

3RD INTERNATIONAL CONFERENCE ON FOREIGN INVESTMENT IN ALBANIA

Albanian Banking System & Islamic Banking

Seyhan Pencabligil
Chairman of Albanian Association of Banks,
CEO & Board Member of BKT

6-7 June 2012, Tirane

ALBANIA

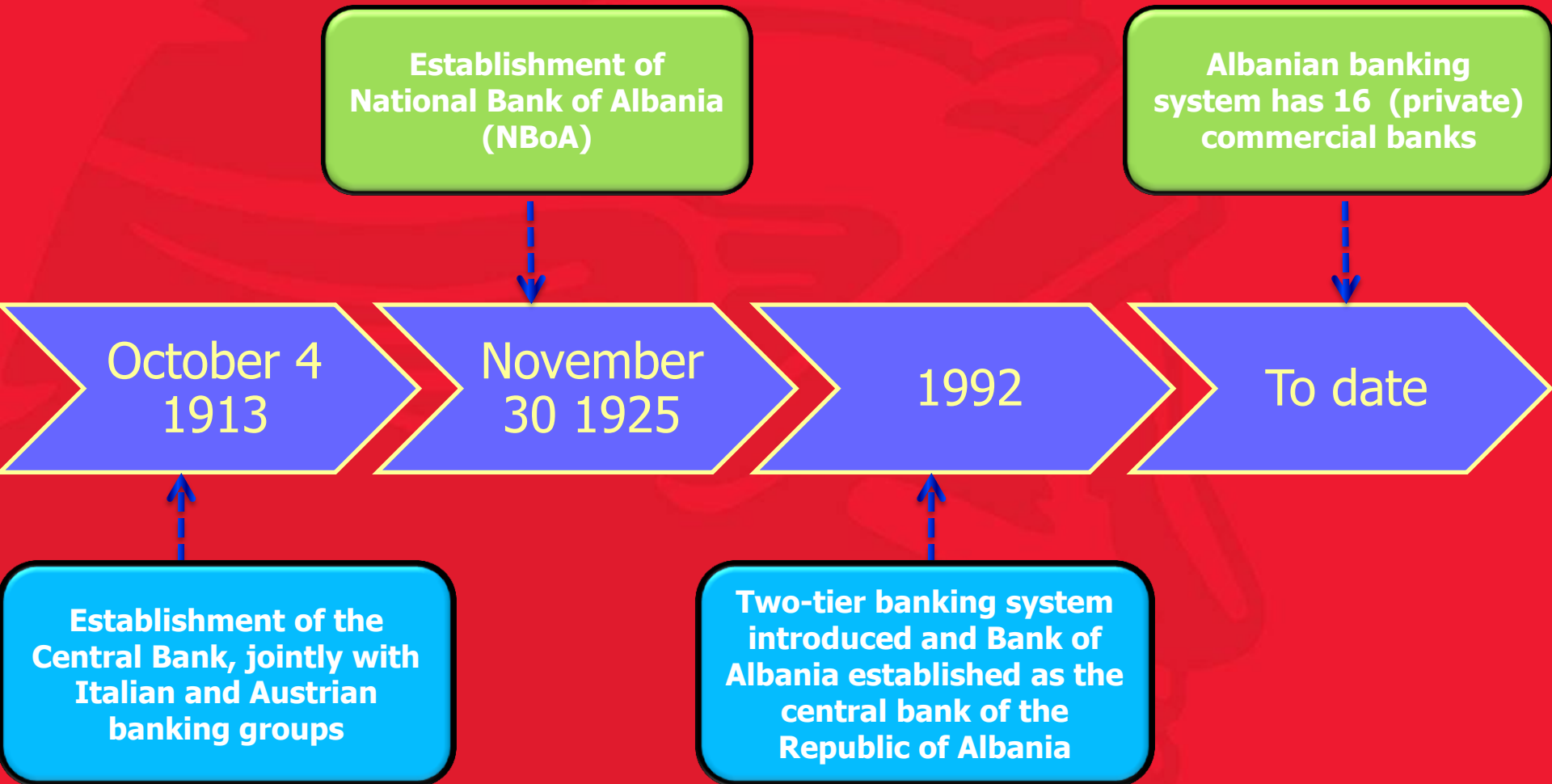
Main Economic Features & Indicators

Key economic figures	2006	2007	2008	2009	2010	2011	2012 f	2013f
Population: (mio)	3.15	3.17	3.17	3.18	3.2	2.8	2.9	3.0
GDP (EUR bn-nominal)	7.2	7.8	8.9	9.1	9.3	9.6	9.8	10
GDP growth (%yoy)	5.4	6.0	7.9	3.3	3.9	3.0	2.0	2.5
GDP per capita	2,286	2,461	2,808	2,736	2,906	3,429	3,379	3,333
Industrial Output (%yoy)	5.0	4.5	4.5	1.0	3.0	3.0	3.0	3.0
Unemployment rate (avg, %)	13.9	13.2	12.00	13.2	13.50	13.25	13.00	12.50
Budget balance, ALLbn	(29.4)	(34.1)	(60.3)	(79.5)	(88.1)	(46.80)	(75.2)	(69.5)
Gen, budget balance (% of GDP)	(3.3)	(3.5)	(5.5)	(6.9)	(7.2)	(3.5)	(5.1)	(5.0)
Inflation rate (%yoy)	2.5	3.1	2.2	3.5	3.2	1.7	2.8	3.0
Central Bank policy rate, %	5.50	6.25	6.00	5.25	5.00	4.75	4.5	4.0
Current account, EURbn	(0.5)	(0.8)	(1.3)	(1.4)	(1.2)	(1.1)	(1.3)	(1.4)
Current account % of GDP	(6.6)	(10.4)	(15.1)	(15.2)	(13.8)	(11.5)	(12.3)	(14.6)
Total External Debt, EURmn	1,232.3	1,295.2	1,488.9	1,480.8	1,328.7	2,068	1,819.7	2,000
Gross external debt (% of GDP)	17.2	16.47	17.2	17.0	17.0	21.54	17.3	17.6
Goods exports EURbn	0.6	0.8	0.9	0.7	1.2	1.4	1.4	1.6
Goods imports EURbn	2.3	2.8	3.3	3.0	3.5	3.9	4.3	4.7
FDI percentage of GDP		6.0	6.7	6.5	6.4	6.1	6.1	6.1
Official FX reserves EURbn	1.3	1.5	1.7	1.7	2.0	2.1	2.2	2.9
ALL/EUR, avg	123.07	123.61	122.77	134.92	137.76	140.34	140.55	144.85
ALL/USD, avg	98.06	90.44	83.79	94.90	104.09	100.84	108.95	115.88

ALBANIAN BANKING SYSTEM

ALBANIAN BANKING SYSTEM

Brief History



Albanian Banking System

- Universal banking system;
- The dominant sector within Albanian financial system, managing more than 96% of total financial assets;
- Mainly foreign-owned (14 out of 16 banks are foreign-owned);
- Many international names have presence;
- All privately-owned (some minor state shareholdings);
- A highly concentrated banking system; top three banks have a share of ~ 58% of total assets (March-2012).

Albanian Banking System

- **Steady growth of banking assets; banking assets reached EUR 8.10 billion, by March 2012.**
- **Experienced an extended credit boom, but the credit ratios still low comparably to EU and SEE standards; credits/GDP ratio is ~38.8% and credits/banking assets ratio is 47% by March 2012.**
- **Net interest margin is still high but increasing NPLs worsen the profitability.**
- **According to IFRS, 4 banks out of 16 had losses by March 2012.**
- **Capital adequacy is still at satisfactory levels, 15.9% by March 2012.**
- **Well-capitalized banks; total shareholder's equity worth more than EUR 704 million by March 2012.**

Albanian Banks Ranking

	un-audited IFRS financials March'12	ASSETS		LOANS		DEPOSITS	
1	Raiffeisen Bank – Albania	€ 2,269,756,564	27.5%	€ 972,284,546	24.0%	€ 2,012,919,148	30.1%
2	Banka Kombëtare Tregtare*	€ 1,541,923,246	18.7%	€ 601,889,418	14.9%	€ 1,257,237,873	18.8%
3	Intesa SanPaolo Bank Albania	€ 974,432,905	11.8%	€ 368,351,985	9.1%	€ 760,307,473	11.4%
4	Tirana Bank	€ 669,794,130	8.1%	€ 418,224,071	10.3%	€ 491,646,386	7.4%
5	Credins Bank	€ 653,523,434	7.9%	€ 427,619,772	10.6%	€ 550,095,301	8.2%
6	Alpha Bank – Albania	€ 504,577,219	6.1%	€ 278,173,188	6.9%	€ 416,537,564	6.2%
7	Societe Generale Albania	€ 429,505,712	5.2%	€ 227,502,904	5.6%	€ 348,814,557	5.2%
8	ProCredit Bank	€ 284,377,210	3.4%	€ 168,285,008	4.2%	€ 224,737,542	3.4%
9	National Bank of Greece – Albania	€ 280,032,156	3.4%	€ 198,866,933	4.9%	€ 216,805,592	3.2%
10	Emporiki Bank – Albania	€ 236,785,507	2.9%	€ 172,292,729	4.3%	€ 93,313,412	1.4%
11	Union Bank	€ 179,735,370	2.2%	€ 85,887,073	2.1%	€ 150,384,790	2.2%
12	Veneto Banka	€ 101,394,934	1.2%	€ 73,699,171	1.8%	€ 63,374,085	0.9%
13	First Investment Bank– Albania	€ 66,317,348	0.8%	€ 32,218,110	0.8%	€ 54,311,995	0.8%
14	International Commercial Bank	€ 59,695,881	0.7%	€ 16,574,140	0.4%	€ 45,401,222	0.7%
15	Credit Bank of Albania	€ 12,227,803	0.1%	€ 1,835,190	0.0%	€ 2,453,370	0.0%
16	United Bank of Albania	N/A	N/A	N/A	N/A	N/A	N/A
	Total	€ 8,264,079,418	100.0%	€ 4,043,704,239	100.0%	€ 6,688,340,311	100.0%

Source: Albanian Association of Banks web-site, IFRS financial figures by March'12.

*: Audited IFRS financials.

ALBANIAN BANKING SYSTEM

Main Indicators

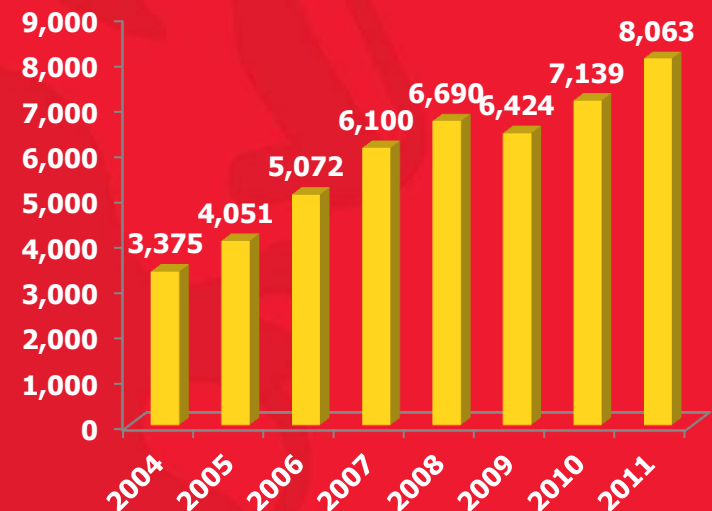
Performance of total assets

Indicator	2004	2005	2006	2007	2008	2009	2010	2011
Total assets (mio EUR)	3,375	4,051	5,072	6,100	6,690	6,424	7,139	8,063
In % of GDP	51.9	59.5	69.4	75.9	80.5	75.29	77.00	84.00

Steady growth of banking assets...

Asset structure in (%)	2005	2006	2007	2008	2009	2010	2011
Interbank & Treasury Operations	60.00	51.50	39.40	30.10	27.40	30.00	29.70
Credit Outstanding	26.00	35.50	39.10	47.10	50.10	49.00	47.30
Securities Operations	12.00	11.50	17.90	20.00	20.60	19.60	21.80
Fixed Assets	2.00	1.50	1.50	1.80	1.90	1.40	1.20

Total Asset 2004-2011



ALBANIAN BANKING SYSTEM

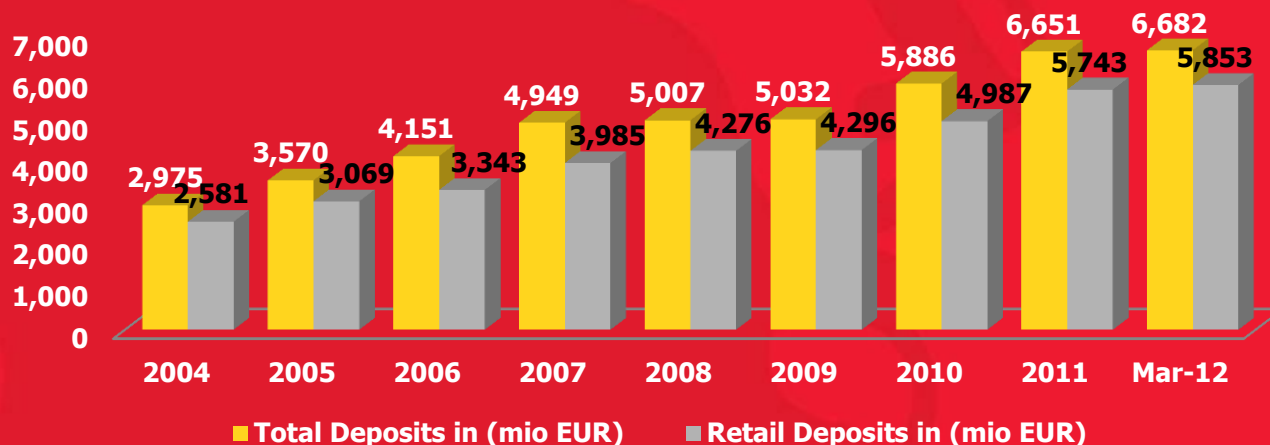
Main Indicators

Deposits' growth

	2004	2005	2006	2007	2008	2009	2010	2011	Mar 2012
Total deposits (mio EUR)	2,975	3,570	4,151	4,949	5,007	5,032	5,886	6,651	6,682
In % of GDP	48.4	51.2	57	61.5	60.3	59.2	63.00	69.00	69.00
Retail deposits (mio EUR)	2,581	3,069	3,343	3,985	4,276	4,296	4,987	5,743	5,853
In % of GDP	42	44	46	49.6	51.5	50.54	54.00	60.00	60.00

Continuous deposit growth, but the World Bank ranked Albania as the country with the slowest rate of deposit increase in the whole Balkan region

Deposit growth 2004-March 2012



ALBANIAN BANKING SYSTEM

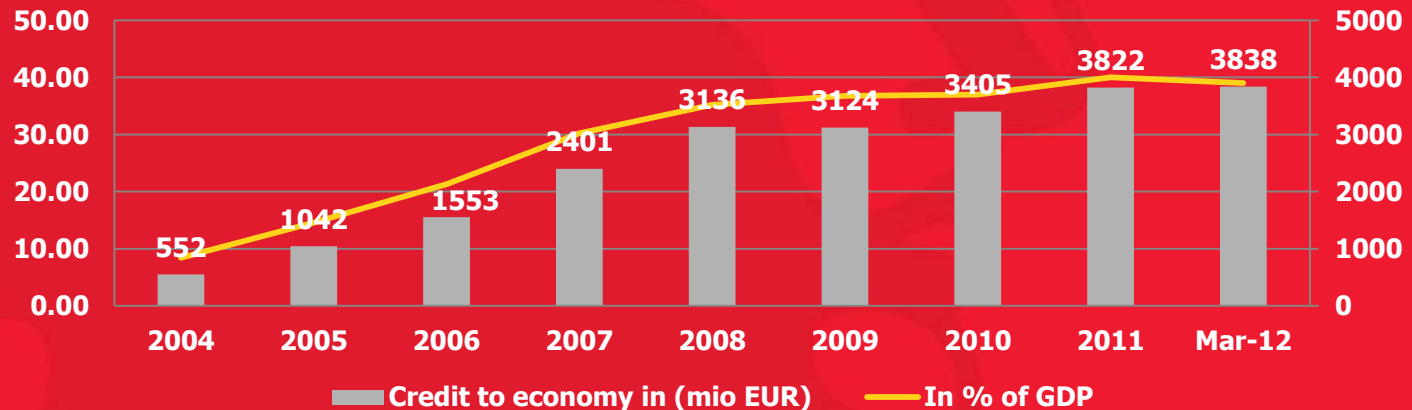
Main Indicators

Credit performance

	2004	2005	2006	2007	2008	2009	2010	2011	March 2012
Credit to economy (mio EUR)	552	1,042	1,553	2,401	3,136	3,124	3,405	3,822	3,838
In % of GDP	8.40	14.60	21.30	30.20	35.20	36.75	37.00	40.00	39.00
In % to total assets	16.90	25.10	31.30	35.80	43.40	48.63	47.70	47.00	47.26
Credit/deposits ratio	19.00	28.50	37.40	48.50	62.60	62.10	58.00	57.00	57.43

Experiencing an extended credit boom, but credit ratios still low compared to EU and SEE standards.

Credit to economy 2004-March 2012

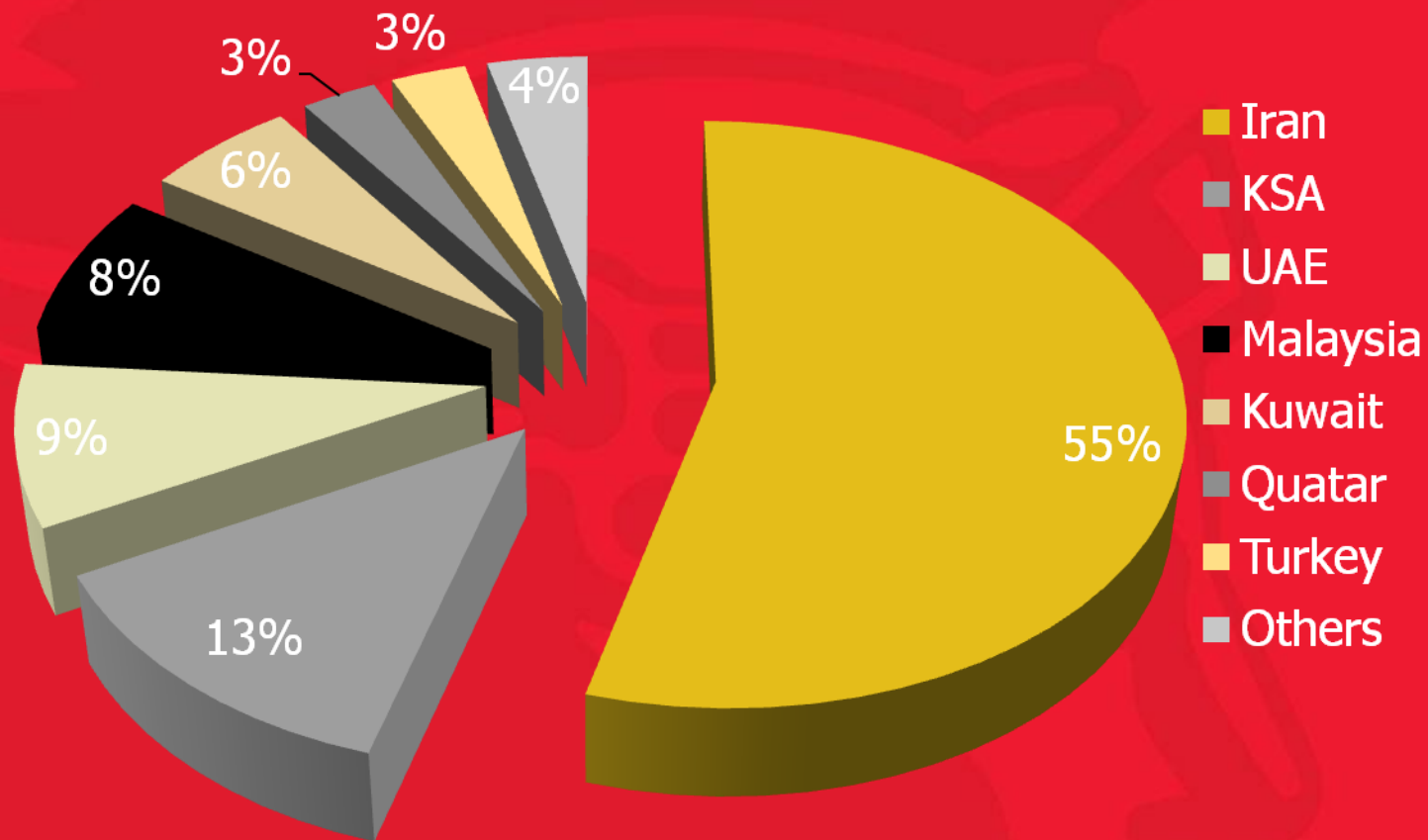


History of Islamic finance

- **1500 years of development.**
- **During Classical period, commerce flourished under Islamic commercial law.**
- **Development languished under impact of colonialism and huge Western firms.**
- **Revival began in 1960's.**

Islamic Banking Assets Breakdown

US\$ 1,100 billion



Emerging Interest on Islamic Finance as an Alternative to the Global Financial System ...

UK

- Gov't sets an objective to 'entrench London as a global gateway for Islamic finance
- FSA-approved Islamic banks and Takaful operators
- Plans to issue sovereign sukuk, amend tax law on IF

Germany

- Saxony-Anhalt state issued government sukuk
- First Islamic bank to operate in 2010

France

- Passed rules/regulations to support Islamic finance activities
- In process of licensing Islamic banks
- Made fiscal & legal adjustment for IF transaction i.e. taxation guidelines on sukuk & murabaha

Malta

- Plans to position as Islamic finance hub for the Mediterranean

Turkey

- Plans to issue sovereign sukuk in TL
- The issuances would be tradable in the Istanbul Stock Exchange.

Singapore

- Established first Islamic bank
- Introduced tax neutrality for Islamic finance
- Aspiring to be centre for Islamic finance
- Launched Islamic ETF

Japan

Law passed allowing banks to do Islamic finance

Hong Kong

- Aims to become Islamic finance gateway to China
- Plans to issue sovereign sukuk
- Hang Seng Islamic China Index Fund in 2007

South Korea

Parliament expected to pass the law related to offering of tax waiver on foreign investors' interest income from sukuk issued

Kosovo

Law passed allowing banks to do Islamic finance

Jordan

- Plans to tap sukuk market to finance its deficit

Brunei

Aim to become Islamic financial services hub for Asia

Challenges in Islamic Banking

Size:	Many Islamic banks are considerably smaller than their conventional competitors in their domestic markets.
Competition:	The number of Islamic banks and financial services firms is growing even as market growth slows down.
Standardization & Regulation:	Different interpretations of the acceptability of various products from a Shariah perspective makes standardization difficult.
Cost Structure:	Despite strong growth, most Islamic banks have not been constantly profitable, particularly since the global financial crisis.

THANK YOU