beyond the one-week period. No overnight loans to Banks as at 31 December 2021 and 2020.

	31 December 2021	31 December 2020
Reverse repurchase agreements	41,583	32,671
Total	41,583	32,671

At 31 December 2021, reverse repurchase agreements between the Bank and commercial banks have original maturities from one week to three months (2020: from one week to three months).

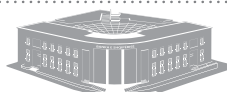
13. TRADING ASSETS

Trading assets	31 December 2021	31 December 2020
<i>Non-derivatives:</i>		
Bonds of foreign agencies	3,649	3,636
Bonds of foreign governments and multilateral institutions	11,094	10,395
<i>Derivatives:</i>		
Interest rate future contracts	1	-
Foreign exchange forwards	22	182
Total	14,767	14,213

Trading assets are administrated by the International Bank for Reconstruction and Development ('IBRD') as stated in the agreement 'On the administration and technical assistance on investing the foreign reserve of the Bank of Albania' (Reserves and Advisory Management Program) signed between the Bank of Albania and IBRD on 23 September 2005. Investments in this portfolio are denominated in USD.

The annual interest rates for non-derivative assets as at 31 December 2021 and 31 December 2020 are as follows:

In %	31 December 2021	31 December 2020
USD	0.125-3.375	0.125- 3.125



14. INVESTMENT SECURITIES

	31 December 2021	31 December 2020
Investment securities measured at FVOCI	318,478	295,201
Total	318,478	295,201
Expected Credit Losses (ECL)	(22)	(24)

Investment securities by type of issuer and security are presented as follows:

	31 December 2021	31 December 2020
Treasury Bills of foreign governments and multi-lateral institutions	967	8,064
Certificate of Deposit	21,718	6,206
Bonds of banks and other institutions	24,476	41,619
Bonds of foreign agencies	41,922	42,814
Bonds of foreign governments and multilateral institutions	164,127	129,293
Treasury Bills of the Albanian Government	65,268	67,205
Total	318,478	295,201

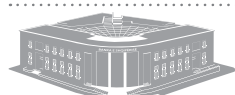
Expected Credit Losses (ECL) by type of issuer and security are presented below:

	31 December 2021	31 December 2020
Treasury Bills of foreign governments and multi-lateral institutions		-
Certificate of Deposit	(3)	(1)
Bonds of banks and other institutions	(5)	(10)
Bonds of foreign agencies	(6)	(6)
Bonds of foreign governments and multilateral institutions	(9)	(7)
Treasury Bills of the Albanian Government	-	-
Total	(22)	(24)

The annual yields for each currency at 31 December 2021 and 2020 are as follows:

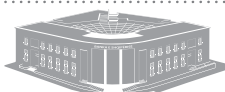
In %	ALL	USD	GBP	AUD	CNH	EUR
31 December 2021	0.50-1.56	0.12-1.45	0.59-1.07	0.22-1.33	2.46-2.8	(0.85-1.96)
31 December 2020	0.51-1.77	0.03-1.31	(0.11)-0.68	0.95-0.98	2.17-2.51	(0.76)-0.64

Investment securities in ALL at 31 December 2021, represent Albanian Government treasury bills with a maturity period up to 12 months (2020: up to 12 months). As a result of further relaxing monetary policies of certain central banks during 2015 and onward, the return rates of the main part of foreign reserve portfolio in EUR are negative.



15. PROPERTY, EQUIPMENT, RIGHT-OF-USE AND INTANGIBLE ASSETS

	Land, buildings and installations	Furniture and equipment	Vehicles	Work in progress	Numismatic coins and objects	Total property and equipment	Right of Use			Computer software	Work in progress	Total intangible assets	Total
							Buildings	Repeater	Total Right-of-use				
Cost or deemed cost													
At 1 January 2020	9,406	2,563	282	454	10,532	23,237	93	7	100	711	3	714	24,051
Additions	3	122	9	226	-	360	-	-	-	43	73	116	476
Transfers	6	12	-	(6)	-	12	-	-	-	64	(76)	(12)	-
Disposal	-	(25)	-	-	-	(25)	-	-	-	-	-	-	(25)
At 31 December 2020	9,415	2,672	291	674	10,532	23,584	93	7	100	818	-	818	24,502
Additions	-	41	-	1,005	-	1,046	-	-	-	1	-	1	1,047
Transfers	1	186	-	(187)	-	-	-	-	-	-	-	-	-
Disposal	-	(31)	-	-	-	(31)	-	-	-	-	-	-	(31)
At 31 December 2021	9,416	2,868	291	1,492	10,532	24,599	93	7	100	819	-	819	25,518
Accumulated depreciation/amortization													
At 1 January 2020	725	2,160	234	-	-	3,119	31	2	33	628	-	628	3,780
Depreciation/amortization	145	144	18	-	-	307	31	2	33	42	-	42	382
Disposal	-	(24)	-	-	-	(24)	-	-	-	-	-	-	(24)
At 31 December 2020	870	2,280	252	-	-	3,402	62	4	66	670	-	670	4,138
Depreciation/amortization	145	129	14	-	-	288	31	3	34	58	-	58	379
Disposal	-	(31)	-	-	-	(31)	-	-	-	-	-	-	(31)
At 31 December 2021	1,015	2,378	266	-	-	3,659	93	7	100	728	-	728	4,487
Carrying amounts													
At 31 December 2020	8,545	392	39	674	10,532	20,182	31	3	34	148	-	148	20,364
At 31 December 2021	8,401	490	25	1,492	10,532	20,940	-	-	-	91	-	91	21,031



16. OTHER ASSETS

	31 December 2021	31 December 2020
Financial assets		
Loans to employees, net	2,180	2,039
	2,180	2,039
Non-financial –assets		
Numismatics (banknotes and coins)	352	348
Printing and minting costs	1,035	390
Inventory	21	22
Other	95	38
	1,503	797
Total	3,683	2,836

Loans to employees at 31 December 2021 are net of allowance for impairment of ALL 6 million (2020: ALL 6 million) (see Note 8(E)(vi)(b)).

17. CURRENCY IN CIRCULATION

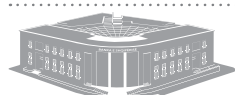
The Bank is vested with the exclusive right of issuing Albanian currency. Currency in circulation comprises domestic banknotes and coins in circulation issued by the Bank.

The Bank has increased the operating capacities to guarantee the uninterrupted supply with coins and banknotes to economy. It has taken all the necessary decisions and has engaged all its structures to meet the market requests for cash, by simultaneously providing a sufficient stock with the purpose to counter the increasing needs of the economy. The following banknotes and coins were in circulation as at 31 December 2021 and 2020:

Nominal value ALL	31 December 2021		31 December 2020	
	Number in thousand	Total ALL (million)	Number in thousand	Total ALL (million)
Notes:				
100	3,399	340	3,400	340
200	15,560	3,112	15,656	3,131
500	18,969	9,485	21,924	10,962
1,000	31,202	31,202	33,009	33,009
2,000	34,105	68,210	35,838	71,677
5,000	49,079	245,395	46,107	230,535
10,000	1,444	14,440	-	-
Coins (1-100)		5,958		5,585
		378,142		355,238

18. DUE TO BANKS

	31 December 2021	31 December 2020
Reserve requirement and current accounts	174,198	172,635
Deposits	12,535	6,180
Total	186,733	178,815



In accordance with the Decision of the Supervisory Council No. 39, dated 25.06.2014, amended with Decision No. 11, dated 07.02.2018, the remuneration rate for the reserve requirement in ALL is 100% of the rate of the repurchase and reverse repurchase agreements, approved by the Supervisory Council as on the last day of the base period.

In response to the health crisis caused by Covid-19 and on fulfilling her mission, the Bank during the year 2021 has continued to apply the reduced policy, repurchase and reverse repurchase agreements rates set on 2020.

As at 31 December 2021, the interest rate is 0.5% (2020: 100% of the base rate or 0.5%).

Based on the Decision No. 11, dated 07.02.2018 the remuneration rate for the reserve requirement in EUR held in EUR is equal to the deposit rate defined by the European Central Bank (ECB). As at 31 December 2021, the remuneration rate is negative at 0,5% (2020: negative at 0.4%). The reserve requirement in EUR held in ALL is not remunerated.

As at 31 December 2021 the reserve requirement in USD held in USD and in ALL is not remunerated (2020: not remunerated). Based on the Decision of the Supervisory Council, No. 29, dated 16 May 2012, 'On the minimum reserve requirement held at the Bank of Albania by commercial banks', amended by the Decision No. 75, dated 06 July 2016, the Bank allows the commercial banks to maintain the reserve requirement in the form of cash in custody with the Bank.

19. DEPOSITS AND BORROWINGS FROM THIRD PARTIES

	31 December 2021	31 December 2020
Deposits from the Deposit Insurance Agency	2,509	2,411
Deposits from the pension fund	247	57
Deposits from individuals for participation in Treasury Bills auctions	16	18
Total	2,772	2,485

Deposits from the pension fund relate to the pension plan scheme, which is based on employees' contributions and employer's contributions. Based on the Decision No. 17, dated 26 February 2014 of the Supervisory Council the pension fund reports its financial statements separately from the Bank.

20. DUE TO GOVERNMENT AND PUBLIC INSTITUTIONS

	31 December 2021	31 December 2020
Profit to be distributed to the Government	-	1,486
Accounts and deposits with the Government	102,134	28,514
Due to state institutions	4,376	4,431
Total	106,510	34,431



Based on the agreement between the Bank and the Ministry of Finance and Economy, the Bank of Albania pays interest only for the time deposits placed by the Government of Albania, as well as for a guarantee deposit of ALL 500 million (2020: ALL 500 million) for which the interest rate is based on the decisions of the Supervisory Council. For these deposits the remuneration rate on 31 December 2021 is 1% (2020: 1%).

On November, 2021 the Republic of Albania successfully priced a new 10-year maturity EuroBond for the amount of 650 million EUR.

Profit to be distributed to the Government of Albania is detailed as follows:

	Note	31 December 2021	31 December 2020
Net profit of year		560	749
Transfer to reserves	22	(856)	686
(Loss) / Distribution from profit of year		(296)	1,435
Distribution from other reserves	22	-	52
Total to be distributed to the Government		-	1,487
Total to be transferred to the Retained earnings/(Accumulated losses)		(296)	-

21. OTHER LIABILITIES

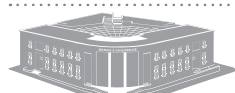
	31 December 2021	31 December 2020
Financial liabilities		
Due to international financial institutions	698	579
Due to third parties	496	278
Accrued expenses	13	7
Total financial liabilities	1,207	864
Non-financial liabilities		
Provisions for claims and litigations	125	129
Grants	2	2
Total non-financial liabilities	127	131
Total	1,333	995

Balances due to international financial institutions include amounts payable to IBRD, International Development Agency ('IDA'), Multilateral Investment Guarantee Agency ('MIGA'), and Islamic Development Bank ('IDB').

Lease liabilities for bank office premises amounting are ALL nil as at 31 December 2021 (2020: ALL 35 million).

The movements in provisions for claims and litigations are set out below:

	31 December 2021	31 December 2020
Balance at 1 January	129	111
Provisions made during the year	-	23
Provisions used during the year	4	-
Provisions reversed during the year	-	(4)
Balance at 31 December	125	129



22. RESERVES

	31 December 2021	31 December 2020
Legal reserve	12,500	12,500
Revaluation reserve	(5,995)	(6,904)
Fair value reserve (investment securities)	(355)	2,126
Other reserves	21,942	21,995
Total	28,092	29,716

The legal reserve is created based on the requirements of Article 9 of the Law 'On the Bank of Albania', according to which, the Bank sets aside 25% of the net profit for the year into a Legal Reserve until the reserve amounts to 500% of the capital. The Bank achieved compliance with this requirement as at 31 December 2011 with its legal reserve amounting to ALL 12,500 million.

Based on the point "a" and "c", Article 64 of the Law "On the Bank of Albania", the movement in revaluation reserve results from the following items, which are initially recognized in profit or loss and then transferred to revaluation reserves:

	2021	2020
Net foreign exchange losses, other than from trading assets and liabilities	(169)	(1,817)
Net foreign exchange losses from trading assets and liabilities	794	(1,094)
Net loss from changes in the fair value of monetary gold (Note 10)	284	2,226
Total	909	(686)

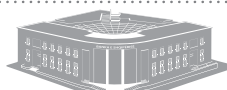
The increase of ALL 909 million (2020: decrease ALL 686 million) in revaluation reserve is a result of the valuation of the monetary gold and the foreign currencies USD, GBP, meanwhile the EUR currency has been depreciated versus the functional currency (see Note 8(E)(ii)).

Movements in Fair value reserve are reflected as below:

	31 December 2021	31 December 2020
Balance at 1 January	2,126	865
Change in Fair Value of Securities	(2,481)	1,243
Transfers to impairment of Securities (ECL) from Other Reserves	-	18
Balance at 31 December	(355)	2,126

Negative revaluation reserve

Given the negative balance of the revaluation reserve at 31 December 2020 and, pursuant to the requirements of clause "b", Article 64 of the Law 'On Bank of Albania' (Note 7(N)) and a bilateral agreement with the Government of Albania, the latter shall issue debt securities to cover the negative balance of the revaluation reserve within April 2022 and upon issuance of the external auditors' report on these financial statements.



Other reserves include the following:

	31 December 2021	31 December 2020
Reserve for the Balance of Payments	7,209	7,209
Reserve of gold and precious metals	7,042	7,042
Reserve for property and equipment	7,691	7,744
Total	21,942	21,995

The reserve for the Balance of Payments represents financial assistance provided by the European Community during the years 1992 and 1993. There have been no movements in such reserve since 1995.

The reserve of gold and precious metals represents the reserve created based on the Law No. 9862, dated 24 January 2008 'On the transfer of ownership of gold and other precious metals from the Albanian Council of Ministers to the Bank of Albania'.

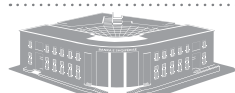
Movements in Reserve for Expected Credit Losses (ECL) are reflected as below:

	31 December 2021	31 December 2020
Balance at 1 January	24	18
Reversal/(Charge) for impairment for securities (ECL)	(1)	6
Total	23	24

The reserve for property and equipment of ALL 7,691 million (2020: ALL 7,743 million) was originally created based on the Decisions of the Supervisory Council of the Bank of Albania No. 19 and No. 20, dated 15 March 2018, as a result of the reallocation of the transition reserve of ALL 5,619 million, created as a result of the first-time adoption of IFRSs, and other reserves of ALL 2,297 million created through the years.

From the total reserve for property and equipment, an amount of ALL 2,241 million (2020: ALL 2,294 million) is distributable in the future and such distributions are subject to decisions of the Supervisory Council of the Bank of Albania. For the year 2021, the amount of ALL 53 million is added to the year 2021 result and transferred to the "Losses carried forward (2020: the amount of ALL 52 million was added to the profits distributed to the Government).

The remaining part of the reserve for property and equipment is not distributable.



23. NET INTEREST INCOME

	2021	2020
Interest income calculated using the effective interest method		
Investment securities	1,648	1,999
Loans to banks	197	225
Deposits and current accounts with banks	13	24
Accounts with the IMF	17	37
Negative remuneration for reserve requirement	34	14
Negative remuneration for excess reserve requirement	379	355
Other	12	9
Total interest income	2,300	2,663
		-
Interest expense		
Reserve requirements	188	225
Due to the International Monetary Fund	8	15
Due to the Albanian Government	4	6
Deposits from third parties	14	14
Negative interest from deposits and current accounts with Banks	909	696
Other	2	2
Total interest expense	1,125	960
Net interest income	1,175	1,703

Interest income from investment securities includes ALL 1,192 million (2020: ALL 1,122 million) of income from treasury bills issued by the Albanian Government and ALL 456 million (2020: ALL 877 million) of income from security lending and foreign reserve investment securities after accounting for the amortization of premium/discount.

Negative interest from deposits and current accounts with banks of ALL 909 million (2020: ALL 696 million) represents charges arising from negative yielding deposits and accounts placed with foreign banks.

24. NET TRADING INCOME

	2021	2020
Interest income from trading assets	183	287
Net gain/(loss) from the trading assets	(28)	151
Unrealized fair value changes	(224)	4
Net profit from forward and future contracts	686	435
Total	617	877

25. NET INCOME FROM SALES OF FINANCIAL ASSETS AT FVOCI

See accounting policies in Notes 7(A)(iii) and 7(E).

	2021	2020
Gain on sale of FVOCI debt investment securities	715	1,288
(Loss) on sale of FVOCI debt investment securities	(434)	(168)
Net other income	281	1,120



26. EMPLOYEE BENEFIT EXPENSES

	2021	2020
Employee salaries and compensations	1,264	1,191
Contributions for health and social security	122	109
Contribution for pension fund (see Note 19)	131	120
Total	1,517	1,420

As at 31 December 2021, the Bank had 609 employees (2020: 593 employees).

27. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	2021	2020
Repair and maintenance expenses	190	161
Amortization of currency printing and minting costs	173	104
Information expenses	110	100
Fees for third-party services	94	91
Other staff expenses	34	31
Transportation fees	13	14
Publication and membership expenses	11	12
Other expenses	23	40
Total	648	553

28. CONTINGENCIES AND COMMITMENTS

(i) Reverse repurchase agreements

Reverse repurchase agreements, as at 31 December 2021, represented collateralized loans (see Note 12). The nominal value of the securities used as collateral as at 31 December 2021, was ALL 43,900 million (2020: ALL 35,260 million).

(ii) Operating leases

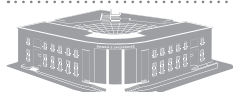
The Bank has entered into operating lease agreements for its office premises for a three year period. At 31 December 2021, operating lease commitments payable within one year is ALL 0 million (2020: ALL 36 million)

(iii) Capital commitments

As at 31 December 2021, the Bank has entered into capital commitments of ALL 682 million (2020: ALL 1,504 million) for the reconstruction of one of its buildings.

(iv) Credit commitments and collaterals received from employees

The total value of registered collateral for long-term loans extended to employees (see Note 16) at 31 December 2021 is ALL 2,978 million (2020: ALL 2,802 million).



million). At 31 December 2021, unused credit commitments for employees amount to ALL 94 million (2020: ALL 86 million).

(v) Legal proceedings

Claims against the Bank may be raised in the normal course of business. In two cases brought by third parties, although liability is not admitted, if the defence is unsuccessful, then certain amounts and legal costs would be paid by the Bank. The outcome of these actions and the amounts claimed by third parties has not yet been determined. The Bank estimates that no material losses will be incurred in respect of claims, in excess of provisions that have been made in these financial statements (see Note 21).

29. MANAGED ASSETS

At 31 December 2021, the Bank acts as custodian for short-term treasury bills with maturities from 3 to 12 months, with total nominal value of ALL 206 billion (2020: ALL 204 billion) and for long-term securities with maturities varying between 2 and 15 years, with nominal value of ALL 482 billion (2020: ALL 434 billion). These securities are issued by the Albanian Government.

30. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial and other decisions.

Considering each possible related party relationship, attention is directed to the substance of the relationship and not merely to the legal form.

The related parties of the Bank of Albania include the directors and members of the Supervisory Council. As at 31 December 2021 and 2020, balances with related parties comprised:

	2021	2020
Loans to directors		
Directors	129	136
Total	129	136

Loans to directors follow the terms and conditions applied to all employees of the Bank based on the policy and regulations in force. The mortgage loans are collateralized.



	2021	2020
Administrative expenses		
<i>Directors and Supervisory Council members:</i>		
Telephone expenses	4	4
Salaries and bonuses	156	152
Per diems	6	-
<i>Directors:</i>		
Fuel compensation	3	2
Contribution to pension plan scheme	14	14
Total of administrative expenses for related parties	183	172

Balances with/(due to) the Albanian Government and public institutions are disclosed in Notes 14 and 20, and related interest income from securities and interest expenses are included in Note 23. Promissory notes issued by the Albanian Government in favour of the IMF are detailed in Note 11, whilst securities issued by the Albanian Government and managed by the Bank are detailed in Note 28.

31. SUBSEQUENT EVENTS

In February 2022, following the military conflict between Russia and Ukraine, certain countries announced new packages of sanctions against the public debt of the Russian Federation and a number of Russian banks, as well as personal sanctions against a number of individuals.

Due to the growing geopolitical tensions, since February 2022, there has been a significant increase in volatility on the securities and currency markets, fluctuations in energy and petrol prices, significant depreciation of the ruble against the US dollar and the euro.

It is expected that these events may affect the activities of Russian, Ukrainian and Belarusian enterprises in various sectors of the economy.

The Bank of Albania does not have direct exposures to related parties and/or key customers or suppliers or banks from those countries. Nevertheless, the impact of the above events will affect the macro-economic conditions in Europe and therefore in our domestic economy. It is difficult to know the full extent of the implications at this point in time, but from today's viewpoint, the bulk of the adverse impact should originate from higher commodity prices, the disruption of international commerce and weaker confidence.

The Bank of Albania regards these events as non-adjusting events after the reporting period, due to non-quantitative effect estimated at the date of the approval for issue of the present financial statements.

