

## Profiling the Loan Portfolios of Financial Institutions in Albania through a comparative analysis

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### Abstract

*The aim of this paper is to analyze the lending market in Albania by creating a general profile of financial institutions loan portfolios. Through this profiling, a broader information about the lending market, its size, positioning in the market and the strategies of the actors of this market is given. The loan portfolio constitutes the main important source of revenues for banks and other non-bank financial institutions, and at the same time, a big source of risk for them. Therefore, it is important to create the map of financial institutions loan portfolios, for better understanding of the current market share position, the evolution and future trends in order to have a better framework for other analysis regarding the lending market concentration, loan portfolio stability and the level of non-performing loans. The lack of previous studies relating the loan portfolio profiling of financial institutions, motivated us to conduct this analysis. The analysis is based on a sample of 12 banks, 10 non-bank financial institutions (NBFIs) and 7 Saving and Loan Associations (SLAs) operating in Albania and that comprise a representative sample of the lending market. The quantitative approach through descriptive and verification methods are used in this research. Secondary data sources are derived from annually published financial statements of financial institutions. The study results found that the majority of banks have increased or maintained their market position. The relationship between market share and increase in the loan portfolio is not positive for all the banks. Different factors such as the bank's strategy, mergers and acquisitions, the write-off of non-performing loans, impact the market position and the possibility to move from one group profile to another.*

**Keywords:** Loan, Portfolio, Financial, Institution, Profiling

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## INTRODUCTION

Financial institutions are the driving engine of financial development and their role as intermediaries compose an instrumental in mitigating frictions between economic agents and optimal distribution of resources in the economy. They are significantly affected by the increase in the level of lending in an economy. This is because their main business is to provide loans to customers in exchange for interest payments. Lending markets provide a large amount of capital and liquidity to both businesses and governments. For this reason, it is important to have a broad understanding framework for these markets and to be aware of the products and services they offer (Hill, 2018). The lending market in Albania is mostly covered by the banking sector and non-bank financial institutions. Banks in Albania offer simple lending products, mostly collateral-backed loans in local or foreign currency at flexible interest rates. They help reduce transaction costs for the economy and create a more suitable environment for long-term business development (Albanian Association of Banks, 2018).

Albania's non-bank financial institutions (NBFIs) consist predominantly of savings and loan associations, micro-credit organizations, insurance companies, investment funds and leasing companies (Güven & Miagkyi, 2016). Considering that the loan portfolio of these institutions comprises the main voice of assets in their balance sheets, the valuation and forecasting of such portfolios, have a significant impact on the economic development of the country. The most important aspect of the loan portfolios of financial institutions is the risk associated with the non-performing loans. For this reason, the analysis of non-performing loans and factors influencing this indicator has been and it already is in the focus of many scholars, academics, supervisory authorities, international institutions etc. (Gjini & Koprencka, 2018). A high amount of non-performing loans is one of the main reasons for the systemic insolvency of the banking sector, which presents a threat and obstacle not only to the development of the banking system, but to the economic system as a whole (Jolevski, 2017).

The paper analyzes the lending market in Albania and the characteristics of the main representatives of this market. Following a descriptive and comparative research approach of secondary data, we aim to create the map of financial institutions loan portfolios, for better understanding of the current market share position, the evolution and future trends in order to have a better framework for other more in-depth analysis regarding the lending market concentration, loan portfolios stability and the level of non-performing loans. The previous studies related to loan portfolios and non-performing loans of Albanian lending market are more vertically oriented and. They analyse and reflect the macroeconomic aspects or factors that influence the quality of lending (Gremi, 2013) or impact the non-performing loans in the banking sector (see Shingjergji, 2013; Gabeshi, 2016; Kurti, 2016 and Gjini, 2018) by using statistical methods of linear regression. Since we are interested only in mapping the financial institutions in Albania according to the profile of their loan portfolio and due to the lack of previous studies relating to this profile, the focus of our analysis is more horizontally oriented by using a descriptive and comparative research approach. In addition to collecting and documenting the data, we have grouped financial institutions with the same size and portfolio growth trends, in order to achieve a deeper perception of the positioning of these actors in the market.

The paper is organized as follows. In the first section, is provided a brief review of previous research and findings regarding loan portfolios, mainly focused on

non-performing loans. Second, a short description of methodology used in this study is given. Section three, presents a general overview and analyzes of the Albanian lending market throughout the period 2015-2022. In the fourth section, the mapping of financial institutions according to their loan profile an non-performing loans is conducted for the three groups of institutions that comprise the sample of the study: Banks, NBFIs and SLAs. The main findings are summarized in the last section of conclusions.

## LITERATURE REVIEW

The bank's lending volume is affected by the changes in NPL ratios. An exogenous increase in the change in NPL ratios tends to depress bank lending volumes, widens bank lending spreads (Huljak et.al, 2022). The supply of credit can be affected by the bad quality of the balance sheet associated with a high level of the NPLs stock through three types of channels: a mechanical accounting mechanism, by which lower credit quality ultimately affects bank capital via risk weights, an increase in funding costs stemming from heightened market pressures, and a change in the bank's risk-taking attitude (Accornero et.al, 2017). NPLs rise in the supply of loans in both developed and developing countries, resultantly performance of the banking sector declines. According to Ahmed at. Al. (2021), the banks with higher credit growth are more likely to expose themselves to NPLs specifically in developing economies where the returns are quite uncertain. Cucinelli (2015) argue that both NPLs and the loan-loss provision ratio (two similar proxies of the credit quality of the bank's portfolio) have a negative impact on the supply of bank loans. According to Bending et.al (2014) the NPL ratios and changes in NPLs negatively correlate with net growth in corporate and commercial loans in the following year. Their study was conducted by using a sample of intermediaries from 16 European Countries.

Accornero it. Al. 2017 argues that NPLs rise in countries and periods where economic activity stagnates and, consequently, creditworthiness is deteriorated and the demand for credit also tends to be weak. This means that a negative correlation between NPLs and credit volumes, in and by itself, means very little. The role of bank-specific factors, on the other hand, corroborates the idea that NPLs might also act as a signal on the weakness or misbehavior of the underlying banks. Increases in NPLs are indeed often anticipated by credit expansions and a loosening of lending standards (Jimenez & Saurina, 2006).

Bank size is considered as an important determinant of non-performing loans (Lu et al. 2005). There is mixed evidenced from literature about the direction of relation between bank size and NPLs. Stern and Feldman (2004) identifies that larger banks follow liberal credit policy, the chances of NPLs are higher as compare to smaller banks. On the other hand, (Ozili 2019) find that larger banks have better management skills to recover loans from borrowers, hence the negative impact of bank size on NPLs. The study of Gabeshi (2016), based on historical data over the period 2005-2014 for Albania, finds that NPLs are positively related to bank size and negatively related to credit growth rates.

## METHODS AND PROCEDURES

The aim of this paper is to create the map of financial institutions loan portfolios, for better understanding of the current market share position, the evolution and future trends in order to have a better framework for other future research analysis regarding

the lending market concentration, loan portfolio stability and the level of non-performing loans. We use a descriptive and comparative research approach in order to profiling the loan portfolios of financial institutions in Albania.

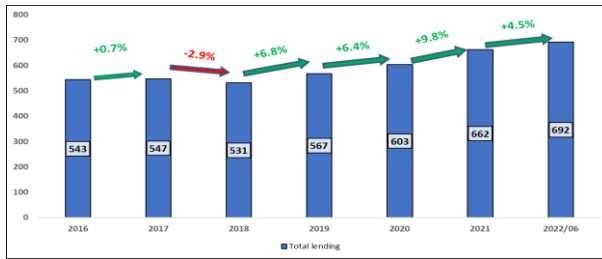
Basic research methods are applied. *‘The motive of basic research is to collect data to enhance knowledge. It doesn’t focus on creating or inventing anything during the process. This type of research is like an investigation carried on basic principles, and it is also termed as theoretical research. Basic research is quite essential in character and not suitable to find solutions to any practical problems which require quick results. The basic research method provides in-depth and systematic insight into a subject to make scientific and logical explanations easier. With the approach of basic research methods, we aim to draw new boundaries of knowledge. The outcome of basic research forms a primary platform for applied research methods. The results of basic research prove useful for a researcher who uses techniques of applied research’*<sup>1</sup>. Following this argument, we have employed the secondary data, comparative analysis research method that best suits our research goal.

Secondary quantitative data are derived by different sources such as: annual reports of financial institutions that are subject of this study, financial statements of non-bank financial institutions published in National Business Center and Bank of Albania reports. Based on a cluster sampling strategy, the financial institutions are divided in three groups, respectively: Banks, Non-Bank Financial Institutions (NBFIs) and Savings & Loan Associations (SLAs). The tools used for gathering research data include document screening: sourcing numerical data from annual financial reports.

## **A GENERAL OVERVIEW OF THE LENDING MARKET IN ALBANIA**

The lending market in Albania is quite dynamic, which is composed of financial entities that offer loans, customers who request/benefit from it, and also the supervisory authority. According to Bank of Albania official website, a total of 45 entities with a general lending license operate in the lending market in Albania (12 banks, 17 non-bank financial institutions, and 16 saving and loan associations)<sup>2</sup>. Following the statistics of the Bank of Albania, the total lending market in Albania reaches approximately the value of 692 billion ALL on June 30, 2022<sup>3</sup>. The movements in the total lending in the Albanian market are presented in Chart 1. The lending market has suffered a decline of 16 billion ALL from 2017 to 2018, before to increase by 36 billion ALL from 2018 to 2019, again by 36 billion from 2019 to 2020, by 59 billion from 2020 to 2021, and by 30 billion from 2021 to June 2022. The Bank of Albania claims that the reduction of the portfolio from 2017 to 2018 occurred as a result of the devaluation of the Euro and the Dollar in relation to the ALL. Without taking this effect into account, the lending market would have increased by 2.8 billion ALL, so technically, for all the periods studied, the lending market in Albania has grown.

**Figure 1: Total Lending in Albania in Mid ALL**



Source: Bank of Albania

Customers of the lending market are divided into 7 main categories: central government, local government, public non-financial corporations, private non-financial corporations, non-bank financial institutions, individuals and others. Lending to the central government, local government and public non-financial corporations represents 3.8% of total lending, or 26.3 billion ALL<sup>4</sup>. 2.1% of loans go to non-bank financial institutions, reaching the value of 14.5 billion ALL. The rest of the total lending is divided between private non-financial corporations (409.4 billion ALL - 59.2%), individuals (409.4 billion ALL - 34.7%) and other categories (1.5 billion ALL - 0.2%). Total lending has increased by 148.3 billion ALL from the period December 2016 to June 2022. Most of this increase belongs to the increase in loans to individuals (+ 79.7 billion ALL) and those for private non-financial corporations (66.4 billion ALL). Despite the growth of the portfolio, in the last eight years' loans to private non-financial corporations have fallen from 70% to 59.2% of the total lending market. On the other hand, the loan for individuals has increased from 26% of total loans in December 2012 to 34.7% in June 2022. About 55% of the loan portfolio in Albania are in local currency (ALL) and the rest is disbursed in foreign currency (49%), with a high concentration in Euros, responsible for 93% of the total foreign currency portfolio. This proportionality has been influenced by the lower interest rates that are applied to financing in ALL compared to those in Euro.

## THE BANKING SECTOR LOAN PORTFOLIO PROFILING

The banking sector in Albania has become an increasingly important actor in sustainable development and social welfare in the country's economy (Albanian Association of Banks, 2018). Banks today own about 94% of the total lending portfolio in Albania, while the market of non-bank financial institutions represents only 6% of the total lending market. Despite the low level of the private credit/GDP ratio (38%, or 18 percentage points below the regional average)<sup>5</sup>, the Albanian banking sector consists of a relatively high number of banks. Today the banking market consists of 12 banks, one of which (Alpha Bank) is merging with OTP Bank Albania (in process).

In terms of the size of their portfolio, three actors prevail in the banking market, namely Credins Bank, Raiffeisen Bank and National Commercial Bank, constituting 48.6% of the total lending portfolio (respectively 18.3%, 16.5% and 13.8%). The second group in terms of the market share of the lending portfolio their own, consists of two banks, OTP Bank Albania (11.3%) and Intesa Sanpaolo Bank Albania (8.2%). The third group includes 4 banks, namely Tirana Bank (6.9%), Alpha Bank Albania (5.5%), Union Bank (5.5%) and American Investment Bank (5.5%). The last

group consists of ProCredit Bank (4.2%), First Investment Bank (3.2%) and United Bank of Albania (1.1%).

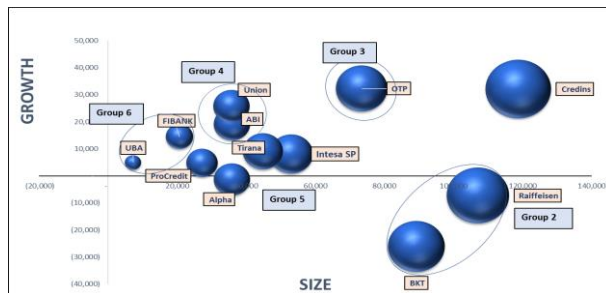
In the last 6 years, the Banking sector has undergone significant changes regarding the market share held by different actors. According to Albanian Association of Banks data<sup>6</sup>, the following developments have occurred:

- Five banks have experienced an increase in their market share, respectively, Credins Bank (+3.4 percentage points), American Investment Bank (+2.6 percentage points), OTP Albania (+4.3 percentage points), Union Bank (+3.5 percentage points) and First Investment Bank (+2.1 percentage points).

- Five banks have maintained their market positions, respectively, the United Bank of Albania (+0.8 p.p), Intesa Sanpaolo Bank (+0.5 p.p), ProCredit Bank (+0.3 p.p), Alpha Bank Albania (-0.6 p.p) and Tirana Bank (+0.5 pp).

- On the other hand, two of the largest banks have suffered a decline in terms of their market share: National Commercial Bank (-5.8 p.p.) And Raiffeisen Bank Albania (-3.3 p.p.).

**Figure 2: Growth and size of the banking sector portfolio in million ALL during 2015-2021**



Source: Authors based on financial statements of each bank (2021)

Based on the market share owned by each bank and the growth of the portfolio during the years 2015 to 2021, the actors of the banking system can be mapped into 6 groups (see chart 2).

The first group consists of only one Bank: Credins Bank. Credin's Bank portfolio has grown by 32.1 billion ALL (~276.8 million EUR) in the last 6 years. This huge growth in 6 years has helped the Credins Bank to jump from third place in terms of loan portfolio size in 2015 to first place in December 2021. Credins Bank seems to have an expansionist strategy, inclined towards increasing its portfolio.

The second group includes the second and third largest banks in Albania in terms of the size of their lending portfolio, Raiffeisen Bank and National Commercial Bank. Despite being included in the 3 best banks, their portfolio has shrunk by 7.3 billion ALL, and 26.1 billion ALL respectively in six years. National Commercial Bank represented 23% of the total lending market in 2017 with a portfolio of 125.2 billion ALL. In four years, it has lost 36 billion ALL (~310 million EUR) from its portfolio, which represents a decrease of 9.2 percentage points in the market share it owns. On the other hand, Raiffeisen Bank suffered a constant decline in its portfolio between 2015 and 2017, from 106.9Bn ALL (19.6% of the market), to 86.6Bn ALL (15.8% of the market). Since that period, its portfolio has grown to 107 billion ALL. Part of the decline in the portfolio of these two banks occurred due to the write-off of a part of their portfolio.

The third group consists of one actor, OTP Albania, a bank which is part of an international banking group. Its portfolio has increased by 32.3 billion ALL in 6 years, translated into +4.3 p.p. Of the market share, it owns. OTP Bank Albania has inherited the portfolio of Société Générale Albania and aims to become the bank with the largest loan portfolio, moving to Group 1 in the next 5 years.

The fourth group is composed of two local banks, with medium-sized portfolios, focused on rapidly growing their portfolio, including mergers with other banks. American Investment Bank, owned by transit speak, a debt collection company, has successfully completed its merger with National Bank of Greece (NBG Bank) in 2017. During this year, American Bank of Investment (ABI Bank) and NBG Bank, respectively, had a financial portfolio of 9 billion ALL and 44.8 billion ALL respectively, which translates into 1.6% and 8.2% of the market. After the merger, in 2019, ABI Bank's portfolio reached a value of 25.5 billion ALL (losing a significant part of the portfolio due to loan write-offs) representing 4.5% of the market. Founded in 2006, Union Bank has more than doubled its portfolio from 16.7 billion ALL in 2015 to 35.7 billion ALL in 2019. Part of this growth occurred due to the acquisition of International Commercial Bank in 2018, the portfolio of which was 4.8 billion ALL. Both banks of group 4 tend to increase their portfolio size and be part of Group 3 in the next 5 years.

The fifth group consists of 4 medium and small banks, Intesa Sanpaolo Bank, Procredit Bank, Tirana Bank and Alpha Bank Albania. These four banks have been in the market for a long time and are characterized by a similar size and a stability regarding the loan portfolio. However, Tirana Bank has undertaken several structural reforms since 2016 (mainly related to NPL reduction), after it was acquired by Balfin Group. Thanks to the increased liquidity from Balfin Group, Tirana Bank intends to grow in size and join the third or fourth Group in the next 5 years. Intesa Sanpaolo bought Veneto Bank in 2017 and in 2020 it was part of the third group alongside OTP Bank, but due to the small growth of the portfolio in the last year it has lost market share.

The last group (sixth group) consists of the two smallest banks in Albania in terms of loan portfolio, the United Bank of Albania (UBA) and Fibank, both with a long but modest experience in the Albanian market. UBA has a modest size and growth rate and does not plan to expand its activity and market position. On the other hand, despite occupying only 3.2% of the lending market in 2019, Fibank has tripled its lending portfolio since 2015, and tends to move into the third Group in the next 5 years.

## **NON-BANK FINANCIAL INSTITUTIONS LOAN PORTFOLIO PROFILING**

As mentioned above in this paper, non-bank financial institutions make up about 6% of the overall lending market in Albania. Their gross loan portfolio reached 42.1 billion ALL (363 million EUR) in December 2021. As it can be seen from Table 1, Loans and Micro-loans represent 3/4 of the total portfolio of non-bank financial institutions in Albania. These two financial products combined are the engine of growth of this segment. Non-bank financial institution's overall portfolio has experienced a significant increase in the period from 2015 to 2021, increasing by 23.1 billion ALL (+ 122%). This increase occurred due to the increase in the portfolio of loans and micro-loans, which increased by 150% during this period.

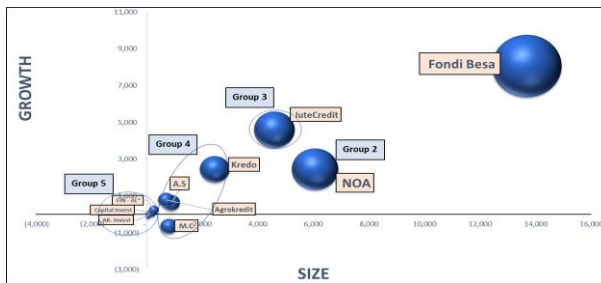
**Table 1. Non-bank financial institution's gross portfolio in Mld ALL**

<i>Financial Product</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>Change in p.p (15'-21')</i>	<i>Change in % (15'-21')</i>
Loan and Micro-loan	12.8	14.1	16.9	21.1	26.1	27.1	32	19.2	150%
Leasing	5.9	6.1	6.6	6.9	8.9	9.1	9.6	3.7	63%
Factoring	0.3	0.6	0.7	0.6	0.5	0.4	0.5	0.2	67%
<b>Total</b>	<b>19.0</b>	<b>20.8</b>	<b>24.2</b>	<b>28.6</b>	<b>35.5</b>	<b>36.6</b>	<b>42.1</b>	<b>23.1</b>	<b>122%</b>

Source: Bank of Albania

Non-bank financial institution's loans and micro-loans market is clearly concentrated. The Besa Fund represents almost half of the market, while the other two actors who rank after the Besa Fund are responsible for 1/3 of the total portfolio of this segment, leaving the rest of the actors with only 18% of the total portfolio. Based on the market share represented by each actor and the growth of their portfolio between 2015 and 2021, we have presented Chart 3, that allows us to identify 5 groups of actors, that is also the first element towards understanding their strategy.

**Figure 3: Portfolio Growth and Non-bank financial institution's size in '000 ALL during 2015-2021**



Source: Authors based on financial statements of each non-bank financial institutions (2021)

First Group: Besa Fund is undoubtedly the market leader in this segment, which owns 45.4% of the market. With a loan portfolio twice as large as the second largest actor in the market, Besa Fund has managed to double its portfolio in six years, but has lost 5.1 percentage points in the market share it owns. Despite being the leading non-bank financial institution in Albania, at least in the last decade, its portfolio has not yet reached the stage of consolidation and continues to grow with significant steps. However, it should be mentioned that in August 2019, the Besa Fund was involved in a financial fraud in which senior management personnel were implicated and which reached the value of 460 million ALL. Besa Fund specializes in micro-loans with values up to 700,000 ALL, but in the last 6 years, it has also operated with several loans with large values, exceeding the target group of its clients.

The second group consists of NOA, formerly a direct competitor of the Besa Fund, with a similar strategy in terms of the target customer group, products, terms and conditions offered. NOA appears to have a moderate growth in its lending portfolio compared to the Besa Fund (+68% between 2015 and 2021), which tells us that NOA may have reached its maturity stage. Due to the dominance of the market by the Besa Fund, despite the growth of the portfolio, NOA has lost 12.3 percentage points in the market share it owns during this period. NOA is however a very well-organized



financial institution, with strong management and a clear strategy focused on micro-credits for micro-businesses, and less focused on financing individuals.

Third Group consist of IuteCredit that is classified in a separate group due to the institution's completely different (and new to the market) strategy. IuteCredit generally finances very small loans, on average under 100,000 ALL, and is focused on financing individuals, loans for consumption purposes. These loans, which usually represent very high interest rates, are available through retailers of small appliances for personal use (electronics, home furniture, etc.) Who act as IuteCredit agents, making it possible for individuals to finance within minutes based on very little information provided by the customer (identification means and financial information). IuteCredit appeared on the market in 2015, and in just 6 years, it managed to create a portfolio of 4.6 billion ALL, representing 15.3% of the lending and microcredit market for non-bank financial institutions, which makes IuteCredit the fastest growing non-bank financial institution during the years 2015-2021.

Fourth group: The peculiarity of the fourth group is that the four actors that compose it are predisposed to move towards other strategic groups. Credo Finance is a non-bank financial institution that is growing rapidly and started its activity in 2018, with a strategy very similar to that of IuteCredit. For this reason, we believe that it intends to become part of Group 3. As we can understand from the names of the institutions, Agro & Social Fund and Agrocredit are two financial institutions specialized in agro-micro-credit. The first, also known as VisionFund, was purchased by the Besa Fund in 2019, aiming to grow under a "niche" market in the Agriculture sector. Micro Credit Albania is a financial institution with experience in debt collection. The senior management staff of this institution consists of former managers of one of the most popular debt collection companies. The portfolio of Micro Credit Albania has a wide scope consisting mainly of small loans acquired from OTP Bank (former Société Générale Albania). Their strategy and market orientation remain unknown, but they claim to be a traditional microfinance institution.

The fifth and last group consists of seven non-bank financial institutions, most of which have a license for general lending and micro-loans, but they are almost inactive in the market. AK-Invest is mainly focused on money transfer activity, while AFI is focused on Leasing and Factoring. Final SHA, is merging its activity with IuteCredit after the purchase from the latter, while little information is known about Agropartner. Micro Credit Risk is a new financial institution established in 2019.

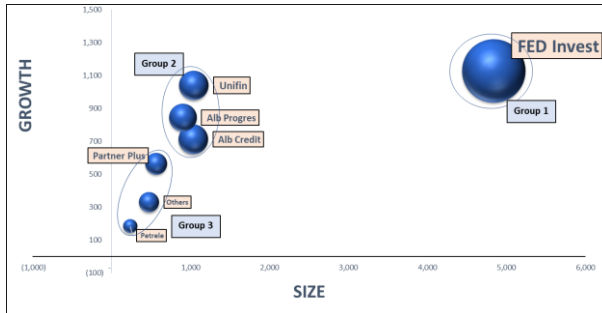
## **SAVINGS AND LOAN ASSOCIATIONS (SLAS) LOAN PORTFOLIO PROFILING**

Savings and Loan Associations are a special segment in the lending market, which is regulated and supervised by specific regulations of the Bank of Albania. Their activity consists in collecting deposits and financing through loans. In December 2021, 17 companies were active in this market segment, representing a gross lending portfolio worth 9.34 billion ALL (~79 million EUR). The members of SLAs are mostly rural businesses, specialized in Agriculture. The average value of loans financed by these companies generally does not exceed the value of micro-loans.

The SLAs portfolio is dominated by one major player, Fed Invest, which represents more than half of the market. For the rest of the market, we have a generally equal distribution among the other actors. Based on the size and growth of

the SCAs' portfolio between 2015-2021, we have presented Chart 4, which allows us to mapping the participants of this segment into 3 groups.

**Figure 4. Growth and size of the SLAs portfolio in '000 ALL during 2015-2021**



Source: Authors based on financial statements of each SLA (2021)

First group includes Fed Invest, which represents 53.3% of the lending market for SCAs. It has dominated this market for the past six years. However, Fed Invest's portfolio has remained constant between 2015 and 2021, leading to a 7.6 percentage point reduction in its market share in this segment.

The second group consists of three SCAs with similar portfolio size and growth, namely Unifin, Alb Progress and Alb Credit. These companies own respectively 11.7%, 11.6% and 10% of the market and have experienced an increase in their portfolio by 1,041 million ALL, 711 million ALL and 844 million ALL respectively.

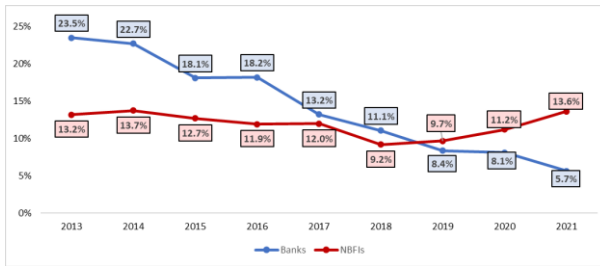
The third group consists of 13 small SCAs, among which Partner Plus and Petrel are the largest, with a loan portfolio of 563 million ALL and 234 million ALL, respectively.

### NON-PERFORMING LOANS (NPLS)

The level of non-performing loans has been a major concern in the Albanian lending market throughout the 30 years of the market economy. Taking into consideration NPLs with undeclared and informal problems, their level is believed to have reached about 35% - 40% of the total loan portfolio. The lack of a proper legal framework, informality and financial fraud are some of the main problems that have led to this result.

However, as can be seen in chart 5, starting from 2013, the NPL level has been shrinking. Significant improvements in the legal aspect, and the Bank of Albania's strict rules regarding discouraging the financing of informal activities, improvements in anti-fraud controls and encouraging the write-off of bad loans, have led to a decrease in the NPL level for the banking segment from 23.5% in December 2013 to 5.7% in December 2021 (Bank of Albania, Annual Supervision Report)<sup>7</sup>

Figure 5: NPL level in %

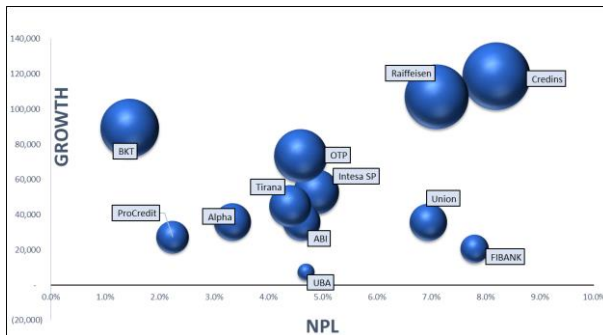


Source: Bank of Albania

The non-banking financial segment has always been characterized by a lower level of NPLs, regardless of the higher risk it represents and the higher interest rates applied. This is a worldwide phenomenon and is explained by the lower amounts of credit that microfinance institutions disburse and by the higher rates of profit that the clients of these institutions represent.

However, in the last three years, non-bank financial institutions NPL ratio has increased, reaching 13.6% in 2021, 7.9 p.p. Higher than the banking sector's NPL ratio (Bank of Albania, Annual Supervision Report 2021). This increase in NPL is explained by the increase in the market share of micro non-bank financial institutions such as Iute Credit and Kreda, which apply very high interest rates and provide micro loans to individuals. Excluding these two institutions, as we will see further in this paper, other financial institutions such as NOA and Besa Fund, have a stable NPL ratio over the years. Figure 6 aims to present the size, growth and level of NPL for the banking system in order to understand if there is any direct relationship between the first two elements and the level of NPL. As we can see from figure 6, there is no direct relationship between them.

Figure 6. NPL level (%), portfolio growth and size of the banking sector, in million ALL during 2015-2021

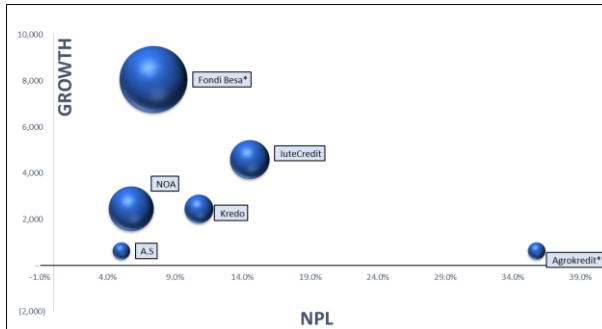


Source: Authors based on financial statements of each bank (2021)

The NPL level has dropped drastically for most banks in the period 2018-2021. To a large extent, this decline is not the result of improving the payment cycle of non-performing loans, but is generally the result of the write-off of these loans from the respective portfolios. This decline and the lack of data on the "natural" growth/decrease of the NPL level (without considering write-offs), makes it impossible to draw

conclusions about the possible relationship between the growth of the portfolio compared to its size, and increasing the level of NPL. The lack of historical data prevents us from drawing conclusions whether the level of NPL is a consequence of old or recent problems. For some of the banks, a significant size of their NPL portfolio is the result of recently disbursed financing, while for some others, it is the result of very old problems, sometimes exceeding 10 years.

**Figure 7. NPL level (%), portfolio growth and NBFi size, in million ALL during 2015-2021**



*Source: Authors based on financial statements of each non-bank financial institutions (2021)*

Regarding non-bank financial institutions, we can draw some conclusions based on their intended target group and their position in the market. The non-bank financial institution with the highest NPLs is AgroCredit, acquired by Besa Fund in 2019, with an NPL of 35.8%, followed by IuteCredit 14.5%, Kredo 10.8%, Besa Fund 7.4%, NOA 5.8% and Agro&Social Fund 5%. Based on their market strategies we can mention three NBFIs groups that show a direct link between "risk appetite" and the NPL ratio:

The first group consists of Besa Fund and NOA, two of the largest non-bank financial institutions with similar characteristics in terms of their target group (micro businesses without access to the banking sector), the average amount of the loan (500,000 ALL - 700,000 ALL) and interest rate (15%-26%). The NPL ratio of Besa Fund is 7.4%, while that of NOA is 5.8%.

The second group is composed of IuteCredit and Kredo Finance. These two financial institutions have similar features in terms of their target group (individuals), the average loan amount (50,000 Lek) and interest rates (about 40%). They have automatic credit risk assessment models, require very few documents and have very short approval times (15 minutes). Despite the short time since the establishment (established in 2014), IuteCredit has an NPL ratio of 14.5% in 2021. However, as its portfolio is growing by leaps and bounds, I believe that the NPL ratio has not reached maturity and is expected to stabilize, which means it will increase further. On the other hand, Kredo Finance was established in 2017 and the level of problem loans in 2021 for Kredo Finance is 10.8%. The third group consists of AgroCredit and Agro&Social Fund, which have a similar target group and market. AgroCredit has a much higher ratio of NPLs than the Agro&Social Fund (35.8% versus 5%).

## CONCLUSIONS

This study analysis the lending market in Albania during the period 2015-2022 with a specific focus on the loan portfolios and non-performing loans of three main groups of

actors of this market, respectively, Banks, Non-bank financial Institutions and Saving and Loan Associations. The aim of this study is to create the map of financial institutions loan portfolios, for better understanding of the current market share position, the evolution and future trends in order to have a better framework for other future research analysis regarding the lending market concentration, loan portfolio stability and the level of non-performing loans. Following a descriptive and comparative research approach, this study applies basic research methods by analyzing secondary quantitative data derived from the annual financial statements of the cluster sample. Our findings show that, six groups of profiles result in banking sector based on the market share and the rate of growth of loan portfolios. The relationship between market share and increase in the loan portfolio is not positive for all the banks. Different factors such as the bank's strategy, mergers and acquisitions, the write-off of non-performing loans, impact the market position and the possibility to move from one group profile to another. Some of the banks have used an expansionist strategy, inclined towards increasing their portfolios. The merger/acquisition process of some banks has impacted (increased) the loan portfolio and brings insights for these banks to move towards a higher group classification. The decline in the loan portfolio for some banks has occurred due to the write-off of a part of their portfolio. Five groups of profiles result for non-banking financial institutions and three groups of savings and loan associations. The non-banking financial segment has always been characterized by a lower level of NPLs, regardless of the higher risk it represents and the higher interest rates applied. This is a worldwide phenomenon and is explained by the lower amounts of credit that microfinance institutions disburse and by the higher rates of profit that the clients of these institutions represent. The increase in NPLs for NBFIs more than the increase of NPLs in Banking sector is explained by the increase in the market share of micro non-bank financial institutions such as Iute Credit and Kredo, which apply very high interest rates and provide micro loans to individuals.

Regarding the banking sector, results show that there is no direct relationship between the size, growth and the level of NPLs. The lack of data on the "natural" growth/decrease of the NPL level (without considering write-offs), makes it impossible to draw conclusions about the possible relationship between the growth of the portfolio compared to its size, and increasing the level of NPL. The lack of historical data prevents us from drawing conclusions whether the level of NPL is a consequence of old or recent problems.

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<sup>8</sup> The information regarding the NPL ratio is obtained by Financial Statements of NBFIs published on National Business Centre.