

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 10 March 2021¹

ALBANIA

ALBANIAN DEPOSIT INSURANCE AGENCY - II

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

TABLE OF CONTENTS

	Page
TABLE OF CONTENTS	2
ABBREVIATIONS / CURRENCY CONVERSIONS.....	3
PRESIDENT’S RECOMMENDATION	4
BOARD DECISION SHEET	5
ADDITIONAL SUMMARY TERMS FACTSHEET	6
1. STRATEGIC FIT AND KEY ISSUES.....	8
1.1 STRATEGIC CONTEXT	8
1.2 TRANSITION IMPACT	10
1.3 ADDITIONALITY	11
1.4 SOUND BANKING - KEY RISKS	12
2. MEASURING / MONITORING SUCCESS.....	13
3. KEY PARTIES	14
3.1 BORROWER.....	14
4. MARKET CONTEXT	17
4.1 COVID-19 ECONOMIC IMPACT AND MEASURES & MACROECONOMIC OUTLOOK	17
4.2 BANKING SECTOR AND REGULATORY FRAMEWORK OVERVIEW	17
5. FINANCIAL ANALYSIS	18
5.1 FINANCIAL PROJECTIONS	18
5.2 SENSITIVITY ANALYSIS	18
5.3 PROJECTED PROFITABILITY FOR THE BANK.....	19
6. OTHER KEY CONSIDERATIONS.....	19
6.1 ENVIRONMENT.....	19
6.2 INTEGRITY	19
ANNEXES TO OPERATION REPORT	20
ANNEX 1 - TRANSITION IMPACT SCORING CHART	21
ANNEX 2 – FINANCIAL ANALYSIS OF ADIA.....	21
ANNEX 3 – MACROECONOMIC OVERVIEW	21
ANNEX 4 – COVID 19 MEASURES.....	22
ANNEX 5 – BANKING SECTOR OVERVIEW	24
ANNEX 6 – ADIA I TRANSITION IMPACT	26

ABBREVIATIONS / CURRENCY CONVERSIONS

ADIA	Albanian Deposit Insurance Agency
ALL	Albanian Lek
AML	Anti-Money Laundering
BoA	Central Bank of Albania
BoD	Board of Directors
CAR	Capital Adequacy Ratio
CF	Commitment fee
CTF	Counter-terrorism financing
EBRD SSF	EBRD Shareholder Special Fund
EC	European Commission
EU	European Union
EUR	Euro
EURIBOR	Euro Interbank Offered Rate
E&S	Environmental and Social
FDI	Foreign Direct Investment
FEF	Front end fee
FI	Financial Institutions
FSAP	Financial Sector Assessment Program
FSVC	Financial Services Volunteer Corps
FX	Foreign Exchange
GDP	Gross Domestic Product
HR	Human Resources
IADI	International Association of Deposit Insurers
IFI	International Finance Institution
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IT	Information Technology
LT	Long term
NBMFI	Non-Bank Microfinance Institution
NIM	Net Interest Margin
NPL	Non-Performing Loans
OCCO	Office of Chief Compliance Officer
OECD	Organisation for Economic Co-operation and Development
OpsCom	EBRD's Operations Committee
SCA	Savings and Credit Association
PAR	Portfolio at risk
PR	Performance Requirement
PSD	Project Summary Document
ST	Short Term
TC	Technical Cooperation
USAID	United States Agency for International Development
USD	United States Dollar
YE	Year End

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Albanian Deposit Insurance Agency (the “Agency” or “ADIA”), an independent public institution established in Albania, are submitted for consideration by the Board of Directors.

The operation will consist of i) a stand-by credit line to the ADIA in the amount of up to €100 million, which will be fully guaranteed by the Government of Albania and ii) a comprehensive technical assistance programme.

ADIA is facing an increased risk of a potential pay-out stemming from the coronavirus outbreak. This operation will enable ADIA to put in place adequate emergency funding arrangement in order to maintain high confidence in the banking sector and to provide an efficient and credible protection for individual depositors in Albania. ADIA would be able to drawdown funds from this credit line under certain pre-agreed conditions with the purpose of making funds available and make payments or transfers in respect of insured deposits in accordance with the laws in Albania.

The expected transition impact of the project stems from its contribution to the Resilient and Well-governed transition qualities. The Project will contribute to the **Resilient** quality through putting in place emergency funding, which will strengthen ADIA's ability to withstand any potential bank failures in the context of the COVID-19 crisis and continue maintaining high confidence in the Albanian banking sector. The Project will also support the **Well-governed** quality through a technical assistance programme of €270,000 focused on strengthening ADIA's operational capacity and governance by fully automating the pay-out process, modernising the internal reporting system and laying the foundations for introduction of a risk based premium approach. [REDACTED]

I am satisfied that the operation is consistent with the Bank's Strategy for Albania, Bank's Financial Sector Strategy and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed stand-by credit line substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

ALBANIA – Albanian Deposit Insurance Agency II – DTM 52468	
Transaction / Board Decision	Board approval ² is sought for a senior loan of up to €100 million in the form of a Standby Credit Line (“SBCL”) in favour of Albanian Deposit Insurance Agency (the “Agency” or “ADIA”), fully guaranteed by the Government of Albania (“Project”). The proposed facility builds on a previous project with ADIA ³ , aiming to continue supporting ADIA with a back-up liquidity amidst the Covid-19 pandemic crisis.
Client	ADIA was founded in 2002 as an independent public institution with adoption of the Deposit Insurance Law. ADIA has a two-tier board structure consisting of a Board of Directors and the General Director of the Agency.
Main Elements of the Proposal	<p><u>Transition impact:</u> Resilient (Primary): The Project is a response to a crisis and instrumental in maintaining confidence and stability of the banking sector by reducing the risk of deposit runs and increase the Agency’s ability to withstand any potential shocks. The SBCL has been sought by the MoF, BoA and ADIA jointly as a direct countermeasure to the COVID-19 crisis ahead of the second lockdown. Well-governed (Secondary): the TC package will strengthen ADIA’s operational capacity and governance by automating the pay-out process and hence significantly reducing the pay-out time to depositors, by modernising the internal reporting system and by laying the foundations for introduction of a risk based premium approach.</p> <p><u>Additionality:</u> stems from the Financing Structure, Risk Mitigation and Knowledge, Innovation and Capacity Building. The Project will provide emergency back-up financing of a significant amount and specific structure, in a country that doesn’t have regular access to international capital markets. [REDACTED] The Project mitigates economic and country risks by supporting confidence in the financial system, as well as by ensuring timely pay-out of deposits through the TC element, improving operational capacity and capabilities.</p> <p><u>Sound banking:</u> Banking sector risks are deemed acceptable owing to strong capital and liquidity positions. Sovereign risk remains elevated but acceptable for the size of the facility while ADIA’s financial standing is considered stable.</p>
Key Risks	<p><u>Banking sector systemic risk:</u> The COVID-19 crisis and the ensuing drop in GDP will negatively influence the banking sector [REDACTED]. <i>Mitigant:</i> The largely foreign-owned banking sector in Albania remains stable, well capitalised and liquid.</p> <p><u>Macroeconomic Environment/Political Risk:</u> The economy of Albania grew only by 2.2 per cent in 2019 and is expected to contract by 9.0 per cent in 2020 as the economy is likely to be strongly affected by COVID-19. Slower growth going forward may negatively impact the sustainability of government debt (debt / GDP stands at c. 80 per cent). <i>Mitigants:</i> The economic slowdown is mitigated by an expected recovery of the economy from 2021 onwards and by international support⁴.</p> <p><u>Borrower Credit Risk:</u> The Fund has limited resources to pay to banks’ depositors in case of a systemic crisis with a coverage at 6.3 per cent at 3Q20. <i>Mitigants:</i> The repayment profile of the SBCL has been designed to ensure that ADIA would be able to repay the facility on a standalone basis even following a full pay-out. ADIA can also request higher premium and extraordinary contributions from members if needed. The facility is guaranteed by GoA.</p>
Strategic Fit Summary	The Project is consistent with the Bank’s <u>Strategy for Albania</u> and in line with <u>Financial Sector Strategy</u> by "supporting established non-bank FIs that play a central role in the financial sector infrastructure (e.g. supporting local deposit insurance schemes)" in order to prevent potential future shocks and crises.

² Article 27 of the AEB provides the basis for this decision.

³ SBCL of €100m approved in March 2014 which expired in December 2019.

⁴ Albania will receive immediate support for health, economic and social sectors from the EU and the IMF.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	Senior debt of up to €100 million in the form of a Stand-by Credit Line in favour of the Albanian Deposit Insurance Agency, fully covered by a sovereign guarantee.
Existing Exposure	<p>Total exposure to ADIA: None.</p> <p>€100 million in the form of SBCL was signed in 2014. The facility was never utilised (i.e. no drawdowns) and it expired in 2019.</p> <p>Exposure to Albania as of 30 September 2020:</p> <p>Total: €737 million portfolio [REDACTED]</p>
Maturity / Exit / Repayment	<p>Availability period: two years from signing</p> <p>Final Maturity Date: eight years from signing</p>
Potential AMI eligible financing	None
Use of Proceeds	<p>The proposed facility will support ADIA with emergency liquidity in addition to ADIA's existing assets and premium income from member banks. It will promote financial stability in Albania and maintain confidence in the banking system in light of potential sector vulnerabilities stemming from the COVID-19 crisis. ADIA would be able to draw the credit line upon request with the purpose of making funds available as and when required by the Supervisory Authority, i.e. the Bank of Albania (the "BoA" or the "Supervisory Authority") in accordance with the laws of Albania.</p> <p>The stand-by credit line is structured as a back-up facility to be available under certain pre-agreed conditions, such as a member bank's inability to repay retail and corporate depositors or any other event resulting in ADIA's eligible liability to pay out funds to insured depositors.</p>
Financing Plan	[REDACTED]
Key Parties Involved	<p>Borrower: Albanian Deposit Insurance Agency</p> <p>Guarantor: Government of Albania (Ministry of Finance and Economy)</p>
Conditions to subscription / disbursement	<p>Conditions Precedent to Effectiveness of the line: ratification of the Loan and Guarantee Agreement by the Albanian Parliament</p> <p>Disbursement of the line will be conditional: upon the occurrence of an insurance event, as defined in the Deposit Insurance Law.</p>
Key Covenants	[REDACTED]
Security / Guarantees	Sovereign Guarantee from the Government of Albania.
Other material agreements	N/A
Associated Donor Funded TC and co-investment grants/concessional finance	<p>A Technical Cooperation (TC) Package comprising two dedicated TC assignments will support ADIA to (i) modernise and automate its pay-out and complaint management process through the upgrading and enhancement of its Data Collection and Reporting System and (ii) develop the internal capacity to introduce differential risk based premium. As part of Albania's ongoing harmonization efforts with the EU Deposit Guarantee Scheme Directive and corresponding Guidelines by the European Banking Authority (EBA), ADIA has set the above two areas among its strategic goals for 2021-2023. The TC will enable ADIA to fulfil its mandate and successfully perform its function in line with international best practice, in particular to ensure prompt reimbursement of depositors' claims within a reasonable time frame in order to preserve depositors' confidence in the banking system. The TC assignments</p>

	<p>include dedicated trainings for key stakeholders on EBA technical guidelines and internal adjustments, thereby contributing to Resilient and Well-governed TI qualities. [REDACTED]</p> <p>Amount: €270,000</p> <p>Client Contributions: Parallel contribution and in-kind</p>
--	---

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Deposit insurance is one of the key elements in any sound financial sector. Foundation of deposit insurance system in Albania, back in 2002, was particularly important for restoring public confidence in the financial system that had been destroyed by the collapse of the pyramid schemes in 1996-97. More than two thirds of Albanian citizens were victims of the fraudulent schemes, with the total loss of individual wealth estimated at around US\$1.2 billion

EBRD has successfully supported the Albanian Deposit Insurance Agency in 2014 with a standby credit line of €100 million, which expired undrawn in December 2019. The facility was not meant to be replaced, however due to the COVID-19 crisis, the authorities felt the need for a new stand-by credit line to be extended to help the country move through the crisis. The current proposal is, thus, time-bound with a shorter (two-year) availability period.

The proposal is to provide a €100 million standby credit line to ADIA, which has been tailored to the needs of the Agency and is designed to be available in the event of a bank failure, aiming to stop an isolated bank failure causing systemic issues. The Project would provide immediate liquidity to the Agency (should the need arise), but would be significantly more cost effective than a traditional loan to the Agency. The Project enables ADIA to maintain a credible balance available to withstand potential failures within the banking sector in the context of the COVID-19 crisis. [REDACTED]

The proposed transaction is expected to increase confidence in the country's financial sector and contribute to its stability by enhancing ADIA's capacity to withstand potential non-systemic bank failures by respecting its legal obligation to pay out for insured deposits. The proceeds of the standby credit line would be used to fund the pay-out in respect of insured deposits in case of specific trigger events such as (i) a member institution's liquidation after declaration of bankruptcy or (ii) the planned resolution of a bankruptcy under the 'least cost' test. In the event of the latter, the Agency may be required by the Bank of Albania (the "BoA" or the "Supervisory Authority") in accordance with the Law on Deposit Insurance in Albania to transfer its funds in the amount necessary to make up the difference between the assets and liabilities that are transferred from the subject bank to an existing performing bank (so called 'Purchase and Assumption' ("P&A")) or a bridge bank. A bridge bank resolution tool is in line with BRRD5 and is considered 'best practice' because it is expected to be less costly than direct pay-out to depositors up to the full amount of insured deposits. In all cases, the pay-outs are capped by the amount of insured deposits in the bank under resolution and shall not be greater than 50 per cent of its own total deposit compensation funds. In case of a bank resolution, ADIA remains the main actor of response as the newly established Resolution Fund is gradually building up its capacity⁶.

The proposed project with ADIA builds on the successful cooperation to date, which include important milestones such as (i) the access to emergency back-up liquidity funding through the previous EBRD stand-by credit line signed in 2014, which expired in 2019 and (ii) technical assistance that helped develop an automated system for data collection, reporting and pay-out in 2013.

⁵ Bank recovery and resolution Directive 2014/59/EU;

⁶ The Resolution Fund was established in 2018 and has accumulated so far ca. €16m

Together with financing, a comprehensive technical cooperation package, which builds on the previous technical cooperation (TC) support provided to ADIA, is designed to support ADIA with:

- (1) Modernising and automating its pay-out and complaint management process through the upgrading and enhancement of its Data Collection and Reporting System (SIRK), which currently lacks the ability to automatically make pay-outs without manual intervention, and requires a new module that will be integrated with the existing system to enable the transfer of data to an agent bank (a bank through which ADIA is paying out depositors of a failed bank) and its management, and to track potential complaints from depositors;
- (2) Developing internal capacity to introduce differential risk based premiums, in line with international best practice.

The associated TC complements wider IFI efforts. ADIA is currently being supported by the World Bank Financial Sector Advisory Centre (FinSAC), with quantitative evaluations of the coverage levels for customer deposits and advice on the ex-ante fund size target for ensuring coverage for failures of several non-systemic banks.

The Project and associated TC implement operational responses to key objectives outlined in (i) the Albania Country Strategy 2020-2025 of 13/02/2020 which states that the Bank plans to “improve the quality of institutions” through “legal/ institutional/ regulatory improvements in the areas of investment climate and governance” and (ii) the Financial Sector Strategy which outlines the need for "supporting established non-bank financial institutions that play a central role in the financial sector infrastructure (e.g. supporting local deposit insurance schemes)" in order to prevent potential future shocks and crises.

The Bank has developed a niche role in supporting the regional financial system by successfully completing deposit insurance projects in Bosnia and Herzegovina (2009 and 2020), Montenegro (2010 and 2020), Albania (2014), Serbia (2014), Bulgaria (2015) and Kosovo (2016). Most of the aforementioned credit facilities were intended to provide funding support to deposit insurance schemes and some aimed at replenishing the deposit insurance reserves and reforming the deposit insurance systems to meet best international practices. The proposed Project builds on the experience of the Bank to date, while the TC will increase ADIAs operational preparedness and readiness to better handle potential crises in the face of a global pandemic.

1.2 TRANSITION IMPACT

Primary Quality: Resilient

Obj. No.	Objective	Details
1.1	The project enhances the resolution mechanisms available (in terms of available resources) and strengthens financial stability.	The Law stipulates that up to 50 per cent of ADIA's funds, which are currently at €375m (3Q20), are to be used in the case of a resolution. The current Resolution Fund of Albania stands at €16m. With an additional €100 million through the EBRD SBCL [REDACTED], the resolution mechanism will be enhanced through significantly increased available resources, which in turn strengthens the financial stability of Albania.
1.2	The project is necessary in reaction to a crisis, for e.g. the fund being depleted due to liquidation and/or restructuring of banks and the related deposit.	In the context of the COVID-19 pandemic, the standby line is instrumental in maintaining confidence and stability of the banking sector and increase the Agency's ability to withstand any potential shocks. The SBCL helps to prevent isolated bank failures from creating panic and deposit runs on otherwise healthy banking sector. By supporting ADIA to pay-out guaranteed deposits in case of bankruptcy, SBCL is expected to increase confidence in the banking sector and to reassure depositors that the guarantee mechanism is efficient and backed by sufficient funding. The SBCL from EBRD has been sought by the Ministry of Finance, Bank of Albania and ADIA jointly as a direct countermeasure to the COVID-19 crisis. [REDACTED] Increasing premiums from banks is not a viable option during times of crisis and may not attract sufficient funding in a short period of time.
1.3	The project will be supported by a training program or capacity building action.	The Project will be accompanied by a comprehensive TC Package comprising of two assignments to strengthen ADIA's institutional capacity, which notably include tailored trainings for ADIA staff as well as that of commercial banks and agent banks on the workings of the newly automated pay-out and depositor complaint processes, internal reporting systems, as well as the risk based premium calculation process. Whereas the introduction of the latter promotes risk discipline and addresses moral hazard (by providing incentives for banks to avoid excessive risk taking), the modernisation of the pay-out and depositor complaint process shortens the pay-out time when an insurance event occurs from the current three months obligation under the law to 20 working days (with the aim to approximate progressively to the pay-out time prescribed by Article 8 of the EU Deposit Guarantee Schemes Directive ⁷). A self-assessment on the Core Principles for Effective Deposit Insurance Systems found ADIA to be largely compliant and identified only one gap in relation to Core Principle 15 pertaining to ADIA's ability to complete the pay-out process. The TC will address this gap by focusing on two areas which constitute important features of a deposit guarantee scheme to support

⁷ EU DGSD available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0049>
Article 8 of the EU DGS requires DGS to compensate depositors of a failed bank within 15 working days until the end of 2020, to be progressively reduced to within 10 working days starting from 1 January 2021 to 31 December 2023 and finally within seven working day period from 1 January 2024 onwards.

		a stable financial system safety net. The TC aim to increase ADIA's operational preparedness and readiness to better handle potential crises.
--	--	---

Secondary Quality: Well-Governed

Obj. No.	Objective	Details
2.1	It marks a significant step in strengthening the deposit insurance fund's governance by introducing new elements/processes (e.g. making the Board independent, establishing cooperation with other stakeholders etc.).	TCs will support ADIA to automate pay-out and complaint management process and introduce differential risk based premiums, thereby strengthening its governance. This will be achieved notably by introducing modern processes and enabling adequate and accurate reporting to various stakeholders (Management Board, Agent Banks, Depositors). Specifically the TC assignments will (i) introduce a modernised pay-out module able to track the payment process from pay-out list receipt by liquidator to depositor verification and to the validation of the payment by Agent Bank; (ii) introduce a depositor complaints processing module for disputed amounts or possible discovered deposits, (iii) modernise and upgrade the current Data Collection and Reporting System (improved data availability, security and efficiency for various reporting requirements to internal and external stakeholders) as well as (iv) introduce a differential risk based premiums a review of the regulatory framework and a review of possible changes to regulation/legislation, where necessary, to enable such implementation. With a strengthened operational capability ADIA the TC will help ADIA fulfil its mandate and successfully perform its function in line with international best practice.

Delivery Risks

The key risk lies in the credibility of the deposit protection system. Weakening of the business environment and the banking sector may result in a potential liability for the Agency which will put strain on its ability to provide coverage in case of multiply and systemic bank(s) failure. The EBRD credit line and ADIA's ability to raise additional funds should mitigate this risk and increase confidence in the deposit insurance system and banking sector.

1.3 ADDITIONALITY

Identified triggers	Description
<i>None.</i>	<i>N/A</i>

Additionality sources	Description of additionality sources
Financing - EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions , e.g. a longer grace period that is rarely available in the market, restricted foreign currency financing etc. Such financing is necessary to structure the project.	Structure - The Project will help to ensure better resilience of the financial system in Albania with an increased capacity of ADIA's funds to effectively engage in the payment of insured deposits should one or several financial institutions fail. - The facility is structured to serve as an emergency back-up financing facility in the form of long-term SBCL of a significant amount .

<ul style="list-style-type: none"> - EBRD offers a large volume instrument that fills a market funding gap and is required to structure the project. - Crisis response: EBRD financing effectively bridges a financing gap due to adverse market conditions. - Public sector: EBRD investment is needed to close the funding gap. At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them. 	<ul style="list-style-type: none"> - The proposed SBCL is currently the only access to emergency funding ADIA can have in place.
<p>Risk mitigation</p> <ul style="list-style-type: none"> - EBRD provides comfort to clients and investors by mitigating non-financial risks, such as country, regulatory, project, economic cycle, or political risks. 	<ul style="list-style-type: none"> - The Project mitigates economic and country risks. In particular, it helps support the confidence in the financial system and prevent isolated bank failures from creating panic and deposit runs on otherwise healthy banks. In Albania banks are primarily funded through deposits (92.7 per cent of total liabilities in 3Q20), which makes preserving depositors' confidence crucial for the stability of the banking sector. Moreover, the TC element of the Project helps ensure timely pay-out in case of a bank failure to the depositors, particularly in the context of a global pandemic.
<p>Knowledge, innovation, and capacity building</p> <ul style="list-style-type: none"> - EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the project's objectives, including support to strengthen the capacity of the client. 	<ul style="list-style-type: none"> - The TC associated with this Project supports ADIA with expertise and transfer of skills and knowledge, currently not available to ADIA, with a view to improving its operational capacity and capabilities in line with international best practice. Updated and improved internal processes and systems, including for the pay-out process and statistical reporting, will improve the performance, data availability and security of the system's services, as well as the efficiency of its pay-out process to depositors when an insurance event occurs. The work on the risk based premium promote risk discipline and address moral hazard and will approximate ADIA's deposit insurance management with international standards.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability/ Effect	Risk mitigation factors
<p>Banking sector systemic risk</p> <p><i>Covid-19 may result in higher NPLs and additional provisioning weighing on banks' profitability and liquidity</i></p>	Low/ Medium	<ul style="list-style-type: none"> - The banking sector in Albania is currently stable with a strong capital and liquidity position. [REDACTED] - System-wide liquidity crisis remains remote as banks have significant buffers in terms of liquid assets. EU bank subsidiaries also benefit from parent liquidity and capital support, if needed. <p>[REDACTED]</p>

Sovereign / Country risk <i>Albania has tight fiscal space with high public debt[REDACTED] and twin deficit issue. The Covid-19 lockdown can result in serious public debt crisis with expensive or limited access to finance.</i>	Medium/ High	<ul style="list-style-type: none"> - This is mitigated by an expected recovery of the economy and the international support. Albania received support for the health, economic and social sectors from the IMF and EU. The government also issued a €650m Eurobond. Moreover, international donors have committed over €1 billion over 2020-2021 toward reconstruction efforts (in context of the November 2019 earthquake). - Economy is expected to start recovering from 2021 [REDACTED]
Credit risk of ADIA <i>The Fund has limited resources to pay banks' depositors in case of a systemic crisis. [REDACTED]</i>	Low/ Low	<ul style="list-style-type: none"> - ADIA has demonstrated sound operational and financial capacity over the last years, and no pay-out event has occurred. [REDACTED] - The repayment profile of the SBCL has been designed to ensure that ADIA would be able to repay the facility on a standalone basis with existing regular premium contributions, even following a full pay-out. In addition to this, ADIA also has available advance premium and special contribution tool based on the Law to accelerate the collection of funds, if necessary. ADIA's capacity in this area will be strengthened by the planned TC project. - The facility will be guaranteed by the Government of Albania.

2. MEASURING / MONITORING SUCCESS

TI indicators, primary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	Donor
1.1	Measure of deposit insurance fund's coverage: coverage ratio	ADIA's improved coverage ratio as a result of regular contributions from member banks from its 3Q 2020 position	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Measure of deposit insurance fund's coverage: coverage size	ADIA's improved coverage size as a result of regular contributions from member banks from its 3Q 2020 position	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Operational performance of the client: insured deposit growth	Insured deposit growth as a result of depositor confidence from its YE 2019 position	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.4	Tailored training programme developed and implemented	(1) Training delivered for key ADIA employees, as well as Agent banks employees to enhance understanding of pay-out process, including of the newly automated system for this purpose, and to ensure	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

		efficiency in case a pay-out event occurs. (2) Training delivered for key ADIA employees, as well as key employees at commercial banks and the Bank of Albania on the EBA technical guidelines on Risk Based Premiums, as well as the internal adjustments made for implementation, including data processing and the calculation workflow.				
--	--	--	--	--	--	--

TI indicator(s), secondary Quality: Well-Governed

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	Donor
2.1	Practices of the relevant stakeholder improved (deposit insurance)	Automation of ADIA's pay-out process to significantly shorten the pay-out time when an insurance event occurs from the current three months to 20 working days	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Corporate governance improved: Control Environment and Processes	(1) Module for pay-out process automation implemented and working (2) Module for depositor complaint process implemented and working	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.3	Institution-level capacity strengthened in target area	Completion of preparatory work for the implementation of the risk based premium approach: (i) an assessment of risks data availability and quality and establishment of a database, (ii) a review of the regulatory framework and advise on necessary changes in regulation of legislation, where necessary	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

An independent agency, the Albanian Deposit Insurance Agency ("the Agency" or "ADIA"), was established with the adoption of the Law on Deposit Insurance in March 2002, to administer a compulsory, pay-box insurance system with limited coverage for local and foreign currency deposits of private individuals in the banks, Saving and Credit Associations ("SCAs") and branches of foreign banks operating in Albania. Its mission is to protect individual

depositors and to pay out insured deposits in case of bank failure, with an overarching objective to strengthen the stability of the banking and financial system in Albania.

The deposit insurance scheme has three objectives: (i) protect small depositors, (ii) strengthen the stability of the banking and financial systems, and (iii) increase public trust in those systems. To date ADIA has received technical support from Financial Services Volunteer Corps (“FSVC”), United States Agency for International Development (“USAID”), the World Bank, FDIC and EBRD in various aspects of implementing best practice in deposit insurance field. The assistance received was mainly focused on the area of the legal and regulatory framework as well as the information technology infrastructure of the institution.

The membership in ADIA is obligatory for all the banks operating in Albania, including branches of foreign banks conducting activity in the country and since 2017, also deposit-gathering Saving and Crediting Associations (SCAs). ADIA covers all types of deposits (current and savings accounts and time deposits) of individual traders and companies in local or foreign currency up to ALL 2.5 million (equivalent to approx. €20,000) per depositor per bank and up to ALL 2 million (equivalent to approx. €16,000) per depositor per SCA. Funding of ADIA is primarily provided through the collection of mandatory ex-ante premiums and through investment activities. The Agency charges a flat rate premium level based on insured deposits: the current premium rates consist of 0.125 per cent quarterly for banks and 0.075 per cent for SLAs quarterly. Funding can also be obtained through extraordinary premiums and stand-by credit lines from International Financial Institutions, but ultimately the Ministry of Finance is responsible for funding the Agency from the State Budget within three days from the Agency’s request in case of insufficient resources under the ADIF. Additionally, since January 2018, ADIA administers the Resolution Fund, which is implemented and supervised by the Bank of Albania (BoA).

Constant deposit growth has led to €5.9 billion of deposits insured by ADIA at Q3 2020 [REDACTED].

The deposit insurance law gives a clear definition of ADIA’s mandate as the core administrator of the scheme with the primary objective to compensate depositors and secondary objectives to protect the interests of depositors and to preserve the trust in the banking system. Following the approval of the Law No 133/2016 “On the recovery and resolution of banks, in the Republic of Albania”, ADIA’s mandate was broadened with the responsibility to financially contribute in the event of the application of the resolution tools envisaged under the Law⁸ and upon the order of the Resolution Authority (BoA), as well as the responsibility to act as the administrator of the resolution fund.

Ownership

The legal capital of ADIA amounts to ALL 400 million (€3.2 million equivalent) and is entirely contributed from the state budget, deposited by the Ministry of Finance of Albania.

Corporate Governance and Management

ADIA has a two-tier board structure. It is governed by the Board of Directors (“BoD”) and managed by the General Director, who cannot be the Chairman of the BoD. The appointment

⁸ ADIA’s contribution for the purposes of resolution shall not be greater than 50 per cent of its own deposit compensation funds, at the moment the order from the Resolution Authority is received, and in any case not more than the losses ADIA would have incurred under normal insolvency proceedings.

of the General Director is done by the BoD and ratified by the Parliament. The composition of the BoD is determined by the Law on Deposit Insurance and consists of five members: two appointed by the BoA, two by the Ministry of Finance and one by the Institute of Authorized Chartered Auditors of Albania. The Agency has 29 employees.

3.2 Guarantor

The Loan to ADIA will be fully guaranteed by a sovereign guarantee from the Republic of Albania represented by the Ministry of Finance and Economy (“MFE”) (the total amount of €100 million is covered upfront, upon ratification from the Parliament).

Overall the economy of Albania grew by 2.2 per cent in 2019, down from 4.1 per cent in 2018. The decrease was influenced by weaker power generation combined with the high base effect from last year, and a decline in construction output. Tourism remained an important contributor to growth. Meanwhile, investment recorded a mild decline year-on-year in the first three quarters, which deepened to 12 per cent year-on-year in the fourth quarter due to the November 2019 earthquake. Average inflation in 2019 was just 1.4 per cent, still below the central bank’s target of 3 per cent for the eighth consecutive year, and despite the continuation of the historically low policy rate of the Bank of Albania, at 0.5 per cent. [REDACTED]As per the Bank’s latest Regional Economic Prospects, the Bank forecasts Albania’s real GDP to contract by 9.0 per cent in 2020 as the economy is likely to be strongly affected by the COVID-19 pandemic due to its high reliance on tourism and exports of low-value added intermediate goods to Italy’s fashion industry. The likely reduction in remittances is also expected to act as a drag on growth. In 2021 the economy is expected to rebound by 4.5 per cent on the assumption that virus containment measures are short-term, with recovery from the November 2019 earthquake providing a further boost. In addition, the EU has announced financial support for Albania’s health, economic and social sectors and the IMF has approved US\$191 million in financial assistance. In June 2020, the Republic of Albania successfully priced a new seven year €650 million international bond; the transaction marked Albania’s successful return to international capital markets, following prior issuances in 2010, 2015 and 2018. In spite of challenging market conditions, the issuance attracted a very strong order book and the bond was several times oversubscribed. *A more detailed macroeconomic update can be found in Annex 3.*

Key macroeconomic forecasts for Albania

[REDACTED] Albania has not defaulted or delayed interest payments on any of its indebtedness since 19919. The country has certain foreign indebtedness that was originally incurred before 1992 by previous governments and which has been rescheduled on concessional terms in the 1990s under Paris Club rules with different creditor groups. The most significant of these restructurings related to US\$373 million, which was owed to banks and insurance companies in Germany and France, as part of trade finance agreements. In 1993, this debt was resolved by agreeing with creditors a haircut on the amount owed. With the help of the international community, Albania followed a pro-active approach for debt resolution setting up a government committee for negotiating external debt and by 2000 an agreement was reached with all remaining creditor groups on the treatment of legacy debt.

9 Prospectus of the Republic of Albania for its €500m Eurobond issuance due in October 2025, published in October 2018

Despite the crisis, the EU opened in March 2020 negotiations with Albania for its accession, while Moody's confirmed Albania's B1 Stable credit profile during October 2020¹⁰.

As per the Moody's report, the rating is constrained by structural challenges, including relatively narrow export base and Albania's investment environment, the fiscal profile of the sovereign and the vulnerability to external shocks. However, progress has been made in strengthening the quality of institutions in pursuit of EU accession, in particular through judicial reforms. Albania's credit profile is also vulnerable to external shocks, such as environmental risk and the coronavirus pandemic. Fiscal metrics remain a further credit challenge, as seen by relatively high public debt.

4. MARKET CONTEXT

4.1 COVID-19 ECONOMIC IMPACT AND MEASURES & MACROECONOMIC OUTLOOK

The Government of Albania ("GoA") introduced lockdowns in March 2020 as a response to the outbreak of the COVID-19 pandemic and imposed severe lockdown measures such as movement restrictions and closure of a large number of SMEs and corporates, having strong economic consequences for the already weakened Albanian economy. In May 2020, against the backdrop of low infection rates, the GoM introduced a plan for gradual lifting of lockdown measures, including the re-opening of hotels, restaurants and clubs amongst the first businesses in May 2020.

On 17 March 2020 the Government and BoA announced a three month (extended with other three months) payment holiday (for those applying and at banks discretion for approval) on repayment of all debt to banks by both retail and corporate clients. This was to support the economy and especially micro entities and SMEs that are facing liquidity squeeze. Notwithstanding the three economic stimulus packages announced by the Albanian Government, the economy is likely to contract sharply in 2020 as it faces disruptions to value chain linkages, as well as a downfall in tourism (which alongside with travel contributed to 27.3 per cent of GDP in 2019). Moreover, the impact on Albania's main trading partners, such as Italy and the Central European economies, is expected to further negatively influence GDP growth throughout the year. The speed of recovery will depend on the introduction and effectiveness of further government stimulus measures. *See Annex 4 for more details on economic impact of Covid-19.*

4.2 BANKING SECTOR AND REGULATORY FRAMEWORK OVERVIEW

Banking Sector Overview:

The Albanian banking sector manages approximately 90 per cent of total financial assets in Albania. Total assets amounted to €12.6 billion at 3Q 2020 as per IFRS, up 5 per cent compared to YE2019. In the last few years, the banking system has gone through a series of consolidations, which have reduced the number of banks from 16 in Q3 2018 to 12 by 3Q 2020.

The system remains highly concentrated, with the top five banks accounting for almost 75 per cent of the total banking assets – BKT is the largest with 26.3 per cent market share by total

¹⁰ https://www.moodys.com/research/Moodys-Albanias-credit-profile-constrained-by-weak-fiscal-profile-and--PBC_1251972

assets, followed by Credins Bank (15.6 per cent) and RBAL (14.8 per cent). The sector balance sheet is liquid with investments in securities at 36.4 per cent and net loans at only 36.1 per cent of total assets. Moreover, Albanian banks are well-capitalised with regulatory CAR at 18.1 per cent¹¹ (vs. national regulatory minimum of 12 per cent). Customer deposits remain the main source of funding, accounting for 92.7 per cent of total liabilities in 3Q 2020; the average loan/deposit ratio was 43.8 per cent. NPLs continued their downward trend, standing at 8.1 per cent at 3Q 2020 (vs. YE19: 8.4 per cent, YE18: 11.1 per cent), following write-offs imposed by BoA.

Due to the COVID-19 pandemic, in mid-March 2020, the Government and BoA announced a three month payment holiday (for those applying and at banks discretion for approval) on repayment of all debt to banks and MFIs by both retail and corporate clients; which was extended until end August. Moreover, the BoA lowered the key policy interest rate (repo rate) by 50bps to 0.5 per cent in March 2020 and restricted dividend distribution until end 2020. Furthermore, the Government declared a €200 million state guarantee scheme aimed at incentivising commercial bank lending to SMEs amidst the crisis.

Regulatory Environment: The BoA has continued the revision process of the regulatory framework in accordance with the amendments made to the banking law adopted in 2011, the Basel Committee recommendations, EU directives and developments in the Albanian banking system. The aim is to further strengthen the supervisory process and implement a more comprehensive treatment of the full range of risks assumed by the banking system. Progress made to date include introducing a new standard of calculating the capital requirements in 2015 in accordance with Basel II, improving the recognition and mandatory write-off of NPLs that have been classified as “lost” for three years or longer, as well as amended regulations on “the risk management from large exposures of banks”. Most recently, the BoA regulation on the liquidity coverage ratio that entered into force on 1 March 2020 was another key reform aligning Albania’s framework on liquidity risk management in the banking sector with that in the EU. Albania has been aligning its prudential framework for banks with the EU’s, including as part of its accession process. The BoA is committed to continue regulatory reform, with the ultimate goal to achieve a positive equivalence assessment (EA). To this end, the BoA formally requested EBRD’s assistance to conduct a TC assignment, which will help identify remaining gaps in Albania’s prudential framework for banks relative to EU regulation and support the BoA during any future EA process.

5. FINANCIAL ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

¹¹ As of June 2020 (the latest published data)

5.3 PROJECTED PROFITABILITY FOR THE BANK¹²

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised FI (ESP 2019). This is a Deposit Protection transaction with a previous client, the Albanian Insurance Deposit Agency (ADIA), an independent public entity responsible for providing deposit insurance for other financial institutions. Since there are no adverse environmental and social issues associated with deposit insurance, environmental & social management systems as per PR9 are not required. ADIA will be required comply with the 2019 E&S Policy specifically PRs 2 and 4 and update their existing procedures to reflect this if necessary. The client will be required to report annually on environmental and social matters, with a main focus on PR 2 and 4 reporting. There is no GET share associated with this transactions.

6.2 INTEGRITY

In conjunction with OCCO, integrity due diligence was undertaken on the Albanian Deposit Insurance Agency (“ADIA”), its shareholder, senior management and other relevant parties. The review did not identify material integrity concerns and it was therefore concluded that this project does not pose unacceptable reputational risk to the Bank. [REDACTED]

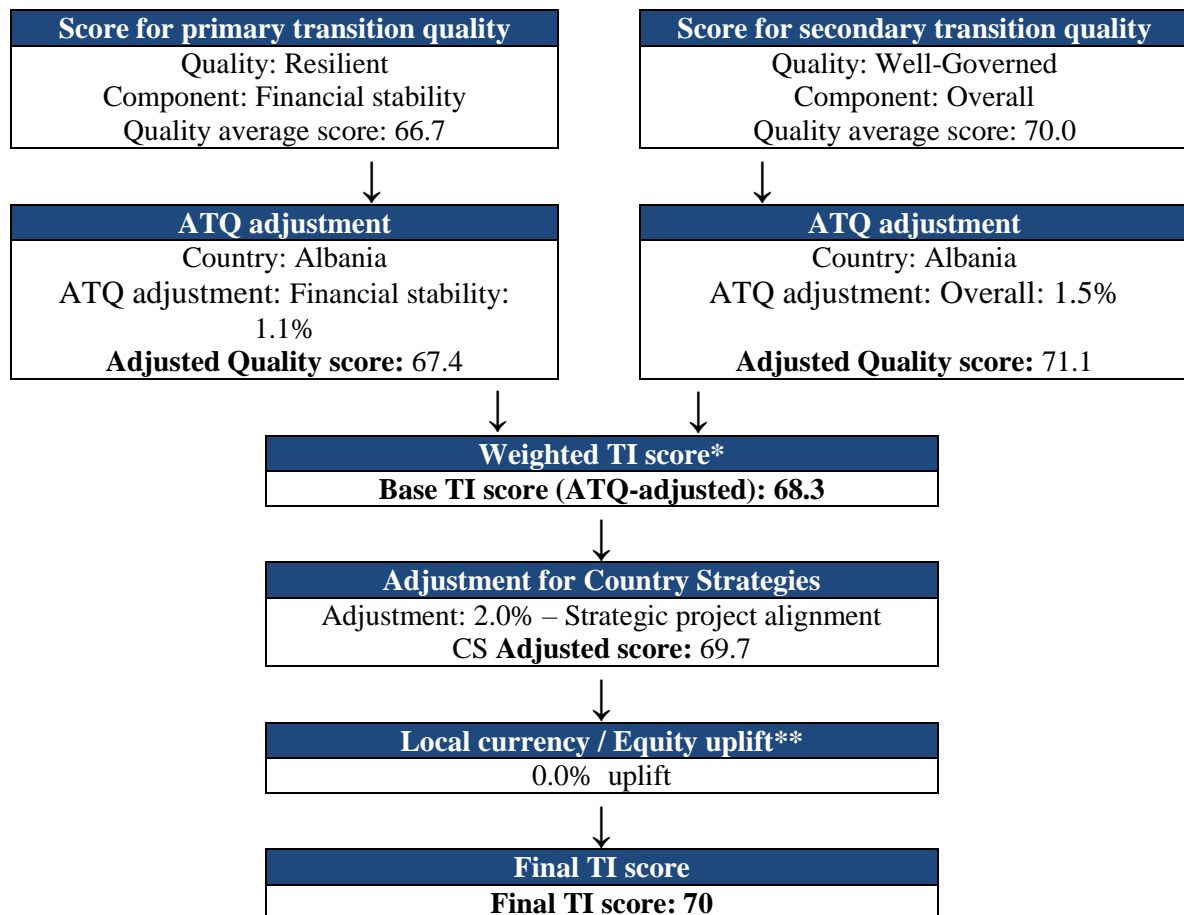
All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the project and the project files contain the integrity checklists and other required documentation which has been properly and accurately completed to proceed with the project.

¹² **Note:** As Required Capital % is the measure of required capital vs. operating assets, in case there is no planned disbursement (no operating assets), ratio is N/A.

ANNEXES TO OPERATION REPORT

ANNEX 1	TRANSITION IMPACT SCORING CHART
ANNEX 2	FINANCIAL ANALYSIS OF ADIA
ANNEX 3	MACROECONOMIC OUTLOOK
ANNEX 4	COVID-19 MEASURES
ANNEX 5	BANKING SECTOR OVERVIEW
ANNEX 6	ADIA I TRANSITION IMPACT

ANNEX 1 - TRANSITION IMPACT SCORING CHART



*The Primary Quality score is weighted 75 per cent for the calculation of the Base TI Score. The Secondary Quality is weighted 25 per cent.

** Please remove this box if the financing uplifts are not applicable.

ANNEX 2 – FINANCIAL ANALYSIS OF ADIA

[REDACTED]

ANNEX 3 – MACROECONOMIC OVERVIEW

Macroeconomic Overview

The Covid-19 pandemic is affecting the Albanian economy primarily through its negative effect on tourism, which normally contributes to more than a fifth of the country's GDP. According to the Albanian Tourism Union, around 5 million overnight stays during the summer season have been cancelled this year. [REDACTED]

In March 2020, the EU decided to prepare the framework for opening EU accession negotiations with Albania. Moody's confirmed Albania's B1 Stable credit profile during October 2020¹³.

ANNEX 4 – COVID 19 MEASURES

Like in most countries hit by the pandemic, severe lockdown measures to contain the spread of the virus were undertaken by the Albanian Government in mid-March 2020. This would translate into an expected -9 per cent GDP contraction in 2020. However, the economy is expected to rebound by 12.0 per cent in 2021 on the assumption that virus containments measures are short-lived, with recovery from the earthquake providing a further boost to the economy (EBRD estimate).

In response to the COVID-19 crisis, the Albanian government (“GoA”) has adopted two support packages to businesses, healthcare and people in risk, worth circa US\$650 million in total. The packages include, among others, emergency payment for employees in tourism and those dismissed from large companies, income support for micro businesses and self-employed and two guarantee schemes through local banks targeting businesses affected by the crises. The first guarantee included an approx. US\$100 million of sovereign guarantee scheme for local banks to lend to private entities, which have been affected by COVID-19, for salary paying purposes. The guarantee would cover 100 per cent of the principal repayments only. Followed by the second guarantee package of circa US\$130 million, which was made available through risk sharing with the 12 local banks to guarantee both working capital and capex LCY lending. Maximum guaranteed amount is 60 per cent (principal only). Furthermore, six months holidays for loans have been introduced from Bank of Albania (BoA) for those applying for it, in addition to some easing measures in terms of restructuring loans. A summary of the measures implemented so far is provided below.

On 08 May 2020, on the back of low infection rates and no fatalities for over a 10-day period, the Government of Albania introduced a de-confinement plan, which envisaged phased in easing of lockdown measures until 01 June 2020. Subsequently, the economy has returned to its normal course of business, with some minor limitations in terms of safety measures.

Monetary Policy Response

- Bank of Albania lowered key policy interest rate (repo rate) by 50 bps to **0.5 per cent** on 25 March 2020.
- BoA is committed to provide unlimited liquidity to the banking system. Hence allowing local banks to borrow any amount required in LCY, at the repo rate, against collateral. The acceptable collateral is usually GoA securities (T-Bills and Bonds), which is circa 36 per cent of the banking system total assets at Q3 2020. The tenor is usually one week, but can be longer upon request.

¹³ https://www.moodys.com/research/Moodys-Albanias-credit-profile-constrained-by-weak-fiscal-profile-and--PBC_1251972

Economic Stimulus (chronological order)

- The **first economic stimulus package** introduced by the Government included:
 - ✓ US\$100 million, through the instrument of a sovereign guarantee for companies that were having difficulties in paying employee salaries. (*see below for details*)
 - ✓ US\$25 million available to the Ministry of Health, for medical equipment and materials or support for medical staff.
 - ✓ US\$65 million allocated to the neediest segments of the population including very small businesses:
 - Minimum wage of US\$240 for up to three months to those laid off by small businesses (Turnover less than US\$130,000 and the self – employed).
 - Doubled Social Assistance and unemployment payment benefits.
 - ✓ US\$20 million, made available to the Ministry of Defence for Humanitarian Operations.
 - ✓ US\$10 million allocated as a reserve fund to the Council of Ministers for any unforeseen emergency.
 - ✓ Permanent write-off of interest and penalties on late payments for active debtors of electricity payments etc. with a financial effect of up to US\$150 million.
 - ✓ Postponement in the submission of financial reports till 31 July 2020 for businesses which submit their balance sheets to NBC either electronically or as a hard copy. Up to six months deferral of Income tax payments for different business categories depending on turnover.
- The **second economic stimulus package**, introduced on 13 April by the Government, included:
 - ✓ **US\$130 million in sovereign guarantee**, made available through risk sharing mechanism between government and banks (*please see below*).
 - ✓ One off payment of US\$370 to laid-off employees due to COVID-19 that did not benefit from the first package. The beneficiaries included:
 - employees of companies with a turnover below US\$125,000, whose activity was closed by GoA order;
 - certain employees of companies that were allowed to carry out limited activities until April 10, 2020, etc.
 - ✓ **Postponement of income tax payment deadline:** The new deadline for all companies, except those operating in the banking system, telecommunications, state owned companies and companies engaged in the supply chain of essential goods, shall be after 30 September 2020. Whereas, the deadline for enterprises operating in tourism, textile, (fason), call centres and small businesses with a turnover of up to US\$125,000 per year, is postponed to 2021.

Banking System Support / Measures

- **Introduced a three + three month payment holiday (“Moratorium”)** for loans until 31 August 2020, available to the businesses applying for it. Approval of such deferral was left at banks’ discretion.
- **Suspension of profit distribution of banks** until 31 December 2021. Profits include: the allocated profit from the previous periods; the realised profit in 2020; and the profit to be realised during 2021.
- **Easing disposition for restructured loans;** i.e. local banks can restructure loans until March 2021, based on the business needs of their clients, without the need to make provisions or deteriorate the client’s classification.

- Postponing the effectiveness date of the new classification rules for restructured loans by one year, i.e. until January 2022. During 2021, banks would be able to use the same classification rules for restructured loans, as they were prior the pandemic.
- One-year extension to the effectiveness date of the regulation "On the extrajudicial measures taken by banks towards borrowers that face financial distress" until January 2022. This would give banks more time to find a suitable solution for borrowers in financial distress.
- The council of ministers approved on 06 April, as part of economic stimulus **package no 1**, a law “**On the sovereign guarantee scheme for local banks to lend to private entities, which have been affected by COVID-19, for salary paying purposes.**” The total amount of the sovereign guarantee was ca. **US\$100 million**, split amongst local banks.
- A second government guarantee scheme of **US\$130 million** was made available through risk sharing with the local banks. It was launched in mid-May.
 - ✓ The second guarantee scheme will enable lending to traders and companies **for working capital and investments purposes**, subject to companies being directly or indirectly affected by the lockdown undertaken by the government as part of the measures against the spread of COVID-19.
 - ✓ The agreements will be executed, managed and monitored by the Ministry of Finance and Economy (MFE), which is eligible to - after 90 days from the signing date of the relevant guarantee agreements - propose the reallocation of the guarantee amount, from the bank that has not used all its dedicated amount of the guarantee to other banks.
 - ✓ Maximum guaranteed amount is 60 per cent (principal only).
 - ✓ No refinancing is allowed and sub-borrowers cannot benefit from more than one guarantee scheme.

ANNEX 5 – BANKING SECTOR OVERVIEW

The banking sector manages approximately 90 per cent of total financial assets in Albania. Other non-bank financial institutions in the country, licenced and supervised by BoA, include: microcredit institutions (eight), leasing and factoring companies (14), money transfer and payment operators (seven), altogether making up circa 3.5 per cent of total assets in the financial system. Other financial institutions licenced and supervised by the Financial Supervisory Authority include: credit and saving associations (“SCA”) (14), credit saving union (one), insurance companies (12), pension funds (four), investment funds (eight), and Albanian Stock Exchange (ALSE), all together making up for circa 7.3 per cent of total assets.

The Albanian banking sector total assets amounted to €12.6 billion in September 2020 as per IFRS, increasing by 5 per cent compared to YE2019. In the last years, the banking system has gone through a series of consolidations which has reduced the number of banks to 12 up from 16 in Q3 2018. After the merger between Intesa Sanpaolo Albania and Veneto Bank and ABI Bank and NGB Bank that took place in 2018, in 2019 were finalised the acquisition of (i) Tirana Bank from Balfin Group/ Komercijalna Bank, (ii) Societe Generale Albania from OTP (iii) ICB from Union Bank. Whereas, Credit Bank of Albania (the smallest bank in the country with only 0.1 per cent market share) applied for voluntary liquidation in mid-2019 and exited the Albanian banking sector.

The system remains highly concentrated, with the top five banks accounting for almost 75 per cent of the total banking assets – Banka Kombëtare Tregtare (BKT) is the largest with approximately 26 per cent market share as of Q3 2020 IFRS reporting. [REDACTED]

The banking system as a whole managed to remain profitable in the third quarter of 2020 with ROA and ROE for the sector at 0.96 per cent and 9.01 per cent respectively, although net result differs between IFRS and BoA standards due to differences in methodologies for calculating provisions.

As per IFRS reporting, cumulative net earnings amounted €61.9 million as of September 2020 (vs. €67.3 million in Q3 2019) despite the banks taking a conservative approach and significantly improving provisioning charges starting from Q2 2020. NPLs (PAR 90) have been on a decreasing trend, amounting to 8.1 per cent at Q3 2020 (YE 2019: 8.4 per cent), following write-offs imposed by BoA. Important to note that this ratio has been constant in the banking system since end-March 2020 after the central bank introduces the payment moratorium and no due dates would be recorded for those borrowers affected by the pandemic.

Albania's deposit insurance scheme covers all types of deposits (current and savings accounts and time deposits) of individuals in local or foreign currency up to €19,000 per depositor per bank and up to €15,000 per depositor per SCA. The current level of annual insurance premium paid by the member banks is 0.5 per cent of the insured deposits.

In June 2019, the Supervisory Board of the Bank of Albania adopted the Regulation on macro-prudential capital buffers, which supports the use of conservative capital buffer (0.5 per cent), countercyclical capital buffer (0.25 per cent), capital buffer for systemically-important banks (at least 0.5 per cent and becomes effective as of March 2020), and capital buffer for systemic risk as macro-prudential policy instruments. Its implementation deadline is 01 January 2024. This Regulation will serve the purpose to align the macro-prudential policies with EU directive and also with the recommendations of the Assembly of the Republic of Albania on the activity of the Bank of Albania.

In response to the COVID-19 crisis, the Albanian government ("GoA") has adopted two support packages to businesses, healthcare and people in risk, worth €560 million in total. The packages include, among others emergency payment for employees in tourism and those dismissed from large companies, income support for micro businesses and self-employed, and two guarantee schemes through local banks targeting businesses affected by the crises. The first guarantee was an approx. €87 million of sovereign guarantee scheme for local banks to lend to private entities, which have been affected by COVID-19, for salary paying purposes. The guarantee would cover 100 per cent of the principal repayments only. Followed by the second guarantee package of circa €120 million, which was made available through risk sharing with the 12 local banks to guarantee both working capital and capex LCY lending. Maximum guaranteed amount is 60 per cent (principal only).

- Bank of Albania ("BoA") on the other hand :
 - **Introduced a three + three month payment holiday ("Moratorium")** for loans until 31 August 2020, available to the businesses applying for it. Approval of such deferral is left at banks' discretion.
 - **Has restricted dividend payments until the end of 2020.**
 - Is committed **to provide unlimited liquidity to the banking system.** Hence, allowing local banks to borrow any amount required in LCY, at the repo rate, against eligible collateral. The acceptable collateral is usually GoA securities (T-bills and bonds), which is circa 37 per cent of the banking system total assets at Q2 2020. The tenor is usually one week, but can be longer upon request.

- **Has also introduced some easing measures in terms of restructuring loans;** such as an easing disposition for restructured loans; I.e local banks can restructure loans until December 2020, based on the business needs of their clients, without the need to make provisions or deteriorate the client's classification.
- On 08 May 2020, on the back of low infection rates and no fatalities for over a 10-day period, the Government of Albania introduced a de-confinement plan, which envisaged phased in easing of lockdown measures until 01 June 2020. Subsequently, the economy has returned to its normal course of business, with minor limitations in terms of safety measures (obligatory to wear masks indoors and outdoors).

ANNEX 6 – ADIA I TRANSITION IMPACT

[REDACTED]