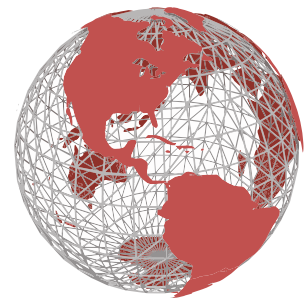


2015

ANNUAL REPORT



2015
Annual Report

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Albanian Financial Supervisory Authority

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The Executive General Director's Statement



Dear Reader of 2015 Annual Report,

AFSA activity in 2015 focused on several main areas where an important place was the implementation of technical assistance projects of the World Bank, basically in the area of pensions and insurance and in the implementation of FSAP recommendations, which extend to all the markets supervised and regulated by the AFSA and pertain to a medium term period. In addition, the Authority has worked in the preparation of regulations, pursuant to the new law on insurance and reinsurance, and in the adjustment of regulations pursuant to the new AFSA law.

Financial markets under the supervision of the AFSA, insurance markets, capital markets and investment funds, as well as voluntary private pension funds, have continued their expansion trend. In 2015, total assets in these markets amounted to about ALL 95.7 billion, increasing by 7% compared with 2014. As a consequence, the contribution of these markets in financial intermediation has significantly increased. The indicator of total assets to the GDP in 2015 reached the highest level observed so far at 6.7%.

The market structure 2015 confirmed the structural change observed in the last three years. Hence, the largest market to be supervised in terms of assets remains the **investment fund market**. The share of this market in 2015, in the AFSA-supervised markets reached 70.2%. The expansion dynamics of these funds with about 5.1% compared to 2014 shows the domestic investors' interests in new savings or investment products. This situation is also favoured by the prevailing environment with low interest rates which have been applicable to the bank savings products for several years. From this point of view, such expansion dynamics is welcome, because it promotes the development of financial markets, but, at the same time, it creates significant challenges to be dealt with.

In this framework, since 2014, the AFSA has been improving the regulatory basis on investment funds with two main objectives: (i) strengthening the transparency regime vis-à-vis customers/investors (4 regulations were adopted or amended in support of this objective during 2014); and (ii) improving the requirements on market risk management.

In 2015, in order to fulfil the second objective, the following were adopted: regulation on liquidity management and regulation on the evaluation of fund assets was amended. The adoption of these two regulations marked the fulfilment of recommendations in the framework of the technical assistance mission of the World Bank and IMF.

The insurance market, in relation to other financial markets during the past four years, is presenting a stable situation and with sustainable growth, with the main focus on the product of compulsory motor insurance and with the need to increase the penetration rate, by expanding the voluntary product market and improving the claim/premium ratio. As in 2014, the trend remained the same, since it was observed that the volume of gross written premiums increased, mainly due to the increase of compulsory motor insurance premium product. This development was a result of measures that were undertaken on a continuing basis in order to stabilize market sale premiums and not leave them affected by fierce competition.

The pension market has shown a higher growth dynamics, particularly in relation to the number of members. During 2015, total net assets of private pension funds amounted to ALL



Enkeleda Shehi
Executive General Director
Financial Supervisory Authority

928.74 million, an increase of approximately 47.62% compared to 2014. This development is undoubtedly the effect of inclusion of appropriate fiscal incentives. With the adoption of the fiscal package in 2015, it became possible the implementation of fiscal incentives for the members of the pension fund, where the contribution of the fund member and the contributions of the employer are considered exempt income for tax purposes up to the limit stipulated by the Law on pensions. Similarly, the return on investment realized from the pension fund is exempt from profit tax.

As part of the project launched with the World Bank assistance on the supervision and expansion of the voluntary private pension market in the country, in cooperation with INSTAT, it was conducted a survey to assess the attitudes of employers to the offer on occupational pension plans, and as a result some important conclusions were drafted for the organization of educational and promotional campaigns in order to stimulate interest for products of private pension market and the overall development of this market. The survey results were made known to the public at the conference organized in October 2015, "The voluntary pension system in Albania - expansion coverage".

The year 2015 marked significant changes in the operation of the AFSA. Pursuant to the space created by the adoption of the legislative package for the AFSA, it was constituted the Board of FSA, composed of five members, which over 2015 operated its activity with one member less, a member who was approved only at the end of January 2016.

This enabled the undertaking of necessary organizational and structural changes in order to adapt to the trends of supervised market development. The new organizational adopted structure was set up towards highlighting the vertical feature according to markets under supervision, preserving the core of horizontal separation by functions in the field of licensing and regulation. Furthermore, in support of the new law on insurance and reinsurance activity, a separate structure was established, the Education Center, in order to organize the required trainings for the professional formation and qualification of managers and professionals operating in the insurance market (actuaries, brokers, claim adjusters), but also organizing trainings for the capacity building of the AFSA employees, with the perspective of activity expansion in the other two markets in the coming years.

I hope the readers will find this Report a useful source of information and education.

Sincerely,



Executive General Director



Mission, Objectives & Fundamental Functions

The mission of the Albanian Financial Supervisory Authority (AFSA) is the supervision and regulation of the non-banking financial sector in Albania. This mission is guided by the principles and norms of independence, accountability, transparency and integrity. On one side, the regulatory role and supervisory regime of the AFSA aims at the stability and development of insurance markets, capitals and private pensions and, on the other side, consumer protection, a mission which is realized by strengthening management capacity, providing diversity and fair competition of market operators under supervision, as well as a more effective and responsive framework to supervision.

The AFSA was established pursuant to Law No. 9572, dated 03.07.2006 “On the Financial Supervisory Authority”, as an independent public legal institution reporting to the Parliament of Albania. This law incurred amendments in 2014, amendments which became effective in July of the same year, where the main innovation was to strengthen the independence of the AFSA, in order to increase accountability for the realization of its mission. Institutional and financial independence of the AFSA, as an important element that contributes to the promotion of stability of markets under supervision and a condition for their further development and consolidation was the foundation of this law, whose implementation began in 2015. Thus, the amendment of the Law no. 9572, accompanied by amendments in two other laws, such as the law on wages and the law on structures of independent and civil service institutions, made possible:

- *Increasing institutional independence*, which consisted in reshaping the structure of the AFSA's operation, reflecting the dynamic development of non-bank financial markets, particularly that of investment funds. In April 2015, the new Board of the AFSA, upon Decision no. 27, dated 28.04.2015 approved the new structure of the institution.
- *Increasing financial independence*, which consisted in the right of the Authority for the establishment of reserve funds as a mechanism to cope with operating expenses in case of lack of income, increasing independence from the state budget and approval of the policy and the system of salaries, bonuses and financial treatment for the governing bodies and employees of the Financial Supervisory Authority.

Objectives

In the context of performing its legally sanctioned functions and responsibilities, the AFSA is guided by the following objectives:

- Protect consumers' interests;
- Promote supervised financial market transparency and reliability;
- Ensure legal compliance.

AFSA Main Functions

AFSA main functions are the regulation and supervision of:

- Insurance market and its activity, including all insurance, reinsurance, and brokerage activities and related operations;
- Securities market and its activities, including the securities-investment-related activities of persons operating in this market;
- Voluntary pension market and its activities, including all voluntary pension insurance activities provided by entities that have been licensed to operate in this market;
- Other non-banking financial activities in accordance with the provisions of the relevant special laws.



AFSA Board

By means of Law no. 54/2014 “On some amendments and addenda to the Law no. 9572, dated 3.7.2006 “On the Financial Supervisory Authority” the Board was re-organized. The Board consists of 5 members, who include: the chairman, the general executive director, the executive vice director and two other members.

All Board members are appointed by the Assembly of the Republic of Albania for a 5-year-period with the right of re-election. The first Board, which is appointed after the entry into force of the amendments, is determined with the following staggered mandates (Article 24 of the amendment):

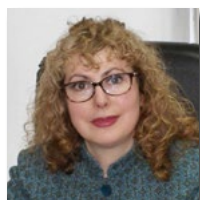
- Chairperson of the Board, 4 years;
- General Executive Director, 5 years;
- Deputy Executive Director, 4 years;
- Other members, 3 years.

Upon the decision of the Parliament of Albania, on 24 December 2014 were assigned: Ms. Enkeleda Shehi, General Executive Director, a proposal of the Council of Ministers, Ms. Mimoza Kaçi, Deputy Executive Director, a proposal of the Minister of Finance and Mr. Arian Salati, a member of the Board, a proposal of the Parliamentary Legal Issues, Public Administration and Human Rights Committee.

Mr. Pajtim Melani, was appointed the Chairperson of the Board, a proposal of the Parliamentary Economy and Finance Committee, on the date of 12 March 2015. During 2015 the Board operated with 4 members. The last member of the Board, Mr. Klodion Shehu, as a proposal of the Bank of Albania, was approved with the decision of the Assembly of Albania on 28 January 2016.



Pajtim Melani
Chairperson of the Board



Enkeleda Shehi
General Executive Director



Mimoza Kaçi
Deputy Executive
Director



Arian Salati
Board Member



Klodion Shehu
Board Member



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Chapter 1

Performance of Supervised Financial Markets

1.1 Trends in Financial Markets

The financial markets supervised by the AFSA during 2015 maintained the same structure in terms of total active assets as in 2014. Furthermore, they strengthened the trend observed during the period 2012-2014 in terms of activity expansion and increased market share of investment funds.

On the whole, financial markets which are supervised by the AFSA continued their dynamic expansion. Total assets of these markets on 31.12.2015 amounted to ALL 95.7 billion, about 6.7% against the Gross Domestic Product (GDP) or 7% increase compared to 2014. The dynamics of expansion is observed in the three main markets that are supervised by the AFSA.

Thus, the insurance market follows a relatively steady pace of expansion, with total assets that range within 1.3-1.7% of the GDP for the period 2005-2014 and 1.9% of the GDP in 2015. Expansion resulted due to the increase of gross written premiums, mainly in the compulsory motor insurance products. Notwithstanding such expansion of the insurance market, its coverage in financial markets supervised by the AFSA is in approximately similar levels, respectively 30.0%, 27.4% and 28.9% across 2013-2015.

The investment fund market started operations in 2012 occupying respectively 69.4%, 71.9% and 70.2% by weight of the markets supervised by the AFSA, or 3.7%, 4.6% and 4.7% of the GDP in the period 2013-2015. Given the indicator of total assets to GDP, it turns out that the Albanian financial system, the second most important market after the banking market is considered the investment fund market.

Regarding the market of voluntary pension funds and other non-banking financial activities, it was observed a steady upward trend, but, it still remains modest.

This structural profile of the financial markets that are supervised by the AFSA and their ratio with the banking market serves to outline the change incurred by the risks in financial markets and the response of the Authority on such basis.

Although the risk profile of the markets supervised by the AFSA has had relatively low impact on the Albanian financial system, it cannot be considered insignificant as a few years ago, and therefore it is analyzed in the frame of systemic risks within the financial system as a whole, and it is part of the ongoing discussions conducted within the Financial Stability Advisory Group (FSAG).

AFSA, as supervisory and regulatory authority for insurance financial markets, securities and investment funds, and voluntary private pensions or other non-banking financial activities, has the mission to contribute to the promotion of financial stability. This dictates the need to:

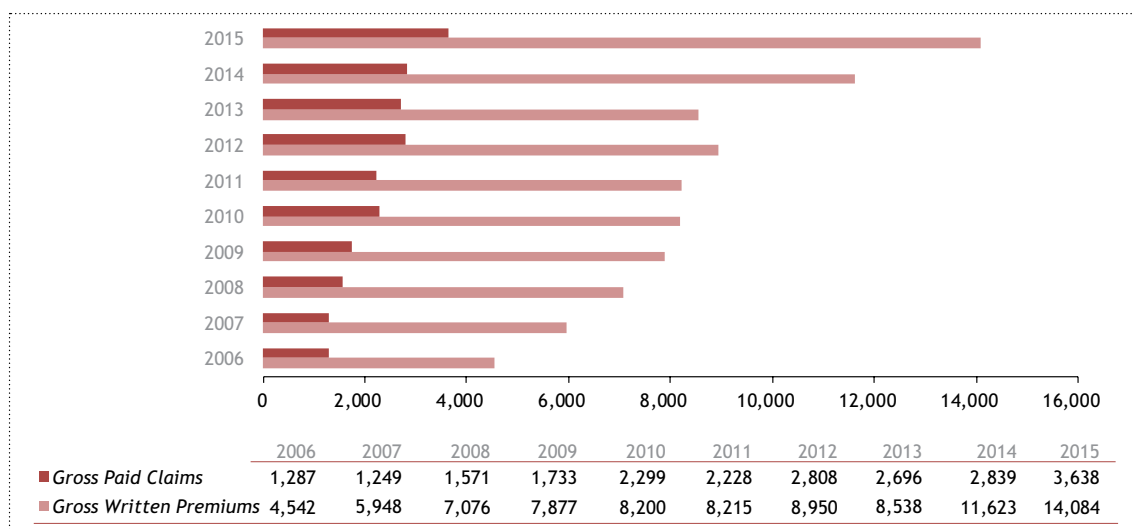


- Continuation of the implementation of *stabilization measures in the insurance market* and the establishment of well-defined standards regarding the minimum reserves, and the implementation of risk-based supervision.
- Strengthening *the rules of risk management of investment funds* in line with the evolution of the rules prescribed in the relevant EU Directives, as well as close supervision in compliance with the regime informing customers of these funds, liquidity levels, and real evaluation of assets;
- Promoting *the development of private voluntary pension fund market and improving the supervision* of this market;
- Configuration of consolidated supervision with other regulatory authorities, mainly the Bank of Albania (BoA), and developing an integrated framework for the management measures problematic situations / financial system crisis in the country, in cooperation with other members of the Financial Stability Advisory Group (FSAG).

1.2 Insurance Market

During 2015 the Albanian Insurance Market was characterized by a sensible increase in the total volume of gross written premiums, which reached the figure of ALL 14.09 billion, higher with approximately 21.17% compared¹ with 2014 and an average increase in the last five years of 12.37%. As for the number of companies operating in this market, during 2015, there were no changes.

Graph 1: Gross written premiums and gross claims payment performance in years (million ALL)

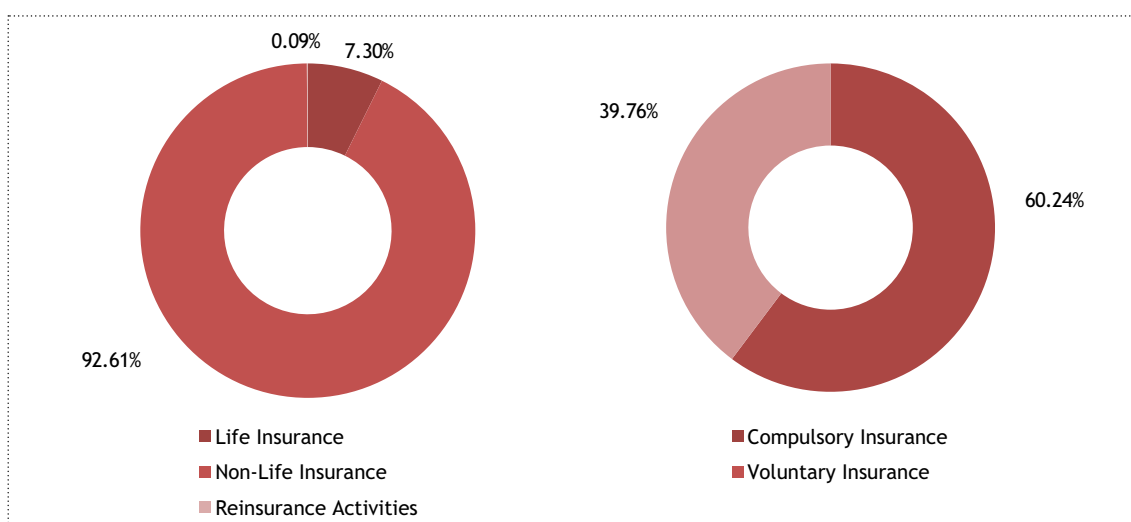


Note: ¹ The comparative figures are from the 2014 insurance company audited reports.

Table 1: Insurance companies licensed, by insurance product, 2010-2015*(number)*

<i>Emërtimi</i>	2009	2010	2011	2012	2013	2014	2015
Non-Life Insurance ²	7	7	7	8	8	7	7
Life Insurance	2	2	2	2	2	2	2
Mixed (Life and Non-Life) ³	1	1	1	1	1	1	1

In terms of its structure, the market remained oriented towards Non-Life insurance, which brought in about 92.61% of the total volume of gross written premiums in this market. Life insurance accounted for 7.30% of the total volume of gross written premiums. In 2015, voluntary insurance accounted for 39.76% and compulsory insurance covered 60.24% of total gross written premiums in the insurance market.

Graph 2: Insurance Market Structure, 2015

In 2015, the increase of insurance market was mainly influenced by the compulsory motor insurance increase dynamics.

Table 2: Gross written premiums of insurance and annual change, 2013-2015

<i>Type of activity</i>	<i>Gross Written Premiums (million ALL)</i>			<i>Change %</i>	
	2013	2014	2015	2014/2013	2015/2014
Life	960	1,026	1,028	6.90	0.19
Non-Life	7,524	10,570	13,043	40.49	23.39
Reinsurance	54	27	13	(49.36)	(52.47)
Total	8,538	11,623	14,084	36.14	21.17

Note:

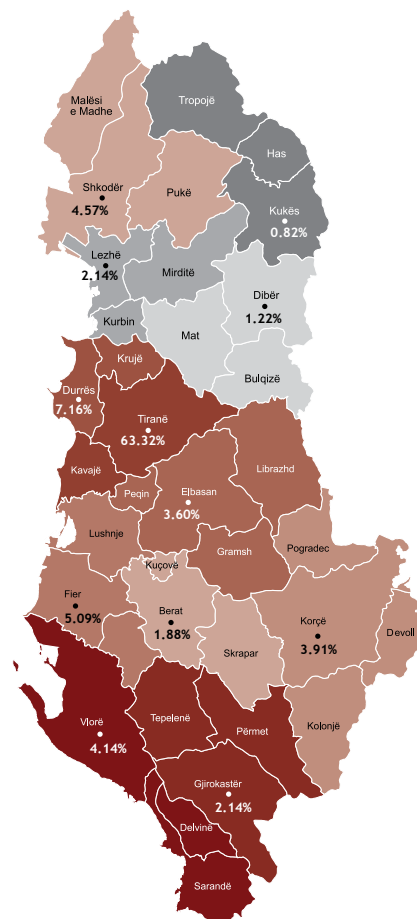
² One of the Non-Life insurance companies also carries on reinsurance business. (SIGAL Uniqa Group Austria sh.a.)³ INSIG sh.a. - The only entirely Government-owned company, which has operated for more than 20 years in the Albanian market, carries on business in both Non-Life and Life insurance classes.



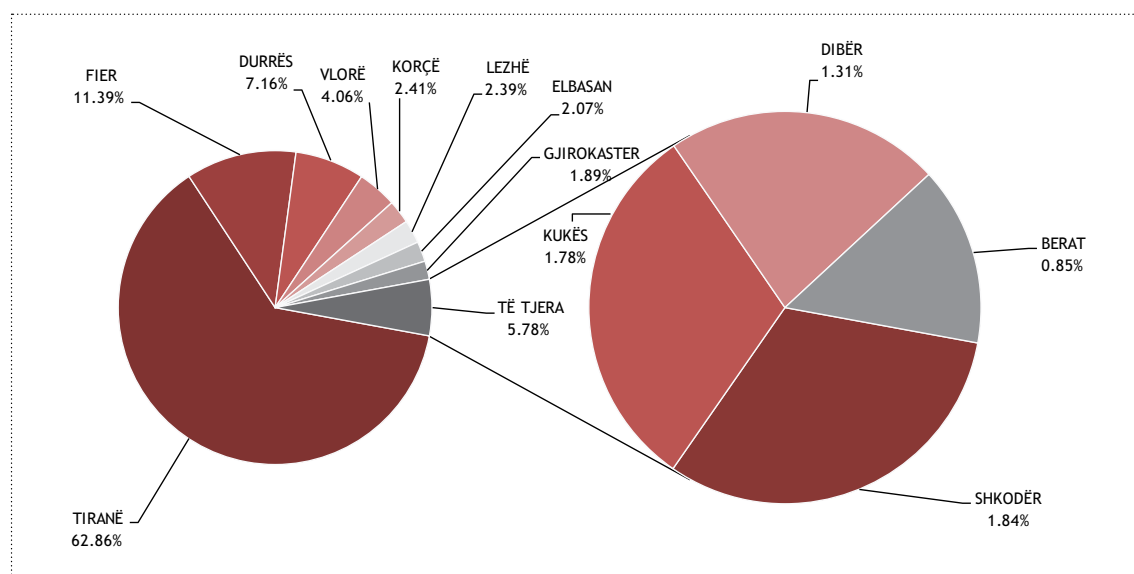
Insurance Geographic Distribution

A look at geographic distribution of gross written premiums shows that the insurance market is concentrated in the bigger prefectures.

Distribution of the insurance premiums by prefecture



Graph 3: Paid claims by prefecture, 2015

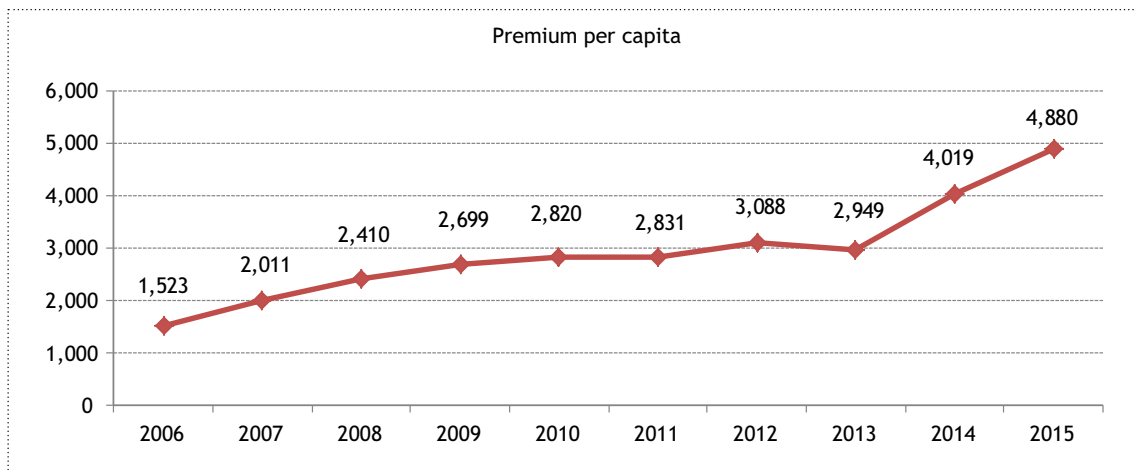


Insurance density⁴

The density of insurance premium per capita is an indicator which expresses the scale of use of insurance products by the population. In 2015, the premium per capita was on average ALL 4,880 (EUR 34.92), with an increase of ALL 861.36 compared with one year before. The premium per capita in the Non-Life insurance was on average ALL 4,519 (EUR 32.34).

Graph 4: Insurance premium per capita across the years, 2006-2015

(ALL)



Financial Analysis

Pursuant to the current regulatory framework, the AFSA continued to supervise and analyze the insurance market in 2015, evaluating the financial position, results and technical indicators of insurance companies. The AFSA constantly monitored the compliance with legal requirement on the guarantee fund of insurance companies and implementation of rules for its investment.

Guarantee Fund

The guarantee fund is an amount in monetary means (whose value is defined in Article 98 of Law no. 9267, dated 29.7.2004) deposited by the insurance or reinsurance company in an earmarked bank account with the same name, at banks in the territory of the Republic of Albania, where the company has its headquarters, mandatory to be held by the insurer from the moment of starting the activity and in continuation. Insurance companies must own a guarantee fund invested in "earmarked deposits" at commercial banks, with a maturity term no longer than 1 year, and Treasury Bills.

Note: ⁴ Population 01.01.2014, taken from INSTAT official website, <http://www.instat.gov.al/themes/popullsia.aspx>



The total of blocked funds for the market guarantee fund is in the amount of ALL 5.7 billion on 31.12.2015. During 2015 this fund was invested in deposits at commercial banks and in securities, respectively in the rates of 73.3% and 26.7%.

From the review of data given on tables 3 and 4 (below), pursuant to the data of financial reporting dated 31.12.2015, it is observed that:

Table 3: Structure and dynamics of active assets and liabilities on the insurance market⁵

<i>Item</i>	<i>31.12.2013</i>	<i>31.12.2014</i>	<i>31.12.2015</i>
Structure (in %)			
Deposits	37.81	36.26	36.00
Land and buildings	9.25	7.93	7.21
Shares and participation	12.11	10.92	11.18
Treasury Bills and Bonds	7.41	10.85	11.52
Debtors	10.21	8.88	7.93
Other active assets	23.22	25.16	26.16
Total Active Assets	100.00	100.00	100.00
Gross technical provisions	41.23	45.16	50.76
Other liabilities	13.38	13.32	12.28
Own capitals/Equity	45.39	41.62	36.96
Total Liabilities	100.00	100.00	100.00
<i>Item</i>	<i>31.12.2013</i>	<i>31.12.2014</i>	<i>31.12.2015</i>
Dynamics (in %) previous year = 100			
Deposits	97.94	107.20	110.43
Land and buildings	103.69	95.82	101.08
Shares and participation	100.60	100.84	131.82
Treasury Bills and Bonds	123.24	163.63	118.19
Debtors	109.22	97.21	99.35
Other active assets	126.32	121.09	115.68
Total Active Assets	107.18	111.76	112.92
Gross technical provisions	110.08	122.16	125.30
Other liabilities	147.61	111.25	102.58
Own capitals/Equity	97.03	102.47	102.45
Total Liabilities	107.18	111.76	112.92

Insurance market assets on 31.12.2015 compared with 31.12.2014, increased by ALL 3.16 billion or 12.92%, a relatively higher increase compared with 2014. Investments in deposits in credit

Note: ⁵ The balance sheet information in the table covers both Non-Life and Life insurance companies. Insurance companies prepare their financial statements in accordance with the International Financial Reporting Standards (IFRSs) and the AFSA legal basis.

institutions and treasury bills and bonds dominated the total active assets of insurance companies with 48.53%. In comparison with 2014, the increase of liquid investments as deposits in credit institutions and treasury bills was in the rate of 12.22%. In addition, items such as payments in advance and calculated revenues, technical provisions of the reinsurer and other active assets incurred increases in the active assets of the insurance market.

Insurance market equity increased with 2.45% compared with 31.12.2014, as a result of carried forward profits, increase of capital re-evaluation reserves and addition of fundamental capital. Gross technical provisions as of 31.12.2015 increased with 25.3% or ALL 2.8 billion compared with 31.12.2014.

Table 4: Financial data of the insurance market

(million ALL)

<i>Exercise Period</i>	2011	2012	2013	2014	2015
Total assets	19,013	20,343	21,839	24,451	27,610
Life	2,884	3,207	3,788	4,009	3,857
Non-Life	16,130	17,136	18,051	20,442	23,752
Total investments	12,855	13,692	14,082	15,721	18,996
Life	2,201	2,748	2,971	2,684	2,904
Non-Life	11,492	11,334	12,750	15,175	16,092
Gross technical provisions	7,634	8,317	9,650	11,191	14,014
Life	942	1,175	1,522	1,529	1,605
Non-Life	7375	8,475	9,669	11,486	12,409
Total Equity	9,867	10,005	9,173	9,954	10,204
Life	1,791	1,899	2,195	1,988	1,782
Non-Life	8,076	8,105	6,978	7,966	8,421
Total Subscribed Capital	7,736	8,247	8,652	8,152	8,190
Life	1,284	1,351	1,355	1,217	1,221
Non-Life	6,963	7,301	6,797	7,339	6,969
Total Foreign Investment	3,472	3,592	3,435	3,620	3,807
Life	398	458	442	468	496
Non-Life	3194	2,977	3,178	3,447	3,311
Net Earned Premiums	6,792	6,736	6,101	7,763	9,988
Life	823	890	957	686	950
Non-Life	5,913	5,211	6,806	6,717	9,038



Table 5: IRIS Tests for the Non-Life Insurance Market

(%)

Ratio	31.12.2013	31.12.2014	31.12.2015	Limit	
				MIN	MAX
Premium growth rate	-6.10	39.85	23.43	-40	40
Net retention ratio	67.45	76.93	78.64	40	80
Net claims ratio	49.87	36.43	38.75	50	80
Expense Ratio	79.94	57.69	61.91	25	50
Combined Ratio	129.81	94.12	100.66	85	105
Investments Income Ratio	10.81	5.87	4.87	4	8
Operational Ratio	117.49	83.09	95.79	n/a	100
Capital Ratio	43.76	29.25	24.29	20	50
Technical Provisions Ratio	52.31	43.93	34.62	10	30
Solvency Ratio	290.05	196.27	180.78	150	300

Referring to the data of table 5, the following is observed:

Premium Growth Rate in the Non-Life insurance market during 2015 was 23.43%, within permissible limits. In 2014 the rate of premiums' increase incurred a considerable increase, as a result of stabilization in compulsory motor insurance market, while during 2015 the rate of premium growth has been more modest.

Net Retention Ratio in the Albanian Non-Life insurance market at the end of year 2015 marked 78.64%. This ratio increased very slightly compared to the previous year, still remaining within the allowed limits.

Net Claims Ratio for the Non-Life insurance market in 2015 reached the value of 38.75%, demonstrating an increase in comparison with the end of the year 2014. This indicator has experienced increase mainly during the first quarter and the last quarter of 2015. The increase of Net Claims Ratio for the Non-Life Insurance in 2015 has been affected by the higher growth rate of paid claims, while net earned premiums have experienced a slower growth rate.

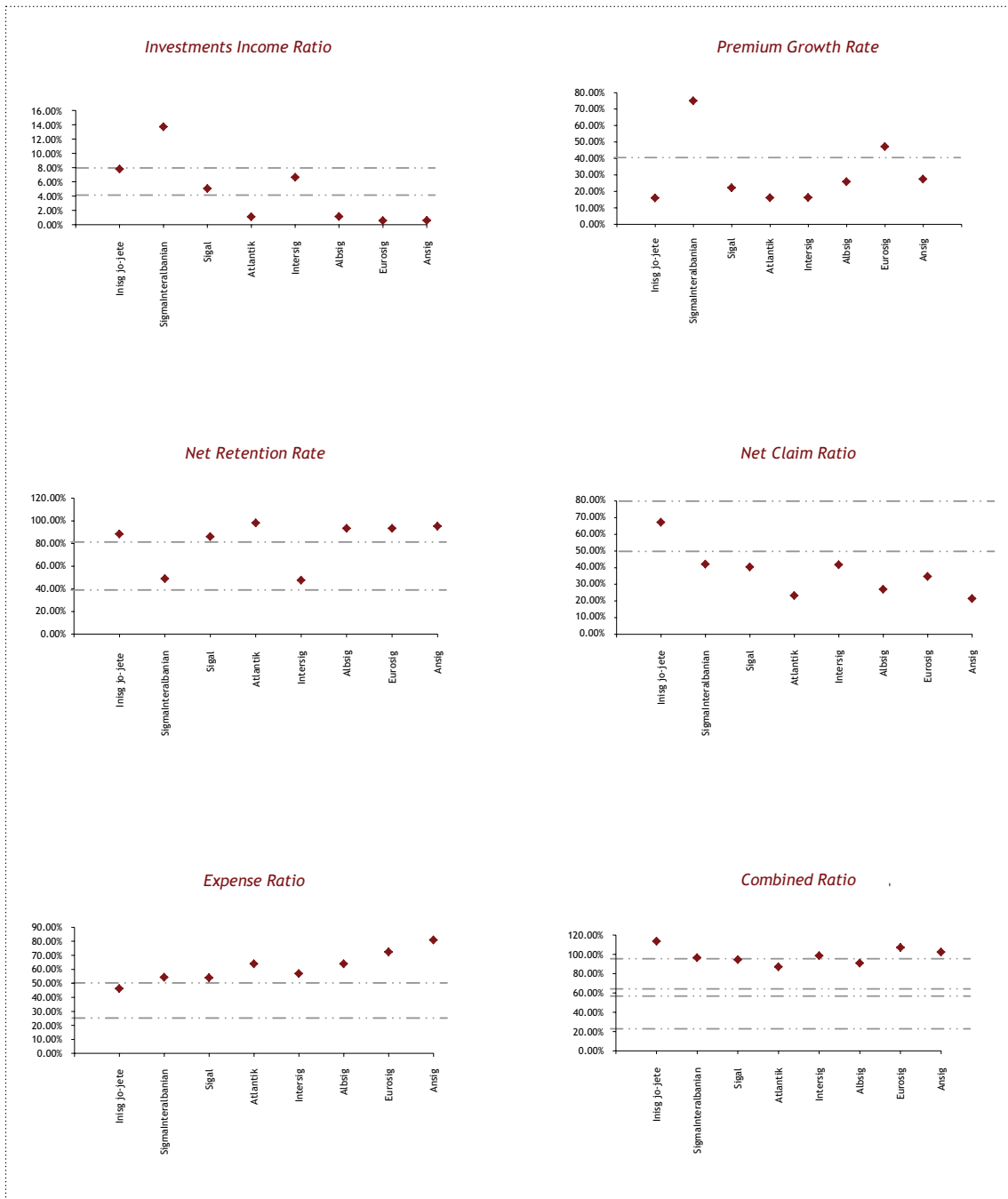
The Expense Ratio for the Non-Life insurance market at the end of year 2015 marked 61.91%. Even though this ratio had a falling trend during 2015, it exceeds the internationally set norms.

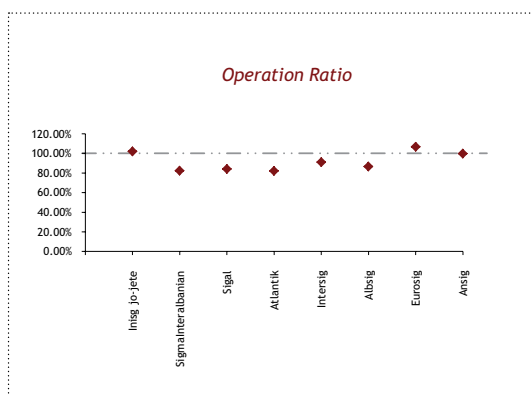
Combined Ratio for the Albanian Non-Life insurance market for the yearend 2015 resulted 100.66%, thus indicating positive financial results in the Non-Life market from operational activities. This ratio is within allowed limits.

The Ratio of Capital to Technical Provisions, for the Non-Life insurance market, had a downward trend in 2015. On 31.12.2015, although still a little above the maximum allowed limit, this ratio improved considerably, reaching 34.62%, compared to 43.93% that it was on 31.12.2014.

Graph 5: IRIS Indicators for Non-Life insurance companies

31.12.2015





Inspection in insurance companies according to risk focused supervision

During 2015, the AFSA continued inspections in one of the insurance companies under a new risk-focused methodology. The AFSA staff focused on the structuring of inspection procedures and drafting the plan of interviews with all levels of company management. During the inspection, discussions were held regarding the risks present in society according to business activities, as well as their management by senior executives of the company.

The object of this inspection was concentrated on:

- Assessment of credit risk in relation to reinsurers, collection of premiums and other related activities;
- Insurance risk assessment, mainly focusing on insurance and risks of responsibilities, as well as other related activities;
- Operational risk assessment, focusing on provisions, assessment of claims, claims handling procedures, information technology systems, operational performance, as well as other related activities;
- Evaluation of regulatory and strategic risk, in terms of assessing the Guarantee Fund;
- Assessment of capital strength and profit quality;
- Evaluation of specific asset elements of the company's financial statements;
- Risk management, internal control systems, including supervision of the management activities of the company.

At the end of this process, the Authority drew up the risk profile of this company, which represents its assessment for each of the risks of the company, within the context of

the insurance market in general. Inspection according to risk-focused methodology is concentrated on the responsibility of the Supervisory Council and senior management of the insurance company in the preservation of the security and financial stability of the insurance company, in compliance with the appropriate policies and practices for risk management in order to mitigate the considerable risks associated with this business.

This process will apply to all insurance companies, thus creating a database at the market level, which helps in assessing the risk of each insurance company.

The implementation of this methodology is a major challenge not only for the insurance market, but also for the Authority and its supervisory staff. This is due to the comparison with the traditional approach, since risk-focused supervision requires the supervisor to understand very well financial concepts, have deep knowledge about the operations of insurers, and understand very well business and security risks. It also requires that the supervisor and the team leader of supervised companies coordinate business operations and future plans, as these are the leaders, whose decisions will affect the future results of this company.

Technical assistance project for the reform in the insurance market

During 2015, in the framework of fulfilling the recommendations of the Financial Sector Assessment Program (FSAP) and with the support of the World Bank through the First Initiative (Financial Sector Reform and Strengthening Initiative), the AFSA worked to implement the technical assistance project for the reform of the insurance market.

The project has duration of 24 months, a period of time which is required to be extended by the World Bank until the end of March 2017, and it contains the following three main components:

- MTPL Product Insurance;
- General insurance supervision;
- National security program by earthquakes.

Inspection related to Compensation Fund

During 2015, the AFSA performed an inspection at Non-Life Insurance Companies and Albanian Insurance Bureau (AIB). The focus of inspection at insurance companies was the verification of payments made during 2014 and 2015 for the outstanding claims of the Compensation Fund with insurance events up to 31.12.2013, pursuant to the requirements of AFSA's Board decisions no. 17, dated 28.02.2014 and no. 12, dated 20.03.2015. Meanwhile, at



AIB the focus of inspection was the verification of detailed claims data of the Compensation Fund for claims with insurance events up to 31.12.2015 and the reporting of AIB at the AFSA regarding the claims paid during 2014 and 2015, pertaining to claims with insurance events up to 31.12.2015. From the findings of this inspection, the AFSA made relevant recommendations.

Joints inspections with the General Directorate for the Prevention of Money Laundering

Pursuant to Law 52/2014 “On insurance and reinsurance companies” and in the framework of the cooperation with the General Directorate for the Prevention of Money Laundering, the AFSA performed two joint inspections in 2015. One inspection was performed at a Life insurance company and another one at a reinsurance company. The focus of inspection was the verifications related to the compliance with the legal framework regarding the prevention of money laundering and the measures against terrorism funding.

From this inspection it was observed that the Life Insurance Company committed administrative offence, which refers to Law no. 9917, dated 19.05.2008 “On the prevention of money laundering and terrorism funding”. Therefore, the General Directorate for the Prevention of Money Laundering took an administrative measure with fine towards the company.

Joint inspections were also performed about other markets under the supervision of the AFSA, which are reflected in the relevant chapters.

Joint inspections for consolidated supervision of financial markets

In the framework of cooperation with the Bank of Albania and following the recommendations of the Financial Sector Assessment Program (FSAP) for a consolidated supervision of financial markets, the AFSA performed a joint inspection at second-level banks in 2015. The focus of the AFSA in the joint inspection for the insurance market was the verification regarding:

- Aggregate exposure of insurance companies for products of bank guarantee insurance;
- Deposits, loans taken from insurance companies at second level banks, and collaterals guaranteed by them;
- Verification of practices for pending claims deriving from all types of insurance policies, while the beneficiaries are banks;
- Verification of relations between insurance companies and second-level banks.

Technical Provisions

In the framework of financial analysis, aiming at the supervision of the financial situation of insurance companies, the AFSA assesses whether the technical provisions are adequate and are in line with the level of risk undertaken by the companies. The adequacy of technical provisions is assessed in accordance with the legal basis in power and any noncompliance with this obligation is a violation of risk management rules.

The market performance of technical provisions has shown an increasing trend over time. The biggest share in terms of exercised activity is held by gross technical provisions of Non-Life companies, which also reflects the structure of the insurance market in Albania.

Technical Provisions and adequacy tests

A technical provision is a sum calculated on the basis of an expectation and in accordance with the set actuarial methods, which is kept by an insurer in order to cover the liabilities stemming from insurance contracts. Technical provisions, pursuant to Law no. 52/2014 “On insurance and reinsurance activity”.

Some of actuarial tests which are examined in order to assess the adequacy of gross technical provisions of the insurance company are:

LAT – adequacy test of unearned premium provisions;
Run-off – adequacy test of claims’ technical provisions.

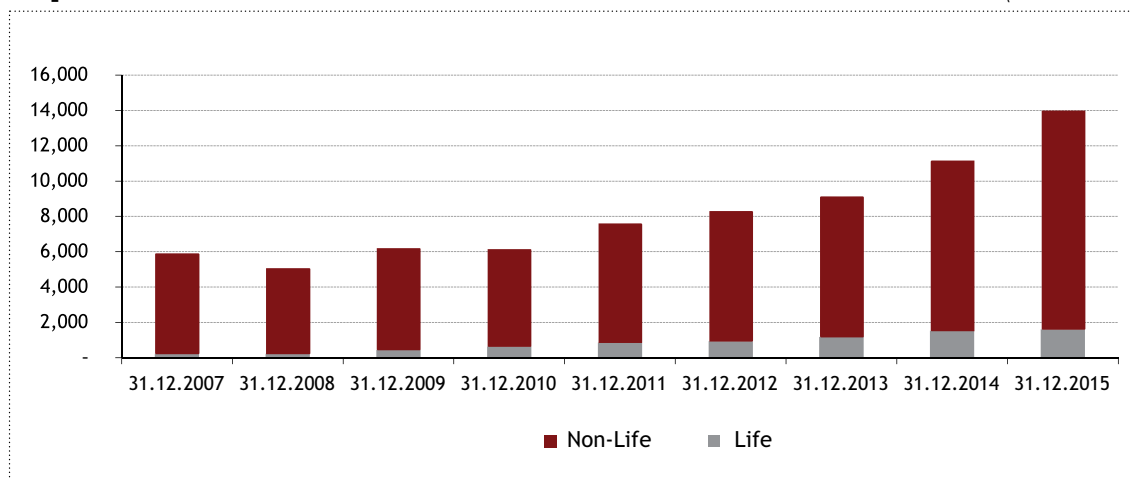
Subject to the results obtained from these tests, the estimated value of technical provisions of the insurance company is corrected so that the final level of this indicator duly reflect the expected level of future liabilities of the insurance company.

Market data, which are shown in the graph below, illustrate an increasing trend of the claims and premiums technical provision indicator, also reflecting the constant efforts the Authority has made for improving this indicator. In particular, the AFSA has constantly given recommendations for improving the technical provision indicator of claims in conformity with the increase of activity of the insurance market. Those recommendations were based on the analysis of insurance company data, the on-site inspection findings, and the information received from third parties (courts, in the case of claims in court proceedings) in relation to the liabilities and risks insurance companies are exposed to.



Graph 6: Gross Technical Provisions

(million ALL)



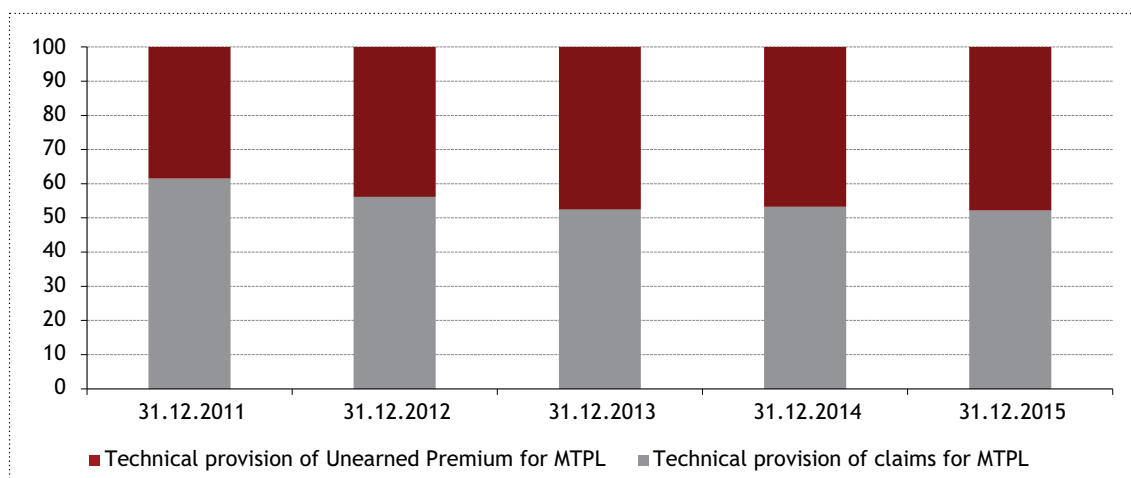
The data presented in the above graph also indicate that the highest weight of the components of this indicator consists of the gross technical provision from Non-Life activity, in line with the current development of the insurance market in Albania.

Compulsory motor insurance technical provision

Gross technical provisions for MTPL product cover the largest weight in the total technical provisions of Non-Life market. As of 31.12.2015, this indicator appears in the level of 67% of the total gross technical Provision for Non-Life insurance compared with 79% for 31.12.2014.

Graph 7: Structure of technical provisions for MTPL

(%)



As observed in the graph above, the structure of gross technical provisions about the portfolio of compulsory insurance products, MTPL, presents almost a constant trend of the ratio held by the technical provisions of claims and those of the unearned premium against the total gross technical provision. As of 31.12.2015 this ratio appears almost unchanged from 31.12.2014 or in the ratio 52% with 48%, respectively the ratio of technical provisions of the claims and those of the unearned premium against the total gross technical provision in market level for MTPL products.

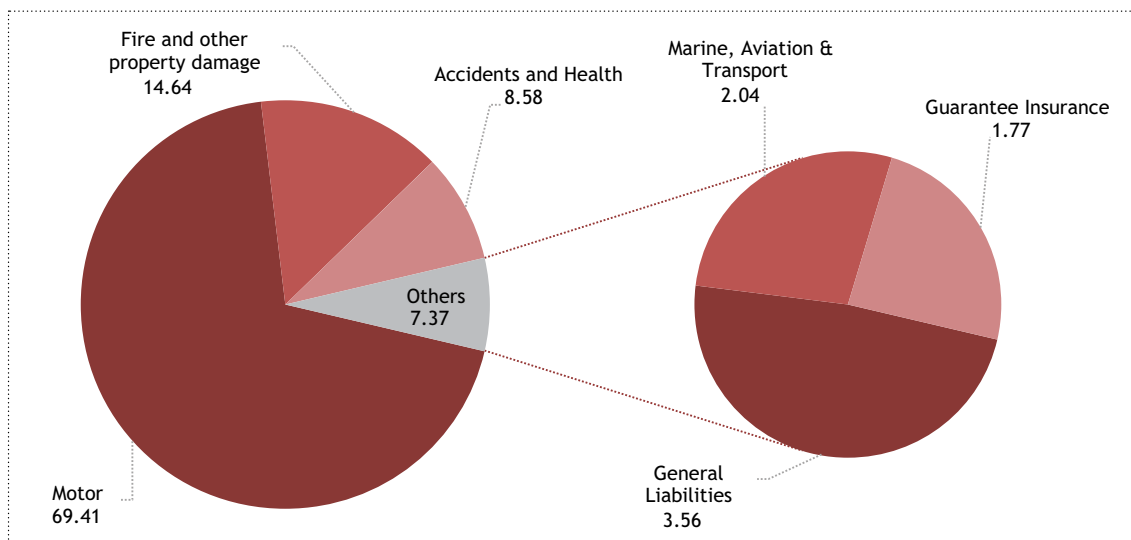
Compulsory Motor Insurance

In 2015, compulsory motor insurance marked an increase of gross written premiums with approximately 22.50% compared with the year 2014, continuing to have the main coverage in this market. It brought most of the revenues or 64.98% of the total gross written premiums of Non-Life insurance.

In compulsory motor insurance, the portfolio with the greatest increase resulted the internal MTPL, with 27.52% increase of gross written premiums, compared with one year ago.

Graph 8: Structure gross written premiums in the Non-Life market, 2015

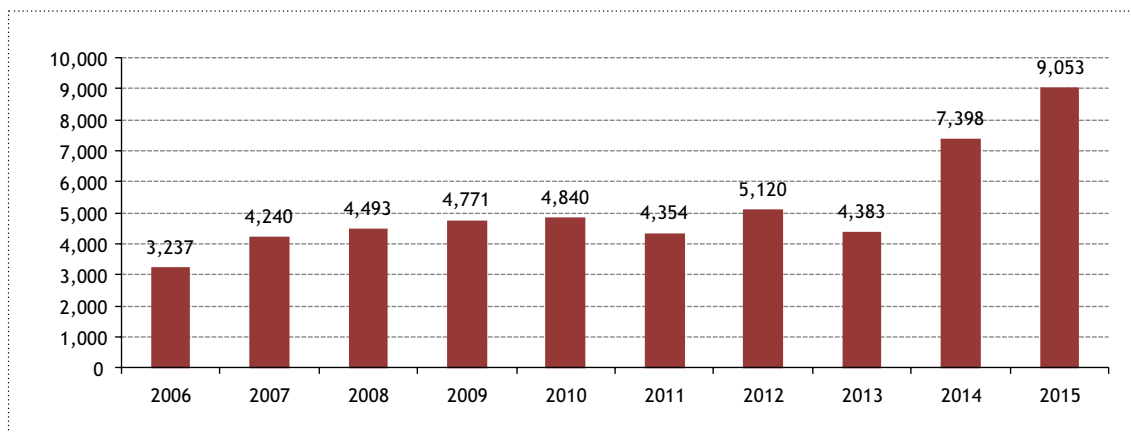
(%)





Graph 9: Motor insurance, gross written premiums 2006-2015

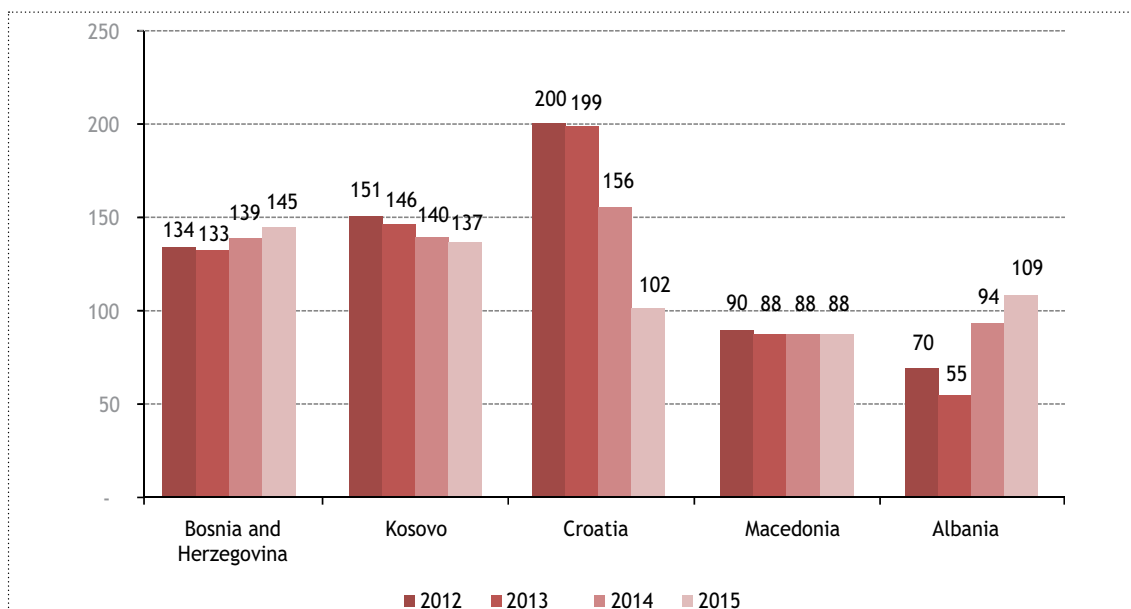
(million ALL)



From the comparison of average premium data for the compulsory motor insurance with other countries in the region, Albania has the lowest premium level in the region.

Graph 10: Average premium of the compulsory motor insurance premium⁶

(euro)



Claims

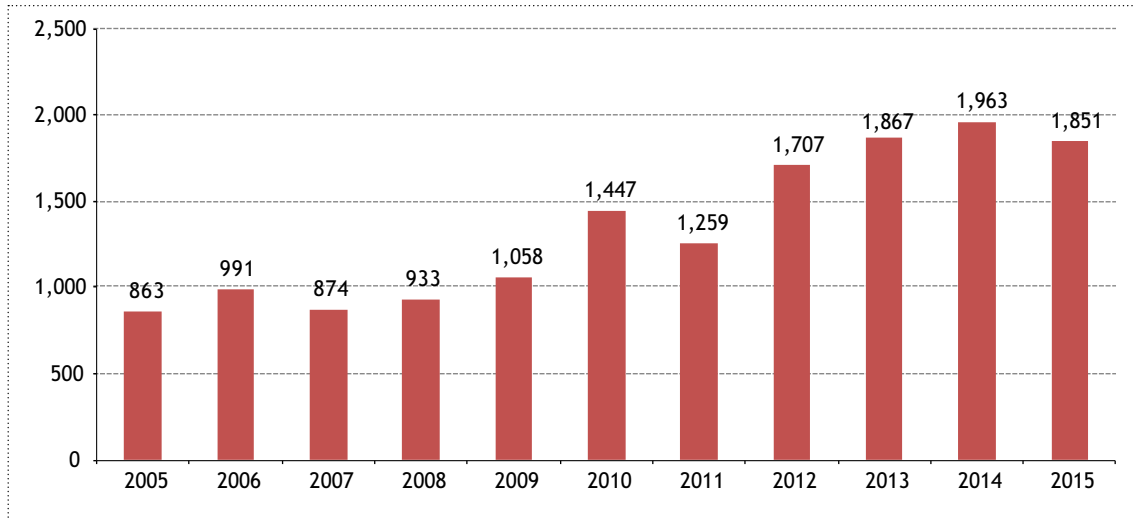
In 2015, insurance companies paid out approximately ALL 3.64 billion in claims⁷, or about 28.16% more than in 2014. Most of gross claims paid were related to compulsory motor insurance with about ALL 2.2 billion or 60.37% of total claims.

Note: ⁶ The data are from the website www.xprimm.com

⁷ Gross paid claims, according to statistical data, not financial statements (These statements are deposited at the AFSA on 31.03.2016).

Graph 11: Gross paid claims of compulsory motor insurance

(million ALL)



In 2015, the AFSA continued to constantly monitor the fulfilment of AIB's financial obligations, related to the implementation of the Uniform Agreement and the Internal Regulation of the Council of Bureaux.

In 2015, eight calls of guarantee were reported at the Albanian Insurance Bureau, respectively one call of guarantee from the Bureau of Romania, one call from the Bureau of Belgium, two calls from the Bureau of Switzerland, which were paid within the terms of the Regulation of the Council of Bureaux, while four calls of the Greek Bureau were reported in December 2015, for which the process for payment continued.



Albanian Insurance Bureau

Pursuant to Law. no. 10076, dated 12.02.2009 “On compulsory Insurance in the Transport Sector”, amended, a member of the Bureau is every insurer, who is licensed to perform activities in the compulsory motor insurance and insurance of passengers in public transport.

Eight insurance companies were members of the AIB until the end of 2015.

The Bureau is the national representative at the Council of Bureaux (International Association of national Motor Insurers’ Bureau) and is responsible for all the obligations deriving from membership in the Green card system, and it carries out the functions of the compensating entity for making payments covered by the Compensation Fund.

Currently the liabilities for payments of the Compensation Fund are of considerable value and the process for the settlement of these liabilities is being followed-up with priority following the process of payments by companies authorized for payment and the process of settlement of liabilities giving priority to the earliest period of the insured event.

In the context of AIB supervision and in order to protect consumer interests, the Authority gave priority to monitoring the obligations of insurance companies toward the Bureau for funding the Compensation Fund (CF) and the payment of claims under that Fund.

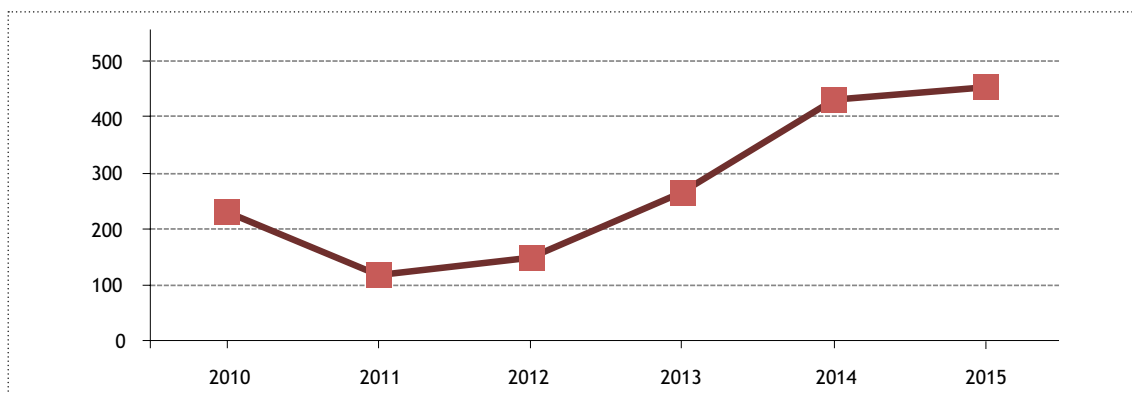
Compensation Fund

The purpose of establishing and maintaining the CF is to pay out property and non-property damages related to damages that have been caused in the territory of the republic of Albania in the course of using an uninsured or unidentified vehicle and in those cases where an insurance company has gone bankrupt or has been winded up. The financing resources of the Compensation Fund are provided in Article 45 of Law No. 10076, dates 12.02.2009 and are established by:

- Annual contributions from insurance companies operating in the market of compulsory motor insurance (funded proportionately to gross written premiums for this type of insurance in the previous year);
- Collections in the form of reimbursement of damages to the Bureau from liable persons;
- Fines imposed on vehicle owners who have not concluded compulsory insurance policies;
- Other sources that are not prohibited by law.

Graph 12: Compensation Fund approved by the AFSA for the years 2010-2015

(million ALL)



Following the involvement for the fulfilment of obligations, according to the basic recommendations of the World Bank and the International Monetary Fund, the AFSA, in March 2015, approved the compensation fund, and divided accordingly:

- Fund for the settlement of liabilities for claims pending until 31.12.2013, amounting ALL 450 million;
- Fund for the settlement of claims with insurance event from the date of 1 January 2014 and following, starting, as a minimum, from the amount of ALL 20 million, an amount which is added to the unconsumed amount of the compensation fund, year 2014, established for this purpose.

During 2015, the payment of claims under the compensation fund by insurance companies was realized at 94%. The cause of the failure to meet the obligations determined in the Decision is that two insurance companies have appealed to court the division of the value of the liability for the compensation fund, a process for which the District Court of Tirana ended reviewing in December 2015, deciding the rejection of the indictment filed by these insurance companies.

Notwithstanding this process, the Authority asked from these insurance companies to fulfil the obligation and only upon the end of the court hearing, upon final decision, there will be reviewed amounts paid.



On the implementation of stabilization measures in the insurance market

The package of measures approved for stabilizing the insurance market includes:

- Immediate Restoration of Compensation Fund financing asking Non-Life insurance companies to fund outstanding liabilities;
- Establishment of legal requirements for the maintenance and financing of a monetary reserve in a separate account to be used only for the payment of claims for the MTPL product.

Gross technical provisions for compulsory motor insurance

Gross technical provisions for MTPL product held the highest specific weight in the total amount of technical provisions in the Non-Life market. On 31.12.2015 this indicator decreased in comparison with the previous year, reaching 67% for this period from 79% for 31.12.2014.

Table 6: Amount of technical provision for compulsory insurance

<i>Item</i>	<i>31.12.2013</i>	<i>31.12.2014</i>	<i>31.12.2015</i>
Gross Technical Provisions, MTPL (<i>in million ALL</i>)	5,876	7,606	8,259
Gross Technical Provisions, Non-Life (<i>in million ALL</i>)	7,980	9,663	12,410
Ratio of compulsory insurance towards the total market (in %)	74	79	67

Table 7: Gross technical provision structure

(%)

<i>Item</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
Gross technical provisions - MTPL Claims	56	52	53	52
Gross technical provisions - MTPL unearned premiums	44	48	47	48
Gross Technical Provisions - MTPL	100	100	100	100

National Compulsory Motor Insurance Database Centre

Maintaining the service infrastructure and enriching the information systems of information technology (IT) with new elements have always been among the technological goals of AFSA, in the context of contributing to more effective market supervision and analysis.

The National Center for Compulsory Motor Insurance Data consists of the Online Register of Compulsory Motor Insurance and the Register of Compulsory Motor Insurance Claims, which have a complete database of policies sold for compulsory motor insurance in the Republic of Albania, as well as the database of online reporting for claims incurred, which includes data based on historical information accumulated. The Center's data are updated through online real-time recording of policies sold by insurance companies and online registration data for claims.

In this database, real-time reporting and identification are performed about the sales of compulsory motor insurance policies for third party liability. As a functional part of it, it is the online link with the banking system of policy register. This interaction with banking systems enables the development and control of the motor insurance market and gives the possibility of establishing standards in financial transactions since the launch of compulsory motor insurance policies to the payment of claims as a result thereof.

At the Centre of Compulsory Motor Insurance, in 2015, the technical implementation of the Bonus-Malus system was completed. This system enables risk-focused charging on motor insurance. The system also enables the connectivity integration with the vehicle registry from which insurance companies can obtain the data of the vehicle, which place it in a certain category that cannot be changed. This limits the possibilities of abuses and mistakes by improving the process of policy issuance.

The National Compulsory Motor Insurance Database Center constitutes the basic infrastructure for the implementation and maintenance of Bonus-Malus system. It is administered by the AFSA and consists of:

- The Online Electronic register of compulsory Motor Insurance, which is a reporting platform that is used to identify the sales of compulsory motor insurance policies in the form of responsibilities to third parties, Green Card and Border Insurance in real time.
- Compulsory Motor Insurance Register, which is a reporting platform for claims covered by compulsory motor insurance.



Bonus-Malus system

The AFSA completed the technical implementation of the Bonus-Malus system. This system enables risk-focused charging on motor insurance. At present, sales agents of insurance policies may require information on the vehicle and the owner of the vehicle through the plate and chassis number (VIN). At this stage, in addition to the above data of the vehicle, the system generates and sends data about vehicle category according to the information based on the National Register of Vehicles, but agents have no right to change the data, thus preventing different abuses.

Bonus-Malus System

Bonus-Malus system presents a universal scheme of tariff valuation for compulsory motor insurance policies, where for each renewal of the insurance policy, for any insured, subject to the claims incurred during the previous period of insurance, it is estimated the coefficient that will be applied on the basic insurance fee. This coefficient will affect the increase or claims of the insurance fee value, respectively, if the insured has produced claims or not during the insured period.

Bonus-Malus system reflects risk profile, personalizing the premium fees. This means, if the insured is included in one of the Bonus classes, the premium will be reduced and the opposite will happen if included in Malus classes, subject to the background of the claims that the insured will have for a fixed period.

The Authority in collaboration with stakeholders have defined algorithm and the number of classes in the Bonus-Malus system. Specifically, the system is comprised of 18 classes, where, conventionally class 1 would be the class in which the insured will pay less premium and class 18 the most penalizing. Upon the start of the system implementation, all the insured shall be assigned to class 13, to which the Bonus-Malus coefficient equal to 1 belongs to, then, the class marked to a policyholder for the insurance period is determined by the origin class and the number of claims reported a year ago. A special premium coefficient P belongs to each class, where P means the number of classes and $\beta_1 \leq \dots \leq \beta_{18}$.

Bonus-Malus system for contracts of TPL compulsory motor insurance will consist of:

- Reducing the risk class with a class in case of the insured that causes no claims during the contract;
- Increase the risk class with: 2 (two) classes if the insured makes a claim during the contract; 5 (five) classes if he makes two claims, etc.

Implementation of the Bonus-Malus system by the insured shall become effective upon the approval of amendments to the Law no. 10076, dated 12.02.2009 "On compulsory insurance in the transport sector", as amended, which provides for the inclusion in the law of applying this system, mandatorily, by insurance companies in the calculation of premium fees.

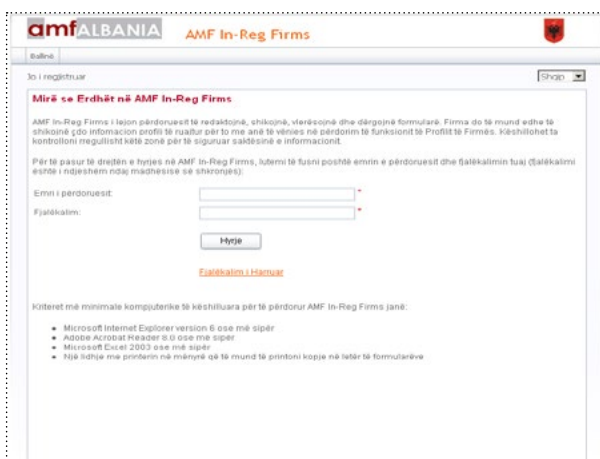
Another stage which was completed is the real-time integration through the National Agency of Information Association with the National Civil Registry, which provides the personal number of the vehicle owner as the key to Bonus-Malus search history and accurate categorization of owners at risk levels. Insurance companies are using this integration which became operational from the date March 3, 2015.

Upon the completion of both phases, the system is fully functional system and risk parameters, which consist of the number of claims and the number of full years TPL, are sent to insurance systems enabling risk-based charging.

The AFSA has prepared the respective draft-regulation for the implementation of the Bonus-Malus system, which is expected to be approved in the framework of amendments to Law no. 10076, dated 12.02.2009 "On compulsory insurance within transport sector", amended, which also provides the inclusion in the law of this system application, mandatorily, by insurance companies in the calculation of premium fees.

In addition, the IT systems at the AFSA are in constant interaction with the IT systems at insurance companies in order to check their compliance with the supervision manual requirements.

Information Management System



AFSA and insurance companies operating in the market have constant access at the AMF In-reg system which consists of a web-based reporting platform, through which operators from supervised entities report the required data to the Authority electronically online.

This Information Management System is used and maintained by the AFSA. The system is also used by reporting companies.



Licensing in the Insurance Market

In 2015, the licensing activity of the Financial Supervisory Authority in the insurance area was focused in licensing the activity of:

- Brokerage in insurance;
- Agent in insurance;
- Claim adjustors in insurance.

Intermediation in insurance

Intermediation in insurance represents the commercial activity towards payments and commissions, presentation, proposal and conducting other preparatory activities until the signing of the of insurance or reinsurance contract, as well as providing assistance during the period of contract's validity, especially in case of claims.

Intermediation activity is carried out by an insurance agent or broker.

The insurance intermediation activity is carried out by agents or agent companies, brokers and brokerage companies. Under the licensing process of insurance intermediaries, the AFSA constantly ensured that the requirements and procedures applicable to entities seeking to operate in the field of intermediation be clear, objective and transparent. Aiming at this objective, it was drafted Regulation no. 79, dated 31.08.2015 "On approval/licensing of persons to perform the activities of insurance agent, as well as the cases of refusal of his registration and license refusal" and Regulation no. 48, dated 30.06.2015. "On criteria, procedures and terms of licensing, as well as cases of license refusal to conduct brokerage activities in insurance". In these rules, it was highlighted the increase of professionalism and integrity of persons who will operate as a broker or agent.

Insurance Broker

The insurance broker negotiates with the insurance company on behalf of the customer according to his needs and requests, enabling the signing of an insurance contract. The insurance broker assists the insured in the exercise of rights arising from the insurance contract during the validity period of the contract, as well as during the occurrence of the insured event.

Developments in the insurance market and the need to protect the interests of businesses and individuals in the insuring process have increased the interest of entities for licensing in the mediation market, particularly in the brokerage market.

In 2015, the Authority approved the licensing of a new entity to exercise the activity of brokerage for Non-Life classes. Meanwhile, the number of individual brokers did not change in comparison with the end of 2014.

Table 8: Data on licensed insurance brokers (number)

Status	Licensees at the end of 2014	New Licenses in 2015	License Renewals in 2015	Revoked licenses in 2015	Licensees at the end of 2015
Brokerage companies	8	1	-	-	9
Individual Brokers	14	-	4	-	14

The following table shows a classification of brokerage companies by the type of licence:

Table 9: Brokerage companies, by insurance product (number)

	2009	2010	2011	2012	2013	2014	2015
Non-Life brokerage companies	3	7	5	5	5	4	5
Life and Non-life brokerage companies	-	-	-	1	2	2	2
Life, Non-Life and Reinsurance brokerage companies	1	1	1	1	1	2	2
Total	4	8	6	7	8	8	9

The business of brokerage companies consists of intermediation of Life and Non-Life insurance products such as: *travel health insurance, offer and contract security, CASCO insurance, TPL, Green Card, border insurance, fuel insurance, insurance against fire, CAR insurance and Life insurance, Property insurance for loans, etc.*

The reports from brokerage companies in relation to statistical data on their business show that at the end of 2015, approximately 51.23% of the total amount of gross written premiums in the insurance market were sold through brokerage intermediation and approximately 38.42% of insurance contracts resulted to have been entered by licensed brokers. Intermediation prevails in the brokerage activity for Non-Life products with about 54.96% of gross written premiums, mainly orientated towards compulsory motor insurance. Intermediation in Life products is in the level of 3.77%.



Brokerage commission towards the total brokerage premiums for 2015 results 4.5%.

Agents in insurance

In 2015, natural persons continued to be licensed as Non-Life insurance agents acting on behalf of four insurance companies: “Insig” sh.a., “Sigal Uniqa Group Austria” sh.a., “Albsig” sh.a. and “Ansig” sh.a.

Table 10: Data on licensed agents

(number)

Agent's Status	Licensees at the end of 2014	License renewal 2015	New licenses 2015	Expiry of license period in 2015	Revoked licenses 2015	Licensees ⁸ at the end of 2015
Legal entities	3	-	-	2	-	1
Natural persons	300	21	46	102	9	256

Claim adjusters in insurance

The claims adjuster in insurance, professionally and impartially, determines the amount of reward that the insurance company is obliged to pay to the insured persons, as a result of occurrence of the insurance event up to the limit of responsibility determined according to the insurance contract.

Referring to Law no. 52, dated 22.05.2014 “On insurance and reinsurance activity”, the license may be revoked to the claim adjuster if:

- He has breached the licensing conditions or law requirements and acts of the Authority;
- He does not perform any activities within 6 months from the date of license receipt;
- He has made wrong and subjective evaluations;
- He has made untrue evaluations, breach of procedures or evaluations falling in contrary to the legal provisions and professional standards;
- He has submitted false or untrue documents for obtaining license;
- He withdraws voluntarily from the performance of activity.

The Authority, for breach of provisions under this law may suspend the license of the adjuster for a period not longer than 6 months.

Note: ⁸ The total number of licensed brokers at the end of 2015 is calculated as the total of brokers licensed at the end of 2014 + new licenses in 2015 + license renewals in 2015 – less the number of licenses expiring at the end of 2015 – license withdrawals

In 2015, the AFSA licensed 8 additional claim adjusters, and renewed 7 existing licences.

Table 11: Data on licensed claim adjusters, by type of licence and status *(number)*

<i>Claim Adjusters</i>	<i>Licenses at the end of 2014</i>	<i>New licenses 2015</i>	<i>License renewals 2015</i>	<i>Expiry of license period 2015</i>	<i>Licenses in 2015</i>
<i>By claim adjustor's status</i>					
Independent	31	3	4	2	36
Employed	29	5	3	8	29
Inactive Licences	5	-	-	1	4
<i>By type of license</i>					
Material claims	6	-	-	2	4
Health claims	9	3	-	-	12
Material and health claims	50	5	7	9	53
Total licensed claim adjusters	65	8	7	11	69

Reinsurance

Based on the legal framework, insurance companies are obliged to reinsure in a reinsurance company the portion of the insured risk that exceeds the limit allowed of 10% of the capital value.

Based and pursuant to the requirements of Article 116, point 3 of Law no. 52/2014 "On insurance and reinsurance activity" and in the framework of the implementation of risk-based supervision methodology, the Authority, in cooperation with experts from the World Bank, under the FIRST project about the reform in the insurance market, approved Regulation no. 85/1, dated 30.09.2015 "On the criteria of reinsurance" where innovations of the Regulation mainly relate to: increase of the quality in determining criteria in the process of concluding reinsurance agreements from insurance companies operating in the Republic of Albania, and the criteria in the selection of reinsurance companies; approximation with EU requirements in terms of handling the reinsurers, referring their financial situation; and details of credit quality level (or Solvency ratio) of reinsurance companies participating in reinsurance agreements.



Reinsurance Criteria

The Authority with Board decision No. 85/1, dated 30.9.2015, approved the Regulation “On Reinsurance Criteria”, which reflect the required regulatory amendments under the adaptation with the new insurance law, and it has been aligned to EU requirements on handling reinsurance companies participating in reinsurance agreements.

Besides the main innovations related to enhancing the quality of determining criteria in the process of concluding reinsurance agreements and aligning with the requirements of the European Union in terms of handling of reinsurers, Annex 1 is attached to the regulation – “Determination of the Credit Quality Level”, in which the classification of reinsurance companies is explained in detail:

- According to the credit scale, evaluated from 4 (four) ranking agencies;
- Without credit scale, but licensed and supervised by supervisory regimes equal to the Regime Solvency II of the European Union;
- Without credit scale and neither licensed, nor supervised by supervisory regimes equal to the Regime Solvency II of the European Union, and the explanation, on a case-by-case basis, of each *Credit Quality Level*.

For special insurance portfolios, the companies have conducted a transfer of risk to mitigate possible financial claims. Such transfer is accomplished through coinsurance, transfer to reinsurance of insurance portfolios in whole or facultative reinsurance coverage for specific contracts.

Pursuant to regulatory requirements, insurance companies report their reinsurance program to the Authority. Based on its supervisory function, AFSA monitors the performance of this program and specific concluded contracts, with the aim to ensure the constant financial stability in relation to the standards of risk retention by those reinsurance companies and the criteria related to the quality of reinsurers.

Reinsurance agreements on Non-Life insurance portfolios were made through proportional form *Excess of Loss* and proportional form of *Quota Share* and *Surplus type*. In Life insurance, coverage with reinsurance was made through reinsurance agreements through proportional form of *Surplus type* and *Quota Share type*.

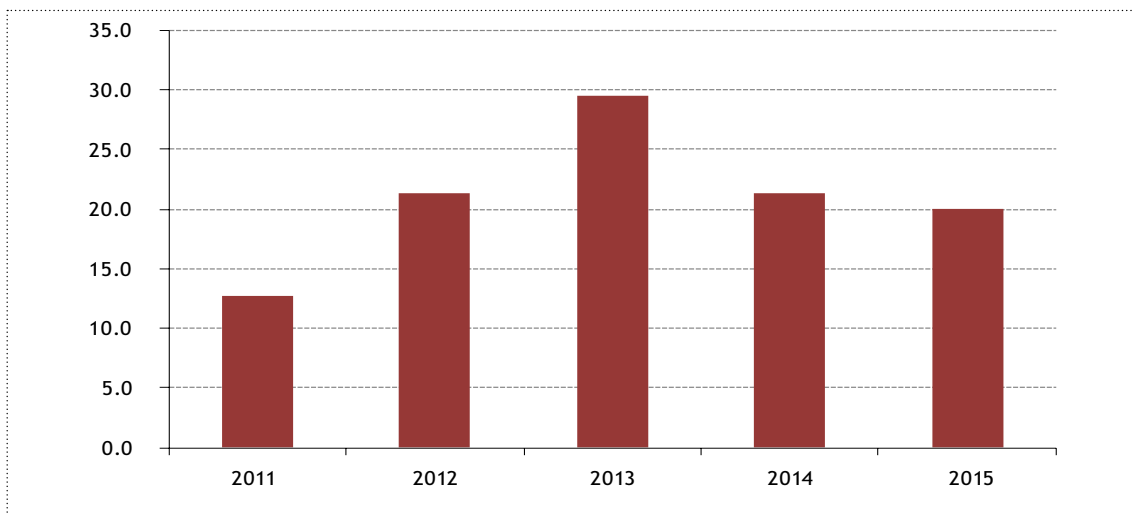
Ceded premiums in reinsurance as of 31.12.2015 result:

- For the total of insurance market in the amount of ALL 2.82 billion, or 20% of gross written premiums in the market, with an increase of ALL 342.73 million or 13.85% compared with the same period of the year 2014;

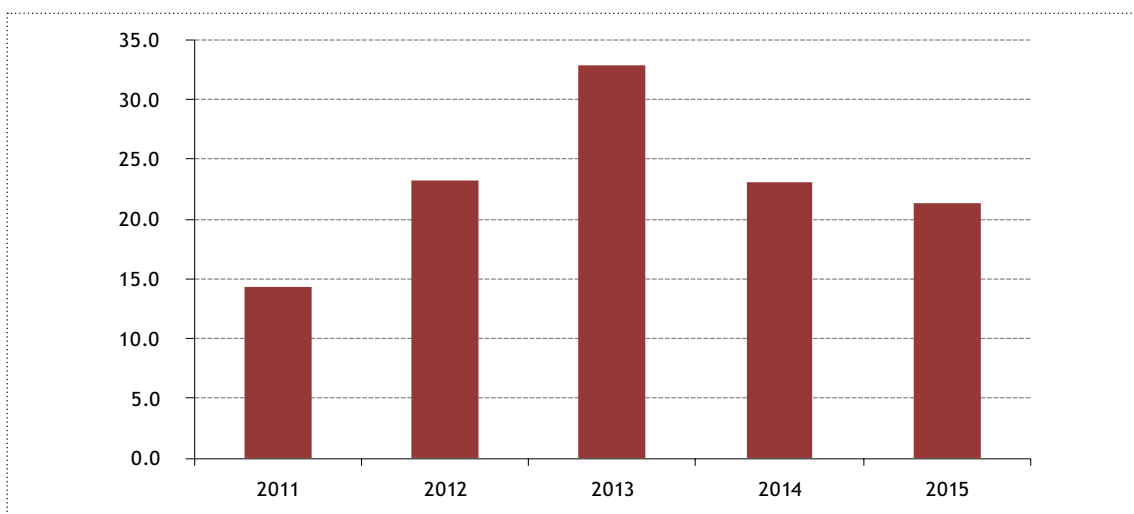
- For Non-Life insurance in the amount of ALL 2.79 billion, or 21.36% of gross written premiums, with an increase of ALL 344.41 billion, or 14.09% compared with the same period of the year 2014;
- For Life insurance in the amount of ALL 28.31 billion, or 2.75% of gross written premiums, with a reduction of ALL 1.68 million, or 5.61% compared with the same period of the year 2014.

The performance of the ratio of premiums ceded to reinsurance over gross written premiums from 2011 until the end of 2015 is shown below:

Graph 13: Premium ceded to reinsurance/gross written premiums, total market (%)



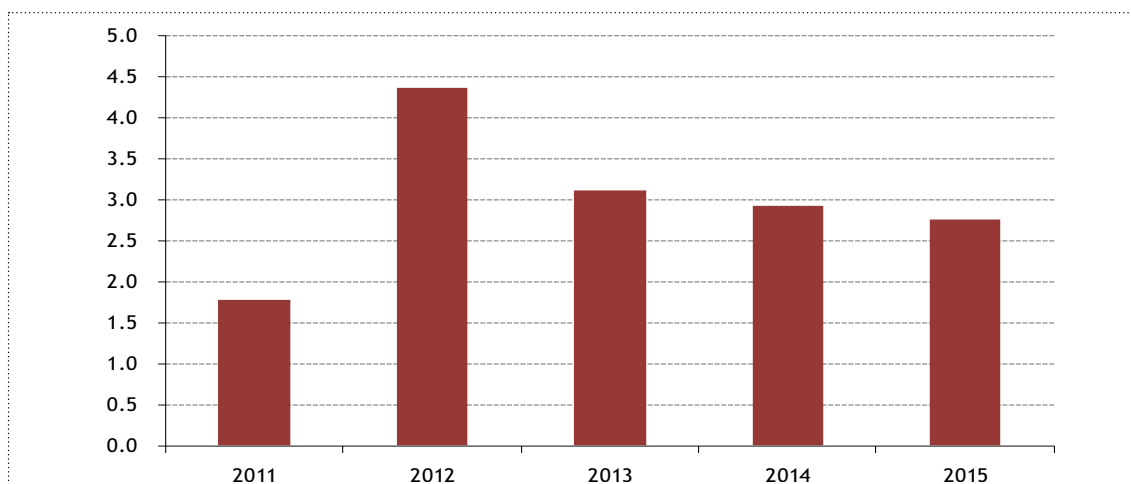
Graph 14: Premium ceded to reinsurance/gross written premiums, Non-Life (%)





Grafik 15: Premium ceded to reinsurance/gross written premiums, Life

(%)



Among the major participants in the reinsurance programs, in 2015 for Non-Life insurance, we can mention VIG Re, UNIQA Re, Munich Re, Hannover Re, Swiss Re, Partner Re, Scor, Lloyd's Syndicates, etc. For Life insurance, the only reinsurance company involved in this program is Scor Global Life. More than 90% of reinsurance partners of insurance companies had a rating of above BB- from Standard & Poors, with 60% of them with a rating of above A.

1.3 Securities Market

Investment Funds

Investment funds industry in Albania started its activity in early 2012. Over the next three years, this sector has gone through significant structural changes, thus constituting a positive step forward towards the development of the capital market in Albania and support of the whole financial market.

In these conditions, further strengthening of investment funds market through improved management of risks faced by these funds and increase of their transparency constitute priorities of the supervisor's works. During 2015 the focus of the supervisory work was the follow-up of the implementation of rules relating to the recognition, assessment, monitoring and management of liquidity risk of investment funds by their management companies, as well as proper implementation of international standards of financial reporting related to the evaluation of assets of collective investment undertakings.

The market of collective investment undertakings experienced an increase in 2015. Two investment funds continue their operation in this market, respectively "Raiffeisen Prestigj" Investment Fund licensed on 13.12. and "Raiffeisen Invest Euro" Investment Fund licensed on 26.09.2012, which are administered from "Raiffeisen Invest" sh.a.

According to an analysis of the data on the investment fund market as of 31.12.2015, the net value of their assets reached ALL 66.99 billion, with an increase of ALL 3.3 billion or 5.10% compared with the value on 31.12.2014. This market is mainly dominated by investment in government bonds, which accounted for 70.22% of the fund assets.

The number of unit-holders investing in investment funds on 31.12.2015 was 32,149 decreased with 1.59% compared with 31.12.2014. Among unit-holder in the fund, approximately 99.99% are individual investors.

Table 12: Indicators for investment fund unit values

(ALL)

<i>Përshkrimi</i>	<i>Initial net asset value per unit</i>	<i>Net asset value per unit 31.12.'14</i>	<i>Net asset value per unit 31.12.'15</i>
Raiffeisen Prestigj	1,000 ⁹	1,207	1,290
Raiffeisen Invest EURO ¹⁰	14,000 ¹¹	15,024	15,042

Note:

⁹ Initial value on 31.03.2012

¹⁰ Values of Raiffeisen Invest EURO are converted with the exchange rate 1EUR = 140 ALL.

¹¹ Initial value on 22.11.2012.



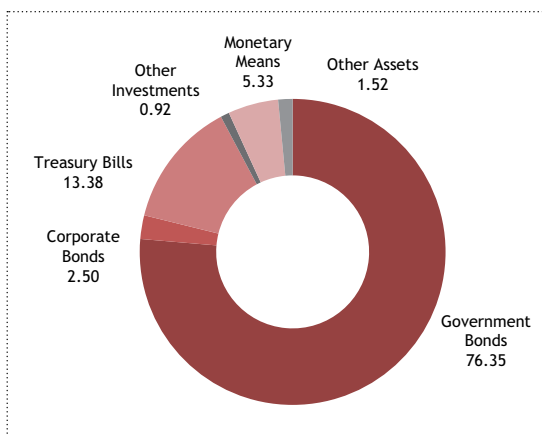
Table 13: Detailed indicators from financial statements of investment funds, as per quarterly periods 2015 *(million ALL)*

Description	Value			
	31.03.'15	30.06.'15	30.09.'15	31.12.'15
Period				
Fund net assets	65,757	67,465	67,658	66,989
Total fund assets	65,963	67,781	67,970	67,151
<i>of which:</i>	-	-	-	-
Government Bonds	49,709	49,013	48,415	46,704
Corporate Bonds	1,637	1,540	1,208	2,037
Treasury Bills	8,651	11,021	12,028	11,696
Other investments	819	502	499	682
Monetary means	4,181	5,055	4,749	5,133
Other Assets	966	1,062	1,072	898
Total Fund Liabilities	206	315	312	161

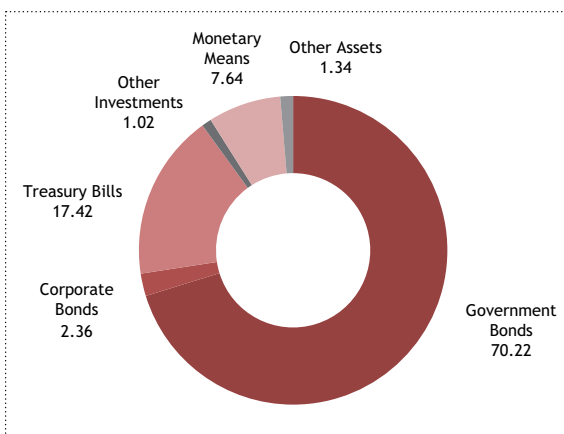
Table 14: Detailed indicators of investments funds from financial statements, 31.12.'14-31.12.'15

Description	Value (in million ALL)		Change (in %) 31.12.'14- 31.12.'15	Share in total value (in %)	
	31.12.'14	31.12.'15		31.12.'14	31.12.'15
Period					
Fund net assets	63,736	66,989	5.10		
Total fund assets	64,041	67,151	4.86	100	100
<i>of which:</i>					
Government Bonds	48,895	46,704	(4.48)	76.35	70.22
Corporate Bonds	1,604	2,037	26.99	2.5	2.36
Treasury Bills	8,568	11,696	36.51	13.38	17.42
Other investments	589	682	15.81	0.92	1.02
Monetary means	3,411	5,133	50.49	5.33	7.64
Other Assets	974	898	(7.84)	1.52	1.34
Total Fund Liabilities	306	161	(47.26)	0.48	0.24

Graph 16: Structure of investment fund assets
31.12.'14 (%)



Graph 17: Structure of investment fund assets
31.12.'15 (%)



Inspections at the management company of investment funds

In 2015, the Authority gave attention to the establishment of rules and criteria, which aimed to improve the risk management process by the management companies for investment funds under their administration, in view of an effective supervision of an expanding market.

In 2015, the AFSA followed the implementation process of rules “On liquidity management for the investment fund” and “On determining the value of the assets of collective investment undertakings and calculation of their net asset value per quota”.

During the inspection process on site, it was emphasized the implementation of these regulations in the transitional period, as a necessity for further strengthening the market of collective investment undertakings in the country, by improving the management of risks faced by these funds and increased transparency.

During 2015, the AFSA in collaboration with BA conducted a joint inspection at the management company of pension funds and collective investment undertakings Raiffeisen Invest sh.a. Such inspection by the AFSA, based on the applicable legislation and in fulfilment of the FSAP recommendations for effective consolidated supervision, focused on three main areas related to:

- Effective supervision of the company activities, focusing on investment policies, procedures of selection and approval of the investment type, operation of automated systems used by the management company for the calculation of net assets of investment funds and the manner of calculating the quota price, settlement of member quotas withdrawn by the investment fund, the calculation method for the value settled and the quota price used at the time of settlement;



- Transparency with investor, focusing on the management of collective investment funds, structuring and allocation of internal functions of the company, ways and conditions of selling shares to the investor by the management company, procedures for handling customer complaints by the management company;
- Fulfilment of legal obligations to prevent money laundering and financing of terrorism, focusing on rules, regulations or internal procedures relating the prevention of money laundering, conduct of audits by internal auditors of the company and conclusions held, reporting of suspicious transactions and cash transactions for values under applicable law.

Project “Strengthening supervisory capacities of the AFSA: Focus on the capital market development”

The Council of Ministers, upon decision dated 9th September 2015 approved in principle the grant for strengthening the supervisory capacities of the AFSA. The grant was given by the government of Swiss Confederation, represented by the Swiss State Secretariat on Economic Issues (SECO). The International Bank for Reconstruction and Development (IBRD) is the administrator of funds, a grant of the Swiss Confederation government.

In 2015, it was introduced the project “Strengthening supervisory capacities of the AFSA: Focus on the capital market development”. This project aims to support the AFSA particularly in strengthening capacities to supervise the market of investment funds. This project is supported by the World Bank, which shall follow its implementation as well. The Swiss State Secretariat on Economic Issues (SECO) funds this project through the Grant (Trust Fund Grant).

The project is designed to meet the challenges faced by the AFSA and the areas covered by this project mainly are:

- Development of the AFSA's capacities for the supervision and regulation of investment fund market;
- Development of the AFSA's capacities to be prepared for the issuance of corporate and local government bonds.

During 2016, it is expected to begin the implementation of the first component, specifically with two respective components:

- Evaluation of the structure, staffing and training needs related to the field of supervision of investment funds;
- Evaluation and development of the legislation and supervisory package for investment funds and corporate and local government bonds.

Government Securities Retail Market

The retail market of Government securities in 2015 was dominated at 72.73% dominated by transactions in short-term instruments (T-Bills) and 27.27% from long-term instruments (bonds). With regard to the number of transactions, 86.66 of all transactions in the retail market of Government securities, belong to transactions performed with treasury bonds.

Transactions under “Purchases on the primary market” and “Payment of nominal value at maturity” dominated the Government securities retail market in 2015. Their respective shares were 67.27% and 16.62% against the total volume of transactions.

Individual investors dominated in this market, performing approximately 98.65 of all transactions in the Government securities retail market.

Table 15: Government Securities Retail Market

Type of Transaction	Nominal value (million ALL)		Change (in %)
	2014	2015	'15/ '14-1
A Purchases in the primary market	37,058	49,724	34.18
<i>Individuals</i>	12,137	25,647	111.32
<i>Legal persons</i>	24,921	24,077	(3.39)
B Sales from financial intermediary portfolio	7,190	7,752	7.82
<i>Individuals</i>	5,879	6,324	7.57
<i>Legal persons</i>	1,311	1,428	8.91
C Purchases before the maturation term	3,330	2,689	(19.25)
<i>Individuals</i>	2,958	2,552	(13.72)
<i>Legal persons</i>	372	136	(63.29)
D Placement of bond as collateral	372	1,468	295.15
<i>Individuals</i>	45	889	1,864.74
<i>Legal persons</i>	326	579	77.44
E Settlement of nominal value in maturation	11,952	12,988	2.81
<i>Individuals</i>	10,675	9,547	(10.57)
<i>Legal persons</i>	1,276	2,740	114.69



GSRM Platform (Government Securities Retail Market)

In 2015, the GSRM Platform continued to function and perform its role, ensuring increased transparency in the quotes and transactions on the Government securities retail market. Ten operators licensed by AFSA to trade in Government securities operate in the market. In the context of better protecting investor interests, AFSA monitors the activity of those operators and takes care that the information is up to date and in real time.

The Platform also includes an historical database which assists all the persons who need such data for personal, statistical or academic reasons.

The GSRM provides complete up-to-date information to the public and institutional investors on the daily demand and supply in the Government debt securities retail market. In 2015, the GSRM Platform was clicked 33,286 times, accounting for approximately 8.27% of all visits to AFSA official website.

Online Trading Platforms

Online trading platforms enable stakeholders to invest in financial products of international stock market. In general, online trading platforms allow trading in securities (stocks, bonds, and derivatives), trading in FOREX, or trading on the stock market (oil, precious metals, etc.). Investing in these platforms carries considerable risk, so investors should be diligent, provided with comprehensive information and the required financial culture.

Activities regulated in the market of entities promoting products of online platform creates the opportunity to increase awareness of the investor to assess the risks associated with investments in the stock market, limits the size of potential losses and provides full transparency for their explanation in case of occurrence.

During 2015, operations took place by two entities licensed in the role of online platform mediators. At present, online trading platforms are in possession of licensed brokerage companies outside the territory of the Republic of Albania. The subject licensed is recognized as the agent of the foreign broker.

The Financial Supervisory Authority, pursuant to Law no. 9879, dated 21.02.2008 “On Securities” and Decision no. 55, dated 30.03.2011 “On the recognition of the activity of the agent of the licensed broker of securities” has recognized the activity of the agent of the licensed broker of securities, consisting of: the promotion of the broker’s activity; receipt and transmission of orders or instructions from customers/potential customers, as well as providing advice to clients or potential clients in connection with securities and financial instruments.

According to the decision, the agent acting on behalf of only one licensed broker of securities in the territory of the Republic of Albania, or a broker licensed by other supervisory Authorities, members of IOSCO, signatory of the MmoU.

The full list of licensed brokerage companies and licensed brokers is found in Appendix B to this report.

Licensing activity in the securities market

During 2015, the Authority licensed a new brokerage company to act as a broker in the securities market and at the same time as a liaison agent of a foreign brokerage company. Hence, the number of licensed brokerage companies in this market increased to 14 and the number of employed individual brokers in brokerage companies was 19.

The most active part of the securities market is the Albanian Government securities retail market. Operators in this market mainly include banks that have been licensed by AFSA to perform such activity.

Table 16: Entities licensed to operate in the securities market (number)

<i>Entities</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
Brokerage companies	13	13	13	13	14
Individual brokers in brokerage companies	17	18	18	18	19
Custodians of Republic of Albania Government securities	8	8	8	8	8
Share registrars	1	1	1	1	1
Securities investment advisory company	0	0	1	1	1
Securities investment advisor	0	0	1	1	1
Liaison Agent	0	1	1	1	2



Approval of the private offer of bonds

Market of Joint Stock Bonds

A potential segment of securities market is the market of joint stock bonds. The first bond issuance dates in November 2011. To date, these bonds have been issued through private offer. The characteristics of these bonds are: fixed interest, six-month coupon, long-term maturation. In 2015, the AFSA approved the respective prospectus of a company for bond issuance with private offer in the amount of ALL 513 million.

Private offering of bonds

The bond market provides opportunities for joint stock companies providing financing funds for their business.

Law no. 9879 dated 21.2.2008 “On Securities” and Law no. 10158 dated 15.10.2009 “On bonds of shareholding companies and local governments” constitute the legal basis for the regulation of issuance and trading of bonds.

This legal basis supports the establishment of an active and effective market of bonds in Albania.

Approval of the document with key information on investment funds

In 2015, the Authority approved the document with key information (KIID) made available to the Investor on “Raiffeisen Prestigj” Investment Fund, and the document with key information (KIID) made available to the Investor on “Raiffeisen Invest Euro” Investment Fund.

Document with key information on the Investor (KIID)

This document contains in reduced form relevant information about the essential characteristics of investment funds (including the performance of the fund in previous periods) and helps the investor to understand the nature and risks of investment, giving the opportunity to judge on the decision of investing in the fund. This document is made available to the investor by the management company before the signing of the fund quotas.

1.4 Private Voluntary Pension Market

The scheme of the organization and functioning of voluntary private pensions, sanctioned by Law no. 10197 dated 10.12.2009 established the required spaces in order to facilitate the long-term social costs by stimulating citizens to save privately and voluntarily to increase their pension.

Developments in this market, since the entry into force of the law have had a positive dynamics. However, the net asset value of this market is considerably trivial towards the GDP in Albania. In these conditions the focus of the Authority in 2015 and following remains the strengthening and development of voluntary private pension market. Thus, two main areas of work for the strengthening of this market were identified. Firstly, in terms of extending the coverage and secondly in terms of the implementation of a new supervision framework of this market. With the assistance of the World Bank, it was set up an action plan that will be followed for coverage expansion, and it is made possible the establishment of a new supervisory methodology towards the risk-based supervision and strengthening of supervisory capacities for its implementation.

An assessment of private voluntary pension market data on 31.12.2015 shows a total of net assets in the value of ALL 928.74 million and with an increase of approximately ALL 299.59 million (47.62%), compared with 31.12.2014.

During 2015 the number of private voluntary pension market operators did not change. Three voluntary pension funds operated in this market, managed by three different management companies respectively: "Raiffeisen Invest" sh.a., managing "Raiffeisen" Voluntary Pension Fund, "SIGAL-Life Uniqa Group Austria" sh.a., managing SIGAL Pension Fund, and "SiCRED" sh.a., managing SiCRED Voluntary Pension Fund.

The number of members in the private voluntary pension fund market at the end of 2015 was 12,559 members, marking a rise of 4,068 members, or 47.91% compared with the end of 2014.

Table 17: Pension Fund Indicators

Description	Value (million ALL)		Change (in %)
	31.12.'14	31.12.'15	
Net assets of PF market	629.14	928.74	47.62

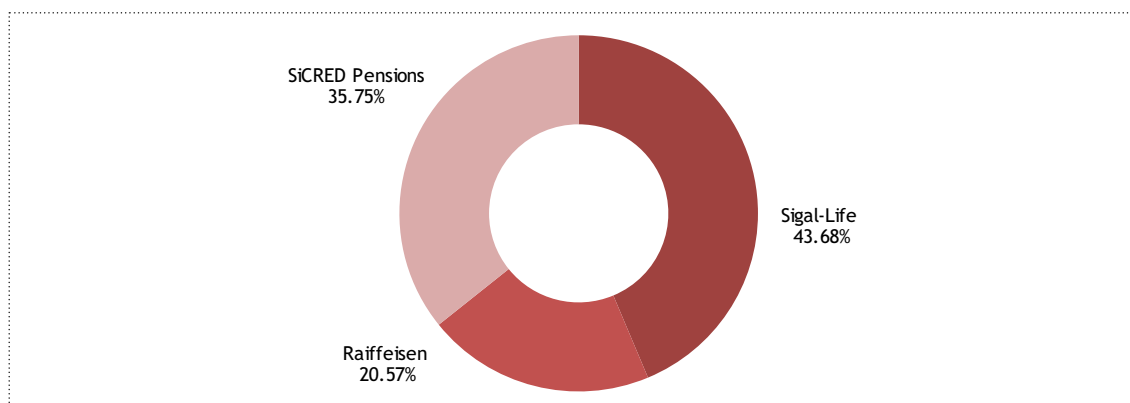


Net assets of the voluntary private pension fund market marked an increasing trend across the years. In 2014, the increase of these assets was 44.69% compared with one year ago, while on 31.12.2015 the increase of these assets was 47.62% compared with 31.12.2014.

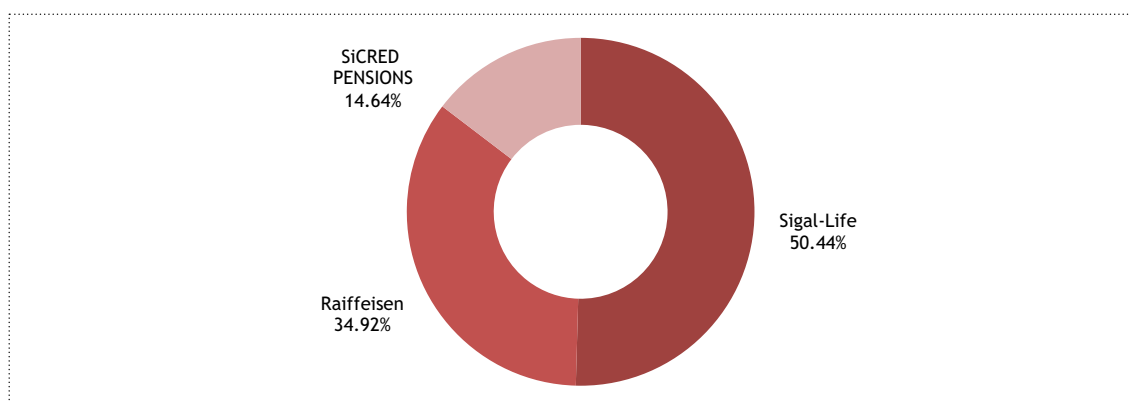
Table 18: Net assets and number of members by pension fund, 31.12.'15

<i>Pension Fund</i>	<i>Number of PF members</i>	<i>Net Assets (million ALL)</i>
SIGAL LIFE	5,486	468.47
RAIFFEISEN	2,583	324.30
SiCRED PENSION	4,490	135.97
TOTAL	12,559	928.74

Graph 18: Market shares in terms of number of pension fund members, 31.12.2015



Graph 19: Market shares in terms of pension fund net asset value, 31.12.2015



In 2015, the total of pension fund investments was ALL 843.02 million and these investments consists in the Treasury Bonds of the Republic of Albania. Fund Market Investments marked an increase of 44.92% compared with 31.12.2014.

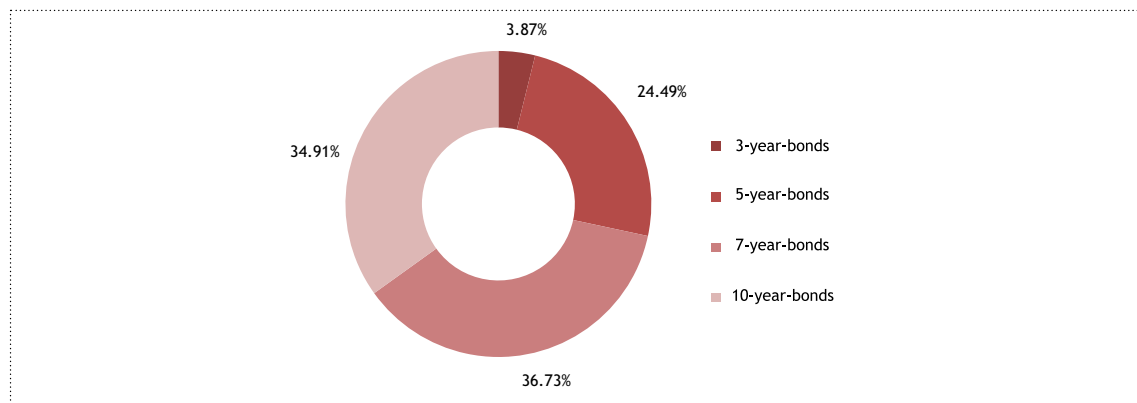
The progress of investments during the last three years is given in the following table:

Table 19: Pension fund market investment amount *(million ALL)*

<i>Period</i>	31.12.'13	31.12.'14	31.12.'15
Total PF investments	421.68	581.71	843.02

Since the liabilities of voluntary pension funds are long-term as the members may withdraw when reaching the pension age, then the policy of investment for all three pension funds operating in the market is long-term aiming at maturities of 3, 5, 7 and 10 years, as it may be seen in the graph hereunder:

Graph 20: Distribution according to the maturity of pension fund market investments, 31.12.2015





Project: “Monitoring and expansion of voluntary private pension market in the country”

In 2014, in the framework of fulfilling the recommendations of the Financial Sector Assessment Program (FSAP) and with the support of the World Bank through the First Initiative (*Financial Sector Reform and Strengthening Initiative*), the Authority started to implement the technical assistance project for the supervision and expansion of the voluntary private pension market in the country “Supervision of pensions in Albania and coverage expansion”.

The objective of this project is to support the expansion of the process of regulation and supervision of private pensions, as well as to contribute to expanding the private pension market in a more secure, stable and efficient pension system.

The project focuses on two basic components that are regulation and supervision, as well as market expansion, contributing to building the framework of risk-based supervision and supervisory capacities; reviewing the legal and regulatory basis to support the new supervisory framework; or the definition of a strategic plan and action to support expansion of voluntary private pension market.

During 2015, the implementation of the technical assistance project continued in the field of voluntary private pensions. In the framework of this project it was prepared the first full draft of the risk-based supervision manual, based on discussions held between experts of the World Bank and those of the AFSA.

Regarding the component for expanding the pension market, in October 2015 the Financial Supervisory Authority in collaboration with the World Bank and the Institute of Statistics of Albania held the Conference “Voluntary Pension System in Albania-expansion of Coverage Expansion”, which served as a forum for the discussion of issues relating the development of this market.

The conference reflected the performance of the private pension market in Albania, opportunities and challenges provided by the expansion and development of this market in the country, giving a complete picture of the issues and objectives related to the pension system, including public and private pensions, their ratio with the economy of the country as a whole, needs for reforms, support that the development of this system also gets from fiscal policies in the country, as well as the global context where Albania participates and it will required to adapt to.

During 2015, in collaboration with INSTAT, a survey was conducted to assess the attitudes of employers to the offer of occupational pension plans. At the conference, there were presented the methodology and results of extensive survey conducted during the month of June 2015 on site, in 500 private economic entities with over 20 employees throughout Albania, about

the possibility of extending the voluntary pension market in the country. The survey, which was the result of a fruitful cooperation of the AFSA with INSTAT and the World Bank, provided some important guidance relevant to the organization of educational and promotional campaigns to encourage interest in the products of the private pension market and the overall development of this market. Results of this survey will serve directly to the AFSA and management companies of pension funds to organize their action strategies, but these results will be also suitable for other policy-making authorities in the field of pension market.

1.5 Corrective and Administrative Measures

The legislation governing the activity of the AFSA and financial entities that are supervised by the AFSA provide for corrective and administrative measures aiming at preventing and eliminating any violations on time, enabling the disruption of any actions contrary to the law, the protection of consumers and the strengthening of AFSA role.

Supervisory, corrective and sanctioning measures have been set by the Authority in an impartial, transparent manner reflecting the conclusions from the exercise of supervision. In establishing administrative measures, the principles of effectiveness, sustainability, proportionality with circumstances or actions constituting violation and impact on the interests of the insured were complied with.

With the entry into force of Law no. 52, dated 22.05.2014, "On insurance and reinsurance activity", supervisory measures were taken for the prevention, amendment or interruption of the circumstances that constitute a violation of the provisions under this law by intervening in time to solve financial problems that may occur to the insurance company or entity supervised. Assessment of the circumstances for taking supervisory measures is made on the basis of the Manual of Supervision of insurance companies.

According to this law, in addition to supervision measures, administrative offenses are sanctioned with fine, by assessing as well the nature and scope of the breach and the impact on the interests of the insured. The provisions of this law have increased the range of subjects to which a penalty with fine can be set, such as: insurance companies or persons responsible of insurance companies, members of the board of directors/supervisory council, agent/company of agents, broker /brokerage company, authorized actuary, assessors of claims, etc.

The Authority has worked diligently towards the recognition, identification of problems by taking appropriate measures for their implementation. Taking measures is based on site inspections, control of documents, verification of information, or review of complaints submitted.

The observations found include violations of law provisions related to financial stability, risk management rules, organization of internal control system, etc. In some cases through



administrative measures, the Authority has detected the undertaking of certain steps to resolve the problems found within a reasonable time limit.

The Authority, in order to implement the measures taken by the supervised entities, consistently follows up any reporting or information related to the correction of the situation for which the measure had been taken and monitors every action performed by the subject relevant to the situation in question.

In the case of companies operating in the insurance market, the AFSA Board, in 2015, took a total of 7 decisions on administrative measures based on the findings of the financial indicator assessment and the onsite inspections carried out by the Authority.

Detailed decisions according to the type of administrative measures are given in the table below:

Table 20: Type of administrative measures taken by the AFSA in the insurance market, 2015

(number)

<i>Order to eliminate compliance</i>	<i>Business Plan</i>	<i>Plan of measures for the elimination of violations</i>	<i>Recommendation for capital increase</i>	<i>Recommendation to supervisory board</i>
5	1	3	2	1

The AFSA has rigorously followed the appeal process and judicial defence at all levels of the judicial system. During 2015, 3 trials terminated.

Table 21: Court cases attended by the AFSA, 2015

(number)

<i>Total</i>	<i>Ended</i>	<i>Pending</i>
11	3	8

During 2015, the trial for three court hearings ended. These issues are related to the appeal against three decisions of the Board for license removal in order to exercise the activity of insurance claims assessors. Tirana Judicial District Court, Administrative Court of Appeals and the Administrative Panel of the Supreme Court accepted the appeal, annulling the decisions of the AFSA Board.

During this year, 8 cases continued to be under trial process, out of which: 2 cases, whose object of indictment is work relations and the other cases are related to the appeals made by supervised subjects, in specific terms 3 cases appealed by insurance claims assessors, 2 from insurance companies and 1 appeal made by Albanian Insurance Bureau.

Chapter 2

Regulation of supervised financial markets

2.1 AFSA Board Activity

In the context of performing its functions, AFSA Board conducted 14 meetings and took 151 decisions. The following table shows the number of AFSA Board decisions grouped by type of decision.

Table 22: Classification of AFSA Board decisions, by type of decision

<i>Type of decision</i>	<i>Number</i>
Decisions on companies operating in the insurance market	95
Decisions on companies operating in the securities market	11
Decisions on companies operating in the voluntary pension market	10
Decisions imposing administrative and corrective measures on supervised entities	7
Decisions on AFSA regulatory framework	28
Total number of decision	151

Authority's Board decisions have the objective of ensuring compliance with the law, by increasing transparency and accountability, serving as guarantee for the supervised entities. The decisions that cover the greatest specific weight remain the decisions related to the insurance market. Among them, decisions were adopted on determining the level of provisions of insurance companies, on determining the value of the compensation fund, on adopting or amending the statutes or prospectuses of insurance companies, approval of the members of the supervisory councils or boards of companies, as well as approval of insurance intermediaries. Based on the analysis of financial indicators, the AFSA Board has also taken administrative measures in case of failure to meet the requirements of Law no. 52, dated 22.05.2014 "On insurance and reinsurance activity".

In addition, this year, with the decisions of the Board no. 33 dated 28.05.2015 and no. 107, dated 05.10.2015, it was set up the advisory committee consisting of 2 experts with the purpose of drafting a document for the strategic development of the insurance market. The Advisory Committee of the AFSA Board will develop a document relating the expansion and diversification of the compulsory and voluntary insurance market. The document will include, inter alia, instruments to increase consumer awareness in cooperation with insurance companies, to expand and deepen the market for insurance products.

Aiming at further strengthening of the market of collective investment undertakings, the Board of the AFSA approved the Regulation "On liquidity management for the investment fund", and amended several other bylaws.



2.2 Regulatory Activity

In 2015, the Financial Supervisory Authority worked to amend the three laws that regulate the activity of supervised areas.

Amendments to Law no. 10076, dated 12.02.2009 “On compulsory insurance in the transport sector”

In 2015, the AFSA continued work on the preparation of amendments to the Law no. 10076, dated 12.02.2009 “On compulsory insurance in the transport sector”, pursuant to the recommendations of the EU Progress Report, the recommendations of the Subcommittee “Internal Market and Competition”, as well as recommendations given from the joint mission of the IMF and the World Bank in the framework of the financial sector assessment (FSAP). During the drafting process of the draft law, the Authority collaborated closely and consistently with the Association, through the development of round tables, consultations, and through continued correspondence (memos, e-mail, etc.) and considered a part of their suggestions and comments, which were subject to the improvement of the legal base, further market regulation and consumer protection.

AFSA’s Board with its Decision No. 106, dated 05.10.2015 reviewed the draft law and decided for its delivery to the Ministry of Finance to start the procedure of its adoption by the Council of Ministers. The draft law was delivered for opinion to the relevant line ministries, as well as to the World Bank.

In December 2015, the World Bank submitted its comments and suggestions that required the review and inclusion of new provisions in connection with the structuring, functioning and organization of the Albanian Insurance Bureau and the Compensation Fund.

Consequently, the AFSA announced the Ministry of Finance to extend the deadline for delivering the draft law “On some addenda and amendments to Law no. 10 076, dated 12.2.2009 “On compulsory insurance in the transport sector” to the Council of Ministers, provided by the Ministry of Finance for delivery within the third quarter 2015, in order to have the required time to reflect the comments of the World Bank.

Furthermore, in December, the AFSA examined and prepared responses to all the comments of the relevant line ministries in the framework of the draft law, which were respectively reflected in the draft law.

As per above, the draft law would be delivered again to the Ministry of Finance to continue the process of its adoption in 2016 after the completion of the review process and the drafting of new provisions suggested by the World Bank.

Amendments to Law no. 10197, dated 10.12.2009 "On Voluntary Pension Funds"

With the assistance of WB experts in the framework of the Program *FIRST Initiative* the Authority finalized the draft law "On some addenda and amendments to Law no. 10197, dated 10.12.2009 "On voluntary pension funds". This draft law was delivered to the Ministry of Finance together with the respective report and compatibility table. The Authority worked on the inclusion of the comments provided by state institutions and the Bank of Albania about the proposed act.

During 2015 it started the implementation for the first time of tax facilitations on voluntary pension funds provided by Law no. 156/2014 "On some addenda and amendments to Law no. 8438, dated 28.12.1998 "On income tax", as amended. According to these legal amendments, the following are considered exempted revenues:

- The contribution given by each member of a voluntary pension fund to the extent determined by the law on voluntary pension funds and contributions given by the employer or any other contributor, in the name or on behalf of the voluntary pension fund member;
- Return on investment, including capital profits from investments made by the pension fund assets.

Furthermore, the voluntary pension fund is considered exempt from tax on profit.

Through the proposed changes, the AFSA aims to increase the degree of approximation with the EU law, in accordance with the obligations deriving from the Stabilisation and Association Agreement. In this regard the initiative undertaken by the Authority improves and completes the legal framework in the voluntary pension market by the European model and the best international practices.

Amendments to Law no. 10198, dated 10.12.2009 "On collective investment undertakings"

By assessing the developments of investment funds, particularly the structure of the investment portfolio and market conditions in Albania, World Bank and IMF in the framework of technical records of the Financial Sector Assessment Program (FSAP) recommended the drafting of amendments to the actual legislation, in order to include provisions relating risk management by investment funds and clarification and improvement of current procedures for the suspension of settlement and sale of shares.

The AFSA, in 2015, drew up the draft law "On some addenda and amendments to Law no. 10198, dated 10.12.2009 "On collective investment undertakings", which mainly consist of two amendments to the current law:



- Determining the liability of the management company for the set up of a system and the implementation of appropriate procedures for risk management, as well as specifying the competences of the Authority to establish rules for risk management framework; and
- Improving the regime for the suspension of settlement and sale of shares, and specifying the competences of the Authority in this process.

Such amendments emphasize the obligation of the management company for the set up of a system and the implementation of appropriate procedures for risk management. They attribute to the AFSA the required competence to adopt a comprehensive framework of rules for managing risks in normal market situations and financial stress situations. This process is important to protect investors from the risks to which they are exposed, collective investment schemes, during the performance of their activity.

Regulations of Authority in the Insurance Area

After the Law no. 52/2014, dated 22.05.2014 “On insurance and reinsurance activity” became effective, the Authority continued its work for drafting and approving acts pursuant to this law. In 2014, several new acts of the Authority were drafted and approved.

- Regulation no. 18, dated 28.04.2015 “On the rules of the risk management system in the insurance company”, which aims to define the minimum principles on the basis of which the insurance company builds the risk management system and drafts all the policies and processes related to the determination, monitoring and control of risks;
- Regulation no. 19, dated 28.04.2015 “On the assets covering technical provisions and the types of the permitted investments of these assets”. The object of this regulation is to determine the types and characteristics of assets covering technical provisions of insurance/reinsurance companies operating insurance activities in Non-Life classes, other categories of asset investments covering technical provisions, determination of rules for the diversification and restrictions regarding the investment of these assets and the rules for the evaluation of such assets;
- Regulation no. 20, dated 28.04.2015 “On the procedure of the banning or restricting the free use of assets of the insurance company”, whose object is to determine the procedures of prohibition or restriction on the free use of part or all of the assets including activities related to lending and investment of the insurance company;
- Regulation no. 32, dated 25.05.2015 “On the organization and functioning of the Education Center”, whose object is the organization and functioning of the Education Center and the determination of criteria and procedures for the recruitment of trainers

and implementation of the vocational training program for leaders and professionals in the insurance market;

- Regulation no. 34, dated 28.05.2015 “On compulsory and periodic reporting of insurance and reinsurance companies”. The object of this regulation is to determine the form, manner, content, list, period and time limits for preparation by the insurance company of the financial statements and other detailed reports on its activity;
- Regulation no. 35, dated 28.05.2015 “On the procedures and review of complaints”, whose purpose is related to determining the rules for procedures and reviewing the complaints filed in the AFSA regarding the claims of the insured or other interested persons in order for the insurance company to fulfil the legal requirements and conditions of the insurance contract;
- Regulation no. 36, dated 28.05.2015 “On the information of the insured or other interested persons concerning legal developments and changes in the insurance sector”. The object of this regulation is to determine the rules for informing the insured or other persons interested about legal developments and amendments, under which the insurance company will take technical and administrative measures to establish the infrastructure of information technology;
- Regulation no. 37, dated 28.05.2015 “On determining the criteria and requirements for the selection of the audit company for the insurance company” whose object is the definition of criteria, the required documentation and procedures for the selection of the auditing company of insurance and reinsurance companies;
- Regulation no. 38, dated 28.05.2015 “On the detailed format, minimum object and content of the audit report, of the insurance company”. This regulation aims to establish the necessary elements on the object, form and content of the audit report based on the specific nature of the insurance company activity;
- Regulation no. 48, dated 30.06.2015 “On the criteria, procedures and terms of licensing and restricting cases of a license to conduct insurance brokerage activity”, which aims to define the criteria, procedures and terms of licensing, as well as cases of rejection of persons applying for a license in order to conduct brokerage activities in insurance;
- Regulation no. 79, dated 31.08.2015 “On approval/licensing of persons to perform the activities of insurance agent, as well as the cases of refusal of his registration and license refusal”. The object of this regulation includes determining the criteria to be met by the insurance agent and the cases of refusal of his registration, rules for the exercise of the activity of the agent by banks, branches of foreign banks, non-bank financial entities and other entities, and by the branch of the agents association of a foreign country;



- Regulation no. 85/1, dated 31.08.2015 “On reinsurance criteria”, whose object is to determine the criteria on the basis of which reinsurance contracts are entered into by insurance companies operating in the Republic of Albania ;
- Regulation no. 110, dated 26.10.2015 “On the contents of the annual report published by insurance and reinsurance companies”. This regulation aims at setting minimum requirements for the contents of the annual report published by the insurance and reinsurance company in order to protect the rights and interests of consumers and other stakeholders, through increased transparency in the insurance market, as well as to promote the stability and reliability of the insurance market;
- Regulation no. 111, dated 26.10.2015 “On the method of calculating the minimum limit of the solvency of the insurance company, which operates in classes of life and non - life”, whose object is the determination of the method of calculating the minimum limit of the solvency of the insurance company, which operates in classes of life and non - life;
- Regulation no. 120, dated 26.11.2015 “On the rules, procedures and delegation of several functions by the insurance companies”, which aims at defining the criteria, rules, and procedures for the delegation of several functions by the insurance companies”;
- Regulation no. 127, dated 26.11.2015 “On the procedures and terms for licensing, renewal, denial, revocation and suspension of license of claims assessors in insurance, as well as conduct of knowledge testing”, whose object is the determination of procedures and terms for licensing, renewal, denial, revocation and suspension of license of claims assessors in insurance, as physical or legal person, and the determination of rules for performing the knowledge test to be passed by the applicant for obtaining the licence as assessor of claims in insurance by the AFSA;
- Regulation no. 137, dated 21.12.2015 “On the procedure, terms and required/ additional documentation for the approval of the assignment and reassignment of a member of the board of directors/supervisory council, manager/member of the board of directors of the insurance company”. The object of this regulation is the determination of the procedure, terms and required/additional documentation for the approval by the Authority of the assignment and reassignment of a member of the board of directors/supervisory council, manager/member of the board of directors of the insurance company;
- Regulation no. 138, dated 21.12.2015 “On the approval or refusal of fundamental amendments to the statute of the insurance company”, which aims at determining rules on the approval or refusal of fundamental amendments to the statute of the insurance company;

In order to perform the most effective supervision of the market activity and operators, the AFSA made amendments to Regulation no. 110, dated 28.07.2011 “On the determination of technical provision level of compulsory insurance in the transport sector”, as amended with Board Decision no. 15, dated 20.03.2015. These amendments consist of the legal basis in accordance with the current law amendments and the rewording of definitions.

Regulations in the area of securities market

In 2015, for the securities market, the AFSA completed and improved the legal basis aiming at the approximation with the EU directives. AFSA pursuant to the tasks given by the IMF and WB missions for the fulfilment of regulatory basis of investment funds as well as further harmonization with EU directives adopted two new bylaws and amended several existing acts.

The AFSA approved the Regulation no. 45, dated 30.06.2015 “On liquidity management for the investment fund”, whose object is to establish rules for managing the liquidity of investment funds from the management company of collective investment undertakings with a view to further strengthening the market of collective investment undertakings (CIUs) in the country by improving the management of risks faced by these funds and increased transparency. This regulation is the product of cooperation between the AFSA and the World Bank.

Amended:

- Amendments to Regulation no. 77, dated 29.06.2011 “On determining the asset value of the collective investment undertakings and the calculation of net value of their assets per unit or per share”, as amended with Board Decision no. 46, dated 30.06.2015.
- Amendments to Regulation no. 131, dated 06.10.2011 “On the code of conduct of the management company of collective investment undertakings”, as amended with Board Decision no. 47, dated 30.06.2015.
- Approval of an amendment to Regulation no. 68, dated 26.05.2011 “On granting a license, the commercial activity, public bid and reporting requirements for the collective investment undertaking with public bid established by a foreign management company”, as amended with Board Decision no. 68, dated 23.07.2015.
- Approval of some Amendments to Regulation no. 127, dated 06.10.2011 “On mandatory content, terms and form of CIU reports, management companies and depositaries”, as amended with Board Decision no. 151, dated 21.12.2015.



2.3 Integration processes for supervised markets

European Integration is a geo-strategic and political objective of Albania. The decision of the European Council of June 2014 which granted the candidate status to Albania was an assessment of the reforms undertaken and it served as a positive impulse for the whole process of accession to the European Union. The candidate status is an encouragement to accelerate the pace of reforms.

Article 70 of the Stabilisation and Association Agreement (SAA) determines a special commitment of the Republic of Albania: approximation of national legislation with the legislation of the European Union, a process that should be completed in two 5-year phases, within 2019.

Albania has made positive efforts to harmonize national legislation with the *acquis* financial services. Albania's current legislation in the field of financial services constitutes a solid basis for further and complete harmonization with the European legislation

In the area of non-banking financial services, work was consolidated for reviewing the regulatory and supervisory framework aiming to its further alignment with the *acquis* of the EU and progress was made in aligning the legislation of the insurance market, securities and private pensions.

AFSA, as an institution contributing to this process, has worked intensively in terms of alignment of the legal framework, which is also underlined in the last Progress Report of the EU.

On 10 November 2015, the European Commission published a Progress Report on Albania, which describes the progress made by Albania during the period October 2014 to November 2015. Parts of this report are also the evaluations for Chapter 9 – “Financial Services”, where the European Commission has positively evaluated some progress in the non-banking financial area.

Conclusions of the Progress Report of the European Commission (October 2014-November 2015)

(Chapter 9- Financial Services)

Albania has made a moderated preparation in the field of financial services. Some progress has been made in this field. Legislation was amended regarding the capital adequacy coefficient for banks and financial conglomerates. Preparations in the financial market infrastructure, securities market and investment services remained at an early stage. Next year:

The Financial Supervisory Authority (AFSA) must complete the board structure in conformity with the law on the Financial Supervisory Authority.

In the Progress Report, in general for the area of **non-banking sector**, it is noted the appointment of the new chairman of the Financial Supervisory Authority (FSA) by the Parliament in March, after the 2014 amendments to the Law on the Financial Supervisory Authority. The AFSA has taken steps to increase its institutional capacities, but its new organisational structure must be approved and the vacancies in its board should be occupied. A new financial institution of micro-credit was licensed in June.

In the field of **insurance and occupational pensions**, the Report assesses the progress achieved mainly in the legislative framework: *“The AFSA has issued regulations on principles and procedures related to the accounting of insurance companies, including the systems of risk internal control and liabilities of liquidity. In addition, this authority has approved regulations on the notification, correction and prohibition of prospectuses”*.

The report evaluates the performance of the AFSA in the field of **market securities and investment services**, revealing that: *“The volume of investment funds continued to increase in 2014, and it was dominated by government securities, which accounted for 85% of total assets. Regulations were adopted for the management of investment fund liquidities and for the notification of measures to prevent money laundering and terrorist financing”*.

Drafting of the Progress Report by the European Commission relies on contributions prepared by the Government of Albania on the progress and achievements of the Albanian public institutions in the European integration process of Albania. In this framework, the Authority in cooperation with the Bank of Albania, in Chapter 9 “Financial Services” has clearly reflected the current developments concerning the approximation of the legal framework, applicable activities, developments and financial sector reforms for supervised markets. The AFSA, in this very process, has also given its contribution in the chapter “Economic criteria”.

During 2015, the AFSA has continued its cooperation with the **Ministry of European Integration** as the coordinating institution of all the country’s efforts towards European integration. The AFSA has prepared reports which reflect the progress achieved and its contribution in the drafting of documents related to the Stabilisation and Association process. The AFSA participated in the drafting of the National Plan for European Integration (NPEI) 2015-2020, which serves as the basis for planning the European integration process of Albania.

The AFSA, during 2015, participated in the updating of the NPEI for the period 2016-2018 for the Chapter 9 “Financial Services”, and delivered to the Ministry of Integration periodic information to monitor the implementation of the National Plan for European Integration (NPEI) 2015-2020 for “Financial Services” and “Economic Criteria” chapters.

Another direction of the AFSA work consisted in the preparation and presentation of reports to the European Commission in the framework of periodic meetings between Albania and the EU, specifically the sixth meeting of the EU - Albania Stabilisation Association



Committee and the EU-Albania Subcommittee for “Internal Market and Competitiveness” in March 2015.

The AFSA in the context of reports to the European Commission, in December 2015, participated for the first time and attended the seventh meeting of the **Subcommittee on “Economic and Financial Issues & Statistics”**, where it presented a report on the market of securities, namely the investment fund market, focusing in aspects of legislative and regulatory developments, aiming at the alignment with the EU acquis, strengthening the supervision on the activities of investment funds, as well as building and strengthening institutional capacities.

Directive Solvency II (Directive 2009/138/EC)

On January 1, 2016, it became applicable Solvency II, the new supervisory framework for the insurance and reinsurance activity in the European Union. Solvency II will result in a significant change in the culture of risk management by insurance companies. Good capitalization of insurers will enable the sector deal with unforeseen shocks.

By promoting a good governance and risk management, Solvency II increases the protection of insurance product consumers. Harmonized reporting and timely provision of information, guarantees supervisors the availability of key information and enables them to take the required measures in due time. Furthermore, this new regime will not be a burden for small companies, due to the principles of proportionality provided in this Directive.

Solvency II Chronology

October 2013-
December 2015

Preparatory Phase of Solvency II

1 January 2016

▪ Solvency II becomes applicable

April 2016

▪ First reporting of insurance companies according Solvency II

May 2017

▪ First Public Information according to II

2018

▪ EIOPA proposes Solvency II Review

Insurance Distribution Directive: Amendments in the regulation of insurance intermediaries in the EU

On 14 December 2015, the Council of the EU adopted the Insurance Distribution Directive (IDD), which will replace Directive 2002/92/EC, Insurance Mediation Directive (IMD), the existing legal framework for the regulation of agents, brokers and other insurance mediators in the EU. IDD was originally called IMD II, but the name was changed in September 2014 in order to reflect its focus on regulating the distribution of insurance products by the direct insurer, in the case when there is no mediation.

IDD Directive requires all distributors to act honestly, fairly and professionally and in accordance with the best interests of its clients. This requirement sets a high standard to all distributors (including direct sellers and those providing services to professional customers) so as to consider the interests of consumers during their activity.

Scope expansion

While the Mediation Directive (IMD) applies to the regulation of insurance mediators, the new IDD directive applies to a broader regulation of “distributors” in insurance. This means that it will apply to:

- **All sellers of insurance products including those selling directly to consumers:** at present IMD is used only for insurance mediators;
- **Any person, whose activity consists in the administration and performance of insurance contracts, including those acting on behalf of insurers - for example, claims management activity:**
- **Mediators providing ancillary services:** furthermore, the scope of the new directive is extended in order to include “ancillary” mediators in insurance. The Member States are entitled to require that insurers and mediators take greater responsibility for mediators providing ancillary services.



3.1 Governance and Market Behaviour

Insurance Market

In 2015, the Authority approved changes or re-appointments in the composition of Supervisory Boards of four insurance companies, and approved appointments to governing bodies of three insurance companies.

Graph 21: The current governing structure of insurance companies



Table 23: Insurance company governance - Statistics

(number)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Average number of shareholders	6.0	4.5	4.2	4.4	4.2	3.7	3.6	3.6	3.5
Average number of supervisory board members	5.0	3.6	3.4	3.6	4.0	4.2	4.1	4.1	4.0
Average number of supervisory board members who are not shareholders	2.0	2.8	2.7	3.1	3.5	3.7	3.6	3.7	3.6
Number of executive directors with qualified holding over 10%	3.0	3.0	2.0	2.0	3.0	3.0	3.0	3.0	3.0

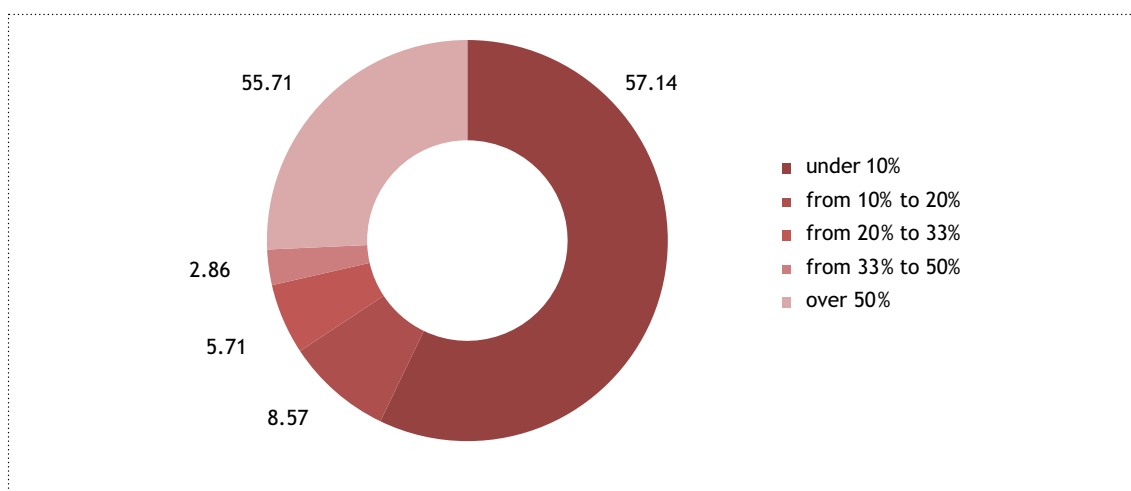
Table 24: Data on insurance company shareholders

(number)

Description	2010	2011	2012	2013	2014	2015
Insurance companies	10	10	11	11	10	10
Total shareholders	44	42	41	40	36	35
<i>Classification of shareholders by capital ownership</i>						
under 10%	28	23	21	22	20	20
from 10% to 20%	4	5	6	4	4	3
from 20% to 33 %	2	3	1	3	2	2
from 33% to 50%	1	1	3	1	1	1
over 50%	9	10	10	10	9	9
<i>Classification of shareholders by country of origin</i>						
Foreign shareholders	4	3	3	3	3	2
Domestic shareholders	40	39	38	37	33	33
<i>Classification of shareholders by status</i>						
Individual shareholders	36	33	32	31	28	28
Company shareholders	7	8	8	8	7	6
Government shareholders	1	1	1	1	1	1

Graph 22: Shareholder data, by qualifying holding for the year 2015

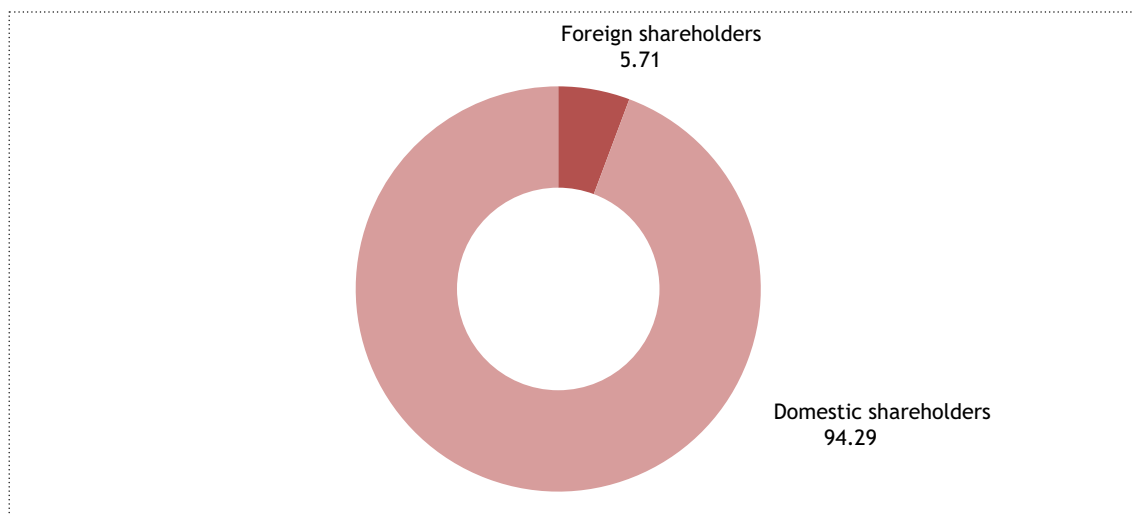
(%)





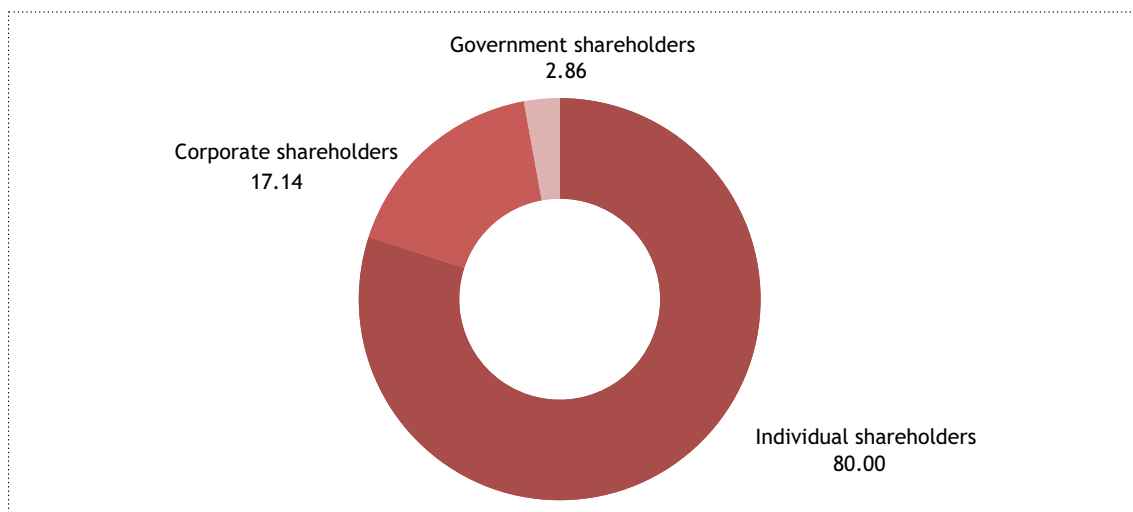
Graph 23: Shareholder data, by country of origin

(%)



Graph 24: Shareholder data by status

(%)



Foreign capital in insurance companies

In 2015, the Albanian insurance market incurred changes in the number of foreign shareholders owning shares in Albanian insurance companies. In September, the shareholder American-Albanian Fund of Enterprises sold the shares owned at the Non-Life Insurance Company Sigal Uniqa Group Austria sh.a. so that in the Albanian insurance market were present two foreign shareholders, both of them with headquarters in Vienna, Austria. At present, the following operate in the Albanian insurance market:

- *Vienna Insurance Group AG Wiener Versicherung Gruppe* with headquarters in Vienna, Austria;
- *Uniqa International Beteiligungs-Verwaltungs GmbH* with headquarters in Vienna, Austria.

As a result of selling shares, the presence of the foreign shareholder *Uniqa International Beteiligungs-Verwaltungs GmbH* in the insurance company Sigal Uniqa Group Austria sh.a. reached 86.93%.

Approval of statutory changes to insurance companies

In 2015, the AFSA approved the following company applications for statutory changes, as follows hereunder:

Table 25: Data on approvals of statutory changes *(number of companies)*

<i>Reason for Statute Amendment</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
New Statute and other changes	2	2	2	6	6	2	6	4
Capital increase	9	4	2	4	4	3	5	2
Changes in the shareholder structure	2	2	5	3	2	2	3	3



Voluntary Pension Market

In 2015, the Authority approved changes or re-appointments in the composition of Supervisory Boards of two administrative companies of voluntary pension funds.

Graph 25: Scheme of the current governance structure of voluntary pension fund management companies

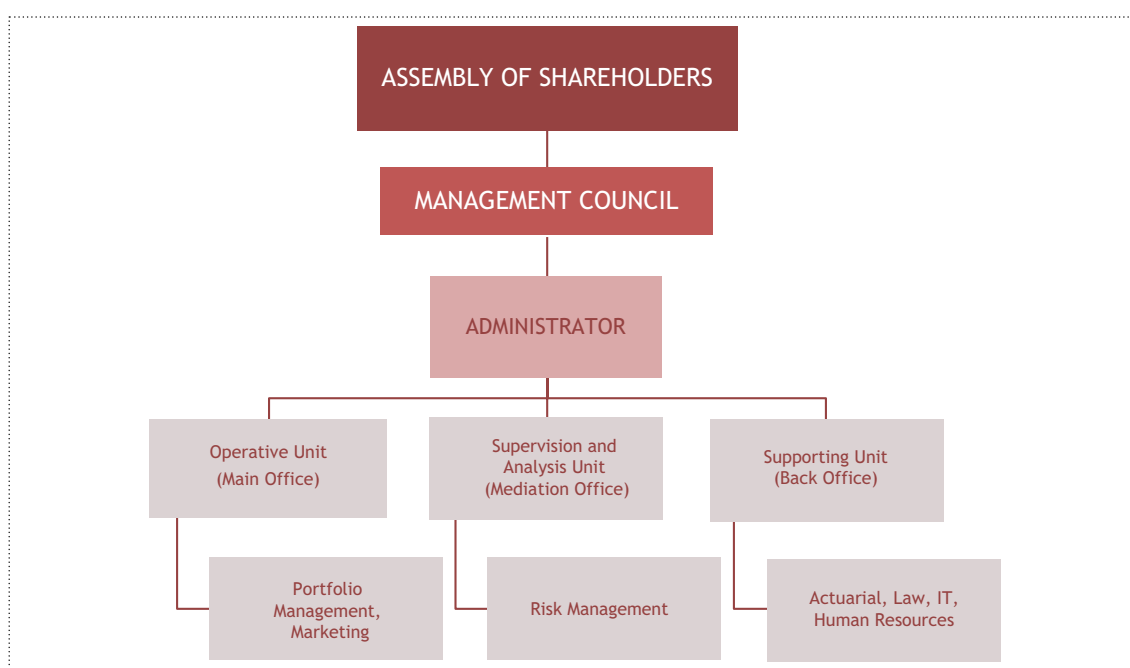


Table 26: Governance of pension funds management companies – Statistics

<i>Reason for the change in statute</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
Average number of shareholders	1.7	1.7	1.7	1.7	2.0
Average number of supervisory board members	5.3	5.3	5.3	5.6	6.0
Average number of supervisory board members who are not shareholders	5.3	5.3	5.3	5.6	6.0
Number of executive directors with qualified holding over 10%	-	-	-	-	-

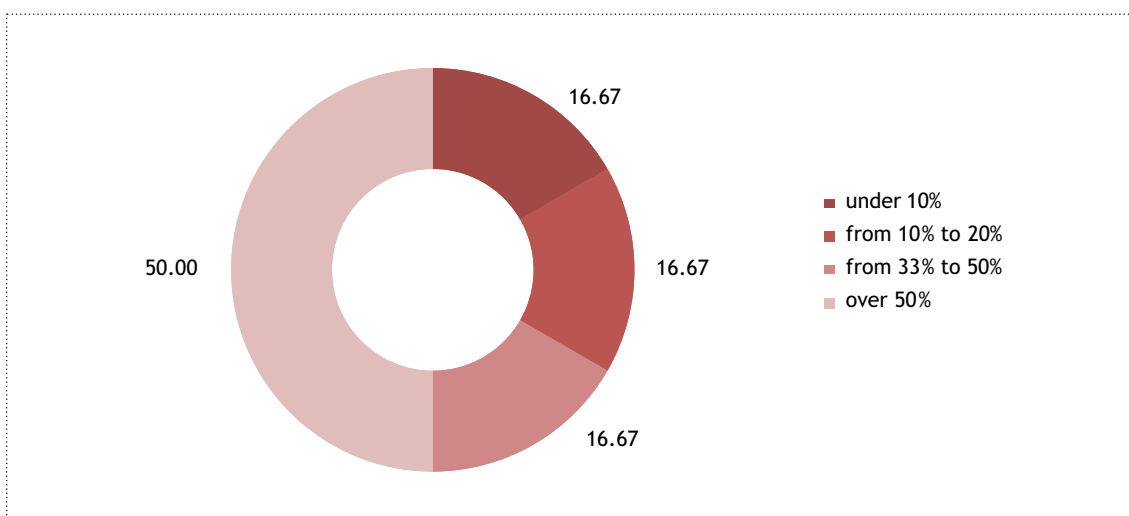
Table 27: Data on the shareholders of voluntary pension funds management companies

(number)

Description	2012	2013	2014	2015
Administration companies	3	3	3	3
Total shareholders	5	5	5	6
<i>Classification of shareholders by capital ownership</i>				
under 10%	0	1	0	1
from 10% to 20%	0	1	1	1
from 20% to 33 %	1	0	0	0
from 33% to 50%	1	1	1	1
over 50%	3	3	3	3
<i>Classification of shareholders by country of origin</i>				
Foreign shareholders	0	0	0	0
Domestic shareholders	5	5	5	6
<i>Classification of shareholders by status</i>				
Individual shareholders	1	1	1	1
Company shareholders	4	4	4	5

Grafik 26: Shareholders data by qualifying participation, 2015

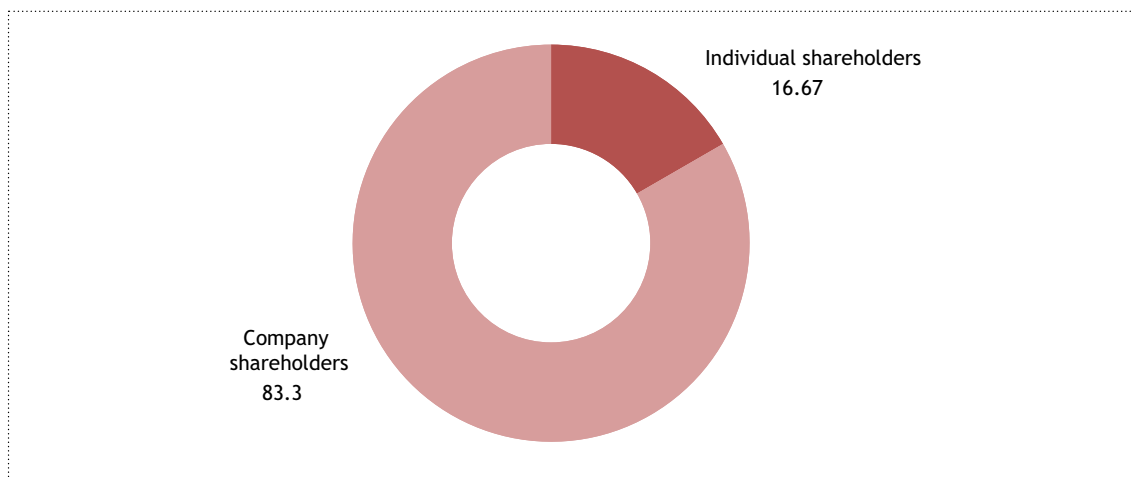
(%)





Grafik 27: Shareholder data by status, 2015

(%)



Approvals of statutory changes of voluntary pension fund companies

In 2015, the AFSA approved the requests of insurance companies related to statutory changes, as follows hereunder:

Table 28: Data on the approval of statutory changes

(number of companies)

<i>Reason for the change in statute</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
New statute and other amendments	0	0	1	2
Capital increase	1	1	1	0
Change of shareholding structure	0	1	1	0

3.2 Consumer Protection and Education

One of the main objectives for the AFSA is to protect consumers in the non-banking financial markets supervised by the AFSA. In order to achieve this goal, the Authority has a specialised unit that deals with the issues facing consumers, in compliance with the legal regulatory framework in power. This objective is achieved through continuous communication and information of consumers, establishment and continuous improvement of the procedures and practices of handling consumer complaints, encouraging and increasing their confidence in the AFSA's role.

Law 52/2014 "On insurance and reinsurance activity" provides consumers with the required information and continuous transparency, aiming at the establishment of trust and confidence to make the right choice. The Authority supervises all the promotional information provided by insurance companies, so that such information not be disorientating and misleading to consumers.

The Authority has reviewed and verified the complaints received from consumers asking from supervised entities the correction or revision of cases appealed, customer or it has explained the to consumers the legal way in the clearest way possible. The AFSA procedures for dealing with customer complaints begin with the recognition of the claims practice, suggestions to the insurance company for handling in accordance with the legislation in force, continuous contacts with the insurance company for the most optimal solution of the issue appealed, etc.

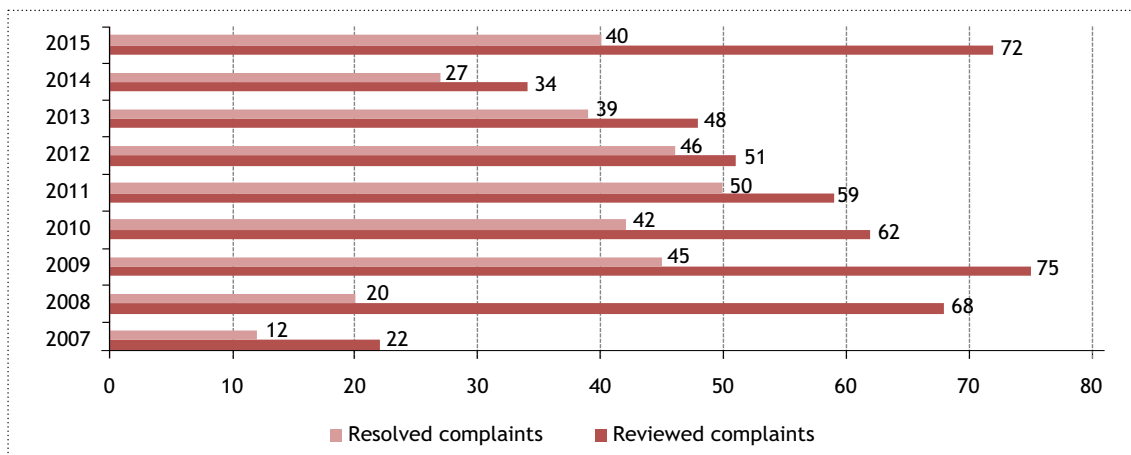
In 2015, the Authority handled 72 complaints by physical persons, state entities or legal subjects. The complaints are mainly related to issues about payment of insurance claims resulting from compulsory insurance contracts or payments from the Compensation Fund, refusal of indemnities deriving from the health insurance contracts while travelling, contract guarantee, etc.

The greatest number of complaints is related to the claims of the compensation fund, which have not been paid yet by insurance companies. Some of these complaints have not been resolved because the approved compensation fund is not the same with the value of liabilities of this fund, an amount which has been accumulated for some years.



Graph 28: Complains and resolutions 2007-2015

(number)



The Authority has supported the exercise of consumer rights deriving from the insurance contract, also assuming the role of mediator, in accordance with the rules of extrajudicial settlement of disputes, especially when disputes arise due to uncertainties created by communication between insurers and the insured, information or interpretation of contract conditions.

AFSA uses various forms of consumer communications and information, the constant perfecting of which is aimed at encouraging and increasing consumers' trust in AFSA role.

AFSA Mechanisms for Ensuring Transparency, Effective Public Communications and Financial Literacy

Consumer Helpline. This system includes the landline communication number (355 4 2257 557), the consumer helpline toll-free number (0800 6969), the free SMS contact number (355 694060671) and the email address (konsumatori@amf.gov.al)

AFSA website: www.amf.gov.al. constantly gives information regarding:

- Up-to-date legal basis on the supervised markets;
- Notifications on the decision-making activity of the Authority Board;
- Entities operating in the supervised markets, covering both their form of organization and executive staff;
- Statistical reports of monthly, quarterly or annual periodicity;
- Consumer educational information;
- Updates on the latest developments in the countries in the region regarding the markets, through a monthly newsletter.

In 2015, in order to protect and inform investors, the Authority published a section called “Investor Alert” on its website. The information contained in it aims to attract attention and make the public aware that the provision of financial services comes only through companies licensed by the AFSA.

Special subdivisions and sections on the AFSA website present operators licensed by the AFSA in the insurance market, in the securities market and in the voluntary pension market.

3.3 Education Center

In fulfilment of the legal framework and pursuant to Law 52/2014 “On insurance and reinsurance activity”, the AFSA adopted Regulation no. 32, dated 28.05.2015 “On the organization and functioning of the Education Center”. The Education Center, established as part of the AFSA organizational structure is among the newest initiatives undertaken by the Authority. Through the organization of trainings for professional formation, professional qualification and continuing education, the Center aims at contributing in the increase of professional capacities of the directors and professionals operating in the insurance market, thus enabling the further development of this market and provision of high quality products and services for consumers.

In 2015, the AFSA signed a cooperation agreement with the Institute and Faculty of Actuaries in London, and the Albanian Association of Actuaries. With Board Decision no. 103, dated 30.09.2015 it was approved the “Cooperation Agreement for the Long-Term Training Program of Professional Qualification for Actuaries”. This agreement aims at the establishment of cooperation bases for training programs and professional qualification for actuaries and their support for continued education.

Pursuant to this agreement, the Education Center during 2015 developed three training modules of the long-term professional qualification program for actuaries, which is expected to end during the first semester of 2017.

In 2015, the Education Center has also organized various trainings for professional formation for professionals exercising activities as brokers and assessor of claims in insurance. Information on the activity of the Center and training programs is also found on the official website of the AFSA.



Table 29: Professionals trained in professional formation, organized by the Education Center during 2015 *(number)*

<i>Professionals</i>	<i>Professional Qualification</i>	<i>Continued Education</i>
Actuary	9	5
Assessor of Claims	33	17
Broker	14	-

Chapter 4

Transparency and institutional cooperation

4.1 Transparency and Public Relations

In 2015, expansion of qualitative information provided for financial markets under supervision was also one of the priorities of the AFSA work. The activity of the AFSA work is consistently reflected in the written and electronic media, but more widely in newspapers with the highest print-run. Information on the insurance market has been permanently present in the media. Changes in the tariffs of compulsory motor insurance and performance of technical processes to start up risk based charging, the possibility of implementing the Bonus-Malus system, etc. were among the most reflected topics in the media. In 2015, it was also expanded the coverage on the project initiated for insurance against natural disasters and opportunities provided by the insurance market in this direction, in Albania. It also took more coverage from natural difficult situations in Albania and in the region with flooding, which increased the attention of insurance companies towards these phenomena. Information on developments in the voluntary private pension market, investment funds and securities trading had a periodic reflection in the media. The conference organized by the AFSA "Voluntary pension system in Albania - expansion coverage" had wide media coverage with over 19 articles and news in newspapers and televisions on the day of the conference. This coverage was expanded in the following days by selecting specific topics and information related to the voluntary pension system.

Communications of the AFSA Chairperson with active entities in supervised markets and interest groups have had special attention. During these meetings, it was highlighted the role of markets supervised by the AFSA and their importance in the country's financial market, legislative developments, work on drafting laws and regulations, for which the AFSA is also supported by international bodies. In the communications of the Executive Director General with media, there have been highlighted prospects for market development under supervision and the commitment of the AFSA to further continue communications, turning them into a discussion and information forum for the public and investors in financial markets.

During 2015 reflection on the activities and markets supervised by the AFSA increased by changing the priority form of communication through increased clicks and receiving information on the AFSA online. This is also related with the development of media in the country, which is increasingly moving towards digitization.

The AFSA also communicates through the official website, monthly newsletters informing on supervised markets, annual periodic publications, leaflets, etc. The official website of the AFSA, www.amf.gov.al, is expanded with updated information on the latest developments of the markets. Such information is valuable enough for insurance companies and the public as consumers of these services.

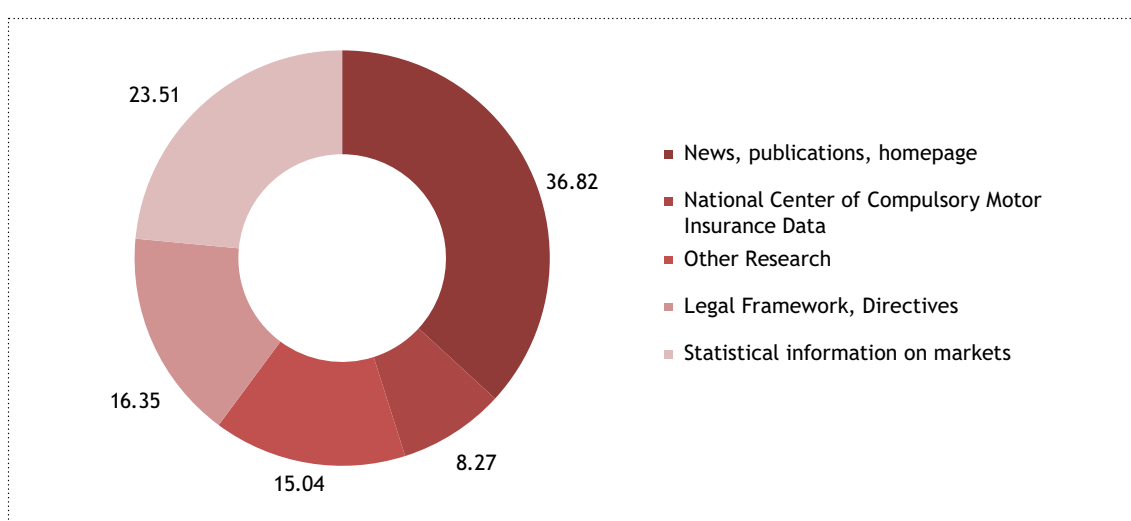
During 2015 the online website of the AFSA had 402,435 clicks and over 31% of them were



new visitors, who entered for the first time. Referring to the website information, most of the users read news on the home page, such as periodic notifications, publications and statistical information on markets under supervision. Such information is observed by over 69% of website observers. Legislation, regulations, procedures, decisions of the AFSA Board were observed by over 16% of website visitors.

Graph 29: Structure of clicks on the AFSA website, 2015

(%)



The website is organized in two languages, Albanian and English, and in this way it serves the foreign investors or analysts as a source of information about the structure and development of insurance financial markets, private pensions and securities in Albania. The page is also visited by visitors outside the country and most of them are from countries such as Italy, Kosovo, USA and England.

The AFSA publications

- Annual Report
- Supervision Report
- Risk-Focused Supervision Manual
- Insurance Geography
- Official Bulletin
- Leaflets for supervised markets

The AFSA e-publications

- Monthly Informational Journal
- Insurance Market Statistical Report
- Securities Market Statistical Report
- Voluntary Private Pensions Market Statistical Report

4.2 Institutional Cooperation

Cooperation with domestic institutions

Increased cooperation with various economic and financial regulators has been in the focus of the processes promoting the sound growth of financial markets. Based on this view, AFSA closely cooperated with other economic institutions in Albania, the region and beyond in the context of developing and regulating the markets of insurance, securities and private voluntary pensions.

In 2015, the bilateral cooperation between the **AFSA and the Bank of Albania, Ministry of Finance or the Agency for Deposit Insurance** an important place, as well as the multilateral cooperation between them within the **Advisory Group of Financial Stability (FSAG)** (quarterly meetings) and the technical group (monthly meetings). The core of the cooperation process in 2015 was the follow up and enforcement of the FSAP recommendations, particularly of those recommendations whose implementation is related to the fields of operation of these institutions, such as the legal package; tax handling of insurance products and pensions; stabilizing measures, etc.

In the context of strengthening the insurance market, more specifically that of compulsory motor insurance, AFSA closely worked with the **Ministry of Interior, the Ministry of Public Works and Transportation** and the **Directorate General of Road Transportation Service**. Owing to agreements with these institutions, cooperation enables compulsory insurance law enforcement, accurate identification of vehicles circulating in the Republic of Albania and provision of those vehicles with the required legal documentation with valid insurance contracts.

The Financial Supervisory Authority, with a view to expanding the platform of electronic records under management and pursuant to the Decision no. 945 of the Council of Ministers, dated 2.11.2012, during 2015, cooperated closely with the **National Agency of Information Society**, which enables the management and interaction of databases with other state institutions. This cooperation enabled direct connection with the Civil Registry data and vehicle register data at the General Directorate of Road Transport Services, subject to Bonus-Malus system.

In May 2015, the Authority signed a cooperation and information exchange agreement with the **General Directorate for Prevention of Money Laundering (FIU)**. The purpose of this agreement is to enhance cooperation through institutions in exchanging information, conducting inspections and joint trainings, subject to the fight for prevention of money laundering and financing of terrorism, or related activities, and increase of the supervisory role, in order to strengthen the preventive system in the country. This agreement is the result of an effective cooperation over the years in fulfilling European standards in the fight



against money laundering and financing of terrorism. The AFSA, in association with FIU developed joint trainings and inspections for AML/CFT issues in markets covered by the AFSA.

Membership in International Organizations

AFSA has been a member of the **International Association of Insurance Supervisors**, (IAIS), since 2001. This membership is intended to help in expanding international cooperation among authorities on the supervision of insurance market.

In 2015, AFSA continued to actively participate in the activities of IAIS. AFSA's Chairwoman is a member of the Financial Inclusion Subcommittee, which especially promotes developing markets and economies in relation to the Implementation of the Insurance Fundamental Principles in support of the regulation and supervision of insurance markets and other special forms of insurance.

Key Activities in Cooperation with IAIS

- Working Subcommittee meeting, February;
- Seminar: "*Solvency and capital standards for insurers in international level*", April;
- Meetings of Working Committees and Subcommittees, May;
- Seminar "*Application of risk management techniques and internal models*", July;
- Meetings of Working Committees and Subcommittees, September;
- Seminar "*Practices of risk-based supervision and early intervention*"; October;
- 2015 Annual Conference "*The role of supervisors in the protection of policy-holders, financial stability and market development*", November;
- Meetings of Working Committees and Subcommittees, November.

AFSA is a full member of the **International Organization of Securities Commissions**, (**IOSCO**) and signed IOSCO's Multilateral Memorandum in 2009. It has been involved in the fulfilment of all obligations deriving from participation in this organization and continues to meet regulatory framework aiming at the approximation with IOSCO's standards and principles. AFSA is also an active participant in IOSCO European Regional Committee (ERC) and Growth and Emerging Markets Committee (GEM).

Key activities in Cooperation with IOSCO

- Annual Meeting, 2015 "*Building of a new financial world*", June;
- Meetings of IOSCO Committees (GEM and ERC), June;
- Meeting of the Regional European Committee, ERC, September;
- Seminar "*Education and protection of investors: The main challenges in the future*" October;
- Seminar "*Application of IOSCO principles*", October.

AFSA has been a member of **International Organization of Pension Supervisors, (IOPS)**, since 2006.

Key activities in cooperation with IOPS

- Executive and Technical Committee Meetings, June;
- IOPS/ IAIS Joint Seminar: "*Global pension savings, the role of private and public structures and building of private pension systems*", June;
- *Joint meeting of the Working Group of IOPS/OECD on Private Pensions*, June;
- Executive and Technical Committee Meetings, Annual General Meeting, October;
- Global Forum OECD/IOPS on private pensions, October.

Participation of the AFSA in these activities consists in the involvement for drafting political and research documents. During the 2015, the AFSA has contributed as a participant in the working team for the material of IOPS discussion "The role of actuaries' calculations in the supervision of pensions", by providing information related to the practices actually followed up in Albanian market of private pensions.



Cooperation with International Financial Institutions and Donors

Strategic projects and building of AFSA institutional capacities have been supported during 2015 through the cooperation and effective relations with international financial institutions and donors.

The World Bank remains an important strategic and supporting partner in the context of fulfilling AFSA fundamental mission. In the framework of the FSAP recommendations, the Authority supported by the World Bank and funded by the Swiss State Secretariat for Economic Affairs (SECO) introduced the project of technical assistance “Strengthening supervisory capacities of the Financial Supervisory Authority, focused in the development of capital market”. The project aims to support the AFSA in strengthening its capacities on the supervision and regulation of investment fund market, as well as in preparing for the issuance of corporate and local government bonds.

The Council of Ministers with Decision no. 869 dated 30.10.2015, adopted in principle the grant for strengthening the supervisory capacities of the AFSA. The grant was given by the government of Swiss Confederation, represented by the Swiss State Secretariat for Economic Affairs (SECO).

The expected results from the implementation of this project will be:

- The AFSA to be provided with a comprehensive methodology and practice of supervision for investment funds, as well as manuals and other operative means related to this supervision;
- The AFSA to be able to support the development of corporate bond market and local government bond market by improving the regulatory framework;
- Strengthening professional and human resources of the AFSA in order to supervise capital market activities through activities of on-site and off-site capacity building.

During 2015, in the framework of fulfilling the recommendations of the Financial Sector Assessment Program (FSAP) and with the support of the World Bank through the FIRST Initiative (*Financial Sector Reform and Strengthening Initiative*), the AFSA worked to implement the technical assistance project for the supervision and expansion of the voluntary private pension market in the country “Supervision of pensions in Albania and coverage expansion”. The project, which started in July 2014, focuses on two basic components that are regulation and supervision, as well as market expansion, contributing to the building of risk-based supervision framework and supervisory capacities; reviewing the legal and regulatory framework to support the new supervisory framework; or the determination of a strategic action plan to support the expansion of voluntary private pension market.

Furthermore, in the framework of fulfilling the recommendations of the Financial Sector Assessment Program (FSAP) and with the support of the World Bank through the FIRST Initiative, the AFSA worked to implement the technical assistance project for the reform of the insurance market. The project includes three main components which are: the MTPL insurance product, general insurance supervision, as well as national insurance program from earthquakes and floods.

Moneyval Committee of the Council of Europe

In September 2015, it was held in Strasbourg (France) the 48th Plenary Session of the Moneyval Committee of the Council of Europe on taking measures and implementation of recommendations by Albanian legal and financial institutions on money laundering and financing of terrorism in order to exit from the continuous monitoring procedure. The AFSA was part of the Albanian delegation.

The Committee, during the review of the report submitted by the Albanian authorities, highlighted the progress made by Albania in compliance with the technical requirements of the methodology of the Financial Action Task Force (FATF) and the measures taken against money laundering and financing of terrorism. Based on the report/suggestions of the Moneyval Secretariat Albania, it was decided the exit of Albania from the monitoring process.

The decision of Moneyval on the removal of Albania from continuous monitoring was preceded by the decision taken in the ICRG session, held in Paris on February 23 to 24. The report of the working group in the country (ICRG Onsite Team) showed that Albania has fulfilled all the deficiencies reported by the FATF in years.

The assessment was provided by the International Country Risk Guide and FATF, the Financial Action Task Force, which are both global organizations which make an analysis of the states in this regard.



Pursuant to the recommendations given by Moneyval Committee, the AFSA undertook the following steps:

- In May 2015, it was signed the cooperation agreement between the AFSA and the General Directorate for the Prevention of Money Laundering (FTU);
- In June 2015, it was approved Regulation no. 58, dated 30.06.2015 “On the proper care and due diligence by law subjects to prevent money laundering and financing of terrorism”. This regulation is applied by life insurance companies or reinsurance companies, agents or their intermediaries, pension funds and securities trading. The purpose of this regulation is to take measures to ensure adequate security in order to verify and evaluate the identity of consumers, to understand and test its profile, its business and activity in the fight for the prevention of money laundering and financing of terrorism.
- The AFSA, with the assistance of the Financial Services Volunteer Corps started work on drafting an AML/CFT Inspection Manual. The first draft is being discussed among the relevant experts. The manual specifically notes the importance of information collection and risk assessment, and the regular planning of inspections and their scope, before undertaking site inspections.

The Financial Services Voluntary Corps (FSVC / USAID), have assisted the AFSA in different projects across the years, in strengthening the supervisory and regulatory role, and developing human resources. This entity continues to be one of the main partners for AFSA in terms of technical assistance.

The AFSA in cooperation with FSVC organized the round table “Support for regional cooperation on cross-border supervision and insurance groups”. Representatives of homologous authorities, supervisors of the insurance sector from Eastern European countries, such as Macedonia, Kosovo, Montenegro, Serbian Republic of Bosnia-Herzegovina and Slovenia participated in this event. The meeting was greeted by Mr. Peter Braumüller, Executive Director of FMA Austria, responsible for the supervision of insurance companies and pension funds, also the Director of the Budget Committee of the IAIS. At this round table, discussions were held about the possibilities for coordination of regional strategies regarding several issues of supervision in insurance, such as licensing, regime of solvency, data exchange, attention for confidential data, requirements for cross-border and group supervision, and the role of supervisory colleges.

In addition, in terms of the application of the new methodology of risk-focused supervision, in 2015, the AFSA organized in cooperation with FSVC the training seminar with topic “Managing Risk in Insurance”. The program was intended for people who deal with risk management in daily practice with the aim of preparing them in this regard.

During 2015, the AFSA with the support and under the assistance of a group of FSVC experts worked for the realization of the Project in the fight against money laundering (*Anti Money Laundering, AML*). The purpose related to development and completion of the inspection manual for AML.

In this context, the AFSA organized the seminar “Fight against Money Laundering” in order to support the fight against money laundering, where discussions took place about the specifics of work in the fight against money laundering in the insurance market. This serves to strengthen the supervisory role of AFSA inspections on site in order to follow the compliance of company activities with the provisions of the law on prevention of money laundering as well as the programs that societies should have in this regard.

Regional cooperation

In 2015, cooperation with homologous institutions in the region has been very important in terms of fulfilling the role of the AFSA for a more effective supervision of non-banking financial markets.

The AFSA has worked closely with the **Insurance Supervision Agency of Macedonia (ISA)**. The Memorandum of Understanding between the two institutions, which has been effective since 2010, positively affects the efficiency of supervision and regulation of the insurance industry of the two countries, especially in terms of the activity extent of Albanian insurance companies in the territory of Macedonia. In November, a meeting was held in Tirana, with ISA directors, chaired by Mr. Klime Poposki, President of the Council of Experts.

The meeting focused on the key developments in the insurance markets of Albania, Macedonia and especially the companies running their activities in both countries. Among the issues discussed were the supervisory measures and their escalation, realization of joint inspections, strengthening of regional cooperation to improve supervisory practices and to harmonize them with international standards of supervision.

Since 2005, the AFSA and the **Macedonian Securities Stock Exchange** have had a cooperation agreement that serves both institutions. In April, the AFSA in cooperation with SEC Macedonia organized the workshop “Supervision and regulation of securities markets and investment funds in Albania” with representatives of the Commission on Securities and Stock Exchange of Macedonia, who held a working visit Tirana. The team from Macedonia was led by Mrs. Elizabeth Chingarovska, President of this institution. Among other issues that were discussed at meetings and during the workshop on the development of the capital market were the following: a full legal framework that regulates and supervises the securities market with securities and investment funds, infrastructure of this market and the role of the AFSA in its supervision and regulation; online electronic platform of the AFSA for the retail market of Government securities, the progress of Albania in the Stabilisation



and Association process for financial markets under the supervision of the AFSA, European directives governing the capital market, the challenges and efforts of Albania to implement them; the importance of developing TSE (Tirana Stock Exchange); the latest developments in terms of increasing the independence of the Authority and strengthening its role in financial markets. The meeting and the workshop were considered very important in expanding cooperation and strengthening relations between the two institutions.

The main activities of institutional cooperation

CESEE – “Regional Initiative of Central, Eastern and Southeast Europe on the supervision of the insurance market”

- The 9th meeting - Focus on establishing effective risk-based supervisory structures, exchange of experiences in the implementation of international standards, coverage of compensation for non-material claims from compulsory motor insurance and guarantee schemes as a mechanism for risk protection, Budapest, Hungary, May;
- The 10th meeting - Focus on supervision challenges of EU branches, EU practices concerning the supervision of insurance intermediaries and expected changes in the EU legislation related to brokers, monitoring/quality control of external audits, requests for board members and function holders Trebinje, Republic of Serbia, Bosnia and Hercegovina, October.

USAID/FSVC

- *Workshop*: “Risk management in insurance”, January;
- *Seminar*: “Fight against Money Laundering”, April.

BB-CFRR

- *Workshop*: “Auditors and partner supervisors for effective banking supervision”, September;
- *Workshop*: “Regulators on International Financial Reporting Standards”, September;

BB & SECO

- Presentation of the project on “*Strengthening supervisory capacities of the Financial Supervisory Authority, focused on the development of the capital market*”, May;

EIOPA & BB

- *Workshop*: “*Risk-based supervision*”, September;

EIOPA & ESMA & EBA

- *Seminar*: “*Supervision of groups and supervisory colleges*”, May;

EIOPA/ICIR/BB/Universiteti St. John (St. John’s University)

- Conference on global supervision of insurance: “*Globally under pressure*”, September.

“Regional Initiative for the supervision of the insurance market in the region of Central, Eastern and Southeast Europe” (**CESEE**), continued to support the exchange of information and best practices among the staff of the regulatory authorities in the insurance market. The ninth and tenth meetings of this initiative took place in 2015. At the 9th meeting of the CESEE Initiative issues discussed were related to the establishment of effective risk-based supervisory structures, exchange of experiences in the implementation of international standards, coverage of compensation for non-material claims from compulsory motor insurance and guarantee schemes as a mechanism for risk protection. At the 10th meeting, there were addressed the supervision challenges of the EU branches, EU practices concerning the supervision of insurance intermediaries and expected changes in the EU legislation related to brokers, monitoring/quality control of external audits, requests for board members and function holders.

Cooperation with homologous authorities

During 2015, the Authority aimed at the expansion and further strengthening of its mutual and multilateral relations with homologous authorities, participating actively in meetings or activities organized to recognize and update with the latest supervisory and regulatory trends, to share mutual experiences.

A very important partner of FSA in the development of supervised financial markets across the years is the **Financial Market Authority of Austria (FMA)**. Cooperation with the FMA has been consolidated over the years also materialized with frequent meetings between the senior managers of the institutions and the technical staff. Since 2009, the two institutions have a memorandum of understanding, entered into immediately after the investments of Austrian insurance groups in Albania. On this basis, successful relationships have been established between the two institutions, materializing into the exchange of experience and joint work in the supervision of Austrian groups operating in Albania.

In this framework, Mr. Peter Braumüller, Executive Director at FMA, responsible for the supervision of insurance companies and pension funds, also Chairman of the Budget Committee of IAIS made a working visit in May at the offices of the AFSA and had meetings with directors of the AFSA. The object of the meeting was related to the main developments in the insurance markets of Austria and Albania in 2015, especially the Austrian companies present in Albania, a process that is already coordinated in regional level by the FMA; structural changes of both the supervisory authorities; legal developments, including the supervision of groups and issues of professional secrecy.

Since 2014, the AFSA is a regular participant of supervisory colleges for these groups and experts of the supervisory department of the AFSA participated in the meetings of the College of Supervision for the companies UNIQA Insurance Group (UIG) and Vienna Insurance Group (VIG).¹²

Note: ¹²The Supervisory Board of EIOPA, in February 2016 approved the evaluation of the professional secrecy regime of the AFSA. As a consequence of the positive evaluation of this regime, the AFSA shall become part of the Supervisory Colleges of Insurance Groups.



Following the cooperation on issues of supervision of the insurance market in the month of November 2015, it was held in Tirana a high level joint meeting among the three authorities, the **Financial Market Authority of Austria (FMA)**, the **Agency for Insurance Supervision of Slovenia (ISO)** and **AFSA**.

The meeting focused on the key developments in the insurance markets of Austria, Slovenia and Albania in 2015, especially companies Austrian present in Albania and in the region, supervisory measures and their escalation, issues of equivalence regarding the handling of data constituting professional secrecy within the EIOPA (European Insurance and Occupational Pensions Authority), support for the Education Center set up at the AFSA, strengthening of cooperation, including voluntary private pension market and strengthening regional cooperation to improve supervisory practices and to harmonize with international standards of supervision. The meeting was also held in the framework of a regional effort initiated by the supervisory authorities of Austria and Slovenia, for the harmonization of regulatory practices authorities of the Western Balkans region on issues of supervision and regulation of the insurance market.

During 2015, the AFSA strengthened cooperation with the **Federal Financial Supervisory Authority of Germany (BaFin)** in terms of increasing the supervisory capacity in the area of investment funds. In March 2015, the Authority participated in a study visit organized by the Federal Financial Supervisory Authority of Germany (BaFin), in the framework of the technical assistance within the insurance sector and investment funds. During the visit they held high level meetings with representatives of the AFSA and BaFin. The topics of discussion were related to the regulation of life insurance, licensing and supervision, stabilization of the insurance market and the efficient organization of the compensation fund, application and experience of BaFin for the *stress test*, risk-based supervision, issues related to the supervision of investment funds

Chapter 5

Internal organization

5.1 Financial Statements

Auditing

AFSA annual financial statements have been audited by statutory auditors since 2007, although the Law does not require such an audit. Based on the amendments of Law no. 54/2014, dated 29.05.2014, "On some amendments and addenda in Law no. 9572, dated 03.07.2006 "On the Financial Supervisory Authority", the Board approves the accounting expert or the auditing company of the Authority.

The internal audit function at the AFSA is carried out by an auditing expert, provided with the Certificate of Public Sector Internal Auditor and reporting to AFSA Chairperson and Board. In 2015, the Internal Audit Report performed all its planned tasks. Based on the audit findings in 2015, 5 recommendations were given to the audited units and submitted to AFSA Board. Chairperson's Orders were issued on all the recommendations made by the Internal Audit and such orders have been implemented.

Budget

Budget determination is based on legal provisions and, in concrete terms, on Law no. 54/2014, dated 29.05.2014, "On several amendments and addenda in law no. 9572, dated 03.07.2006 "On the Financial Supervisory Authority". In 2015 the AFSA continued to be financed entirely by its own resources.

The Financial Statements of the Financial Supervisory Authority for 2015 were prepared in accordance with the International Financial Reporting Standards ("IFRS"). Detailed data are presented in the report of the independent accounting expert in Appendix D.

The Financial Statements of previous years, including the year 2014, were prepared in conformity with the Instruction of the Minister of Finance no. 26, dated 27.12.2007, "On the preparation and reporting of annual financial statements for central institutions, local power bodies and their subordinate units and management/implementation units of projects and agreements with foreign donors".

The application of International Financial Reporting Standards was made pursuant to the findings of the audit report of the SSA, and independent audit recommendations. These standards have also been applied to the financial statements of previous years affecting the financial position and performance previously reported.

Since the values of the 2014 financial statements were restated in order to align with international standards, comparison of Authority's financial data in 2015 to the previous year 2014 does not present fairly the financial performance between the two years.



The financial statements were prepared on the basis of historical cost principle, the concept of materiality and accrual accounting.

Total revenues of the AFSA for 2015 were ALL 255.15 million or 23% more compared to the plan. The majority of revenues, ALL 254.63 million, or 99.8 % of them were obtained from the activity of entities supervised and licensing or approval fees, while the remainder was obtained from fines and bank interests, in the amount of ALL 0.52 million.

The main contribution within the group of operating revenues pertains to revenues derived from the fees paid by the subjects of the insurance market, which account for 81.9% of the total revenues.

Table 30: Sources of ASFSA funds, 2015

(thousand ALL)

<i>Item</i>	2015
1. Operating Revenues	254,628
1.1 Revenues from insurance market	210,036
1.2 Revenues from securities and investment fund market	42,133
1.3 Revenues from contributions of private voluntary pension fund management companies	489
1.4 Revenues from the Education Center	1,970
2. Revenues from fines and bank interests, etc.	520
Total (1+2)	255,148

Table 31: Use of AFSA funds

(thousand ALL)

<i>Item</i>	2015
1. Operating expenses	143,880
1.1 Salaries, bonuses, social insurance	87,429
1.2 Operational expenses	56,451
2. Investment	7,290
3. Reserve/Contingency Fund	78,829
4. Funds registered for future periods	25,149
Total (1+2+3+4)	255,148

During 2015 the total used revenues were ALL 144 million or 16% less than the plan. Functioning expenses constitute the main use of the AFSA revenues, covering 95.3% of total expenses. Expenses for investments in 2015 were realized in the amount of ALL 7.3 million or 6% less than the plan.

Pursuant to the expenditure and investment plan, the AFSA developed and implemented the procurement plan, which in 2015, contained 6 tender procurement procedures, while the coverage of other needs was realized with low value procurements. All planned procurement procedures were duly completed.

5.2. Organizational Structure and Staff Training

The AFSA's board, based on amendments to the Law no. 9572, dated 3.7.2006 "On the Financial Supervisory Authority", in April 2015, approved the structure of the AFSA with Decision no. 27, dated 28.04.2015 "On the approval of the organizational structure, number of employees and job descriptions of the Financial Supervisory Authority".

The model of the new structure relied on the existing structure, but it was reshaped in order to enable the best coverage of the AFSA functions, so as to reflect market developments and the new duties of the Authority. Subject to an effective supervision, in principle, it was guaranteed a flexible organizational structure, with the aim of strengthening administrative capacities of the AFSA, one of the continuous requirements of the World Bank and the European Commission.

The new structure was accompanied by an increase in the number of employees, which planned for 2015 a number of 72 employees and until the end of 2019, 97 employees. At the end of 2015, the number of the AFSA employees was 59 people. The level of filling job positions, compared with the number of job positions according to the structure is 82%.

Subject to structural changes, in August 2015, the Board of the Authority approved a new system of salaries. Through Decision no. 76, dated 28.7.2015, it was approved the instruction "On setting the remuneration of non-executive members of the Board, the salary of the General Executive Director, Executive Deputy Director and employees of the Financial Supervisory Authority".

The main principles upon which it was set up the new salary system are the following:

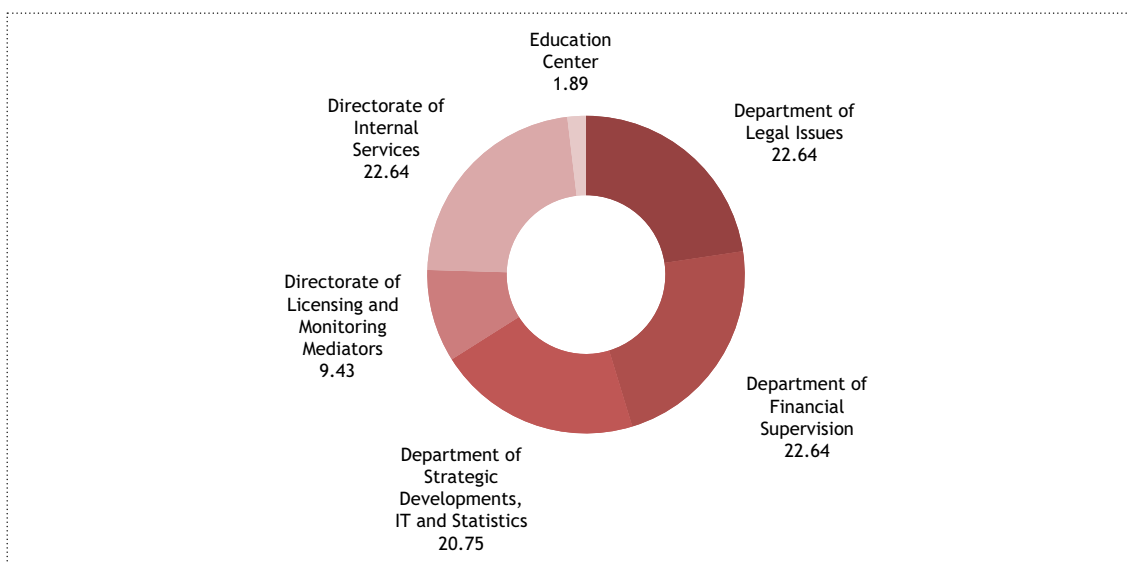
- **Independence.** The Authority enjoys the status of an independent self-financing institution and the budget of the AFSA is independent of the state budget.
- **Staff motivation and maintenance of professional capacities of the institution.** The regulatory and supervisory functions of the non-banking financial



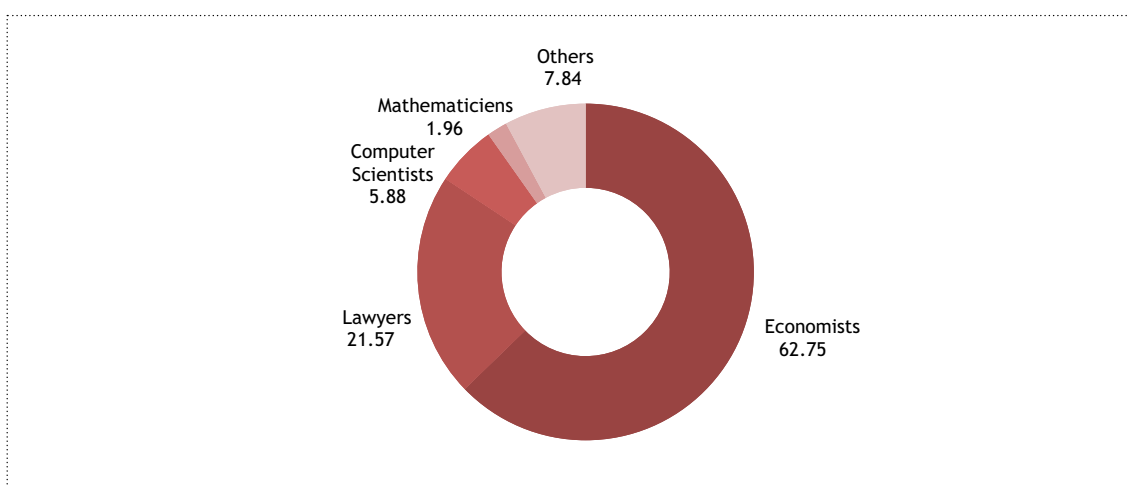
- market require a motivated and professional staff dedicated to work;
- **Standards of other regulatory supervisory institutions inside and outside the country.** International practices served for a very good orientation of policies undertaken by the Board.

Based on the new organisational structure, the distribution of employees according to the AFSA functions and professions is given below:

Graph 30: AFSA core function staff structure, by unit (%)



Graph 31: AFSA staff structure, by profession (%)

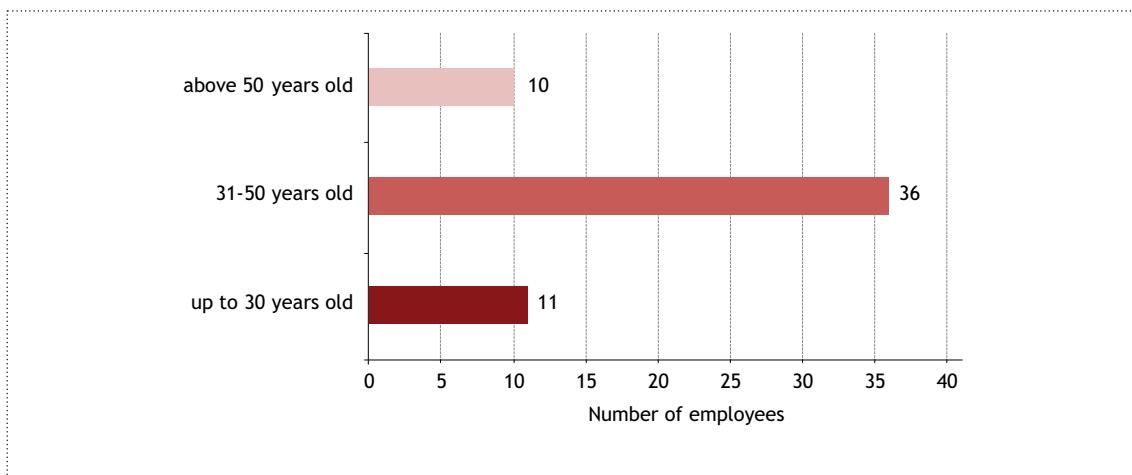


The new organizational structure was established in order to emphasize the vertical feature (by markets), but maintaining the essence of functional separation (horizontal). The three main identified divisions are (1) insurance, (2) voluntary private pensions, (3) investment funds and capital market. In units that perform financial supervision, the whole supervisory cycle is performed, which means supervision through the reporting and analysis system (*off-site*) and on-site inspections (*on-site*). This means that unlike the previous structure, the AFSA has established a structural unit with dedicated staff on the supervision of the activity of insurance companies and those of investment funds and private pensions.

In 2015, the AFSA established a new unit in the organizational structure which is the Education Center. One of the innovations of the new insurance and reinsurance law was also the establishment and functioning of the education center for professionals in the field, as a necessity of the qualitative growth of this market.

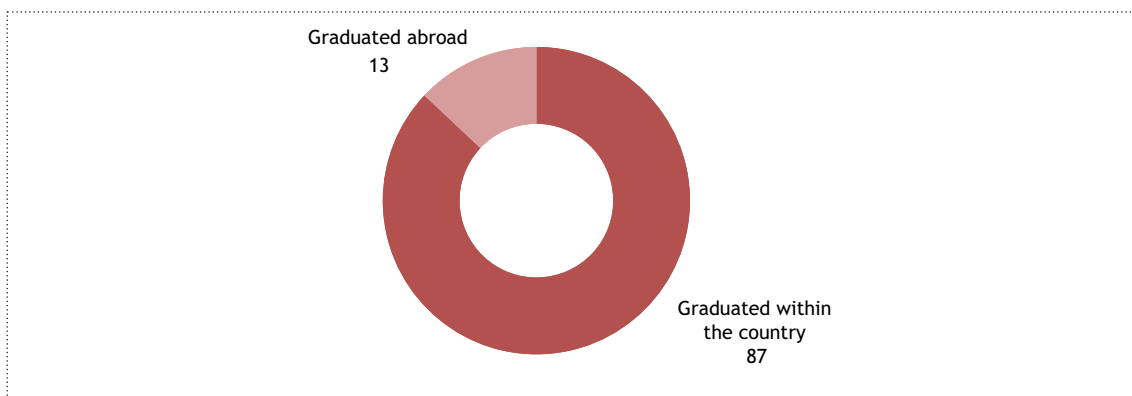
Graph 32: AFSA staff structure, by age-group

(numbers)



Graph 33: Employees' structure, by degree

(%)





AFSA continued to take care to maintain optimal ratios in the structure of its employees, based on their characteristics, such as education or age. Maintaining the same level for several years, having an average staff age of 39 has resulted in the best combination of qualities of various generations and has ensured constant transfer of knowledge and experience.

Human Resources Policies and Professional Qualification

The development of AFSA human resources contributes to the building of staff professional capacities in line with the Authority mission and strategic goals of the Authority. Subject to keeping and attraction of skilled employees with integrity, incentive and motivational mechanisms were used, where we mention the set up of a new wage system which was implemented in August 2015, economic aid system, differential system of rewards for achieving results at work, implementation of the voluntary pension professional plan for the employees of the Authority.

The main scope in the field of human resources for 2015 was to develop the professionalism of the employees, motivating them to achieve objectives and employment of more qualitative human resources. In fulfilment of this goal, in the month of October 2015, the AFSA approved the document "Development of Human Resources at the AFSA".

Professional development of human resources at the AFSA is realized through the development of specific plans for training employees. This process identifies the areas of knowledge and professional skills that need to be met, taking into account the future training requirements and individual requirements of each employee working for the Authority. The managers of each unit in collaboration with the Division of Human Resources and Education Center enable their further qualification.

In addition, the professional development of human resources at the AFSA is carried out by its employees through the use of professional literature (the library of the AFSA), attending online trainings or transmission of knowledge to their colleagues, organizing presentations and discussion meetings.

Employment of the most skilled human resources continued to be a priority in the context of human resource policies. 10 other employees were employed through hiring procedures in 2015.

Furthermore, in the field of human resources for 2015, several regulations that discipline and regulate the work of the Authority were revised.

Professional Qualification

Towards professional qualification, aiming at the increase of professional expertise, in 2015, it was generally preserved the specialty line of employees in the profile they work at. The program of trainings was set up pursuant to the objectives of the institution and individual objectives for employees. The activities realized in 2015, inside and outside the country, consisted in participations in trainings, seminars, conferences, meetings and visits in the exchange of the best professional experiences, based on the assistance of prestigious international institutions in the financial field, such as: World Bank (WB), USAID through the Financial Sector Development Program in Albania and international regulatory associations, International Association of Insurance Supervisors (IAIS); International Organization of Securities Commissions (IOSCO); International Organization of Pension Supervision (IOPS); National Association of Insurance Commissioners of the USA (NAIC), SEC, etc.

The most important activities and trainings during 2015 were the training programs related to the strengthening of institutional capacities for the risk-based supervision, trainings in the actuarial field in the framework of *Solvency II*, financial reports according to IFRS, and trainings related to the consumer education and protection.

Following the policy to increase the professional qualification of employees, the AFSA continued to provide employees with the online training program "FSI Connect", for 5 users, mainly the supervision department.

5.3 AFSA Regulatory Framework

In 2015, pursuant to Law no. 54/2014, dated 29.05.2014, "On several amendments and addenda in Law no. 9572, dated 03.07.2006 "On the Financial Supervisory Authority"", it was completed the required sub-legal framework aiming at the improvement of the internal regulatory framework and increase of efficiency of the AFSA functions.

Through Board Decision no. 27, dated 28.04.2015, it was approved the organizational structure, the number of employees and job descriptions for the AFSA employees. In addition, with Board Decision no. 76, dated 28.07.2015, it was also approved the instruction on salaries based on market conditions, the possibility of more effective regulation and supervision of non-bank financial institutions. The instruction was also based on the recommendations of the World Bank Mission and the International Monetary Fund in the framework of the FSAP Program.

The AFSA Board adopted the Regulation no. 17, dated 28.04.2015 "On the functioning and keeping minutes in the Board meetings", Regulation no. 129, dated 26.11.2015 "On job relation of the AFSA employees", Internal Regulation no. 136, dated 21.12.2015 "On the



organization, functioning and description of duties". For the fulfilment of the regulatory framework, there were amended the existing regulations, such as the Regulation "On financial relations of the AFSA employees", amended with Board Decision no. 30, dated 28.05.2015, Regulation "On drafting, follow up, approval and implementation of the AFSA budget", as amended with Board Decision no. 31, dated 28.05.2015, "Code of Ethics", as amended with Board Decision no. 131, dated 26.11.2015 and Regulation "On the prevention of the conflict of interest", as amended with Board Decision no. 130, dated 26.11.2015.

In conformity with Article 7 of the Law no. 119/2014 "On Information Rights", it was prepared the Program of Transparency for the Financial Supervisory Authority, which builds up and increases transparency in the internal institutional work by making public all its activity in separate sections of the Authority's website.

5.4 Information Technology

AFSA Information Technology (IT) has been developed in line with the National Digitalisation Strategy, as an inseparable part of the whole institutional developments. Its scope is to develop, maintain and improve the IT structure.

In 2015, the main ICT systems continued to function constantly, ensuring support for such basic functions of the Authority as supervision and regulation. AFSA IT systems also ensured coordination of its work with other institutions with which it cooperates to exchange information such as the General Directorate of Road Transport Services (DPSHTRR), National Agency of Information Society (AKSHI), The Ministry of Interior and the General Directorate of Civil Status. Another goal was to extend and enhance the internal services installed at AFSA.

In addition to the functional tasks closely related to the functions of supervision, inspection and regulation, AFSA realized in 2015:

- Constant maintenance and improvement of the technical infrastructure of the National Centre of Compulsory Motor Insurance Data (Online Electronic Register of Compulsory Motor Insurance, Claims Register, maintenance of Bonus-Malus integrated system);
- Maintenance and improvement of the infrastructure for IT services provided by the AFSA to institutions, such as: BSHS, DPSHTRR and General Police Directorate;
- Preparation and further configuration of the internal infrastructure of AFSA services;
- Monitoring and updating AFSA official website;

- Extension and maintenance of internet access and exchange of AFSA data in the framework of increased use of IT systems;
- Development and implementation of security programmes, preserving AFSA information confidentiality, integrity and reliability.



Future challenges and projects

Basically the main directions for development and the important challenges for the AFSA for 2016 in relation to supervised financial markets remain focused on:

- Implementation of risk-focused supervision, not only in the insurance market, but also in the extension of this methodology in the market of investment funds and private voluntary pension funds;
- Promotion of the sustainability of financial markets, by improving the consolidated supervision process;
- Strengthening of the AFSA work in terms of consumer protection and education.

Within this general framework, the AFSA annually develops and optimizes various aspects, aimed at meeting the main objectives.

In 2016 attention will continue to be focused on **stabilizing markets and risk-focused supervision** specifically including (i) the financial stabilization measures and improvement of the compensation fund management and (ii) measures of keeping monetary reserve in insurance companies; (iii) drafting and execution of the strategy for the education of CIU investors; (iv) expansion of risk-focused supervision in all insurance companies; (v) strengthening the rules for risk management of investment funds; (iv) approaching group supervision; (vii) testing for building up the management system and risk assessment by insurance companies in collaboration and under the guidance of the AFSA.

Promotion of the development and stability of financial markets under supervision tends to be supported by mitigating measures adopted in tax legislation in 2014, mainly for insurance and voluntary pensions market. In continuation, the AFSA is providing cooperation with other government institutions to design appropriate legislations to expand the range of products in the field of insurance. In the field of voluntary pensions, approaches are being reviewed in order to increase the awareness of employers and employees to use products provided by the voluntary pensions market. While in the area of investment funds, the AFSA is carefully following the improvement of communication and information to investors. Furthermore, the AFSA aims to develop joint surveillance protocol with the Bank of Albania to enable consolidated supervision of financial institutions in those activities of financial institutions where supervisory responsibility pertains to both authorities. With the fulfilment of this objective it is intended to reduce the risk transfer options from one segment to another in the financial system, or that certain risks remain unsupervised. Hence, essentially contribution is given to increased financial stability.

Improvement of legal and regulatory framework continues to be an important objective, aiming at the increase of the approximation level with the EU directives and

international standards, and the increase of supervision efficiency. In the insurance market, the AFSA will continue its work in following up the amendments in the law on compulsory insurance in the transport sector, as well as completion of the process for drafting regulations pursuant to the Law 52/2014 “On insurance and reinsurance activities”. Regarding the voluntary pension market, the AFSA will attend the process of approving amendments in the law for pensions and drawing up the manual of risk-focused supervision, which includes the steps of identification, definition, classification and response to risks in this market. In the area of investment funds, the AFSA is working on completing the regulatory framework according to international practices pursuant to amendments in the law of Collective Investment Undertakings.

On the whole, the focus will be on **strengthening supervisory capacities** in the medium term, which is expected to be accomplished through (i) filling of vacancies, according to the AFSA organizational structure in line with market developments and hiring qualitative human resources; (ii) professional qualifications of the AFSA staff, in order to increase occupational expertise; (iii) handling the AFSA employees to support the growth of their quality.

Strengthening supervisory capacities will be met by the implementation of three technical assistance projects that AFSA have obtained by the World Bank, for all the three supervised markets and more specifically:

- Technical Assistance Project for the insurance market reform.
- Technical assistance project for the expansion of market and supervision of pensions.
- Technical assistance project for strengthening the supervisory capacities with a focus on capital market development.

Technical Assistance Project for the insurance market reform. The project has a duration of 24 months, a term which was required to be postponed by the World Bank, and it is structured in three main components, as follows hereunder:

1. *MTPL product insurance.* Regulatory requirements are aimed to be developed in this component in order to determine the reserves for MTPL product, which are suitable from the actuarial aspect and to frame them with the supervisory practices in the country. The objectives of this component are: (i) to provide for consumers the conduct of proper payments and in time in relation to the damages for the MTPL product; (ii) to follow the same standards in MTPL insurance; and (iii) to provide appropriate assessment of solvency for all insurance companies.
2. *Supervision of general insurances.* This component aims at the development of the legal framework pursuant to the law approved for the insurance and reinsurance



activity, package of supervisory manuals in the country and regulatory framework for life insurance. The objective of this component is the strengthening of the institutional supervisory capacity of the AFSA. This component focuses on the life insurance activity and in this regard, work continued with actuarial principles and rules for determining mathematical provisions; assets covering mathematical provisions; consumer protection in life insurance contracts. These concepts together with supervision manuals of life insurance or properties will be completed in a regulatory framework adopted in 2016.

3. *National Earthquake Insurance Program*. In this component it is aimed the completion of legal and regulatory basis with elements of earthquake and floods insurance. In cooperation with the World Bank, it is expected to continue working together with other interested parties for drafting this law.

Technical assistance project for the expansion of market and supervision of pensions. The project has duration of 18 months and is structured in two main components, as follows hereunder:

1. *Regulation and supervision*. In this component, the objective is to draw up the risk-based supervision framework, as the basic element for the implementation of this supervisory methodology in the field of pensions, and the preparation of law amendments for private pensions in the spirit of this methodology.

In 2016, the objectives of the project are related to training of the AFSA employees for the use into practice of the manual, assessment of risks in the pension market and performance of pilot inspections under the new methodology in cooperation with the World Bank experts.

2. *Expansion of the pensions market*. The objective in this component is the expansion of the pensions coverage for employees in Albania. During 2016, the design and implementation of the strategy will continue, based on the survey results and the action plan for the expansion of the pension market, published during the Conference “Voluntary pensions system in Albania - Expansion coverage”, and organized by the AFSA and the World Bank. This strategy focuses on increasing the level of knowledge through meetings with employers, increasing the level of knowledge through public education campaigns and measures to strengthen public trust in the AFSA and in the financial sector in general. Continuous education of the public about the importance of extending the voluntary private pension market remains one of the key priorities subject to further expansion of this market.

Technical assistance project for strengthening the supervisory capacities with focus on capital market development. The project has duration of 36 months and is structured in two main components, as follows hereunder:

1. *Development of the AFSA capacities for the supervision and regulation of investment funds.* In this component, diagnostic assessments are intended to be performed, supervision package (methodology, manuals and tools) to be developed, and human resource development.
2. *Development of the AFSA capacities in order to be prepared for the issuance of shareholding and local government bonds.* In this component, diagnostic assessments are intended to be performed, as well as the development of human resources in the field of debt instruments and markets.

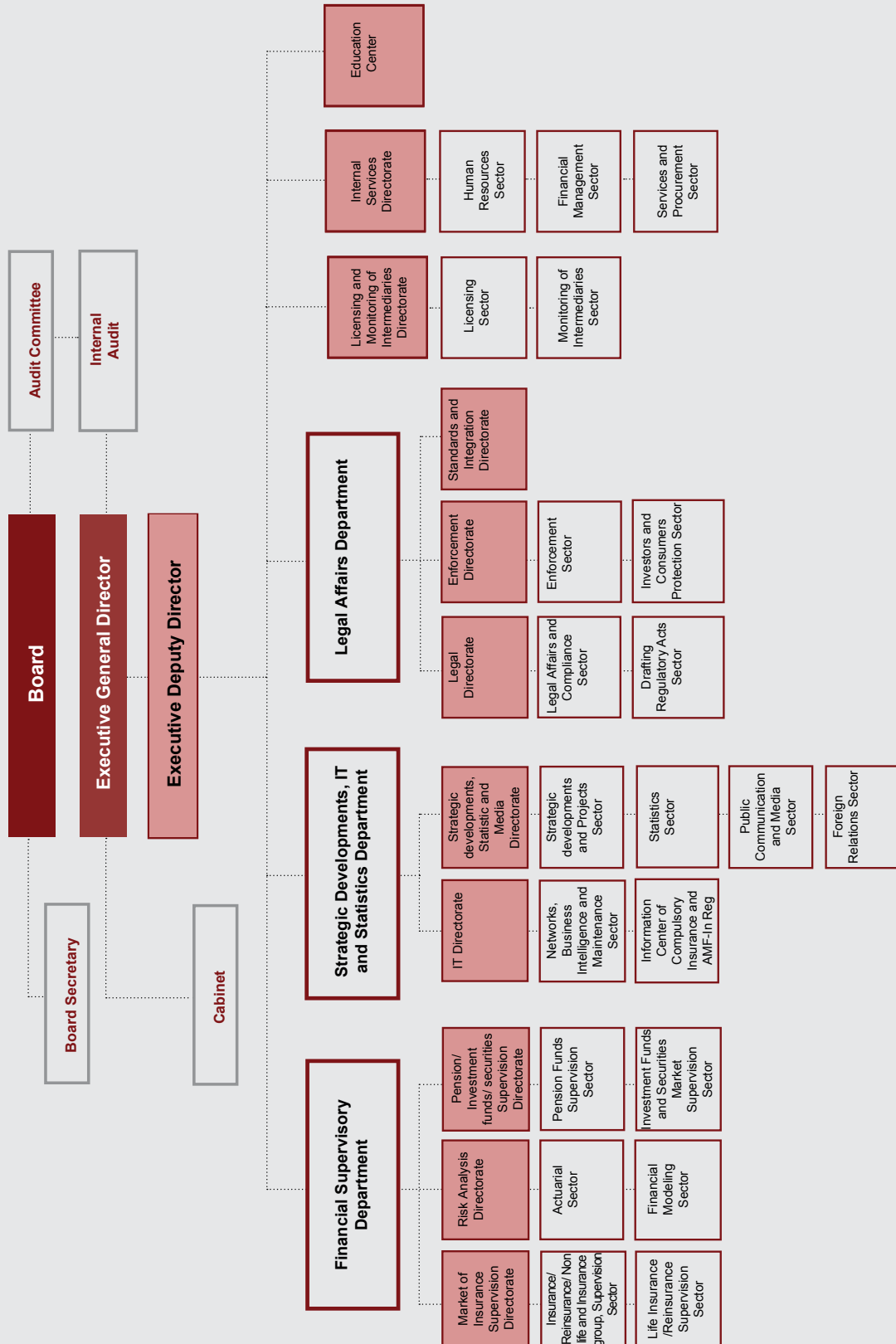
During 2016 it is expected to begin the implementation of the first component, specifically with the two relevant sub-components:

- Assessment of the structure, staffing and training needs related to the field of investment fund supervision;
- Assessment and development of legislation and supervisory package for investment funds and corporate and local government bonds.

Information Management System. Implementation of the new methodology of risk-focused supervision requires technological support. In these conditions, the AFSA priority will be the development of new formats in the AFSA In-Reg system, pursuant to the new supervisory methodology and dedicated to risk-focused inspection. In addition, the AFSA will also be the extent of this electronic reporting platform in other segments of financial markets, both in the securities market and private pensions.

APPENDIX A

AFSA Structure



APPENDIC B

List of Supervised Institutions

INSURANCE MARKET

	1. INSIG sh.a.	2. SIGMA Vienna Insurance Group sh.a.	3. SIGAL Uniqa Group Austria sh.a.	4. ATLANTIK sh.a.
CEO	Edlira Dvorani	Qemal DISHA	Avni PONARI	Dritan ÇELAJ
Scope of Activity	Life + non-life insurance	Non-life insurance	Non-life insurance, reinsurance	Non-life insurance
Type of Ownership	Government-owned	Foreign and domestic capital	Foreign and domestic capital	Domestic capital
Office address	St. "Kavajës", No. 116, Tirana	St. "Komuna e Parisit", Kutia Postare No. 1714, Tirana	Bl. "Zogu I", No. 1, Kutia Postare No. 2387, Tirana	St. "Themistokli Gërmenji", 3/1, Tirana
Tel./Fax	+355 42 223 838	+355 42 258 254	+355 42 233 308/ 253 407/408/ +355 42 250 220	+355 42 230 506 +355 42 235 088
Website	www.insig.com.al	www.sigma-al.com	www.sigal.com.al	www.atlantik.com.al
Email	info@insig.com.al	info@sigma-al.com	info@sigal.com.al	atlantik@atlantik.com.al
Licence number/date	No. 3 dt. 08.06.2000	No. 01, of 03.02.1999	No. 02, dt. 23.06.1999 and No. 06, dt. 03.02.2006	No 5, of 13.04.2001
License Duration	Unlimited	Unlimited	Unlimited	Unlimited
CEO	Gentian SULA	Xhevdet KOPANI	Muharrem BARDHOCI	Edlir RUKA
Scope of Activity	Non-life insurance	Non-life insurance	Non-life insurance	Non-life insurance
Type of Ownership	Foreign and domestic capital	Domestic capital	Domestic capital	Domestic capital
Office address	St. "Ismail Qemali", Nd. Samos Tower, Floor 2, Box Office 8292, Tirana	St. "Papa Gjon Pali II", vila Nr. 5, Tiranë	St. "George W. Bush", No. 10, Tirana	St. "Domika Kastrioti", Vila 9/1, (St. 4 shkurt) Tirana
Tel./Fax	+355 42 270 576/577	+355 42 238 899/999, +355 42 223 841	+355 42 254 770 +355 42 254 664	+355 42 263 490/495/486
Website	www.intersig.al	www.eurosig.al	www.albsig.com.al	www.ansig.al
Email	info@intersig.al	info@eurosig.al	info@albsig.com.al	
Licence number/date	No. 6 dt. 13.09.2001	No. 7 dt. 8.07.2004	No. 10 dt. 19.07.2004	No. 12 dt. 22.06.2012
License Duration	Unlimited	Unlimited	Unlimited	Unlimited



CEO	9. SICRED sh.a.	10. SIGAL-LIFE Uniqa Group Austria sh.a.	11. MAI sh.a.	12. 3B BROKER sh.a.
Scope of Activity	Genc KOXHAI	Edvin HOXHAI	Einar GASHI	Bashkim KRYEZIU
Type of Ownership	Life insurance	Life insurance	Insurance brokers and reinsurance	Non-Life Insurance Brokerage
Office address	Domestic capital	Foreign and domestic capital	Foreign capital	Domestic capital
Tel./Fax	St. "Brigada VIII", Vila 3/1, Tirana	Bul. "Zogu I", Nr 1, Tiranë	St. "Ismail Qemali", P. Gener 2 (Valle Verde), Floor III/4, Tirana	St. "Mustafa Matohiti", P. 7/2, Apt. 8, Tirana
Website	+355 42 237 549 +355 42 237 530	+355 42 253 407/ 408 +355 42 233 308	+355 42 500 514	+355 42 248 768/42 248 756
Email	www.sicred.com.al	www.sigal.com.al	www.mai-cee.com	
License number/date	contact@sicred.com.al	info@sigal.com.al	einar.gashi@mai-cee.com	info@3bbroker.al
License Duration	No. 8 of 26.07.2004	No. 11 of 28.07.2004	No. 1 of 11.09.2008	No. 2 of 26.03.2009
	Unlimited	Unlimited	Unlimited	Unlimited
CEO	13. DEVON sh.a.	14. ALL - SIG sh.a.	15. A-EJA INSURANCE BROKER sh.a.	16. WVP INSURANCE BROKER sh.a.
Scope of Activity	Valbona ÇARÇANI	Rezarta ZHUKRI	Anila QENDRO	Ardian KELMENDI
Type of Ownership	Non-Life & Life Insurance Brokerage	Non-Life Insurance Brokerage	Non-Life Insurance Brokerage	Life & Non-Life Insurance Brokerage
Office address	Domestic capital	Domestic capital	Domestic capital	Foreign capital
Tel./Fax	"Pallati i Kulturës", QTZHK, Scanderbeg Square, Tirana	St. "Abdyl Frasher", P. De Rada, Tirana	St. "Pjetër Bogdani", P. 20, Floor 1, Tirana	St. "Sami Frashëri", P. Vortek, Floor 2, Apt. 5, Tirana
Website	+355 42 379 925, +355 69 20 58424	+355 42 257 903 / 42 238 018,	+355 42 249 952 +355 42 227 307	+355 42 224 525
Email	valbona_carcani@yahoo.com	allsigbroker@gmail.com	a.qendro@a-ejainsurance.com	www.wvp.al wvptirana@wvp.al
License number/date	No. 3 dt. 10.12.2009 No. 12 dt. 23.12.2013	No. 5 of 19.03.2010	No. 7 of 21.05.2010	No. 10 dt. 25.04.2012
License Duration	Unlimited	Unlimited	Unlimited	Unlimited

	17. STAR BROKER sh.a.	18. IFIS BROKER sh.a.	19. FIDENTIA sh.a. Insurance BROKER
CEO	Arben SIMAKU	Edmira MUÇKA	Përparim ISUFI
Scope of Activity	Non-Life Insurance Brokerage	Life and Non-Life Insurance Brokerage, and Reinsurance	Non-Life Insurance Brokerage
Type of Ownership	Domestic capital	Domestic capital	Domestic capital
Office address	St. "Ismail Qemali", P. 11/1, Floor 3, Tirana	St. "Ismail Qemali", P. 2k, Floor 8, Apt. 40, Tirana	St. "Ismail Qemali", No. 27, Fratari Tower, Floor 1, Tirana, P.O. Box 2408/1
Tel./Fax	+355 69 40 37 001	+355 69 20 87 987	+355 42 269 435 +355 69 20 45 790
Website			www.fidentia.al
Email	arben.simaku@starbroker.al	ifis@ifis.al	info@fidentia.al
License number/date	No. 11 dt. 23.05.2013	No. 13 dt. 23.01.2014	No. 14 dt. 26.11.2015
License Duration	Unlimited	Unlimited	Unlimited

SECURITIES MARKET

	1. RAIFFEISEN BANK sh.a.	2. BANKA KOMBËTARE TREGTARE sh.a.	3. INTESA SAN PAOLO Bank Albania sh.a.
CEO	Christian CANACARIS	Seyhan PENCAPLIGIL	Silvio PEDRAZZI
Scope of Activity	Broker of Republic of Albania Government securities on the Exchange and on the retail market, and custodian of Republic of Albania Government securities	Broker of Republic of Albania Government securities on the Exchange and on the retail market, and custodian of Republic of Albania Government securities	Broker of Republic of Albania Government securities on the Exchange and on the retail market, and custodian of Republic of Albania Government securities
Type of Ownership	Foreign capital	Foreign capital	Foreign capital
Office address	European Trade Center, Bul. "Bajram Curri", Tirana	Bul. "Zhan D'ark", Tirana	St. "Ismail Qemali", No. 27, Tirana
Tel./Fax	+355 42 381 381 / +355 42 275 599	+355 4 250 955, +355 4 250 956	+355 42 276 000/42 248 762
Website	www.raiffeisen.al	www.bkt.com.al	www.intesanpaolobank.al
Email	info@raiffeisen.al	info@bkt.com.al	opinion@intesanpaolobank.al
License number/date	No. 3 dt. 25.06.2009 No. 6 dt. 29.09.2010	No. 4 dt. 25.06.2009 No. 7 dt. 18.11.2010	No. 6 dt. 25.06.2009 No. 2 dt. 21.05.2010
License Duration	Unlimited	Unlimited	Unlimited



4. ALPHA BANK – Tirana sh.a.		5. BANKA CREDINS sh.a.		6. BANKA E TIRANËS sh.a.	
CEO	Perikis DROUGKAS	Maitin KORKUTI	Dritan MUSTAFA		
Scope of Activity	Broker of Republic of Albania Government securities on the Exchange and on the retail market, and custodian of Republic of Albania Government securities	Broker of Republic of Albania Government securities on the Exchange and on the retail market, and custodian of Republic of Albania Government securities and corporate and local government bonds	Broker of Republic of Albania Government securities on the Exchange and on the retail market, and custodian of Republic of Albania Government securities.		
Type of Ownership	Foreign capital	Domestic capital	Foreign capital		
Office address	St. "Rruge e Kavajës", G-KOM Business Center, Tirana	St. "Ismail Qemali", No. 21, Tirana	St. "Ibrahim Rugova", Tirana		
Tel./Fax	+355 42 233 550	+355 42 234 096, +355 42 222 916	+355 42 277 700 +355 42 263 022		
Website	www.alphabank.al	www.bankacredins.com	www.tiranabank.al		
Email	qualityassurance.albania@alpha.gr	info@bankacredins.com	info@tiranabank.net		
Licence number/date	No. 7 of 25.06.2009 No. 3 of 28.06.2010	No. 8 of 25.06.2009 No. 4 of 30.08.2010 No. 1 of 13.12.2011	No. 1 of 21.05.2010 No. 1 of 21.05.2010		
License Duration	Unlimited	Unlimited	Unlimited		
7. BANKA SOCIETE GENERALE ALBANIA sh.a.		8. BANKA NËRKOMBËTARE TREGTARE sh.a.		9. FIRST INVESTMENT BANK sh.a.	
CEO	Hubert DE SAINT JEAN	Gideon Van Den BROEK	Bozhidar TODOROV		
Scope of Activity	Broker of Republic of Albania Government securities on the Exchange and on the retail market, and custodian of Republic of Albania Government securities	Brokerage company for Albanian Government securities on the exchange.	Broker of Republic of Albania Government securities on the Exchange and on the retail market, and custodian of Republic of Albania Government securities		
Type of Ownership	Foreign and domestic capital	Foreign capital	Foreign capital		
Office address	Bul. "Dëshmorët e Kombit", Kulla Binjake I, Tiranë	St. "Murat Toptani", kati VII , pranë Gjergji Center, Tiranë	Bul. "Dëshmorët e Kombit", Twin Towers Nr. 2 Kati 114 & 15, Tiranë		
Tel./Fax	+355 42 280 442/3 +355 42 280 441	+ 355 42 256 254 + 355 42 235 409	+355 42 276 702/3 +355 42 280 210		
Website	www.societegenerale.al	www.icbank-albania.com	www.fibank.com		
Email	sgalb.info@socgen.com	enquiry@icbank-albania.com			
Licence number/date	No. 5 of 25.06.2009 No. 8 of 13.12.2011 No. 5/1 of 21.03.2012	No. 11 of 25.06.2009	No. 12 of 29.09.2010 No. 5 of 29.09.2010 No. 2 dt. 23.12.2014		
License Duration	Unlimited	Unlimited	Unlimited		

	10. POSTA SHQIPTARE sh.a.	11. KAPITAL INVEST sh.a.	12. TRIUMF GROUP sh.a.
CEO	Majlind LAZIMI	Lirim MUHAREMI	Mirela ANGJELI
Scope of Activity	Brokerage company for Albanian Government securities (T-bills) on the retail market	Brokerage company for Albanian Government securities on the exchange and on the retail market	Brokerage company for Albanian Government securities on the exchange.
Type of Ownership	Government-owned	Foreign and domestic capital	Domestic capital
Office address	St. "Reshit Collaku", No. 4, Tirana	Vila "Ajet Metaj", Njësia Bashkiake No.1, ish Uzina e Autostraktoreve, Tirana	St. "M. Gjollësha", Tower 2, Apt. 13, Tirana
Tel./Fax	+355 42 222 315	+355 42 280 202	+355 68 20 58 275
Website	+355 42 266 559 www.postashqiptare.al		+355 42 256 081
Email	posta@postashqiptare.al		
License number/date	No. 10 dt. 25.06.2009	No. 9 of 25.06.2009	No. 2 of 25.06.2009
License Duration	Unlimited	Unlimited	Unlimited
	13. AKSIONER INTERNATIONAL SECURITIES BROKERAGE sh.a.	14. STOCK INTERNATIONAL ALBANIA sh.a.	15. APIA WEALTH MANAGEMENT ALBANIA sh.a.
CEO	Alma HASANAJ	Eni KOÇO	Aleksandër PRIFTI
Scope of Activity	Securities brokerage company in trading in securities on customers' orders on the licensed market in the Republic of Albania, and stock broker on behalf of "Saxo Bank"	Securities brokerage company in trading in securities on customers' orders on the licensed market in the Republic of Albania, and stock broker on behalf of "Lead Capital Markets" Ltd.	Investment Advisory Company on securities
Type of Ownership	Foreign capital	Foreign capital	Domestic capital
Office address	St. "Qemal Stafa", P. 31, njësi tregtare 2, No. 20, Tiranë	St. "Sami Frashëri" P. 2/251, near "Alpha Bank" sh.a., Tirana	St. "Sheshi "Italia", Sheraton, at R.T. B7" Tirana
Tel./Fax	+355 44 400 600	+355 44 10 50 10	
Website	www.aksioner.com	www.stock.com	
Email	info@aksioner.com	ekoco@al.stock.com	aprifti@apiwealthmanagement.com
License number/date	No. 13 dt. 28.04.2011	No. 14 dt. 30.06.2015	No. 1 date 16.07.2013
License Duration	No. 64 dt. 28.04.2011 Unlimited	Unlimited	Unlimited



Director	16. BURSA E TIRANËS sh.a.	17. QENDRA E REGJISTRIMIT TË AKSIONEVE sh.a.
Scope of Activity	Temporary activity closure based on <i>actioners decision, No. 16 dt. 07.04.2015</i> Organized securities market	Gentian ALIKA Corporate share registry
Type of Ownership	Government-owned	Government-owned
Office address	St. Bulevardi Dëshmorët e Kombit, No. 3, Tirana	St. "George W. Bush", Nr. 13, Kutia Postare 7424, Tirana
Tel./Fax		+355 42 233 442, +355 42 233 425
Website		www.qra.al
Email		info@qra.al
Licence number/date	dt. 13.07.2007	dt. 05.11.2002
License Duration	Unlimited	Unlimited
	FONDI I INVESTIMIT RAIFFEISEN PRESTIGJ (Ref. FI-B1)	FONDI I INVESTIMIT "RAIFFEISEN INVEST EURO" (Ref. FI-B2)
	Under the management of "Raiffeisen Invest-shoqëri administruese e fondeve të pensionit dhe sipërmarrjeve të investimeve kolektive" sh.a.	Under the management of "Raiffeisen Invest-shoqëri administruese e fondeve të pensionit dhe sipërmarrjeve të investimeve kolektive" sh.a.

PRIVATE VOLUNTARY PENSION MARKET

	1. Raiffeisen Invest - Management Company of Voluntary Pension Funds and Collective Investment Undertakings	2. SIGAL-Life UNIQA Group Austria Pension Funds Management Company Sh.a	3. SICRED Pension Funds Management Company Sh.a
General Managing Director	Resmi HIBRAJ	Naim HASA	Estela KOCI
Scope of Activity	Voluntary pension fund and collective investment undertaking management company	Voluntary pension fund management company	Voluntary pension fund management company
Type of Ownership	Foreign capital	Foreign and domestic capital	Domestic capital
Office address	St. "Bajram Curri", ETC Kati 10, Tiranë.	Bul. "Zogu I", Tiranë	St. "Brigada VIII", Vila 3/1, Tirana
Tel./Fax	+ 355 42 277 901 +355 42 277 905	+355 42 233 308 +355 42 250 220	+355 42 237 549/ 496/ 44 538 674
Website	www.raiffeisen-invest.al	www.fppsigal.com.al	www.sicred-pensions.com.al
Email	invest@raiffeisen.al	naimhasa@sigal.com.al	ekoci@sicred.com.al
License number/date	No. 1 dt. 18.10.2010	No. 2 of 30.03.2011	No. 3 of 23.11.2011
License Duration	Unlimited	Unlimited	Unlimited

	4. FIRST INVESTMENT Bank sh.a.	5. BANKA E TIRANËS sh.a.	6. SOCIETE GENERALE ALBANIA sh.a.
Executive Director	Bozhidar TODOROV	Dritan MUSTAFA	Frederic BLANC
Scope of Activity	Depository of voluntary pension fund and collective investment undertaking assets	Voluntary pension fund asset depository	Voluntary pension fund asset depository
Type of Ownership	Foreign capital	Foreign capital	Private foreign and domestic capital
Office address	Bul. "Dëshmorët e Kombit", Twin Towers Nr. 2 Kati i 14 & 15, Tiranë	St. "Ibrahim Rugova", Tiranë	Bul. "Dëshmorët e Kombit", Twin Tower I, Tirana
Tel./Fax	+355 42 276 702/3	+355 42 269 616/617/429	+355 42 280 442/3
Website	+355 42 280 210 www.fibank.com	+355 42 269 707 www.tiranabank.al	+355 42 280 441 www.societegenerale.al
Email	info@fibank.com	info@tiranabank.net	info@socgen.com
License number/date	No. 1 of 13.12.2011	No. 2 of 18.11.2010	No. 3 of 13.12.2011
License Duration	Unlimited	Unlimited	Unlimited
7. BANKA KOMBËTARE TREGTARE sh.a.			
Executive Director	Seyhan PENCAPLIGIL		
Scope of Activity	Voluntary pension fund asset depository		
Type of Ownership	Foreign capital		
Office address	Bul. "Zhan D'ark", Tirana		
Tel./Fax	+355 4 250 955, +355 4 250 956		
Website	www.bkt.com.al		
Email	info@bkt.com.al		
License number/date	No. 4 dt. 21.12.2015		
License Duration	Unlimited		
	VOLUNTARY PENSION FUND RAIFFEISEN (Ref. FP 1)	VOLUNTARY PENSION FUND SIGNAL (Ref. FP 2)	VOLUNTARY PENSION FUND SICRED PENSIONS (Ref. FP 3)
	Under the management of "Raiffeisen Invest-shoqëri administruese e fondeve të pensionit dhe sipërmarrjeve të investimeve kolektive" sh.a.	Under the management of "Shoqëria administruese e fondeve të SIGNAL-Life Uniqa Group Austria" sh.a.	Under the management of "Shoqëria administruese e fondeve të pensionit SICRED" sh.a.

APPENDIX C

Membership and Cooperation

Agreements Concluded by AFSA



A. Membership in International Organizations of Regulators

Institution	Year
International Organization of Securities Commissions (IOSCO)	1998
International Association of Insurance Supervisors (IAIS)	2001
International Organization of Pension Supervisors (IOPS)	2006

B. Agreements signed with foreign counterpart institutions

Institution	Year
Capital Market Commission of Greece	1999
Quebec Securities Commission (Quebec Financial Market Authority)	2000
Securities and Exchange Commission of Italy	2002
Securities Market Agency of Slovenia	2003
Securities and Exchange Commission of Poland (now Financial Supervisory Authority of Poland)	2003
Capital Market Board of Turkey	2003
Kosovo Banking and Payment Authority (now the Central Bank of the Republic of Kosovo)	2004
Financial Supervision Commission of Bulgaria	2005
National Securities Commission of Romania	2005
Securities and Exchange Commission of Macedonia	2005
Securities and Exchange Commission of Montenegro	2005
Securities Commission of Croatia (now the Financial Services Supervisory Agency of Croatia)	2005
Central Bank of the Republic of Kosovo	2008
Austrian Ministry of Finance & Austrian Financial Market Authority	2009
IOSCO Multilateral Memorandum of Understanding	2009
Macedonian Insurance Supervision Agency (ISA)	2010
Agency for Supervision of Fully Funded Pension Insurance of Macedonia (MAPAS)	2012
European Security and Market Authority (ESMA)	2013

C. Agreements Signed with Domestic Organizations

Tirana University Business School	2002
Institute of Statutory Auditors (IEKA)	2003
Bank of Albania	2005
Competition Authority	2006
Directorate General of Customs	2009
Public Oversight Board	2010
Ministry of Interior	2011
Ministry for Public Works and Transport	2011
Agreement in the framework of the Financial Stability Advisory Group (FSAG)	2012
Directorate General of Road Transport	2012
General Directorate for the Prevention of Money Laundry	2015

APPENDIX D

Compliance with the recommendations of Parliament Resolution on the assessment of AFSA's financial activity for 2015

AFSA's activity within the implementation of the recommendations of the Parliament Resolution on the assessment of financial activity for 2015 is as follows:

- **To undertake necessary structural and organizational changes required to adapt to market development trends under the supervision and challenges for their supervision and regulation.**

AFSA's board, based on amendments to the Law no. 9572, dated 3.7.2006 "On the Financial Supervisory Authority", in April 2015 approved the structure of AFSA by decision no. 27, dated 28.04.2015 "On approval of the organizational structure, number of employees and job descriptions of the Financial Supervision Authority".

The new model was based on the existing structure, but was reshaped to provide better coverage of the AFSA's functions, to reflect market developments and new tasks of the Authority. In view of an effective supervision, in principle, it is guaranteed a flexible organizational structure, aiming at strengthening the administrative capacity of the AFSA, as one of the constant demands of the World Bank and the European Commission.

The new structure was associated with an increased number of employees, therefore for 2015 it was planned a total of 72 employees and by the end of 2019 it is planned a number of 97 employees. At the end of year 2015, the number of employees of AFSA was 59. The rate of employees jobs, compared with the number of jobs according to the structure is at 82%.

The new organizational structure was built to emphasize the vertical feature (by markets), but maintaining the essence of functional separation (horizontal). The three main identified divisions are: (1) insurance, (2) voluntary private pensions (3) investment funds and the capital market. All the units that cover the task of financial supervision perform the whole supervisory cycle from reporting and analysis system (off-site) to on-site inspections (on-site). This means that unlike the previous structure, the AFSA has created structural units with dedicated staff for supervising the activity of insurance companies and those of private pension investment funds and securities market.

AFSA has created a new unit in the organizational structure, which is the Education Center. One of the innovations brought by the new law of insurance and reinsurance was the establishment and functioning of the Education Center in order to organize the necessary trainings for professionals (vocational training and education) for managers and professionals operating in the insurance market (actuaries, brokers, adjusters), organization of trainings for the AFSA capacity building and to meet training requirements arising from national and international agreements, as a necessity to develop the insurance market to provide products and services of high quality for the consumer. During year 2015 was enabled a cooperation agreement with the Institute and Faculty of Actuaries in London and the Albanian Association of Actuaries, in order to create the bases of cooperation for training programs and vocational training for actuary relating to the education of actuaries and the



support for their continuous of education. Education Center during the year 2015 activity has trained 78 professionals of the insurance market using local and foreign expertise creating added value in this market.

In view of the structural changes, in August 2015, the Board of the Authority adopted a new salary system through Decision no. 76 dated 28/7/2015.

The main principles upon which was built the new salary system are:

Independence. Authority has the status of an independent self-financing and AFSA budget is independent from the state budget.

Staff motivation and retaining of professional capacities of the institution. The regulatory and supervisory functions of the nonbank financial market require a motivated and professional staff dedicated to work.

Other regulatory standards of domestic and foreign supervision institutions. International practices served as a very good orientation of policies undertaken by the Board..

- **To submit by September 2015, in cooperation with the Ministry of Finance, the legal amendments for compulsory insurance of motor vehicles and to continue the implementation of stabilizing measures in the insurance market and the establishment of well-defined standards regarding the minimum reserves, the level of liquidity, capital sufficiency, practices of technical provision and especially improvement the claim ratio.**

AFSA during year 2015 continued the work on the preparation of amendments to the Law no. 10076, dated 12.02.2009 “On compulsory insurance in the transport sector”, pursuant to the recommendations of EU progress reports, recommendations of the Subcommittee “Internal Market and Competition”, as well as recommendations from the joint mission IMF and World Bank in the framework of the financial sector assessment program (FSAP). During the process of the draft law, the Authority has collaborated closely and consistently with the Association of Insurers and other stakeholders, such as through the organization of round tables, consultations, and continued correspondence (memos, e-mail, etc.) and it has taken into account some of their suggestions and comments related to the improvement of the legal basis , further market regulation and consumer protection.

AFSA 's board by decision No. 106 dated 10/5/2015 reviewed the draft law and decided to send it to the Ministry of Finance to start the procedure of its adoption by the Council of Ministers. The draft law opinion was sent to the relevant line ministries, as well as to World Bank.

In December 2015, the World Bank submitted its comments and suggestions that required

review and inclusion of new provisions in connection with the structuring, functioning and organization of the Albanian Insurance Bureau and the Compensation Fund.

Consequently AMF announced the Ministry of Finance to extend the deadline of submission of the draft law "On some amendments to Law no. 10 076, dated 12.2.2009 "On compulsory insurance in the transport sector" to the Council of Ministers, projected to be delivered from the Ministry of Finance within the third quarter of year 2015, in order to have the necessary time for reflection to the World Bank comments.

Also in December AFSA reviewed and prepared responses to all comments from the relevant line Ministry within the bill, which was reflected in the draft law respectively.

As above, the draft law will be sent back to the Ministry of Finance to continue the process of its adoption in year 2016 after the completion of the review process and the drafting of new provisions suggested by the World Bank.

Regarding the liquidity rate, AFSA has drafted the Regulation "On liquidity management of insurance companies" as required by article 84, paragraph 4, of Law no. 52, dated 22.05.2014 "On the insurance and reinsurance. This draft was submitted to insurance companies to take opinions and is expected to be approved by Board Decision in April 2016.

Claim Ratio for non-life insurance market on 31.12.2015 was 38.75%, experiencing a decrease compared with the end of 2014. The decrease of claim ratio for non-life insurance was affected by the increase of the gross written premiums with direct impact on the growth of net earned premiums, while net claims paid and net expenses remained almost at the same level.

- **To strengthen supervisory capacities by in function of an effective supervision able to respond in time and quality to the complexity and quality of market development.**

AFSA in view of an effective supervision aims continuously at strengthening its supervisory capacity. The hiring process of high skilled persons continues to be a priority in the context of human resources policies, as their quality effects the quality of the institution performance responding to the development of the markets under supervision

Thus, based on the recruitment procedures, the number of employees in the Department of Financial Supervision has increased in recent months. Selected employees come with experience from the banking or auditing institutions, possess knowledge, very good professional skills and high ethics and integrity at work.

Also, the employment of young people, who graduated abroad with high scores make up to 30% of new employees has contributed to the enrichment of the professional environment of the FSA.



AFSA pays a particular attention to the growth of professional expertise. The process of professional training is particularly important, not only in the insurance market but also in the investment funds sector as a result of the rapid development of this market, bringing the experience, problems and latest developments of markets and western insurance supervision. The trainings consist of professional qualifications for risk-based supervision, training of actuaries etc.

AFSA has continued promoting professional qualifications through comprehensive or partial financing of the profiled specialization especially in directions that allow the successful accomplishment of tasks and objectives.

- **To meet regulatory framework to improve risk management of investment funds, especially liquidity risk, valuation of their assets according to international practices and strengthen education of investors in collective investment schemes.**

AFSA during 2015 focused on strengthening the regulatory regime for investment funds activity. This implies the establishment of rules and criteria, which aim to improve the risk management process by the management companies of investment funds, as well as oversight of the process by the AFSA. On the other hand, the FSA has set rules that lead to strengthening of consumer protection.

All these regulatory changes have a positive side, since they are associated with improvements of FSA supervisory processes. Among the most prominent regulatory changes can be mentioned:

Implementation of liquidity management regime. (Regulation No. 45, dated 06.30.2015 “On liquidity management in collective investment undertakings”, approved by Board Decision no. 45 dated 30.06.2015). This regime requires management companies of investment funds to set up a whole system of political, technical and contractual relationships, which help in maintaining liquidity sufficiently to meet investor demands for redemption of shares. This regime is innovative due to the fact that the liquidity criteria include the concept of trading of securities in the investment portfolio and also do to the liquidity level that the management company should maintain while operating in an active, or not active market. AFSA in 2015, observed the implementation process of this regulation at the Raiffeisen Prestige Management Company. Also, this regime requires the submission of reports to AFSA in order to monitor continuously the liquidity situation.

Assessment of the fund's assets at market value. (For some amendments to Regulation no. 77 dated 29.06.2011 “On determining the value of the assets of collective investment undertakings and calculation of the net asset value per unit or share” approved by Board Decision no. 46, dated 30.06.2015). The regime of valuation of assets of investment funds was improved in line with the international financial reporting standards and the existing legal/contractual obligations in Albania. These requirements made it necessary to

reevaluate the existing assets.

We emphasize that the regulation of liquidity and changes in the valuation of assets regulations have been prepared through consultations with experts of the World Bank and IMF.

The regime of transparency with investors. AFSA approved a set of rules that clearly define the information that an investment fund management company must provide to the investors; the form of providing this information; emphasizing the necessary elements for key investor information, even visually; and in particular highlighting the potential risks associated with investment activity. All this information is required to be expressed in simple and understandable language. This set of rules is intended to increase the level of awareness and knowledge of investors for the products, in which they invest, in order to take prudent decisions.

- **To ensure that companies have their own risk management policies, and regulatory and supervisory activities of the Authority has to be reshaped to adapt to their changing risk profile.**

AFSA for the purpose of a more effective supervision, based on risk, in 2015 drafted the regulation no. 18, on the “Organization rules of the system of risk management in the insurance company”, where, among other things, insurance companies are required to build an effective system of risk management, based on the nature, scale and complexity of the insurance activity, as well as legal and regulatory framework in force. Insurance companies, in 2015, compiled and reported self-assessment testing plan required by the mentioned regulation and deposited it in the AFSA. During 2016, the insurance companies must submit to AFSA the results of this testing plan.

Also, during 2015, the Financial Supervisory Authority pursuant to Articles 129 and 130, and Section III of the Law no. 52, dated 22.05.2014 “On the insurance and reinsurance” as well as Articles 2 and 19 of Law 9572, dated 03.07.2006 “On the Financial Supervisory Authority” (as amended) continued on-site inspections under the new risk based supervision methodology. The scope of the inspections was the following:

- Credit risk assessment in relation to reinsurers, collecting premiums and other related activities.
- Insurance risk assessment, focusing mainly on insurance and risk taking responsibilities, as well as other related activities.
- Operational risk assessment, focusing on provisions, assessment of claims, procedures related to claim payment, information technology systems, operational performance, as well as other related activities.



- Regulatory and strategic risk assessment in terms of assessing the guarantee fund.
- Evaluation of capital strength and earnings quality in terms of evaluation of guarantee fund
- Valuation of special elements of assets of the company's financial statements.
- Risk management, internal control systems, including supervision of the management activities of the company.

During the on-site inspection, the inspection team worked not only for the assessment of risks of the company by activity, but also highlighted relevant findings, which were communicated to the Board of Directors of the company.

- **To develop supportive policies for expanding the range of products in the field of voluntary life and non-life insurance, as well as in the field of voluntary pensions while raising the awareness of employers and employees to use the products that the market offers.**

Also in this Framework Albanian Financial Supervisory Authority was part of the process initiated by the Ministry of Urban Development and Tourism relating to the introduction of the compulsory insurance for Professional Liability of architects, engineers, supervisors and construction engineers, where representatives of the Authority assisted the Ministry with technical arguments to complete this process. In 2015 the Authority had official correspondence with the Ministry of Economic Development, Tourism, Trade and Entrepreneurship regarding the proposals submitted by the Albanian Insurers Association to this ministry.

The Authority supports the initiative of expanding the compulsory insurance market as a way to promote and expand the entire insurance market. However, the success of expanding the mandatory insurance market depends also on a number of preconditions that have to be met in accordance with European and International Standards.

The inclusion of new products in the compulsory insurance market requires a detailed study of the insurance market by its operators in regard with the pre-criteria that this market must meet and an analysis of the social and economic impact these products might have.

In addition, this year, with the decisions of the Board no. 33 dated 28.05.2015 and no. 107, dated 05.10.2015; it was set up the advisory committee consisting of 2 experts with the purpose of drafting a document for the strategic development of the insurance market. The Advisory Committee of the AFSA Board will develop a document relating the expansion and diversification of the compulsory and voluntary insurance market. The document will include, inter alia, instruments to increase consumer awareness in cooperation with insurance companies, to expand and deepen the market for insurance products.

In the context of the second component, related to the expansion of pension markets, of the “technical assistance project for the expansion of market and supervision of pensions”, AFSA in Collaboration with the World Bank organized in October 2015 the conference “Voluntary pensions system in Albania - Coverage Expansion“, which served as a discussion forum about issues relating to the development of this market.

The conference presented the performance of the private pension market in Albania, opportunities and challenges posed by the expansion and development of this market in the country, giving a complete picture of the issues and objectives related to the pension system, including public and private pensions, their share in the economic development, the need for reform, the fiscal incentives to support the development of this market, as well as the global context in which Albania is part and will have to adapt..

In 2015, in collaboration with the Albanian Statistics Institute (INSTAT) a survey was carried out to assess the employer attitudes towards occupational pension plans. The survey was conducted during the June 2015, in 500 private economic entities with over 20 employees throughout the country. The survey methodology and its results about the possibility of extending the voluntary pension market in the country were presented in the conference. The survey results, deriving from a fruitful cooperation of AFSA with INSTAT and the World Bank, serve as an orientation for organizing educational and awareness campaigns to promote further development of private pension market and its products. Survey results will also serve to Albanian FSA and Pension Management Companies to organize their strategies of action. These results will also be useful for other policy-making authorities in the field of the pension market.

- **To raise public awareness, in cooperation with insurance companies, on insurance products in the agricultural sector, specifically on the insurance against weather events.** In the framework of expanding market insurance products in the agricultural sector, the Albanian FSA has always been ready to offer its expertise. FSA has collaborated with the Ministry of Agriculture within the “**Pilot project for the establishment and experimentation of the facilitated insurance system to cover risks in agriculture**” and it is part of working groups. A very important step forward is the study of insurance against the risk of natural disasters, such as earthquakes and floods, part of the new draft law that is being discussed with stakeholders. The draft law is prepared with the WB assistance as the third component of the FIRST Project “**Albania: Reform in the insurance market**”
- Draft consultations have continued during the first months of 2016. In the context of flood insurance, a broad awareness campaign was conducted and financed by the insurance companies with the support of the FSA and the Ministry of Interior. This campaign serves to the preparation of public opinion, as well as their financial education on the risks the floods could bring and the way how to mitigate it, through insurance contracts. **To further optimize the functioning of the Authority's webpage.**



One of the priorities of the FSA in 2015 was the optimization and publication of all its activities on the official website, which became the main communication tool

In 2015, the site was enriched with the section “Investors Alert!” which gave a view of the Albanian FSA role as regulator and supervisor of securities, insurance and the voluntary pension market. In this section, the audience is informed on the list of entities licensed by AFSA in order to avoid possible speculations.

The AFSA website presents all the activities of the new organizational unit, Education Center, since its creation. This page section reflects the centre’s activity, information and announcements on vocational trainings of managers and other professionals, who operate in the markets under supervision of AFSA.

During 2015 AFSA also has added to the webpage the section “Transparency Program” which is a concrete way, through which the Authority builds and enhances transparency in its institutional work. In this section the public has the opportunity to get information on the activities of the Authority through direct contact with the coordinator nominated by AFSA. This section contains also the register of Questions and Answers made through official requests placed in chronologic order with information on their type, status as well as the application’s reviewing period.

The website has increased the quality of information provided on the financial markets under AFSA’s supervision. An ongoing update and enrichment is done for all market components at companies’ level, firms or operators in compliance with the main function, which is the consumer protection. This improvement is based on the technical data about the users of the website. During 2015 there were approximately 402.435 clicks which show an increase of 27%. It is to emphasize that over 31% of users were new visitors, who click for the first time on the AFSA webpage. Considering the information placed on the webpage, most users read news on the front page such as periodical reports, publications and statistical bulletins on the supervised markets, counting for over 69% of the online site visitors. Given the interest for this information, priority is given to the enrichment of those sections with informative monthly newsletters on supervised markets, statistical periodicals, annual reports, electronic leaflets, etc. Periodic coverage on the website has got the information on developments in the voluntary private pension market, investment funds and securities market. There is increased information on the webpage in regard to the information about the projects undertaken by the AFSA.

Different sections of the AFSA webpage present the list and information about the licensed operators by AFSA in the insurance, securities and voluntary pensions market.

The AFSA webpage is regularly updated in real time with the latest news for markets under supervision, legislative changes and regulations, works on drafting laws and regulations, for which the AFSA is supported by international organizations. There are also updates on the

Board decisions, information on the subject of AFSA jurisdiction and consumer protection.. At the same time the public is constantly informed on the development prospective of the markets under supervision.

Webpage enrichment remains in constant focus and commitment of the FSA. This is not only to serve continues communications and coverage of activities, but with the intention to serve as a discussion forum and information to the public and investors in financial markets.

- **To monitor the fulfilment of obligations of insurance companies to the Bureau to finance the Compensation Fund and monitor the implementation of decisions for the payment of claims under the Fund in a timely manner.**

Following the involvement for the fulfilment of obligations, according to the basic recommendations of the World Bank and the International Monetary Fund, the AFSA, in March 2015, approved the compensation fund, and divided accordingly:

- Fund for the settlement of liabilities for claims pending until 31.12.2013, amounting ALL 450 million;
- Fund for the settlement of claims with insurance event from the date of 1 January 2014 and following, starting, as a minimum, from the amount of ALL 20 million, an amount which is added to the unconsumed amount of the compensation fund, year 2014, established for this purpose.

Board of Authority has been monthly informed about the situation of payments subject to the compensation fund. The Authority has monitored the level of payments, submitting to every insurance company the request for the rapid continuation of this process.

Authority monthly board was informed about the situation of payments to practices subject to the compensation fund. The Authority has monitored the level of payments, reflecting in every society demand for the rapid continuation of this process.

During 2015, the payment of claims under the compensation fund by insurance companies was realized at 94%. The cause of the failure to meet the obligations determined in the Decision is that two insurance companies have appealed to court the division of the value of the liability for the compensation fund, a process for which the District Court of Tirana ended reviewing in December 2015, deciding the rejection of the indictment filed by these insurance companies.

Also pursuant to the decision of the Board of the FSA in 2015, they were paid claims subject to compensation fund for insurance events after January 1, 2014. The amount of claims paid during the year was 6,233,185 ALL.

Notwithstanding this process, the Authority asked from these insurance companies to fulfil



the obligation and only upon the end of the court hearing, upon final decision, there will be reviewed amounts paid.

- **To monitor and audit the procedures followed by insurance companies for the treatment of paid claims and those pending, mainly litigation claims and rejected claims.**

AFSA paid special attention to the verification of the internal procedures of insurance companies dealing with the handling of claims during the inspections carried out in 2015 in the framework of the risk-based supervision methodology. The inspected companies were recommended to develop written procedures for the handling of claims or the revision of existing ones in accordance with the applicable legal requirements. AFSA will continue with the verification of the insurance market so that all the companies have full written procedures on handling of claims.

- Law no. 52/2014 provided that the parties can settle extrajudicial disputes. AFSA is monitoring its effect on the carried out inspections. **To encourage and increase consumer's trust AFSA's role through establishing a basic framework to prevent market abuse, and increasing the efficiency of the FSA's functions.**

One of the main objectives for the AFSA is to protect consumers in the non-banking financial markets supervised by the AFSA. In order to achieve this goal, the Authority has a specialised unit that deals with the issues facing consumers, in compliance with the legal regulatory framework in power. This objective is achieved through continuous communication and information of consumers, establishment and continuous improvement of the procedures and practices of handling consumer complaints, encouraging and increasing their confidence in the AFSA's role.

Law 52/2014 "On insurance and reinsurance activity" provides consumers with the required information and continuous transparency, aiming at the establishment of trust and confidence to make the right choice. The Authority supervises all the promotional information provided by insurance companies, so that such information not be disorientating and misleading to consumers.

AFSA has used a variety of mechanisms for transparency, effective communication with the public and financial education, where the most efficient mechanisms are the consumer helpline and the website of AFSA, which constantly gives information on Up-to-date legal basis on the supervised markets and notifications on the decision-making activity of the Authority Board.

The observation or supervision of this information by the authority of this information affects both the preventing of any misleading information, and the orientation of the consumer towards the right choice.

Also, this law increased the requirements for public information of insurance companies by establishing an easily accessible infrastructure of information technology on the information of the insured or other interested persons concerning legal developments and changes in the insurance sector.

According to this law the insurance companies are required to publish their annual report, which content is approved by the authority through regulations.

One of the main function of the authority in 2015 remained the revision and verification of complaints received from consumers. Therefore AFSA fulfilled a double function acting as a mediator between the consumers and the entities under supervision.

In 2015, the Authority handled 72 complaints by physical persons, state entities or legal subjects. The complaints are mainly related to issues about payment of insurance claims resulting from compulsory insurance contracts or payments from the Compensation Fund, refusal of indemnities deriving from the health insurance contracts while travelling, contract guarantee, etc.

- **To contribute to the increase of the financial sustainability through the drafting of measures on the management of problematic situations in the financial system in the country, in cooperation with other members of the Financial Stability Advisory Group (FSAG).**

During the year 2015, the Authority in cooperation with the members of the Financial Stability Advisory Group has continued to take measures for regular monitoring and analyzing of the developments in the financial system. The Authority has emphasized the need that in cooperation with other members of the FSAG to draw up as soon as possible the protocol of the activities for the execution of the consolidated supervision of the financial institutions. This was an initiative appreciated and supported by all members, who have emphasized the need for setting of the priorities and determining the most effective ways to implement this protocol.

Developments in the euro area and especially in Greece, in the mid-year 2015 were part of the discussions in the FSAG meetings. In compliance with the meetings of FSAG and the conclusions of the crisis simulation (June 2015) the Authority increased the monitoring level of the depository banks to increase the security of the assets of the pension funds and the investment funds. AFSA continued its work to increase the number of operators that act as a depository, especially for investment funds and increase the competition in this regard.

Within the financial sustainability, the Authority was focused on measures for the control of online trading platforms as a new problematic situation. For this reason, the Authority has increased the level of cooperation with internal institutions and with other foreign correspondent authorities for the exchange of information. The Authority suggested that the phenomenon of the operation of the online trading platforms without approval was one



of the issues to discuss in the meeting of FSAG. Aim of this discussion is to raise public awareness, that an unlicensed and unsupervised activity exposes the investors to hidden costs and other obligations, which, in the absence of the required transparency by the intermediary entity, can be enormous.

Putting under control the online trading platforms requires the improvement of the legal framework and its implementation, therefore, in the framework of SECO project, will be reviewed the improvement of legal basis for licensing and supervising them.

APPENDIX E

External Auditor's Report and Financial Statements for the year ended at 31 December 2015

Independent Auditor's Report

To the Board of the Financial Supervisory Authority

We have audited the accompanying financial statements of the Albanian Financial Supervisory Authority ("AFSA or the Institution") comprising the table of its financial position as of December 31, 2015, and the statement of all-inclusive revenues, the table of changes in own funds and the monetary cash-flow table for the year closed on that date, as well as a summary of the basic accounting policies and other disclosures.

Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of the financial statements in compliance with the International Financial Reporting Standards, and for the internal audits, which, to the extent specified by the Management, are necessary in order to enable the preparation of the financial statements without any material misstatement resulting from fraud or errors.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with rules of ethics and plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes carrying out procedures aimed at obtaining evidence supporting the amounts and disclosures given in the financial statements. The selection of procedures is subject to our judgment, including the assessment of risks of material misstatements in financial statements, due to errors or fraud. In the course of risk assessment, we have examined the internal control system, which is important for the preparation and fair presentation of financial statements, for the purpose of drafting audit procedures which are appropriate for the circumstances, but not for the purpose of expressing an opinion as to the efficiency of the internal control system of the entity. The audit also included the examination of appropriateness of the accounting principles applied and the estimates made by the Management, and an assessment of the overall presentation of the financial statements.

We believe that the audit evidence we have obtained gives us sufficient and appropriate grounds to express our opinion.

Opinion

In our opinion, the financial statements present a true and fair view, in all material aspects, of the financial position of the Financial Supervisory Authority as of December 31, 2015, and



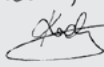

the financial performance and cash flows for the year closed on that date in conformity with the International Financial Reporting Standards.

Other Issues

The institution has presented the income submitted in the statements prepared in 2014 regulated by the sum of income received in advance from the supervised entities in the amount of ALL 43,925,048, which is equal to the surplus remaining from the annual income of the Authority after expenditures were removed and the legal reserve was recognized. According to the law for the AFSA no. 9572, dated 3.7.2006, Article 27, this surplus is recognized and recorded as payment in advance of the supervised entities for the successive period, by distributing it proportionally with their contribution.

In these statements prepared under IAS, the Institution did not perform any adjustments in 2014 related to the accounting processing of its revenues due to the aforementioned legal requirement.

Grant Thornton sh.p.k.

Mëshirë Kodra, FCCT



Tirana, 11 April 2016

Table of the Financial Position

(ALL)

	31 December 2015	31 December 2014
Assets		
Long-term Assets		
Tangible Fixed Assets	56,762,366	56,066,965
Intangible Fixed Assets	503,784	666,200
Total Long-Term Assets	57,266,150	56,733,166
Current Assets		
Monetary assets	151,334,638	73,966,828
Accounts receivable	25,783,135	28,682,403
Accounts receivable from employees	81,503	38,315
Other accounts receivable	29,918	1,700,000
Other assets (Bank Guarantees)	20,000	-
Total current assets	177,249,194	104,387,546
Total assets	234,515,344	161,120,712
Liabilities		
Own funds		
Basic funds	119,287,505	119,287,505
Reserves	78,829,000	70,398,000
Carried forward results	-	(77,094,020)
Total Own Funds	198,116,505	112,591,485
Short-term liabilities		
Accounts payable	2,394,148	797,241
Liabilities for taxes	2,622,430	2,078,608
Liabilities to supervised entities	25,149,081	43,925,048
Other payable	-	1,728,330
Provisions	6,233,180	-
Total short-term liabilities	36,398,839	48,529,227
Total Liabilities	234,515,344	161,120,712



These financial statements were approved by the AFSA management on 11 April 2016 and they were duly signed on its behalf by:

Ms. Enkelejda Shehi
Executive General Director

Ms. Anila Basha
Director of Internal Services

All Financial Statements table must be read with the explanatory notes of page 9-33, that are integral parts of financial tables.

Table of All Inclusive Revenues
(ALL)

	31 December 2015	31 December 2014
Revenues		
From financial public and private entities	254,682,958	177,184,705
Fines and late payment interest, seizures and damages	340,000	2,300,000
Total	255,022,958	179,484,705
Operating Expenses		
Current expenses	(87,429,173)	(70,667,378)
Goods and other services	(49,185,525)	(35,530,414)
Depreciation	(6,401,442)	(6,345,479)
Disposals	(355 978)	(769,303)
Total	(143,372,118)	(113,312,574)
Operational Result	111,650,840	66,172,132
Revenues (Financial Expenses)		
Revenues from deposit interests	103,513	18,855
Other Financial Revenues/ (Expenses)	(1,080,253)	316,756
Total	(976,740)	335,611
Result of the year	110,674,100	66,507,742
All-inclusive Revenues		-
Total all-inclusive revenues of the year	110,674,100	66,507,742

All Inclusive Revenues table must be read with the explanatory notes of page 9-33, that are integral parts of financial tables.

