



Bankieri

ALBANIAN ASSOCIATION OF BANKS
SHOQATA SHQIPTARE E BANKAVE

Publication
No. 30
January 2019



BANK LOANS A LINEAR MOTION

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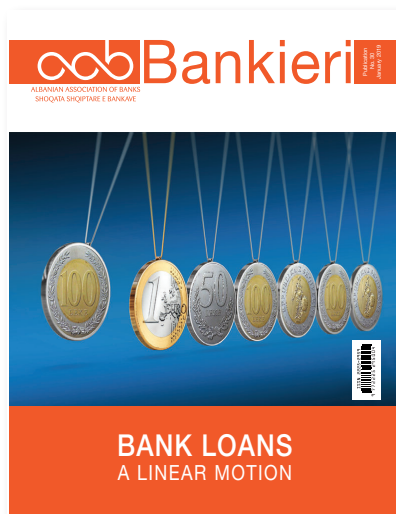
* From October 2018, the Albanian banking sector consists of 14 commercial banks.

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Publication of Albanian Association of Banks



EDITORIAL TEAM:

Elvin Meka

Editor-in-Chief

Eftali Peçi

Coordinator

Junida Tafaj (Katroshti)

Collaborator

Dorina Zarka

Photographer

Design & Layout: FCB Afirma

Printed by:  Gent-grafik

Bankieri is the official publication of the Albanian Association of Banks which mainly focuses on the Albanian banking industry. Bankieri provides readers with valuable information on the financial industry's developments in general, and of commercial banks in particular.

ALBANIAN ASSOCIATION OF BANKS

Street "Ibrahim Rugova"

SKY TOWER, 9/3, Tirana

Tel: +355 4 2280371/2

Fax: +355 4 2280 359

E-mail: bankieri@aab-al.org;

www.aab.al

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Bank lending in Albania

A linear motion

Banks are out to make loans and support the economy and society with proper and adequate funds and liquidity, as well as quality expertise and experience in facing business and consumer economic and non-economic challenges. Everyone must be aware that, as we live and work in a market economy, almost everything is demand and market-driven and the banking cannot escape such axiom but will do everything to provide the best than can and they do!



Prof. Asoc. Dr. Elvin MEKA¹
Editor in Chief

When we get a snapshot of credit to economy (predominantly bank lending) for 2018 and overall economic indicators it may, unavoidably, picture a question mark on the face: we managed a positive (4%+) economic growth, with less credit to economy, which scored a net drop of more than ALL 20 billion, on annual basis! It is not a mere amount to be neglected at all. Although the above - mentioned snapshot picture of bank lending, and credit to economy in general, is a bit misleading, there is not so much enthusiasm, when watching it carefully. The popular sensing on this image is that banks are not lending at all and they are not supporting the economy with sufficient funding, to ensure the desired investments.

Frankly speaking, banks have credited the economy incessantly,

although spreadsheet numbers does not support this pure fact. By reading between the lines anyone can easily spot that new loans have been granted to businesses and households are being constantly "eclipsed" by loan repayments, and not only. Definitely, the big "erasers" were the appreciation of domestic currency (ALL) and the NPLs' write-off process, which played almost all the game of loan portfolio during the whole 2018, in terms of "mechanical arithmetic". Said that, the reality becomes clearer, but only to confirm that credit to economy resembles a linear motion, and not an accelerated one, as everyone might have expected, hoped, desired, or projected, as well. Such linear motion is attributable to a couple of organic factors, like: crediting business against formal financial statements, credit standards, lack of quality and feasible business projects and less appetite from business to fund their investments and activity through bank loans, a recalibrated risk management process along the whole banking sector, and all these have a profound and prolonged impact in the overall bank loan portfolio buildup. Last but not least, sector consolidation gave a final touch to such "linear motion", by reorienting the key focus of the stakeholders in concern towards institutional and strategic issues, a bit away from progressive loan making.

When all these organic factors

are set on the actual macroeconomic landscape, which offers positive economic growth in the frame of relative financial disintermediation, decreasing demographics, baseline industrialized economy, massively underfunded agriculture, still-sizeable grey economy, lax rule of law and problematic property titles, the credit to economy turns into a complex endeavor for the Albanian banking sector. When all these facts are coupled with the ongoing sector consolidation then it develops into a long-lasting challenge, which needs to be handled properly and in full harmony with key priorities of other economic stakeholders, typically the government and polity, which must stand out and unfurl the strategic objectives and priorities for the Albanian economy and society, beyond normal political mandates. Banks are out in the market to make loans and support the economy and society with proper and adequate funds and liquidity, as well as quality expertise and experience in facing business and consumer economic and non-economic challenges. Everyone must be aware that, as we live and work in a market economy, almost everything is demand and market-driven and the banking cannot escape such axiom but will do everything to provide the best than can and they do!

¹Vice Rector, European University of Tirana, EUT - UET.

Credit growth in Albania

Its performance and potential

Ample lending by the banking sector and credit to economy is the one that results more efficiently. This means that all parties involved should be interested in this process and ensure that banks are guided by the best standards of analysis, risk assessment, monitoring and loan collection.



Klodion SHEHU

Head of Financial Stability Department
BANK OF ALBANIA

Credit to private economic entities (households/individuals and enterprises) remains one of key activities for a commercial bank (and for a traditional banking sector), through which various sources of funding are used effectively (e.g. general public deposits), the most important part of the industry (sector) income is generated and a contribution to the country's economic development is made, respectively.

Following 2008, the annual credit growth rates of the banking sector in the country have dropped sharply. Such drop evidences not only the high lending rates, over the period 2005-2007, but also the magnitude of the hit, experienced by some sectors

that were credited intensively (e.g. construction) up to that time, the slowdown of the overall economic growth, the increased credit risk and increased bank prudence, in financing opportunities's analysis.



Priority would be given to economic and financial policies which should further include: a significant improvement of business climate, promoting the setting up of new enterprises and the effective implementation of legal definitions for bankruptcy, or essential restructuring of bankrupt enterprises; credit risk mitigation in sectors with development priority and improved access to finance for small and medium-sized enterprises; or even diversifying collateral types by shifting towards movable ones and expanding their use.



Some indicators confirm the decline in credit rates. So, banks' periodic reports on their outstanding

loan balance show that the annual credit growth rate, which was over 35% in 2008, decreased at about 15% in 2011; it turned negative (shrank) by 1.5% in 2015 by worsening the contraction, to mark - 3.5%, in the third quarter of 2018. By focusing on nominal amounts of bank outstanding loans it can lead to an inaccurate estimate of the credit values the economy has already obtained, as it does not distinguish the impact of certain processes (some of them with a temporary effect), such as: lending to non-residents, bad loan write-offs from bank balance sheets, loans from non-bank financial institutions, or even the decreasing effect from the domestic currency appreciation (in which the FX loans are reported). These processes have been important for Albania, especially since 2015. Specifically, since October 2018, it is estimated that banks have written off from their balance sheets about ALL 55 billion of non-performing loans (mostly lost ones). The concept of "credit to economy" seems to consider, in a more proper way, these factors. When adjusted for the effect of the write-offs and the exchange rate effect, the performance credit to economy reaffirms a significant moderation of lending, but unlike the nominal bank loan portfolio's performance, the annual growth rate of credit to economy remains positive. For the same time periods,

¹ Credit to economy includes loans granted from banks and non-bank financial institutions to private resident sector only and its amount is not affected by NPL write-offs from banks' balance sheets (such loans are already obtained by economic entities and have already got their economic value; their subsequent write-off from banks' balance sheets makes no impact).

such annual growth rate was 33%, 12%, 2.8% and 1.8%, respectively. As a result, Credit to Economy/GDP ratio shows a slight decline from 41% of GDP in 2010 to about 37% of GDP, in September 2018.

Comparing "Credit to economy/GDP" ratio at a given moment, with its long-term trend, would reflect cyclical factors of changes in lending, in a more proper way. This difference, known as the "credit gap to GDP", is estimated to be at -11% for Albania. This means that lending has not "pursued" the country's economic growth or otherwise, that economic growth in the last decade has not been supported, as previously, by financial sector's lending.

In this regard, developments in Albania are similar to those of the European Union and Western Balkans. After the global financial crisis of 2008, these regions also experienced what is named "growth without credit". This situation is defined as a situation where the decline in the value of assets in the economy coincides with a deleverage process by economic agents, operating in the over-funded sectors, but with impaired solvency. This downward spiral in funding value maintain its impact, even when the process of economic revival is resumed, thus creating a contrary performance of lending and GDP. However, credit gap to GDP for the countries of such regions (EU, Western Balkans) have generally been in low positive, or negative values. Moreover, in some EU countries, also including some from the Western Balkans, this gap has shown increasingly positive rates, in the last 2-3 years, thus indicating an acceleration of lending over the long-term GDP growth values.

Why does Albania appear somewhat more isolated, than other countries in the region, in terms of lending performance/growth? Some

of the reasons may be:

a) banks' assessment that credit risk remains significant, although the non-performing loans' rate has fallen considerably. Legal changes to facilitate collateral enforcement process and the functioning of private bailiffs' offices, regulatory requirements for lost loans (over 3 years) write-off from bank balance sheets, actions to reduce non-performing loans, other measures in the frame of the national plan for the reduction of non-performing loans, as well as the more robust actions from banks, in terms of restructuring, loan sale and collection, have already halved the non-performing loans' rate, from 25% at the end of 2014, at about 12.5% by end-2018. However, the actual level remains high and it affects banks to remain generally reluctant in selecting projects to finance, especially those from businesses. This is evident also in the responses, banks provide to Bank of Albania's special surveys, by highlighting tight lending conditions in this sector. Accordingly, banks continue to consider the process of collateral enforcement as a problematic one, and this consideration has been deteriorating, since 2016. The collateral (mostly real estate) repossession from defaulted borrowers and their inclusion into banks' balance sheets, it has increased the operating costs and has exposed banks to the real estate market's inefficiencies. In this regard, banks tend to seek higher collateral values from borrowers, or choose not to accept their loan application, thus trying to address the uncertainties in this market.

b) the impact of deteriorating loan portfolio quality on banking sector's income has been contained so far, thus limiting banks' incentives to expand lending, in the context of present risks. The composition of banks' assets, has given a hand

in this regard, where investment in securities (including those of the Albanian government debt) account for approx. 24% of total assets, the highest in the region. At these levels, the income produced by such portfolio amortizes, to a considerable extent, the costs stemming from the deterioration of loan portfolio quality. The effect was greater during the first half of the last decade, when return rates from investment in securities were higher. Following the significant easing monetary policy and fiscal consolidation, the contribution for securities' portfolio to the banks' income has been decreasing, whereas the retake of loan loss provisions (for credit risk) has been increasing;

c) structural changes in the loan portfolio and banks' internal capacities have been insufficient to support a rapid revival of lending activity. The question is whether banks have been active in directing lending to new sectors with a development potential. This is a complex process, which is intertwined with the country's long-term economic development policies and needs time to be accomplished, so a shallow assessment risks an unreasonably simplification of the process. However, the data seem to indicate that banks have been more engaged with servicing the existing loan portfolio than with exploring new lending potential. So, the annual amount of new loan has remained at levels similar to those of 2010, the loan concentration in the business sector has only decreased by 3%, compared to 2010, while small enterprises and middle-sized companies, within this portfolio, continue to face relatively tighter financing requirements. The composition of the loan stock by sectors of the economy has not shown significant changes, whereas certain sectors, such as: agriculture

and its ancillary industries remain underfinanced by the banking sector. Meanwhile, banks and borrowers have increased the preference for lending in ALL, driven by the drop of interest rates, following the Bank of Albania's easing monetary policy. Banks are also engaged in the process of NPL write-offs from their balance sheets, including the sale of certain loan portfolios to non-bank financial institutions;

d) objectives for improving the capital position at the level of European banking groups, following the global financial crisis of 2008, have been translated into a passive behavior of their affiliates in our country. This behavior is associated with lack of growth or decrease of exposures/investments in local assets and a decrease of operational costs by these banks; so, there is actually less commitment to new financing in the private and public sectors and the focus has remained on reorganization of the activity, with the objective of maintaining the "status quo". In fact, in 2010, banks of EU origin accounted for approx. 76% of the banking sector's outstanding loan stock, while in June 2018, this weight had dropped to approx. 53%. During this period, each group of banks with non-EU and Albanian capital origin have been more active in lending and have almost doubled their share in the outstanding loan portfolio at about 23%. If the trend persists in the future, the contribution to credit at similar rates from such banks will call for a strengthening of their capital position. However, the weight of European banking groups will remain significant and as such, steady lending growth will require their commitment;

e) communication with banks, as well as some direct surveys with households and enterprises suggests that loan demand from the real sector of the economy is at

moderate levels. Banks point out that new feasible funding projects are insufficient. This is also confirmed by recent Bank of Albania's surveys on households and enterprises's financial situation and borrowing, where their "appetite" for borrowing appears moderate. Despite the problems, it should be noted that the potential for credit to economy by the banking sector is considerable. In fact, the credit-to-GDP ratio in Albania is significantly lower than other similar countries in the region, and the difference is even stronger with the EU countries average.

A supporting factor for the loan demand, is the country's economic growth acceleration, which is currently among the highest in the region. This economic growth should be accompanied by rising household and enterprise incomes and increased investment demand. Meanwhile, borrowing capacities and debt sustainability by economic agents in Albania are considered as appropriate. Specifically, according to surveys on enterprises and households's financial and borrowing situation during H1 2018, more than half of enterprises are not funded by banks, and the total loan value for approximately ¾ of borrowing enterprises stands at half of the companies' equity capital and the loan payment amounts up to 20% of their income. For households, according to the above survey of the same period, it turns out that less than 1/3 of them have a loan to repay and the debt installment for about ¾ of these households does not exceed 30% of monthly income. So, the borrowing potential of the real sector of the economy has empty rooms, in terms of the existence of borrowing and servicing capacities. On the supply side, the banking sector's financial position and resources are estimated to support significantly higher lending levels.

A high presence of liquid assets and a low loan-to-deposits ratio (about 51%) is obviously noticed. The high liquidity level in the Albanian banking sector puts it in the most favorable position in the region for a credit acceleration. It is an imperative that such potential to be exploited, by identifying the actions needed from all stakeholders.

For example, fiscal consolidation and government debt reduction is a policy that encourages banks to seek the private sector for an effective use of financial resources that are released. The possible reorientation of financial resources towards lending, or the acceleration of loan sales processes, or the effective restructuring of non-performing loans, should also be accompanied by an ongoing assessment of the adequacy of capital levels by banks. On the other hand, the revival of lending would require the presence of feasible financing projects. Banks can do more, in terms of identifying, or assisting clients in developing or upgrading these projects, but banks' space in this regard is fairly limited. Priority would be given to economic and financial policies which should further include: a significant improvement of business climate, promoting the setting up of new enterprises and the effective implementation of legal definitions for bankruptcy, or essential restructuring of bankrupt enterprises; credit risk mitigation in sectors with development priority and improved access to finance for small and medium-sized enterprises; or even diversifying collateral types by shifting towards movable ones and expanding their use. More practical steps that could be taken in this regard need to be discussed and analyzed between stakeholders.

INTERVIEW

The year 2018 is closing and credit to economy remains a point of concern, yet. According to your bank's perspective, what are key factors behind credit stagnation and what are the prospects for credit growth and credit to economy, during 2019?



Georgios PAPANASTASIOU
CEO
ALPHA BANK ALBANIA

When banks perceive the liquidity and credit risks relatively high and therefore project possible future losses they, either increase their capital if possible, or reduce their

exposures through deleveraging their balance sheet. Since the generation of additional capital, internally or externally, after the recent crisis was almost impossible, then the reduction of credit exposures was instrumental in bringing the risk exposures in line with the banks' economic and regulatory capital. This action should be viewed as standard and reasonable measure which has ensured the stability of the banking sector and the financial stability in the country.

The recent global financial crisis, once again, proved that on one hand the steadiness of banking sector depends on the sustainable development of the real economy and, on the other hand, the stable economic growth and the country's sustainable development is depending on the soundness of the banking system. From this perspective, during the last decade,

the credit to economy was in line with the objectives of the banking and financial system stability.

Current economic forecasts and the perception that liquidity and credit risk return back at normal levels, are supportive elements for the increase of credit activity. The multiplication of deposits will finance the forecasted economic growth, in the next years. Therefore, it is reasonable to expect positive credit developments during 2019, in line with the economic growth. Banks, better capitalized today, are prepared to use the accumulated excess liquidity to finance sustainable public and private projects and contribute positively for the change the consumer behavior of the public.

American Bank of Investments (ABI Bank) continues to grow its presence in the banking industry, thru organic and acquisitive growth.

From our perspective the reasons of lending stagnation are several:

1 - Global and regional deleverage from large institutional banks and especially problems with the banking system in post-2008 Europe had a strong and delayed impact in Albania. Almost all European banks present in the country had capital preservation and/or peripheral withdrawal strategies. Since these banks

represent over 50% of the Albanian banking sector, their capital preservation and exit strategies had direct consequences in the reduction of lending and consolidation of the banking system (which during 2018 reached its highest levels yet). Such consolidation involved almost 20% of the banking system and impacted its overall growth. Banks that look to sell slowdown their lending activity and focus on cleaning up their balance sheets. On the other hand, the acquiring banks prioritize the transformation of the acquired bank, in the short term.

2 - It is perfectly rational



Andi BALLTA
CEO
AMERICAN BANK OF INVESTMENTS

that the financing of investment opportunities/economic growth is achieved through higher equity contribution, after a long period of lending, with high levels of non - performing loans. The status - quo, where international shareholders for years fund losses of local subsidiaries in Albania, had to come to an end. The history of losses will continue to have an impact with banks, continuing to be conservative in their lending practices.

3 - Albania's largest and traditional neighbors, Italy and Greece, have reported weak growth, high level of non - performing loans,

and volatile financial situation. These factors have negatively impacted loans demand in Albania.

4 - Albania has reported a negative demographic growth. This has also negatively impacted loan demand.

5 - There is a greater need for infrastructure investments, from international and government entities, especially in tourism and agriculture. The efforts through PPP will have a positive impact to lending. Clearly, the quality and the pace of work needed to increase confidence of investors, through sustainable and feasible investment opportunities, will

make a difference.

6 - During 2019, is a very important and challenging task for the regulators to maintain the stability of the banking sector, during the next decade. The formula of large international banks maintaining the stability of the banking sector will slowly develop to a more local interest in participating in the Albanian banking system. Such dynamics will continue to favor a conservative approach and slow lending appetite. Said that, it is probable that the growth in lending should follow at a higher pace the growth of the economy in 2019.



Seyhan PENCABLIGIL

CEO
BANKA KOMBËTARE TREGTARE

Key factors of 2018

First of all, most of the issued loans are denominated in euro. When analyzing year-on-year trend in total loans of the banking industry, if only ALL figures are taken into account for 2018, it may be misleading.

The strong appreciation of LEK over Euro (from ALL 135 to ALL

123) makes a false impression about the total loan figures, as if there is no increase but a decline. Another important parameter to be considered is the amortization of loans. If we take the average term for loans as four years, in case no new loans are issued, the total portfolio would shrink by 25 %, however this is not the case. In addition, there is a lack of demand and scarcity of bankable projects. The year 2018 was another year where private investment levels were particularly low. The result was the lack of feasible and healthy investment projects. Having said that, I believe that most banks are ready to fund the right projects. Also, it should be noted that the subsidiaries of international banking groups are affected by the decisions of their headquarters and/or relevant authorities.

Prospects for 2019

We expect:

- The state to increase the level of fiscal control, in order to reduce the informality, especially in engine

sectors of economy.

- The completion of the judiciary reform, which hopefully will reduce the legal uncertainty and corruption level and restore trust to the institutions.

- Priority to infrastructure (feasible) investments to support the tourism and agriculture industries, not only to boost the number of tourists coming to Albania, but also to expand the season for tourism, similar to our neighbor countries.

- A proper business climate for the corporate segment to develop feasible and healthy project for financing.

- Fiscal incentives and proper legal framework for foreign investors, so that they would come and invest in Albania. In that sense, incentives given in Macedonia and Serbia may serve as examples.

- The banking sector in Albania is healthy, with abundant liquidity and capital. Most banks are able and willing to finance good projects. We, at BKT, make it a priority, and we hope to grow our loan book significantly in 2019.



Maltin KORKUTI
CEO
CREDINS BANK

At Credins Bank we are not talking about stagnation during 2018, but for a moderate and prudent growth. The year 2018 has been generally characterized by a revival of banking sector's (re)structuring along with challenges to improve financial indicators. The focus has been put on keeping adequate levels of credit risk exposure and ensuring simultaneously an increased funding and support for small and medium-sized businesses. Bank's loan portfolio diversification, by the economy sectors and currencies, have contributed to achieve the bank's lending target for this year. Appropriate approach to lending, oriented by the bank's strategy for strengthening lending in local currency and to sectors with growing potential growth, and at the same time, driven by the demand of clientele, such as:

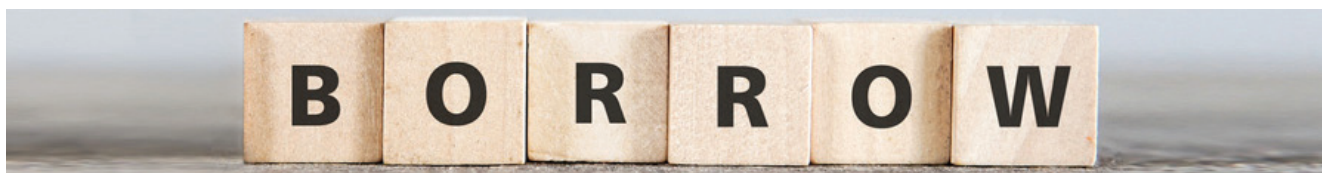
businesses and individuals, has made it possible to continue bank's lending growth at a good pace, throughout the year.

The following factors have had a negative impact on loan portfolio growth during the year: bank restructuring for non-performing loans' portfolio, loan write-offs, re-negotiation and finding alternative sources of financing, outside the domestic banking sector, by public institutions, and the sizeable depreciation of the European currency against Lek, which has led to a drop in in FX-equivalent loan portfolio. Meanwhile, even a meager demand for financing from businesses, especially from large businesses, coupled with unchanged lending conditions by banks for such segment, has led to a sluggish pace of their financing. In our opinion, the overall approach for the corporate sector remains prudent and focused on improving the existing portfolio, as well as in seeking appropriate projects that match banks' risk appetite.

The positive performance of banks' funds, and especially the deposits in the system, has created an environment with adequate liquidity, and more room for lending. Also, the declining need for domestic financing by the government, during the last part of the year 2018, creates the ground for a transfer of available funds towards credit to economy. In this situation, with well-capitalized and liquid banking sector, we see that opportunities for a lending growth, over the coming year, are improving and that the growing competition of the sector will play

a significant role for financing the businesses.

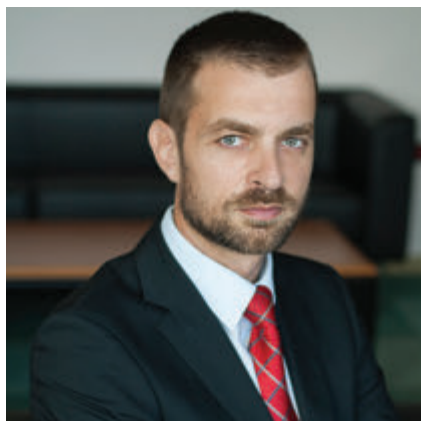
The bank is focused on creating all favorable conditions and access needed for small businesses and individuals in the products it offers. Funding for the small business segment, involving micro enterprises and agribusinesses in specific projects, has marked an increasing presence for the bank and therefore has connected it with a broader business base in the country, by offering products tailored along their needs, as well as consultancy on commitments and projects, undertaken by such businesses. Meanwhile, digital platforms offered by the bank are a priority for a further development of bank's clientele relationship with its services, thus facilitating access and benefits to customers, across all segments of financial services, and not just banking ones. Additionally, non-cash services through debit and credit cards provides support to a growing clientele, that can use a wide range of additional products, through the use of such payment tools. The focus on financial products and on online payment tools for individuals is coupled with an easing access to funding their needs. We also note that, the support to our household customers, for long-term mortgage loans, assessing the financial position, the debt burden of individuals and the exposure to exchange rate risk, has supported the easing loan conditions and this approach will also be reflected on the performance of disbursements, throughout the following year.





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Bozhidar TODOROV

CEO
FIBank

FIBank perspective is different from what you are stating through your question! During recent years, especially

in 2017 and 2018, the increase of loan portfolio for our bank was impressive. With a growth in loans of more than 30% for each of the last two years, FIBank was one of the most active banks in the market. Moreover, we are even aiming to accelerate our lending during next year and to be one of the most important players. During 2018 only, we opened 4 new branches, proving our commitment to expand in the Albanian market. The limitations by sectors do not exist for FIBank. Our bank is flexible and fast in evaluating every particular project and willing to support every good client, regardless the sector it operates.

On the other side, we are prudent and careful with the quality of projects, because if not next year, in the years to come, the slowdown in economic cycle will

be a fact. How severe it will be, no one can predict, but together with the expected increase of interest rates it will create a challenging situation for banks and its clients. In order to overcome successfully such challenges, full transparency and collaboration with clients is needed, something which FIBank is trying to perform continuously.

Considering the aggregated numbers for banking sector you have to keep in mind the intensive write-offs, which are decreasing the loan stock. Without their effect, lending growth would have been much higher.

Albania's economy has marked a substantial GDP growth above 4 % (4.43% Q2 – 2018), but unfortunately not translated into loan portfolio growth. ICB Albania closes the year 2018 with a modest loan portfolio growth, reflecting the current situation in the Albanian lending market, predominantly experienced in the SME/Corporate segment. Whilst consumer lending continues to grow year on year, which is as to be expected as the personal lending/GDP ratio, is still behind neighboring markets and mature markets. As per ICB Albania, one of the most important factor weighing on the loan portfolio is the government decision, which has come into power this year, on the acceptance of the official financial statements by the banks, which has hindered the growth of this segment, as per the impact mostly seen during the last two quarters.

As a second factor, I would list the "tightening of credit conditions to reduce risk", applied by the banks. This factor should not be underestimated and is an important internal factor, which is currently been applied by banks. Also, accompanied with the write-offs that banks have been taking, therefore reducing the outstanding balance of the total market portfolio.

Another main reason for the stagnation is the lack of readiness for investments, across main industries, perhaps except for the hospitality sector.

To the prospects side, I would estimate the hospitality sector would show a continuing demand for credit, as this is directly correlated with the year-on-year increase in tourism, which has been witnessed. It will be key for the government to continue to foster this positive development. For the first time, exports "Made in



Gideon VAN DEN BROEK

CEO
ICB ALBANIA

Albania" have exceeded 50% of the imports and this trend is a promising one. Crediting of exports companies will contribute on credit growth.

Whilst opportunities for

investments in for example renewable energy – specifically solar – remain, delays in the administrative procedures are discouraging potential investors, leading those possible investors to shift their focus to other countries within the Balkans. The larger infrastructure

projects, active and planned for the next years, should give an impulse to the affiliate industries and could potentially drive further demand for credit. It is important that transparency and ease of conducting business increases and is facilitated by the government, as this will open

up the market to more businesses rather than having the market consolidated with a handful of strong players.

2019 will follow a similar trend to the previous year, a hyper acceleration of the credit market is not expected.



Adela LEKA

Spokesperson of Management Board
PROCREDIT BANK ALBANIA

The key factors on overall credit stagnations are related to the dynamic legal environment in the market, when it comes to formalization of the economy, changes in banking regulations, low interest rates for loans and overall SME market structure.

The legal environment, regardless the fact that there are no significant changes in regulation have created a blurry outlook for the SMEs, which were unprepared to respond to the application of informality measures. Lack of financial knowledge and lack of knowledge for tax requirements has created an environment where SMEs have to adapt and, in the

same time, have postponed the planned investments to a near future, when they will feel security on fulfilling tax requirements. The focus of the regulators when it comes to de-euroization, application of published financial statements for decision - making in lending, implementation of ICAAP (Internal Capital Adequacy Assessment Process), LCAAP (Internal Liquidity Adequacy Assessment Process) and recovery plans have set banks to focus resources on fulfilling these requirements. On the other hand, banks have to balance their decisions in an environment of significantly low interest rates and changes in regulations, which are cost intensive. The level of risk perception for the market, in such environment, is still as moderate while the low interest rates do not reflect the risk in this perspective. Last but not least, the SME market structure is characterized by a limited number of big companies and a huge number of micro enterprises. Formal and Big companies seem to be the focus of banks, mainly as they are perceived as more stable and less risky, while micro enterprises are cost intensive, when it comes to financing.

The period of transition to a more formal economy and a legally stable environment will have to finish soon and the prospects for 2019 remain positive. The main reasons for such assessment is based on the time needed for the market to adapt to changes and align their business

models with the legal environment. Still the structure of SMEs and low interest rates will challenge the banking sector for a longer period.

During 2018, ProCredit Bank Albania has been focused on financing SMEs operating mainly in production, where the total loan business portfolio increased with 10%. Also, the high focus on Green Investments has come to very good results, where the Green Portfolio growth has been 36%, compared to 2017. In 2019, our main focus will be on SMEs operating in production and processing industry that want to invest in modern technologies and Energy Efficiency measures. Based on the potential of our country, our expertise, and improvements in the regulation, a high focus will be on Renewable Energy projects, such as Photovoltaics, accomplishing in this way our aim to support our clients in reducing their operating costs and increasing their competitiveness in the market.





Silvio PEDRAZZI

CEO

INTESA SANPAOLO BANK ALBANIA

I think the discussion on the matter shouldn't be limited only to the "Gross Stock of the Loan Portfolio" in Albania, but a deeper analysis is required and advisable. I would say that, as far as the figures of 2018 are concerned, we should consider both structural trends and some extraordinary events.

When I talk about structural trends, I mean that we are observing a steady relevant increase in the Loan Portfolio referred to "Individuals and SMEs", while "Corporate" is reducing its borrowing appetite; such trend can be considered as a normal alignment to the situation of many other neighbor countries, whereby the Individual Segment represents the biggest part of loan Portfolio.

Talking about extraordinary events, I'd like to stress out that during last business year we experienced: (i) refinancing of domestic-big-size-exposures by Supranational Financial Institutions; (ii) further significant reduction of the NPLs; (iii) strong re-evaluation of the local currency versus Euro and USD (triggering the reduction of Gross Loan Stock

that is always reported in ALL; (iv) relevant changes in the ownership structure of some Albanian Banks. All these factors, in a way or another, had an impact on the aggregate amount of loan portfolio; it is likely that also in the course of 2019 we will still have a spillover effect of the strategies currently pursued by single banks.

Actually, I consider as really positive the above - mentioned events that are paving the way for a more sustainable and organic growth in the near future. As far as Intesa Sanpaolo Albania is concerned, I'd like to emphasize that the amount of newly disbursed loans in 2018 was much higher compared to previous business year, fueling new investment in the local economy.

Talking about the expectation

for 2019, under condition that the economy will keep-on growing according to the forecast and in a stable social environment, I expect a further increase in Consumer Loans and Residential Mortgage, whereas in SMEs and Corporate there are still great opportunities to be exploited, especially in sectors like: Energy, Tourism, as well as Services. By instance, the remarkable increase in the touristic flows should generate new businesses, not only in the construction of touristic facilities (an already consolidated trend), but also in the ancillary activities. All the macroeconomic pre-conditions are in place (including the low level of interest rates), therefore I'm definitely confident on the possibility to have a robust increase in the lending activity.



Christian CANACARIS

CEO

RAIFFEISEN BANK ALBANIA

If we speak about credit stagnation during 2018, we could define this deduction as a misleading information, since in order to have a full analysis we have to take into

consideration the loan write-offs in the market, as well as the fact that EBRD disbursed the first tranche of the loan to KESH, which was deducted from the banking sector. Overall, the banks in Albania continued to grant loans, especially in retail, where we have a positive growth.

Concerning 2019, we expect a better growth in lending, due to positive GDP growth, increased credit demand, and we expect a positive turn of events expecting the EU accession in 2019. Mainly, we expect retail to continue the same path, but we expect a major positive growth on corporate lending, too.



Bledar SHELLA

CEO
SOCIETE GENERALE ALBANIA

Over the last 15 years Albania has gone through a boom and bust cycle in the credit activity. Between 2004 and 2008, although starting from a very low base, the country experienced an excessive growth of credit to the private sector with credit growth rates averaging around 55% per year and an expansion of credit, by more than 25 percentage points. To some extent, the credit boom could be attributed to the catching-up process in terms of loan-to-GDP and financial development of the country.

The escalation of the global financial crisis in late 2008 - early 2009 hit the Albanian economy and the banking sector. The worsening economic conditions, together with the mistakes done from many banks in aggressive lending of previous years, initiated credit defaults, setting the NPLs on a rising path.

On the supply side, banks responded by tightening credit standards. On the back of deteriorating creditworthiness and gloomy economic perspectives, there was downsizing in credit demand, as well. The damage done to banks' balance sheets and to

indebtedness level of borrowers was so big that many years after the start of economic recovery and recent clean-up of banks' balance sheets, credit market seem to be still struggling to recover with credit growth, remaining considerably subdued.

Now the clean-up of bank balance sheets is almost over, and the economic recovery has been stabilized. While a post-crisis adjustment in the credit market is still expected, our base scenario is for a gradual return to normality, rather than excessive lending. Our forecast for year 2019 is for the credit growth to gradually progress within single-digit levels, moving in line with fundamental factors. Indeed, positive evolution of key macroeconomic variables is expected to continue, but on the other side, informality is still high, and the rule of law and collateral enforcement are still very weak. There is still uncertainty for the future from both businesses and individuals. In order to improve the economic environment and increase lending, it is necessary to continue with the reforms in the rule of law and to fight informality. Any decision aiming at decreasing uncertainty and/or comforting predictability will be welcomed by business community.

As per our bank, we have been active in lending during the past years, growing steadily our loan portfolio, both in corporate and retail, and becoming the 4th biggest bank in the country, for corporate loans and 3rd for retail loans. Our strategy for 2019 is to continue our growth and consolidate our position, while intensifying the quality of relationship with our clients, whether they are individuals, Pro and VSB, SME, or large corporate. Our plans and expectations are to continue stable and sustainable growth of overall banking aggregates.



Gazmend KADRIU

CEO
UNION BANK

As for the credit stagnation for 2018, the existing official figures always have to be qualified for the effect of the ratio of new approvals and disbursements, versus the normal loan amortization, plus the occasional effect of write-offs. Bankier's readers know that very well, but the general public often interprets that the lack of growth in total loan portfolio means that there are no new loans, not that simply new loan disbursements have not exceeded the levels of normal loan reduction. Nevertheless, even with such expanded analysis, it may not be a big surprise that lending in 2018 was weaker than other comparable years.

It is very difficult to even compare, let alone quantify, the effects of different factors that may have contributed to it. One factor could be stronger business activity on the side of economic agents that do not have much needs for loans, such as the evident growth in construction activity without corresponding credit increase for

construction, in parallel with Euro inflows that have brought about the historically unprecedented LEK appreciation. Another factor could be the orientation of the banks towards lending based only on formal financial statements, that may have disrupted access to loans for a significant number of smaller and not so small businesses with weak formal financial statements. Definitely, one important factor is the ongoing consolidation process in the banking sector, which happened to include about half of the banking sector. Such processes

normally directly impact lending from both, the banks that were acquired and the banks analyzing and acquiring them. In a number of cases, other banks not involved in such M&A activities may not be able to compensate fully for that.

Credit growth in 2019 will be directly impacted by the interplay of the above factors, as well as any other factors. For example, the projections for economic growth are encouraging in this aspect, as they should lead to higher number and quality of interest in loan applications (although sometimes

not that much, as mentioned above, regarding the construction sector). We also expect ever increasing formalization, in a number of economic sectors. There is good chance that the expected economic growth will combine well with increasing formalization and the finishing consolidation in the banking sector to produce both higher credit demand and credit supply. Under such scenario, credit growth should start picking up during 2019 and even more so, in the coming years.



Credit bureau systems

The financial sector and the resultant economic impact

Credit reporting systems allow credit grantors the opportunity to extend credit to qualified individuals and companies, based on a more precise analysis of their credit standing, past and present, with accurate and reliable information.



James AZIZ

Consultant
EBRD

A Credit Bureau is a database of credit data of the debt obligations and paying habits of borrowers. Borrowers are identified by a number of attributes. The credit and identifying data are provided by banks and other agencies that extend credit of any type. The basic service provided by a Credit Bureau is to separate that data into individual credit files, by borrower, and make the data available to authorized users, for a fee. A Credit Bureau does not approve credit, does not assign any type of rating of the credits, nor does it assign any payment status to credits in the database. Any payment status is assigned by data providers. A Credit Bureau develops other products and services, using the data contained in the database, to meet the needs of its user group.

Private credit bureaus and public credit registries allow for

the broadening of the reach of the financial sector system to include greater numbers of a country's population. The credit information that a Central Bank can provide to banks and, in the broader sense, the credit reports that can be provided to the market place by private credit bureaus, are increasingly important throughout the world, fueled by demand for the data that populates their databases, from private banks and other financial intermediaries, as well as by demand from private firms, retailers, utility companies, mobile companies, employers, landlords and others. Bank supervisors, and regulators, are increasing their demand for high-quality credit data to more effectively monitor credit risks in supervised financial institutions.

Research shows a strong relationship between the extent of credit reporting in an economy and private credit to GDP. Credit reporting systems allow credit grantors the opportunity to extend credit to qualified individuals and companies, based on a more precise analysis of their credit standing, past and present, with accurate and reliable information. The result is lower borrowing costs for borrowers and reduced losses and lower credit investigation costs for credit providers. Empirical evidence shows that the standard of living in countries, with some type of credit reporting agency, are higher than those that lack a credit reporting agency, given

the information from any type of credit reporting agency supports a growing credit market place by enhancing the availability of credit and allows for an increase in credit limits, due to more information being made available to lenders with which to make more precise credit decisions.

The most effective public and private credit reporting agencies contain both positive and negative credit information to allow for recognition of those who honor their credit responsibilities as they build "reputation collateral" and those who do not honor their obligations. Credit application investigation costs are reduced, given the comprehensiveness and depth of data contained in the credit reporting agency, and credit grantors have less concern about credit applicant's failure to disclose indebtedness by having a central database available to check and discover undeclared debts. As a result, the percentage of the population that enjoy access to credit, in countries that have one or more credit reporting agencies, is much greater than countries that do not have these registries.

Public or private credit reporting agencies vary around the world. In many jurisdictions government mandated legislation restricts the sharing of information, while in other jurisdictions legislation allows for the sharing of information, while at the same time protecting the rights of the individuals, whose information is

being shared by authorized users. Research has been conducted as to why some countries choose a public credit registry, operated by a Central Bank, while other countries select a private bureau and still other countries have a mix of public and private ownership. The basic conclusion is that no clear pattern or reasons emerge.

In the Balkan region, and beyond, there is a mix of only public credit registries, only private credit bureaus and both public and private credit bureaus: Italy (public and private), Greece (private), Montenegro (public), Kosovo (public), Turkey (public and private), Croatia (private), Serbia (public), Bulgaria (public), Macedonia (public and private), Ukraine (public and private), Egypt (public and private), Sudan (public). Cooperation is meaningful where there are combined public credit registries and credit bureaus. From a legislative viewpoint there are no countries, worldwide, that have similar framework legislation and/or regulation for the credit reporting industry. The framework is a local solution that meets the needs and interests of the local marketplace and Albania is no different. What is true is the fact that all countries with private credit bureau do have some sort of legislation/regulation that frames the operation of those credit bureaus and grants rights and protections to individuals, as it relates to their personal credit and demographic information that is housed in a private credit bureau.

In Albania efforts towards the creation of a private credit bureau commenced in 1998. Over the next eight years further efforts were unsuccessful. Finally, in 2006, the Bank of Albania stepped in and with technical assistance from the IMF, commenced activities that resulted in the introduction of the Bank of

Albania credit registry (BACR) in January 2008. Over the past 10 years the BACR has been available to those entities licensed by the Bank of Albania. These licensed entities are mandated to provide their proprietary credit data to the BACR on a monthly basis and are authorized to request credit files on borrower applications. Other NBFIs, telcos, etc. do not have access to the BACR. Banks, through the Albanian Association of Banks, are currently researching the opportunity of establishing a private Albanian credit bureau. Conceptually, an Albanian credit bureau would add twice as much

borrower credit data than is currently housed in the BACR and add over 500,00 credit files. The credit bureau could add products, such as: generic credit scoring, a fraud database, allow for access via VPN, allow for batch processing, create a variety of credit reports, provide credit marketing tools, mobile access, comprehensive borrower rights and protections, offer alert notifications, state of the art technical advancements and would be interested in analyzing and other products or services suggestions, advanced by its user group.

What a credit bureau would mean for the Albanian banking community

1. Expanded credit data from utilities, telcos, collection companies and other lenders of any;
2. Expanded number of borrower credit files – potential to increase the number of borrower credit files by fifty percent more than the number of credit files housed in the Bank of Albania credit registry database;
3. Addition of data from public record – immovable property registry, collateral registry, company registry, bankruptcy database, civil action registry etc.
4. Availability of a variety of products and services – credit scoring, fraud detection, identity theft assistance, borrower alerts, various types of credit reports, derogatory information notification, account monitoring, skip tracing, lien searches, property searches, registration services, marketing assistance for growing credit portfolios;
5. Improved technical functionality – system to system access, VPN access, batch requests for credit reports, mobile solutions;
6. Customer service that addresses customer needs and works with customers to develop products and services;
7. Robust borrower rights and protections.



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Access to Finance for Micro, Small and Medium Enterprises in Albania

The capacity of public institutions to implement introduced laws and regulations remains low, which ultimately pushes private sector away from experimenting new products and approaches to finance and one potential reason for this is the fact that there is no organized, transparent and accountable stakeholder coordination structure for access to finance activities across all major sectors of economy.



Keler GJIKA

Financial Sector Specialist
Finance, Competitiveness & Innovation
WORLD BANK GROUP

Micro, Small and Medium Enterprises (MSMEs) in Albania are significant contributors to the economy. They comprise 99.9% of active enterprises and 81.9% of the total number of employed people. However, only 17% of MSMEs believe that there are no obstacles to obtaining finance, a number significantly lower than in other comparable economies. The sector is burdened by issues linked to widespread shadow economy, reflected in a high number of informal businesses (especially in agriculture), tendency not to report taxes or register workers, double bookkeeping, low value of already

scarce collateral, limited uptake of digital transactions, and relatively low level of financial capability at MSME-level.

Constraints and inefficiencies exist on the supply side, as well. The market is dominated by banks, which are characterized by high levels of liquidity, strong risk aversion, developed after recent NPL crisis, and lack of proper incentives to explore new approaches to finance. This position is also not helped by weak enforcement of laws, shallow secondary market for collateral and somewhat inflexible customer due diligence and documentary policies being requested by the Government and Bank of Albania (BoA).

Lending is mainly based on traditional plain vanilla products, with the majority of MSMEs using revolving facilities. Other products are underdeveloped:

Accounts receivable – based finance is barely practiced, because financial institutions seem to not fully understand this product. There is limited trust in enforcement of creditors' rights, lack of e-invoicing system and inexistence of a digital invoice register.

Financial leasing is limited mainly to motor-vehicles and there seems to be lack of clarity if companies need to apply for additional licenses to offer operating lease service. Weak secondary

market for repossessed equipment and inability of the leasing companies to recognize losses based on provisioning for impaired assets are significant constraints for development of leasing, as well.

Penetration of digital credit and digital financial services is very low, which undermines the potential to reduce information asymmetry by collecting and processing alternative (payments) data, decrease costs of transactions by lowering cash dependence and ultimately increase tax revenues through more transparency on the market. Although banks recently have started to invest more in digital channels (on-line banking primarily), and POS services are becoming more and more accessible, the level of innovation and uptake of digital payments is still very low. This is primarily due to high costs of POS services, lack of disruptors pushing incumbent players to innovate, accessibility of access points in rural areas and cash-based culture in general.

As a result, formal financing of MSMEs in Albania is low. In 2017, 15% of MSMEs either used owner's funds, or funds from family and friends to finance their activities and 24% recurred to retained earnings.

While many positive regulatory reforms have been undertaken over the years to improve Access

¹ This is according to the legal definition used in Albania, which slightly differs from the one used in European Union.

² European Commission, Survey on the access to finance of enterprises – Analytical Report 2017

Table 1: Overview of MSME Finance in Albania and Comparable Economies

Types of finance used by MSMEs	% of MSMEs Albania	% of MSMEs EU 28	% of MSMEs FYROM	% of MSMEs Serbia	% of MSMEs Montenegro	% of MSMEs Bulgaria	% of MSMEs Croatia
Owner's funds, family friends	15	8	2	5	7	5	5
Retained earnings	24	15	7	14	6	14	18
Overdrafts (credit lines)	29	35	34	26	19	32	23
Collateralized term loans for investment purposes	14	17	20	19	23	12	15
Leasing	4	24	8	9	5	20	18
Factoring	2	6		4	5	1	5
SMEs believing there are no obstacle to obtaining finance	17	47	40	33	31	49	28

Source: European Commission, Survey on the access to finance of enterprises – Analytical Report 2017

to Finance, the implementation in general has not followed suit. The capacity of public institutions to implement introduced laws and regulations remains low, which ultimately pushes private sector away from experimenting new products and approaches to finance. One potential reason for this is the fact that there is no organized, transparent and accountable stakeholder coordination structure for access to finance activities across all major sectors of economy. This results in piecemeal approach to MSME access to finance development, donor – driven projects and lack of overview of the local human capital trained and scattered through various agencies. In addition to policy initiatives, various MSMEs funding facilities that vary in sizes, conditions of finance and focus, are offered on the market. However, some of these funds are either fairly small, with overly strict eligibility criteria, or not coordinated to focus development of particular sectors, business models, stages of companies' development, in line

with the government development objectives.

In order to address these issues, the authorities could undertake a number of steps, with the intention to improve access to finance for MSMEs. At the outset, an MSME development coordination structure and a holistic MSME development strategy, with a prioritized action plan, should be developed preferably at the level of the Ministry of Finance and Economy.

To support access to working capital finance and to improve payments liquidity in the country, the Government may consider allowing public sector accounts payable to be offered for sale on web-based platforms. In addition, an e-invoicing system based on an electronic register and linked to the tax authority can be supported. A reform of the movable collateral registry to make it real-time and accessible on line with the simultaneous revision of the necessity, fees and role notary publics play in the process of contracting should decrease costs of lending. A feasibility study on the

creation of regional e-platforms for exchange/sale of repossessed collateral among lenders could be explored to increase the efficiency of collateral execution and hence its perceived value. To increase the availability of funding for agriculture, the government could support the development of agri – insurance products. This could be done by streamlining donor activity into this direction, subsidizing premiums and organizing capacity building for supply and demand side.

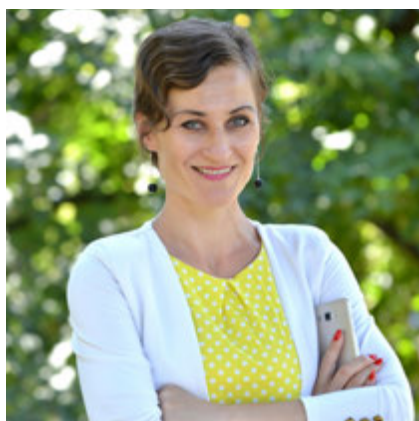
In order to increase usage of electronic payments the authorities and other stakeholders need to raise awareness amongst MSMEs on the potential of e-commerce (especially in trade and tourism) and should also consider introducing white label POSs/QR code payments to reduce transaction costs. Innovative start-ups should be targeted with grant type seed funding anchoring new firms in Albania and the donor community should be invited to contribute to the development of start-up entrepreneurship culture in general.

REGION

Financing Sustainable Growth in the Western Balkans

The role and importance of banks

As intermediaries, banks have an increasingly important role, providing a wide range of modern services, including expertise, ranging from payment services and payments, support to exports, financing the needs of large companies, risk management to participation in the capital market.



Dr. Stadjana SREDOJEVIC

Special Advisor for International Cooperation,
Financial Markets and Education
Head of Bank Training Center
ASSOCIATION OF SERBIAN BANKS

Due to the investment gap in the EU, estimated at around EUR 700 billion a year, it is desirable to involve the financial sector in the pursuit of dynamic and sustainable growth, long-term investment and innovation, while preserving the security and stability achieved. The importance of private financing for the economy is also formulated in the paradigm, entitled Financing Growth. The Banking Union and the Capital Market Union are therefore important strategic EU projects aimed at ensuring the full integration of financial

markets, strong credit potential and multiplier effect. This directly leads



Banks operating in the Western Balkans region, although outside EU, can offer know-how, financial, human and other capacities for the realization of the economy's growth paradigm in the domestic market. Due to their overall capacity, they can represent relevant, and perhaps a key partner, in financing sustainable growth in their respective economies that are facing huge developments needs and serious budget constraints.



to the diversification of sources of financing for growth, which is the ultimate goal of the Union's development of the capital market. Therefore, it is understandable how much role of banks is today important for policy makers, both as a partner in the regulation and policy level field, and as a key player

in the financial market capable to provide private financing of the public/economic goals.

Development needs in the Western Balkan as an opportunity

The same extent of the needs for financing economy exists in the region of the Western Balkans. Overall investment needs are still huge, and the lack of infrastructure capacity and investment is particularly visible in the infrastructure sectors, such as: waste, water, health, education, etc. Although there are many financial initiatives present in the region (European Western Balkans Investment Framework – WBIF, the Chinese Belt and Road Initiative – BRI, European Initiative for Green Economy Projects, etc.), and the financial conditions are improving, the Western Balkans region is characterized mainly by:

A) Huge development needs. According to a recently published study on investment in the Western Balkans, lower bound estimates of additional investment needs, only in alternative infrastructure investment, for the next five years, are at around EUR 800 million. Also, EBRD Transition Report 2017-18 estimated that the annual infrastructure needs for the period 2018-2022 are particularly high in the Western Balkans, with Bosnia and Herzegovina, Albania and

¹ Investment in the Western Balkans: New Directions and Financial Constraints in Infrastructure Investment, Mario Holzner and Richard Grieveson (November 2018). Vienna: The Vienna Institute for International Economic Studies.



Montenegro leading in the Western Balkan region. In addition, EBRD estimates annual investment need in infrastructure to be in the range of 8% to 12% of GDP, in order to realize so called catch-up investments (to infrastructure levels found in more advanced countries), as well as replacement and maintenance. Having in mind that countries of the region dedicate about 1% of GDP in infrastructure, the infrastructure gap is visibly huge.

B) The countries' indebtedness. At the same time, levels of external debt have increased significantly, particularly after the financial crisis outbreak, which represent a constraint for further traditional (loan-based) financing of investments and growth. This represent a serious challenge for public sector, aiming to realize further capital investments and development needs.

Therefore, as it is the case in the EU, there is a growing awareness in the Western Balkans region for the need for private financing involvement, where commercial banks play a crucial role.

The role and importance of banks in Financing Sustainable Growth

As previously mentioned, within the vision of a long – term contribution to the economy and facing the economic, social and political challenges of our time, banks today play a leading role in financing development. Their significance in the growth paradigm of growth implies more segments:

As intermediaries, banks have an increasingly important role, providing a wide range of modern services, including expertise, ranging from payment services and payments, support to exports, financing the needs of large

companies, risk management to participation in the capital market.

The growing role of banks in the financing growth mobilizes significant amounts of accumulated investor savings (including retail investors), which require a stable investor protection framework, the freedom of choice of an adequate marketable (tailor-made) material, as well as the financial education of investors.

Banks are already the most important source of financing for the development of European companies; the latest EIB Investment Survey (EIBIS), states that bank financing accounts for as much as 70% of their external resources. In addition to the importance of the existing ones, access to financing and new potential clients is being facilitated, especially to SMEs.

Growth financing also affects

² EBRD Transition Report 2017-18 (2017). London: EBRD.

REGION

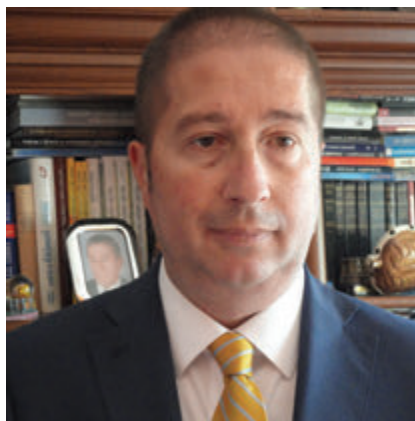
the business, organizational and cultural pattern of the banking business itself. And in business with the economy and with the population, the focus is on quality and sustainability of relations with clients, instead of individual transactions (relationship-oriented versus deal-oriented).

Growing importance for sustainable, green and socially responsible investment and the concept of circular economy, allows banks, in addition to traditional initiatives, to develop new techniques and financing areas and become an important partner to the public sector, in achieving economic goals. Green Bonds, Development Impact Bonds, Public Private Partnerships, Concessions, are some of the models ready to be more installed in the Western Balkans region.

Eventually, recent data and years record that among top 245 banks active in the international project finance market, as many as five in the list of top ten banks, are European banks. The culture of European banks being involved through the technique of project finance in the long-term investment and financing of projects that support sustainable economic growth, is present (in)directly in the Western Balkans region, too, via their natural link with local banks (that are active within the same banking group). Thus, banks operating in the Western Balkans region, although outside EU, can offer know-how, financial, human and other capacities for the realization of the economy's growth paradigm in the domestic market. Due to their overall capacity, they can represent relevant, and perhaps a key partner, in financing sustainable growth in their respective economies that are facing huge developments needs and serious budget constraints.

“A FRAME FOR PICTURE” BANKING SYSTEM in Montenegro

I believe that market competition and a favorable business environment will lead to an increased volume of loans. With the introduction of new banking products, through the digitalization process, customers will have easier access to all financial services.



Nebojša ĐOKOVIĆ, MSc

Advisor

THE ASSOCIATION OF MONTENEGRIN BANKS

The banking system in Montenegro has undergone many challenges over the past few decades, but, nowadays, its current main features are: safety, stability and confidence. All significant indicators, such as: liquidity, solvency and capital adequacy, reached their maximum levels during the last several years. Certain financial institutions suggest possible consolidation, while, on the other hand, there are numerous requests of financial institutions for entry into the Montenegrin market.

Currently, 15 banks operate in Montenegro and most of them are banks whose parent banks operate in the EU member states. All banks are members of the Banking Association. Montenegro is in the process of EU accession, and Chapter 9 that refers to the banking and financial services

was opened a few years ago. To that end, the regulation has been amended according to the planned dynamics, whereby a new Credit Institutions Law will be passed by the end of the third quarter of 2019, as well as all accompanying secondary legislation. This would largely align the banking regulation with EU regulations, and full alignment would coincide with Montenegro's accession to the EU (expected by 2025).

The banking sector in Montenegro, at the system level, recorded positive trends. All significant balance sheet positions recorded growth: total assets grew by 5.52% at the end of the third quarter 2018, compared to the end of previous year, while total loans increased by 10.70%, total deposits by 5.88% and total capital grew by 0.83%.

The aggregate solvency ratio, as a relative indicator of banks' capital adequacy, was 17.15% at the end of the second quarter of 2018, being significantly above the legal minimum of 10%. In addition, liquid assets already exceeded the level of EUR 1,037.9 million as at end-September 2018, accounting for over 23.52% of total assets of banks, or nearly one quarter of total bank assets. These assets, under the conservative definition of liquid assets used by the Central Bank, include only cash, funds at gyro account, sight deposits with banks and half of the reserve requirements of banks. This means

that the liquidity position of banks is extremely strong and the banking system, as a whole, has an adequate amount of capital to cover all risks it is currently exposed to.

The banking sector is characterized by positive trends, in the profitability area, too. Thus, by end-September 2018, the banking system reported a net profit of EUR 29.9 million at the aggregate level. The Q2 2018 aggregate return on assets (ROA) stood at 1.49% and return on equity (ROE) was 12.58%. As of September 2017, ROA and ROE were 0.84% and 6.53%, respectively.

The level of non-performing loans, as an indicator of the quality of bank loan portfolio, recorded a constant and strong declining trend. The share of non-performing loans (NPL) in total loans was significantly reduced during previous period. Namely, from a level of over 25% in 2011, NPL recorded a decline of 6.71%, indicating an excellent dynamic of NPL reduction. The activities carried out by the Central Bank of Montenegro, in the previous period, contributed to such dynamics in reducing NPLs, as well as the activities carried out by the Banking Association and banks. It is worth pointing out that the Regulator required banks to prepare a three-year NPL resolution strategy, whose implementation is continuously monitored and supervised. Moreover, the law governing voluntary financial debt restructuring was amended (the Podgorica Approach) in order to encourage the debtor's recovery and affecting the liquidity of the economy. The results of the amended legislation, which will remain in effect until May 2019, are satisfactory. As of September 2018, total restructured loans amounted to EUR 36.7 million. Further positive effects of the application of this law are expected in the upcoming period. Banks transferred bad debts also to their factoring companies and sold part of

the NPL portfolio. Nowadays, banks have more conservative lending policies than they had ten years ago, and the regulation has changed considerably.

Bearing in mind the current NPLs at the system level, we can conclude that non-performing loans are no longer a systemic problem, but a problem of some banks that must make additional efforts to reduce them further.

With regard to the comparison of interest rates on savings in Montenegro with rates in the countries of the region and the EU, it can be noted that they are somewhat higher, as they range from 1.2% up to over 2% per annum, while they have a negative sign in many EU member states. In addition to the return, which is not high, keeping money in banks has a security effect, i.e. there is no

risk of theft, and all deposits up to EUR 50,000 in Montenegro are secured through the Deposit Protection Fund. It is planned to raise this scale up to EUR 100,000 in the upcoming period.

A big market competition that runs on a relatively small area shows that Montenegro has become an attractive investment destination. Tax policy, removal of business barriers, the use of Euro as a domestic currency, and the alignment of the legislation with EU regulations contribute to an increasing number of investors and possible arrival of new banks in Montenegro. In this regard, I believe that market competition and a favorable business environment will lead to an increased volume of loans. With the introduction of new banking products, through the digitalization process, customers will have easier access to all financial services.



JOURNALIST CORNER

Credit to Economy

An alternative view

Further formalization of the economy is another element that requires a lot of attention, in the context of promoting lending, due to the increase in the reliability of financial analysis. This is a process that must go on!



Bardhi SEJDARASI

Secretary General
ALBANIAN ECONOMIC JOURNALISTS'
LEAGUE

An open debate about credit to the economy is never an idle or out-of-fashion discussion, why not. Albania, financial sector businesses which offer their service to non-financial sector (businesses and individuals) and Albanians in general, need such a debate, but the fact is that such a debate is lacking, or rather, is locked within a very small group of people and subjects. Why should this happen?

The Albanian financial services have written its own history with all ups and downs. Banks have been caught up in the dilemma of choosing between non-performing loans and ensuring profits. The banking system should see under a critical eye the fact that during a given period of the last two decades, lending standards were lax to the point that anyone could apply and get a loan, under the terms or practices of the money seller. Additionally, the

non-financial (money) buyers should feel ashamed that they have been buying money for years and continue to do this, with cooked books and false financial statements, thus lying, not only banks but themselves in the first row, and finally have found themselves in the quagmire



Loan demand, although increasing, is estimated to be at relatively low levels. Cutting key interest rate (the instrument through which the Bank of Albania indirectly affects the financial markets) more than 18 times, over the last 6 years, has had a greater impact on time deposits' outflow from banks, rather than stimulating lending, whereas the dropping average loan interest rate has not produced the expected effects on lending.



of the well-deserved bankruptcy.

But this is just one side of the coin. The practice of the last two decades has shown that non-financial actors have been always aggressive toward the state, which does not "help" them to borrow, establish and develop their businesses. The state has been (according to them) "guilty" even during the years when lending reached peaks, or even when credit to the economy and business has witnessed undeserved "abysses"! In fact, their "state" should be found guilty for another reason: failing to

act as an honest referee, in a market where others play and the "state" benefits! "The state" has been, for nearly three decades, watching and doing almost nothing about "double book keeping" and cooked balance sheets! Should the state intervene in such situation? It has all legal and institutional mechanisms to intervene, to put things in order, to make a level playing field for the seller and the buyer of money. In most of the time, it did not accomplish such a complete task, despite the current fact that there is a move in right direction, in terms of halting double facet balance sheets: "one for the bank, the other for the taxman"! Also, insufficient efforts were made to remove from the market those who do harm to the market for investment and business, which caused non-performing loans to skyrocket. Any example there? Of course! The old bankruptcy law had never created the possibility for a real execution of any commercial company. Abundant resources were spent on a new, contemporary and so-much appreciated bankruptcy law, but it continues to walk "single - footed". It has been left incomplete, for years, with regulatory by-laws, thus being ill - enforced to help banks, at the end of the day, to recover funds from non - performing loans! Quite a little is said actually, about the bankruptcy law, drafted by prestigious international institutions, which looks sleepy rather than being implemented. What is the real effect? There are still many loans that are not paid

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back by borrowers, which are not technically solvency to recover them. How long will they continue in such situation?

Looking back at several months ago, among some interesting proposals from the Albanian bankers' community, forwarded to the Albanian government with the aim to include them in the fiscal package, which accompany the annual state budget, an interesting fact was found: none of the professional proposals from banks was included in the new fiscal package of 2019! Why? No answer! The positive effort to fix the cost system of Albanian bailiffs, who are trying to execute bank collateral, was postponed *ad kalendas Graecas*! Finally, after so many attempts, the administrative court finally solved the impasse. The (August) 2018 Guideline is finally in force! Hopes die last! However, the economy cannot be fed with hopes, it requires capital, credit, clear and precise rules of game!

What impedes lending?

Nothing at all! The overall economic and financial conditions, the healthy state of the banking system, the monetary policy pursued, and other factors have created a favorable environment for crediting the economy. Such a static expression, found in the authorities' reports, proves that there is (plenty of) money in Albania, but there is no CAPITAL! On practical grounds, we have one thing to appreciate: well-capitalized commercial banks, the sufficient liquidity and the growing maturity of this market! So, we have

money! Now we need to have capital, too! Here comes the watershed! Some claim that banks have "tightened" the ropes and "do not lend"! Others say that the banking sector should "adopt a proactive approach to better utilize the existing opportunities and increase financial intermediation". Some others, siding with the government underline that "the banking sector should be supported, by further simplifying legal and procedural barriers", deemed by the banking industry as factors that negatively affect the quality of loan portfolio and its further expansion. Bankers, in addition to noticing a still feeble demand, which the banking industry sees as a problem, insist on the lack of law enforcement consistency, or the need to improve the legal framework, associated with the process of collateral execution and bankruptcy. The bank loan volume granted to Albanian businesses and consumers is not stagnant, rather Bank of Albania's data show a decline, especially in business loans. Of course, there is the effect of the exchange rate, loan write-offs, and so on. But over the last fifteen years, bankers have always stressed that a new economy like Albania will experience a lending growth of 10 - 15% a year, because the volume of business and consumer loans started from almost zero.

Bank - business, a difficult relationship

Since September 2011, the Bank of Albania has been pursuing an easing monetary policy (lowering the cost of money), by cutting the

key interest rate, but this has not produced any significant effect on lending expansion. Monetary policy is largely consumed in favor of lending expansion, but demand for investment and consumption loans has not increased to the point of matching the country's economic development needs. On the other hand, the reduction of interest rates at historical levels has helped shifting the demand for loans toward domestic currency, but the dynamics of loan growth remains moderate. Loan demand, although increasing, is estimated to be at relatively low levels. Cutting key interest rate (the instrument through which the Bank of Albania indirectly affects the financial markets) more than 18 times, over the last 6 years, has had a greater impact on time deposits' outflow from banks, rather than stimulating lending, whereas the dropping average loan interest rate has not produced the expected effects on lending.

I like to quote a bank's CEO when saying: "The banking system falls short of growing more than the country's economy." By seeing the glass half full, I daresay that the banking system keeps on growing, and the growth comes from further improvement of lending infrastructure. Further formalization of the economy is another element that requires a lot of attention, in the context of promoting lending, due to the increase in the reliability of financial analysis. This is a process that must go on!



Cybercrime - threats and risks

Cyber reality is the new territory where humanity must begin building new cities and this requires putting everything we have, actually in the traditional form, in a virtual way.



Dr. Hergis JICA¹

Chief Commisar
Cybercrime Unit
STATE POLICE

If we were talking briefly about cybercrime, then we should analyze their methods, trends and extent, as well as the risks associated with money laundering. Afterwards, such risks could be divided into four main groups, as per following:

- Technological;
- Operational;
- Regulatory;
- Jurisdictional.

This break down is very general and to understand exactly what they represent, we need a comprehensive and well – detailed analysis, considering threats and weaknesses, the society and the state face, in relation to cybercrime. Also, the potential consequences and measures to be taken, to manage and minimize them, are of

important relevance. Relying on the substance, but also on how online crime is shared, some key threats to a society can be easily identified, if not, for the state and government, itself. Such kind of threats would be:

State and society openness toward computer systems. The computer systems used today offer a favorable environment for the international supply of goods, the



Almost in all cases, cybercrime offenses are committed by organized groups of persons, or groups that may be called "mixed" ones. Criminal offenses ending with "success" can only be carried out through an accurate preparation and organization, which in fact makes cybercrime an organized crime.



provision of various financial (and non-financial) services, but also for the transfer of various funds between individuals and legal entities. These computer systems are connected to the internet, and at the same time, the collected information can also be stored on the internet. Despite all these new opportunities, brought by the use of computer systems, there is a wide space, on the other side, for committing various cybercrimes, as well as for laundering the

proceeds of such crimes, and other offenses committed, due to the use of computer technology;

Cybercrime is fast but cost-effective. Interconnected computer systems create technological infrastructures that provide cybercriminals a quick access to any computer data, as well as on independent online payment systems. These systems allow them to conceal traces, but also to transfer their profits from criminal activity and this definitely at a very low cost for them;

Cybercrime is a high – tech criminal offense. The rapid growth of information technology and the difficulty in dealing with this type of competence, and linking such difficulty with the long-but-excessively bureaucratic process of creating the legislation and the relevant regulatory framework lead to a situation where measures taken to prevent and combating cybercrime are often insufficient, or do not exist;

Cybercrime is complex by nature. The use of computer technology, information and communication networks, but also promotion and social motivation provides financial and material gains to cybercriminals, but also a certain social status, within virtual space. Cybercrime authors are engaged, in many cases, in discrediting governments and countries by creating websites with terrorist content, by harming, destroying, introducing fake data,

¹ MSc. in Economic Sciences, MSc. Penal Sciences, Msc.(c) in Cybersecurity.

or rendering computer systems, inoperable.

Cybercrime's anonymity.

Lack of direct physical contact, a relatively small criminal responsibility, and difficulties in identifying perpetrators, or even gathering enough information in virtual space, make cybercrime extremely attractive to criminals;

Cybercrime has an extensive jurisdictional spread.

As far as jurisdiction is concerned, cybercrime has a specific nature, as it is a work that can be prepared and performed by virtually any site, where the criminal can have internet access. In a time of ever – growing services across the internet and when the population using computer equipment is growing, the cybercrime is becoming more and more widespread. This kind of cybercrime is very attractive to criminals, as they can operate from countries with different jurisdictions and often from places where these offenses are not punished, crime proceeds are not controlled, their monitoring is almost impossible and thus may create favorable conditions for other criminal offenses, arising from the field of technology and information. Some jurisdictions are used by criminals to distribute profits from criminal activity and, in this way, monetary flows are constantly directed at these sites, and at the same time generate cash flows from such countries to other jurisdictions, with the aim of losing tracks;

Almost in all cases, cybercrime offenses are committed by organized groups of persons, or groups that may be called "mixed" ones. Criminal offenses ending with "success" can only be carried out through an accurate preparation

and organization, which in fact makes cybercrime an organized crime. Cybercriminals usually seek to carry out actions that will bring high profits, leading to cybercrime growth in the financial sector, but on the other hand, committing such crimes requires knowledge of financial interactions, banking system activity and equipment, etc. In addition, cybercriminals frequently use the services of "traditional" criminals, by which they can convert benefits to cash.

All of the above call for an urgent and continuous need for the development of protection methods for the cyber defense system, which are mainly related to:

- Timely detection of cybercrime offenses;
- Step-by-step documentation of the issues, since given the length and complexity of the investigation of these acts, the use of electronic evidence and proofs, during prosecution, becomes difficult.

Some features of electronic payment systems that may be easy to create and require low cost for their further improvement may be among the factors that indicate potential risks of money laundering. The high – speed rate of transactions, including cross-border money transfers, facilitates various moneylaundering schemes. Smaller expenses, associated with such transactions, reduce the cost of money laundering services and encourage criminals to seek new sources of illegal revenues. The fact that benefits may be easily converted into cash or disposable money, may allow the authors to launder the crime profits in many jurisdictions. In addition, there is an increasing number of criminal

offenses on the internet, and this has led to a notable drop of public confidence in the financial system integrity, bank secrecy, personal data protection and financial transactions, which are increasingly executed via new technologies.

If we have a loss of public confidence in various financial services we would have less engagement of the population on economic development. Such commitments could be translated into consequences, which can be as follows:

- Financial: loss of inter-related institutions, their clients, loss of shareholder profits, etc.
- Reliability: disclosing confidential information, such as: banking and personal data; loss of customer confidence in the banking system in general and in online banking services, which results in a reduction of cashless transactions, etc.
- Legal: customer requirements, etc.
- Technological: Banking institutions are bound to use, quite often, expensive and complex security tools and products to ensure a reliable functioning of computer and telecommunications systems, to provide all data they manage.

Cyber reality is the new territory where humanity must begin building new cities and this requires putting everything we have, actually in the traditional form, in a virtual way.

Public-private cooperation in raising awareness on cyber risks:

The EBF-Europol Cyberscams campaign

The Cyberscams campaign is one example of what can be achieved when public and private sectors join forces. The rapid expansion of digitalization, the huge volumes of personal data that circulate on the internet and the unprecedented interconnectedness of systems, things and people do not allow for ignorance when it comes to our digital security.



Alexandra MANIATI

Senior Policy Adviser, Cybersecurity & Digital Skills
EUROPEAN BANKING FEDERATION

A group of criminals, called “the Carbanak/Cobalt group”, managed to rob hundreds of million euro from over 100 banks in 40 countries by getting access to ATM software. Their modus operandi was simple and ingenious: commands that were linked to ATM hardware were manipulated in such a way, that the hackers could program the cash machines to throw out money at a given time. The only thing that they had to arrange after that was to get their accomplices, at the right place, at the right time, to pick up the bills

coming out of the ATM. How did the criminals get access to the banks’ systems and what can we do to avoid similar future incidents?

In order to change the commands of software in place you need to plant a strong malicious code, to corrupt the existing settings. In other words, you need a malware file to infect the PC that is linked to the system you want to manipulate. To get these destructive files on the device that is connected to the ATM infrastructure, the Carbanak/Cobalt hackers sent hundreds of emails with the malware attached, targeting employees who worked in relevant departments. It took one employee to open the attachment of such an e-mail. Human errors can happen and that’s where cyber risk awareness comes into the picture. European statistics mention that 43% (i.e.165 million) of Europeans lack basic digital skills. And this happens while 95% of successful cyberattacks are enabled by some kind of human error, intentional or not. In an overwhelming number of cases attackers play on human psychology and behavior, very often using social engineering techniques to trick people into disclosing sensitive information (e.g. passwords or banking credentials), or performing specific actions. This

kind of manipulation, coupled by a lack of basic digital self-protection knowledge, makes everyone of us a vulnerable target, not only in our financial transactions, but also in all aspects of our digital lives.

In cases like the Carbanak/Cobalt hit, a phase of preparation precedes the sending of the phishing emails. In identifying their targets, the attackers need to collect information on the targeted bank (or any other company for that matter), the relevant department and the people working there. If, for example, a department happens to be reviewing candidates for a vacancy, malicious emails containing a genuine-looking application with a CV (malware) attached would be perfectly timed. If the quarterly figures are to come in during that period, malware could be attached to files resembling a regular company report. And then how would the attackers obtain the email addresses of targeted employees? Other malware, or social engineering could be used to access an internal employee list, to figure out who is working where. Moreover, social media profiles and posts could be combined to produce the necessary information. Nowadays, stealing data is as important and profitable as stealing

money.

So, what is the answer? This example – which is one of many – highlights the importance of raising awareness on the risks of cyber fraud and the necessity for cyber hygiene. It demonstrates that cybersecurity is not a matter of ICT systems and ICT experts, only. It is a shared responsibility that requires a whole new cybersecurity culture to be nurtured in all of us, workforce and citizens, starting by a simple “think before you click” attitude.

The Cyberscams campaign of EBF & Europol

Adapting behavior, habits and skills to the new digital context is a long-term goal that can only be achieved by large-scale, continuous and effective actions, which in turn require strong public-private cooperation. The European Banking Federation (EBF), with its very broad network of 32 banking associations and 3,500 banks all over Europe, has the expertise to create content on all bank-related issues, but also the capacity to disseminate information and raise awareness, throughout a very large number of stakeholders and members. A strong believer in trusted public-private cooperation, the EBF signed a Memorandum of Understanding (MoU) with the European law enforcement agency – Europol – already in 2014. The objective of the MoU was to strengthen cooperation between

the European banking sector and the European Cybercrime Centre (EC3) on three levels: operational cooperation, information sharing and awareness raising. The latest output of this partnership on the awareness-raising level is the joint EBF-Europol campaign on Cyberscams.

Information coming from EBF



members and Europol’s annual cyber threat assessment survey (iOCTA) showed an upward trend in online fraud and phishing over the years and also, an increasing degree of sophistication. The seven most frequent scams were selected for the new campaign, all based on social engineering with the goal of



getting victims to disclose sensitive data and/or perform actions resulting in financial losses:

The Europol EC3 team and the EBF Cybersecurity Working Group, with impressive support of the members, worked closely together for almost a year to develop the content of the campaign (signs to look for in order to identify the scams, advice on how to avoid falling a victim, tips on what to do if becoming a victim)

that would fit both audiences of participating police agencies and bank associations. This was then transformed in easy-to-understand and visually attractive material that was subsequently translated into all the EU languages.

Finally, a very comprehensive toolkit, with all the material but also with suggested media messages was created, for the promotion of campaign. This made the threshold to participate extremely low and saw smaller associations supporting even if their communication capacities were relatively low. The campaign was officially launched on 17 October 2018, at the annual EBF Cybersecurity Conference in Brussels, and in the context of the European Cybersecurity Month, by Steven Wilson, Head of the European Cybercrime Centre of Europol, and Wim Mijs, CEO of the European Banking Federation.

The social media channels and webpages that are actively used by bank associations and banks made it possible to reach a large and diverse audience. The Cyberscams campaign welcomed 34 participating countries throughout Europe and beyond, supported by, among others, 24 national banking associations – members of EBF. Within the first five days following the launch, the total of social media posts, counting Twitter, LinkedIn and Facebook, was 3,416, while the reach was an incredible 4,6 million views. And this was only the beginning. The material is to be used repeatedly on any relevant occasion and more organizations, institutions and individual businesses wishing to promote the campaign are always welcome to join.

The Cyberscams campaign is one example of what can be achieved when public and private sectors join forces. The rapid expansion of



Launched on 17 October

- At the 2nd EBF Cybersecurity Conference
- During the European Cybersecurity Month - week on Cybercams
- Deployed in 34 countries



digitalization, the huge volumes of personal data that circulate on the internet and the unprecedented interconnectedness of systems, things and people do not allow for

ignorance when it comes to our digital security. Commissioner for Security Union Julian King, in his concluding keynote at the EBF Cybersecurity Conference,

noted that more public-private cooperation is needed throughout Europe "like what we are seeing today between Europol and the European Banking Federation".

In his concluding keynote, Commissioner for Security Union Julian King:

"We need more public-private cooperation in cybersecurity throughout Europe like what we are seeing today between Europol and the European Banking Federation".



Issues and strategies for deposit insurance and mitigating NPL risks, in the frame of European Banking Union

In Eurozone, the implemented economic and financial model seems to have changed structurally, in the frame of economic growth and inflation rates at levels lower than those observed before the 2008 crisis. Consequently, ten years later, in 2018, the capacity and capabilities of many economic, private or public actors to repay their loans are still considered "problematic".



Prof. Dr. Adrian CIVICI

President
EUROPEAN UNIVERSITY OF TIRANA

The 2012 decision for creating the European Banking Union was a direct response of EU, the Eurozone and ECB for mitigating the consequences of the global financial crisis and the need for more efficient strategies for consolidating the European financial space, eliminating weaknesses of the banking sector, strengthening the banking supervision, preventing the deterioration of public finances, increasing the deposit insurance, and so on. The European Banking Union was based on three important building blocks (pillars): the Single Supervisory Mechanism (SSM) (for large European banking groups to be implemented by ECB); the Single Resolution Mechanism (SRM);

the European Deposit Insurance Scheme (EDIS) (harmonization of deposit insurance system at European level). The third pillar, the "harmonization of deposit insurance system at European



Beyond the solutions that consist in NPL write-off from bank balance sheets, new provisions, securitization and the creation of "bad banks", current debates underline that it is important the public authorities, at European level, should focus on actions and strategies which consist in: better definition of the regulatory and institutional framework, extension of ECB's banking supervision over a greater number of European banks, implementation of monetary and budgetary policies at Eurozone level, with the objective of "purchasing doubtful and problem loans", the increase of capital at banks in financially distressed situations, etc.



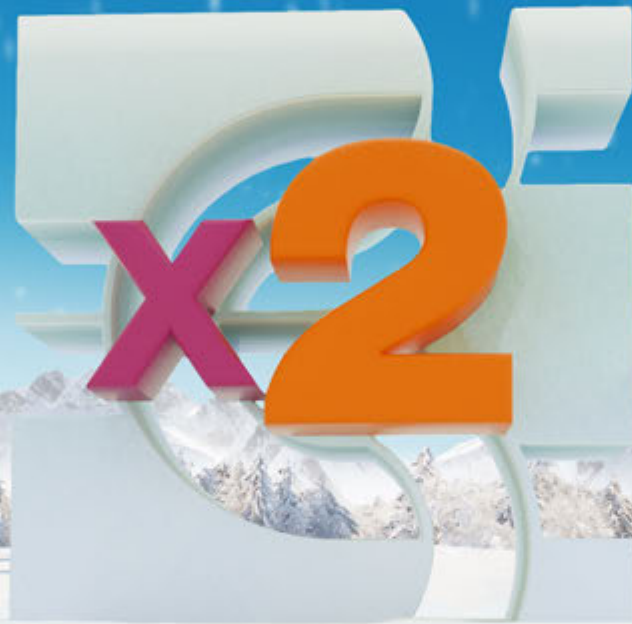
level", planned to be implemented by 2024, seems to progress more slowly, due to the assessment by

some member states, especially Germany and Netherlands, that: "in Eurozone, the banking crisis risks are very heterogeneous, incapable or deposit insurance schemes to be harmonized or unified". National bank deposit insurance systems are still deemed as highly vulnerable to local shocks, especially the Greek, Italian and Spanish ones. Obstacles for achieving such objective and the creation of an integrated banking market are also closely related to the issue of Non-Performing Loans (NPL), in various Eurozone countries. Solving the issues and obstacles, caused by NPLs, is considered as an important step towards restoring confidence in achieving the objective of the integrated European banking market.

But how does the current NPLs' situation appear in different Eurozone and EU countries? Based on definitions the European Banking Authority (2014 document: "Implementing technical standards on supervisory reporting on forbearance and nonperforming exposures", aimed at harmonizing the concept of doubtful or bad loans at European level), the most problematic situation is evidenced in 2014, when the the NPL rate at European banks' balance sheets scored approx. EUR 1 billion, thus causing concern about the

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re-emergence of a new systemic crisis, which could seriously damage the European banking sector. By the end of 2017, the total outstanding loan stock in the Eurozone amounted to EUR 14,864 billion. About 5% of such amount, or EUR 740 billion, were NPLs, while only 46% of it, or EUR 340 billion, was provisioned, which means that the difference, i.e. the sum of EUR 400 billion, was unprovisioned. Meanwhile, referring to ECB data for H1 2018, the situation seems to have evolved positively. The share of NPLs of the largest European banks has dropped from 7.3% at end - 2015 to 4.8% in 2018, with a tendency to fall even further in the coming months. As for 2018 data (European Banking Authority), NPL rate still results in alarming levels, in some countries. The most concerning situation is found in Cyprus and Greece, where net provisioned NPLs account for over 20% of GDP, while NPL-to-total loans ratio are at 38.9% and 44.9%, respectively. "Quite worrisome" is the NPL situation in Slovenia (10.5%), Ireland (10.4%), Italy (11.1%) and Portugal (10.5%), while the net NPLs result in the range of 5-8 % of GDP. The total amount of non-provisioned NPLs for the Eurozone is about EUR 400 billion, or the equivalent of 3.5% of Eurozone's GDP, a percentage considered to be "relatively worrisome". Banks and bank loans continue to encompass a significant role and share in the economy of many EU countries and Eurozone. Using the "loan amount/GDP" indicator, such ratio is above 200% in Cyprus, Spain, France, Luxembourg and the Netherlands; 151% in Belgium, 90.1% in Estonia, 78.9% in Germany, 37.7% in Latvia, etc.

Beyond the solutions that consist in NPL write-off from bank balance sheets, new provisions,

securitization and the creation of "bad banks", current debates underline that it is important the public authorities, at European level, should focus on actions and strategies which consist in: better definition of the regulatory and institutional framework, extension of ECB's banking supervision over a greater number of European banks, implementation of monetary and budgetary policies at Eurozone level, with the objective of "purchasing doubtful and problem loans", the increase of capital at banks in financially distressed situations, etc. The financial crisis, erupted in 2008 as a result of high-risk subprime mortgage loans, highlighted the weaknesses of the global financial structure, built upon hedging and collateralized instruments, that should theoretically protect investors, but were practically incapable to guarantee protection against systemic shocks. Negative consequences on the economies of many countries created unsurmounting problems and difficulties for private and public economic actors, who were unable to repay their loans.

In Eurozone, the implemented economic and financial model seems to have changed structurally, in the frame of economic growth and inflation rates at levels lower than those observed before the 2008 crisis. Consequently, ten years later, in 2018, the capacity and capabilities of many economic, private or public actors to repay their loans are still considered "problematic". The rate of doubtful loans has expanded, to reach the "concerning" and "very worrying" levels in Greece, Cyprus, Italy and Portugal. According to banking and financial experts, one of the possible explanations for this difficult economic situation is

that the crisis caused significant financial losses, a part of which is not accurately and realistically assessed, yet. These uncertainties about the real value of private and public debts continue to fuel a lack of confidence in the Eurozone, or even wider, in all EU countries.

This situation is considered as the most "problematic", in relation to implementing the third pillar of the European banking union, i.e. the harmonization of the deposit insurance system, at European level. In the EU's top executive instances in Brussels and ECB, the stepping out from the current EU crisis and curbing populism, which requires the dissolution of Europe and its financial and economic elites, "is linked to minimizing or closing the final chapter of bad loans". That is why Germany, Netherlands, or any other European country continue to be against the unification of deposit insurance schemes and a rapid progress for the entire institutional package of the third pillar of European banking union. What is strongly demanded from all Eurozone countries is "finding concrete and efficient solutions to create opportunities for banks, especially large ones with significant impact on banking markets, to reduce exposure and write-off NPLs from their accounts and balance sheets".

What is being proposed and where are the efforts focused to minimize the NPL problem and to progress toward a full realization of harmonizing deposit insurance schemes at European level?

First, in the reaction of private players in the banking market, for a more effective management of the risk caused by the high-level of NPLs. Banks are aiming to better assess the risk of holding NPLs and the resulting financial losses, in the frame of exposure levels and

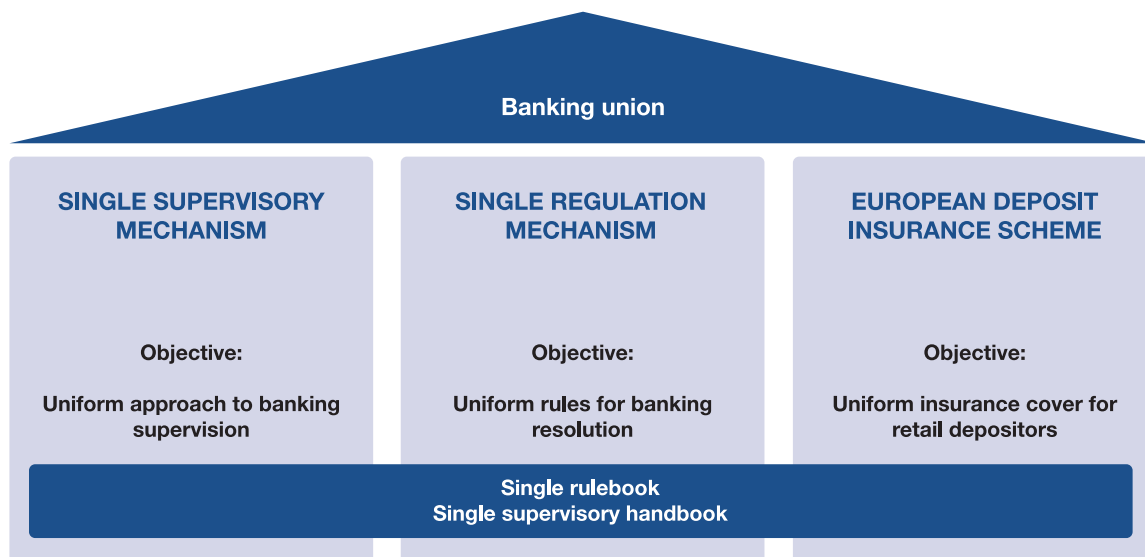
compliance with their balance sheet obligations; to make provisions, in terms of reassessed amount of losses, in accordance with IFRS9; to sell NPLs to secondary markets through securitization process, which allows banks to free their regulatory capital and use it to grant new loans; to provide in a broader prudential context, in accordance with ECB guidelines and rules for prudential provisioning, to make a 100% provisions for unsecured loans; for troubled banks, create structures - inside or outside the bank - like bad bank type, for writing-off NPLs from their balance sheets; to stimulate public-private partnerships in the secondary markets for NPLs; etc.

Secondly, in the reactions form the authorities and public institutions, in the context of the adoption of European banking union, within which the ECB

oversight is expanding to a vast majority of Eurozone banks. Various European states and governments, in partnership with private investors, are being stimulated to add capital to bad bank structures; in some European countries public institutions are increasing the guarantees and are recapitalizing troubled banks; are taking steps to avoid bank panics, by placing temporary capital controls on banks, limiting massive capital withdrawals, etc.; are relaxing fiscal rules affecting banks' balance sheets and their capacity to restructure NPLs.

Third, at the European level, the ECB and the European Commission, beyond the expansion of the banking supervision sphere, are implementing a less conventional monetary policy to enable banks to refinance themselves; is organizing stress tests that enable

banks to assess their capacity to resist strong shocks from falling GDP, falling real estate prices etc.; European Commission, through its new legislative initiatives, is constantly aiming to improve European banking legislation; Eurogroup constantly underlines that: "solving banking issues at individual Eurozone countries level would be an essential contribution to solving the NPL problem at the Eurozone level", thus increasing the confidence in the practical implementation of the harmonization of the deposit insurance schemes at European level. In this context, the creation of a specific budget or a European deposit insurance fund is considered to be the most important step, in the implementation of the third pillar of the European banking union.



SUSTAINABLE DEVELOPMENT GOALS



GOAL 1

On 21 December, a holiday lunch was organized for 48 children of 226 of State Police Martyrs, with the participation of the Minister of Interiors General Director of State Police.

GOAL 2

On Christmas Day, ABI Bank joined the initiative of Ecovolis movement, at "Mother Teresa" square.

GOAL 3

The Bank supported

- The Bank supported the activities organized by YWCA of Albania, in the frame of the information and awareness raising campaign for women and girls, on prevention of breast cancer.
- Tirana Marathon 2018, organized on October 7th, as the largest sporting event in Tirana. ABI was also present with a large running team.
- The first edition of the "Wolf Trail Marathon" on Voskopoja Mountains.

GOAL 4

The Bank supported

- The "Road to Success" event, which, in its third year of organization, hosted some 2,000 professionals from different areas of expertise.
- On November 14th, RIT Kosovo (A.U.K.) held the fundraising activity for the third time, at Harvard Club, in New York, USA.

GOAL 8

ABI Bank was the sponsor of the largest agricultural fair in Albania, which took place on October 12 - 13th, at "Mother Theresa" Square.

GOAL 11

ABI Bank sponsored the Korça Municipality project: "Green Stations", which ended on October

6th, with the Apple Feast in the village of Dovran.

ART, SPORT, CULTURE

ABI Bank supported:

- The "Sweet & Sour" tour concerts that transmit artistic emotions and values of the cultural heritage of Albania;
- The "Family" entertainment program is a show of energy, games, adrenaline and endless laughs;
- Concert: "Misa Criolla" on October 16th, at Orthodox Cathedral's Amphitheater;
- Nationwide meeting of "Kadri Roshi" professional theater;
- Event: "United in Music and Memories for Skanderbeg", organized on November 19th, at Vatican,
- Concert Tour: "Cinema Sounds", by RTSH Symphony Orchestra.



ALPHA BANK

During the period October 1-5th, the bank rewarded all customers using its cards, a 10% reimbursement of their expenses spent with its partner restaurants.

GOAL 3

Alpha Bank supported Tirana Marathon, where it awarded 3 prizes for 21K winners, 2 awards for 10K winners and 3 awards for winners of the category "We too".

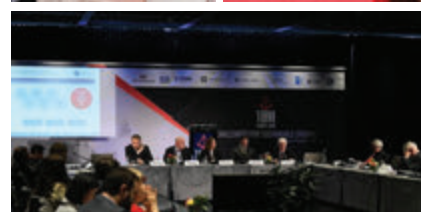
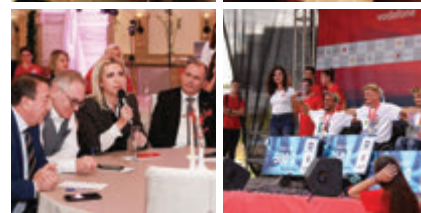
GOAL 4

On November 2- 3rd, Alpha Bank - Albania attended the event: "The Road to Success". The proceeds from tickets went to charity.

GOAL 2

The Bank supported:

- The event: "Donation Bracelets", organized on December 6th, by Partners Albania, where individuals



and businesses came together to support 3 social causes, aimed at improving the lives of vulnerable groups.

- The first edition of " Tirana Economic Forum", organized on December 7th, 2018.



GOAL 4

Banka Kombëtare Tregtare supported

"Petro Nini Luarasi" high school in putting on stage a special show in memory of the well-known Albanian poet and writer Migjeni.

"Luigj Gurakuqi" University to organize a wide group of activities during 5 days, on regards of its 25th Anniversary of Opening.

"Gjon Ndoci" school in Bushat and sponsored for the purchase of electronic devices to improve the teaching.

The Development Center "Pëllumbat" by donating gift basket to children under the rhythm of the activity dedicated to the end of the year celebrations.

"Aleksandër Moisiu" University Durrës (UAMD) organized the graduation ceremony of the students of the Faculty of Integrated Studies with Practice (FASTIP).

Goal 9

Librazhd Municipality, IEVP Peqin & ARSHVMB Elbasan

Banka Kombëtare Tregtare donated IT equipments in order to improve their IT infrastructure, thus promoting technological innovation in these institutions.

Goal 15

Green Line Albania

The bank in cooperation with Green Line Albania organized the cleaning

action on November 23, by cleaning every corner of Albania.

Goal 16

The bank financially supported the Albanian Embassy in Ankara for the organization of the event in occasion of the Albanian National Independence Day, 28th of November.



GOAL 2

The bank continued to cover the expenses for 3 children of SOS village.

GOAL 4

On the International Savings Day, Credins Bank was close to "Kushtrim i Lirisë" 9-year elementary school and " Red School" and donated 1,500 notebooks, which included the "I Know how to Save" financial guide for parents and children.

GOAL 9

The Bank supported the Student University Residence No.2, "Isa Boletini" School, Fushë - Kruja Prison, RHD Dibra and Health Center No.1, by restoring premises and donating equipment to improve internal conditions and internal premises of these institutions.

Donated office equipment to improve the physical conditions of the following institutions: AZHBR, Water Company - Mallakastra, Student Treatment Unit, Holiday House of Ministry of Interiors, Health Center No.8, as well as the "Studenti", Multisport Club.

GOAL 10

Credins Bank co-operated with "Down Syndrome Albania" and "SOS Albanian Children's Villages" and bought postcards to send wishes to clients on the occasion of end-year festivities.



GOAL 11

Credins Bank supported "Orafilm - Marubi sh.pk" Association, by covering the costs of the project: "International Film Festival for Human Rights in Albania - Edition 13".

CULTURE, ART AND SPORT

Credins Bank sponsored Albanian Aeronautics, by organizing "Korça Open Air" event.

**GOAL 1**

On October 18th, on the occasion of International Day Against Poverty, Fibank employees were organized with prominent Albanian showbiz characters and Red Cross volunteers, by generously offering their service for the most vulnerable part of society.

GOAL 3

On October 7th, 2018 Fibank Albania became part of the 3rd Edition of the 1/2 Tirana Marathon, with 20 participants - part of Fibank's staff - who ran for the semi-marathon category.

On December 19th, Fibank Albania joined the cause for blood donation, by organizing a donation day at its premises. Other donors responded to the call to donate blood.

GOAL 5

The bank helped the Infant & Child" Hospital Foundation and bought the end-Year Postcards.

**GOAL 3**

On December 6 - 7th, Intesa Sanpaolo Bank Albania organized the second voluntary blood donation initiative for 2018. Since 2010,

employees contribute regularly, by giving life and hope to thalassemic children and people in need.

The bank supported Green Line's national initiative, "Let's Do it! Let's Clean Albania in 1 Day", on November 23rd, 2018, in several cities of Albania.

GOAL 4

Intesa Sanpaolo Bank Albania joined, for the second successive year, the successful international initiative of Intesa Sanpaolo Group & Saving Museum (Museo del Risparmio), Italian Galleries (Gallerie d'Italia) and Historical Archives, to celebrate together the World Savings Day, on October 31st, 2018.

GOAL 5

The Bank joined the international campaign: "16 Days of Activism against Gender-Based Violence", which took place from November 25th (International Day for the Elimination of Violence against Women) till December 10th (International Day of Human Rights), which unites governments, UN agencies, civil society organizations, businesses and individuals.

GOAL 9

On November 16th, Intesa Sanpaolo Bank Albania welcomed at its recently reconstructed branch at "Barrikadave" Str. a group of third year students for Economics - Enterprise from "Lady of Good Council" Catholic University, in Tirana.

GOAL 10

The Bank attended on 22.11.2018 the activity organized by Metropolitan University of Tirana (UMT), where it presented the special offer tailored for the holders of Student Card at UMT.

GOAL 11

The Bank supported the "Tourism



Conference 2018", an event organized by FIAA on November 27th, to help one of the country's priority and strategic sectors for development.

GOAL 12

The bank supported the project: "Albania Soils Land – Consume Albanian", October 12 – 13th, 2018 which aims to bring Albanian products in a common space.



GOAL 1

The bank bought 1,000 postcards, painted by SOS Children Villages.

GOAL 7

At the initiative of ProCredit Bank, a meeting was organized with businesses interested in realizing investments in photovoltaic plants.

GOAL 13

ProCredit Bank brought back an internal campaign in November, under the motto: "Think Eco", through information and awareness raising.

GOAL 17

ProCredit Bank supported various events, in the frame of "German October": "Inspired by People", a variety of activities, such as: theater, exhibitions, films, meetings and various discussions. It also supported DIHA October Fest.



GOAL 3

The bank supported third edition of the best digital marketing

conference "All Web", which was attended by 13 excellent speakers on the stage.

Raiffeisen Invest supported: "Women's and Girls' counseling line" in their awareness-raising activities brought through the exhibition featuring Generation A in Albania, with a special focus on women and girls.

ART and CULTURE

Raiffeisen Bank supported the Opera and Ballet Theater projects in several quality events, welcomed by the art-loving audience, such as: "Zhizel" ballet, "We all love Agim Krajka" concert, "TAG" show.

Raiffeisen Invest supports Pianodrom annually, which began in October and ended in December 17th. "Three Tenors", another beautiful tradition, came back successfully in Tirana.



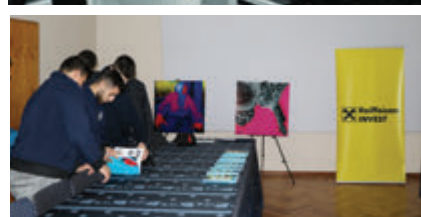
GOAL 3

The bank chose to wish its clients and affiliates through greeting cards, prepared by the "Mother and Child" Hospital Foundation.

GOAL 7

The private construction and residential sector in Albania will benefit from broader access to finance, thanks to a EUR 6 million loan that the European Bank for Reconstruction and Development (EBRD) granted to Union Bank Albania.

On October 5-6th, the second edition of "Energy Expo & Forum 2018" Fair, was held in Tirana. It focused on renewable energy and energy efficiency. Union Bank was the only bank participating in this fair.



AAB ACTIVITIES

Seminar on career development
12 October 2018

Workshop on Cybersecurity
18 October 2018

A training trip with economic journalists
2-4 November 2018

The activity was supported by American Bank of Investments (ABI Bank) and Union Bank.

Workshop on the personal data protection regulation in the banking system
7 November 2018

Workshop on the regulatory requirements regarding the role of internal audit in banks
16 November 2018

Going digital: How to become a fully digitized bank
21 November 2018

New Year Dinner

On 12 December 2018, AAB organized the AAB End-of-Year Dinner, attended by CEOs of commercial banks and chairpersons of AAB technical committees, BoA Governor, and other representatives of the Bank of Albania, Deputy Prime Minister, Commissioner for Data Protection and Information and Director of Deposit Insurance Agency.

Farewell reception

AAB organized a farewell to Mr. Frederic Blanc, who accomplished his mandate as CEO of Société Générale Albania Bank, and will pursue his career in France with Société Générale Group.

Cooperation Agreements

- On December 17, 2018 a Cooperation Agreement between the Albanian Association of Banks (AAB) and the Deposit Insurance Agency (ASD) was signed.
- On 21 December, was signed a Cooperation Agreement with the Albanian Institute of Internal Auditors (AIIA).

TRAININGS

AAB organizes trainings October - December 2018

Team Building

8-11 October 2018, 4-day training on: "Teamwork - Building & Leading a winning team". Under the guidance of international trainer Gila Yaniv.

Cyber and Information Security Management

15 - 17 October 2018, organized in collaboration with House of Trainings, Luxembourg (ATTF), covered various areas of Cyber Security.

Manager as a Coach

17- 19 October 2018, in cooperation with AIEx, this interactive training was held under the guidance of Larisa Winter.

Training on Leading through emotional intelligence

12-13 November 2018, in collaboration with Austrian Institute of Excellence, organized a two-day interactive training.

Training on Identifying financial crime through enhanced due diligence on Anti - Money Laundering

12-13 November 2018, the training was organized in collaboration with AIIA and supported by local experts of Financial Intelligence Unit. It was attended by 17 participants from financial institutions.

People Management for team managers

4-6 December, the training was organized with the support of ATTF LUX.



