



Vienna Initiative

Addressing NPL

Gent SEJKO
Governor
Bank of Albania

Content

- Banking System
- NPL Evolution
- Root Causes
- Present Concerns
- Awareness Increase
- Measures Undertaken
- Challenges Ahead

16 Banks

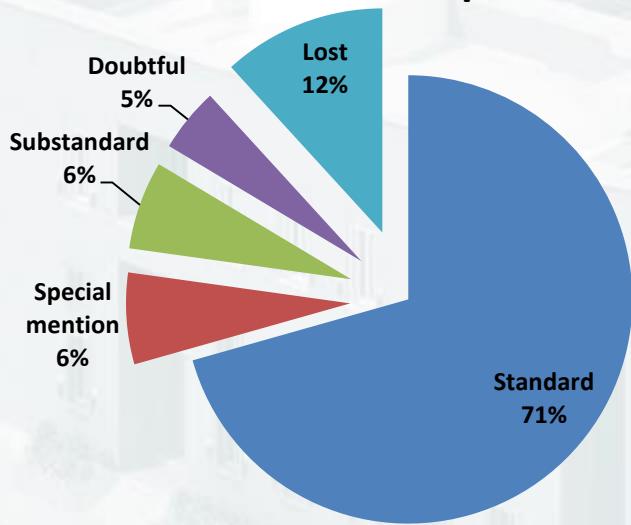


Banking System

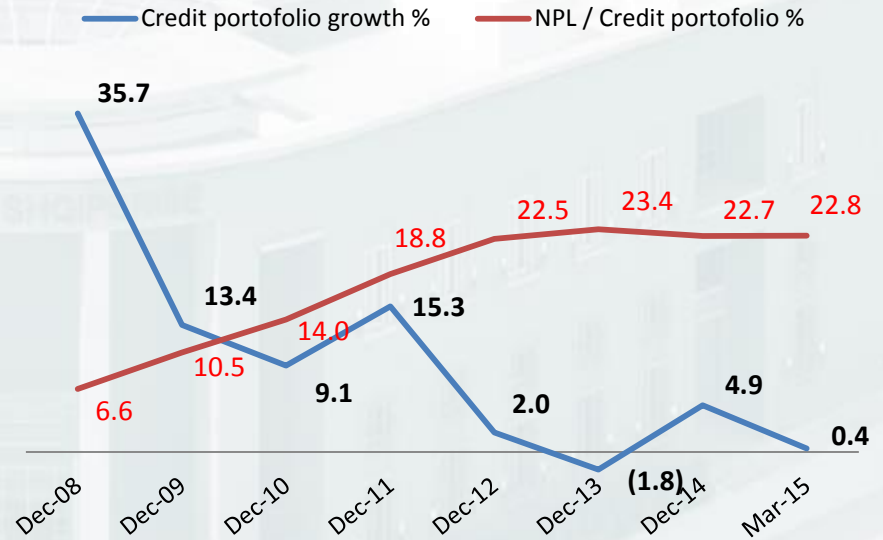
- Total Assets - 9.3 Billion Euro
- Credit Portfolio - 4.3 Billion Euro
- Loan to Deposit - 72.7%
- NPL - 0.98 Billion Euro (22.8%)
- Capital Adequacy Ratio - 15.8%
- Liquidity Indicator - 50%
- ROA - 1.8%
- ROE - 20.3%

NPL Evolution

Portfolio composition

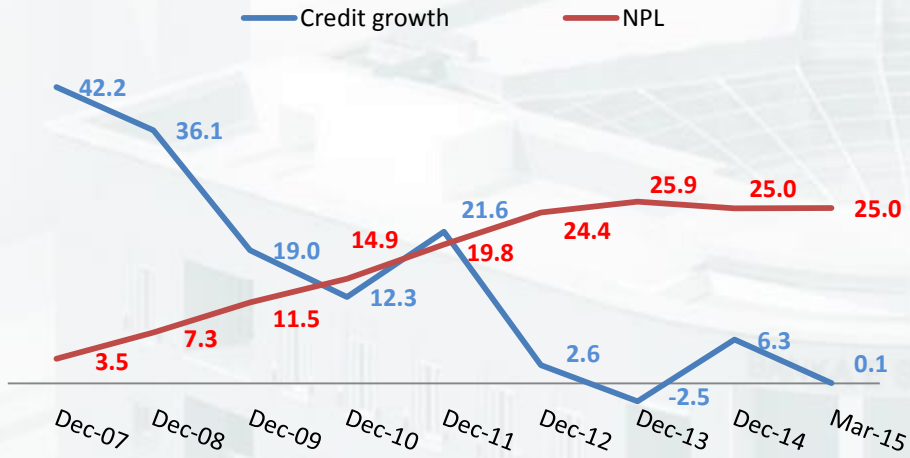


NPL growth vs Credit growth

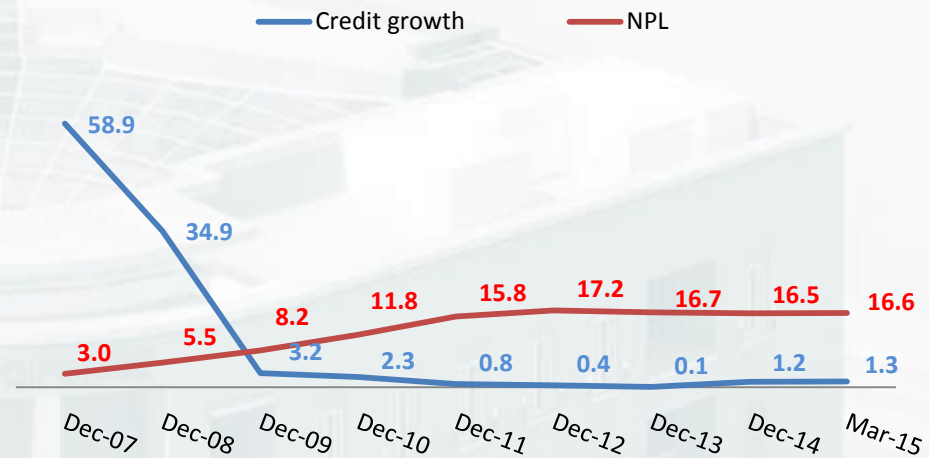


NPL Evolution

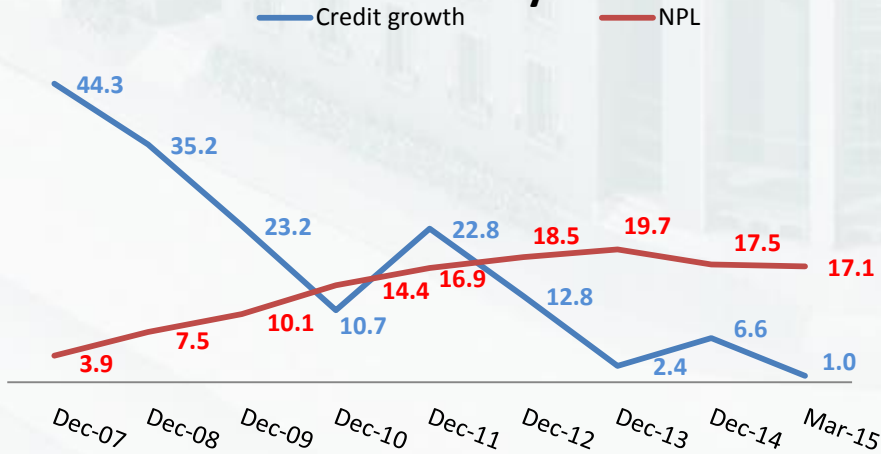
Businesses



Individuals



Local currency



Foreign currency



Root Causes

- Accelerating pace of lending growth during 2000 - 2008 (+30% per year)
- Not efficient tailoring of the lending offer (inappropriate products)
- High concentration in industries which were later frozen (construction)
- Lacking HR lending capacities and management (expertise and integrity)

Present Concerns

- High NPL level - although no increase in the last 2 years
- Weak credit growth - deleveraging behaviors are present
- High liquidity **vs.** Weak demand **vs.** Banks' tightened criteria
- Poor and insufficient restructuring of loans
- Weak collateral execution environment
- Unfavorable regional and local macroeconomic factors

Awareness Increase

public and individual messages

Bank of Albania has continuously claimed:

- Risk management enhancement
- Proactive restructuring of loans
- Provisioning and collateral execution
- Continue lending to avoid pro-cyclical effects
- Increase capital to buffer adverse scenarios

Measures Undertaken

Regulatory Changes

- Incentivizing the credit growth:
 - Reduced capital requirements for loan growth between 4 - 10 %
 - Increased capital requirements for new investments to non-residential counterparties
 - Measures for 2013 - 2014 further expanded even in 2015
- Released regulatory requirements for early restructured loans
- Large exposures management - BoD of Banks responsible
 - Risk assessments based on certified financial statements
- Obligatory write-offs for lost loans older than 3 years

Measures Undertaken

Additional Actions

- Large reduction of base interest rate - down to lowest historical level of 2%
- Propelled the clarification of tax definition on bad debt
- Assisted civil procedures and code improvements for collateral execution
- Published guidelines for loan restructuring and property evaluation
- RRP* preparation for corporate borrowers through FinSAC assistance

****RRP - Recovery Resolution Plans***

Challenges Ahead

- Structured development - economic model
- Stop deleveraging - boost credit growth
- Objective risk analysis
- Responsible institutional reaction
- Improved business environment
- **National Inter-institutional Strategy**
 - Significant law changes
 - Regulatory intervention
 - Institutional approach



Thank You!