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# BANKS AND SUSTAINABLE DEVELOPMENT

# CONTENT

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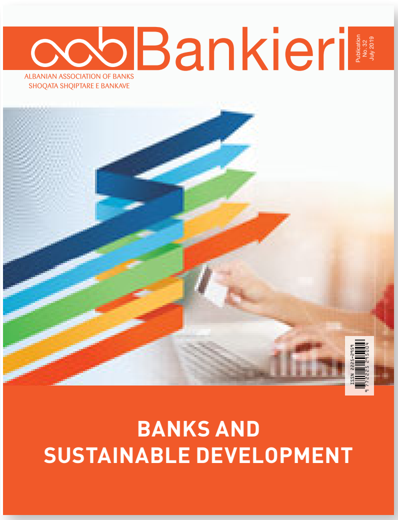




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EDITORIAL

# Sustainable Development & Finance

## A train, banks in Albania will climb in soon

*The most striking challenge for banks is redrafting and reshaping the traditional "short-term" vision of performance and profitability into "long-term" and socially-responsible ones, which will better serve to future generations.*

**Prof. Asoc. Dr. Elvin MEKA**[1]
Editor-in-Chief

The issue of Sustainable Development, and subsequently, the sustainable finance concept, started to develop, at least officially, since 1992, at the Earth Summit in Rio de Janeiro, Brazil (in June 1992), where more than 178 countries adopted Agenda 21, a comprehensive action plan to build a global partnership for sustainable development, to improve human lives and protect the environment. The issue has been evolving incessantly, up to 2015, when UN approved 17 SDGs, which mark a quality turning point, for financial institutions and not only, in terms of actively addressing and incorporating environment and other climate-related risks, within their day-to day activity. Along with traditional banks' CSR activities, focused on separate SDGs and environment topics, so far, we have seen several international initiatives that use the "green" and "sustainable" concept, like: UN Environment Programme Finance Initiative (UNEP FI) and Principles for Responsible Banking, green bonds issuance, by development banks and private sector, etc.

Where do banks in Albania stand in this sustainable, environmental and green landscape? Banks in Albania have been so keen and attentive towards corporate social responsibility, by putting considerable funds, efforts and energy, though years. During recent years, they have been adapting and pursuing their CSR entirely through SDGs. Also, several banks have been promoting and using, for years, a limited number of "eco" and "green" ideas and products. Nevertheless, there is still a long way, for banks in Albania, towards working according to sustainable development and finance principles, or otherwise incorporating them as their natural business activity. What can be seen as "positive" in this regard is that with very few exceptions, this is the reality for most of countries, even for those with economies far more advanced and sophisticated than Albania.

But such reality won't last long, either in the world, or in Albania. Sustainable Development and Finance is a train, banks in Albania, will, unavoidably, climb in soon, because climate, environmental risks and economy are not isolated and national issues any more, as they cannot be limited and controlled at the individual state borders. Said that, the day banks in Albania must consider aligning their activity according to sustainable finance is getting near; so is the challenge they need to be prepared in this regard. Probably the most striking challenge for them is redrafting and reshaping the traditional "short-term" vision of performance and profitability into "long-term" and socially-responsible one, which will better serve to future generations. This would require industrious efforts towards crafting and using specific products, actively linked with environment, climate and sustainability. Surely, banks cannot do it alone; financial system's regulators, even the government (both central and local) could help a great deal in this regard, through regulations (relaxed requirements for "green" banking products), tax policies (preferential tax treatment for investing in "green" instruments issued by public and private sector), issuance of "green" instruments (especially local government and corporations), and so on. The economy, climate and environment matter us all, including banks as game changers in this regard!

[1]Dean of Faculty of Economy, Business and Development, European University of Tirana, UET.

# Putting the banking industry in the driver's seat of the sustainable development agenda

*A bank would identify and assess its most significant social, economic and environmental impacts, both positive and negative, resulting from its activities, products and services, and set targets that aim to align those impacts with the objectives and targets in the SDGs, the Paris Climate Agreement and other relevant frameworks.*


**Puleng Tumelo NDJWILI-POTELE**
Banking Project Coordinator
UN ENVIRONMENT PROGRAMME FINANCE INITIATIVE

The sustainable development agenda continues to grow in importance and urgency. The world is currently faced with pressing challenges, which include economic development, climate change, environmental degradation, poverty, inequality, and financial inclusion. Current financing for the Sustainable Development Goals (SDGs) is insufficient and poorly coordinated, and the latest IPCC report tells us that we need to keep global warming below 1.5 degrees Celsius, in order to avoid severe and irreversible impacts on the earth and our livelihoods.

As the leading providers of finance in their countries, banks have significant influence over what gets financed, positioning them well to make significant contributions towards the achievement of the SDGs, the Paris Climate Agreement, and national policy goals. Banks that fail to make substantial contributions to the needs and goals of their societies will find it increasingly difficult to remain competitive and relevant in a climate where their stakeholders (including regulators, civil society, investors, competitors) consistently challenge them to show how they are responding to the challenges of sustainable development, and managing risks that could destabilize their businesses, and consequently their economies. To build trust with their stakeholders and communities, banks need to generate value for their societies, while making profit for their shareholders.

The Principles for Responsible Banking provide guidance to banks for driving lending, that contributes to sustainable development. These voluntary Principles offer a comprehensive framework that will help banks embed sustainability across their entire businesses, meaning that the well-being of people and the planet are at the core of their decision-making and activities. The Principles have been shaped by 28 leading banks, representing USD 17 trillion in combined assets, together with the UN Environment Programme Finance Initiative (UNEP FI). They are built in a way that allows any bank to sign up, regardless of its level of experience with sustainable finance.

The six Principles require a bank's business strategy to be geared towards contributing to the SDGs, the Paris Climate Agreement, and other relevant national or regional frameworks. Banks need to take a holistic approach to their impacts by assessing both direct and indirect impacts and work towards increasing their positive impacts, while reducing the negative impacts connected to their operations and lending activities, they also need to manage and mitigate their risks. The more significant impacts, associated with a bank's activities will generally be rooted in its lending, and therefore banks should work with their clients and customers towards achieving more sustainable outcomes, and engage and/or partner with other stakeholders to accelerate positive impact. Banks must ensure that their governance structures and processes are adequate for delivering on their commitments to the Principles. Lastly, the Principles require transparency and accountability from banks through publicly reporting on the progress they are making in implementing

the Principles.
A powerful way for banks to demonstrating and progressively improve their contribution to sustainable development is by setting targets that address a bank's most significant impacts. A bank would identify and assess its most significant social, economic and environmental impacts, both positive and negative, resulting from its activities, products and services, and set targets that aim to align those impacts with the objectives and targets in the SDGs, the Paris Climate Agreement and other relevant frameworks.
The legitimacy of the Principles is derived from the accountability and transparency mechanisms. Banks are required to report publicly on their implementation of the Principles, including their positive and negative impacts, risks, and targets. This reporting will be subject to an assessment process, with consequences for banks that consistently fail to show progress over time. Recognizing that banks are at different stages in their sustainability journeys, banks will have up to four years from becoming signatories to the Principles to implement all of the requirements of the Principles.
More than 70 banks have already endorsed the Principles, therefore committing to become signatories to the Principles for Responsible Banking. These banks are part of a growing community of UNEP FI member banks that are committed to sustainable finance. They will benefit from sharing their knowledge and experience with each other, and from support and guidance from the UNEP FI Secretariat, as well as subject matter experts, providing banks with direct access to expert knowledge, tools and resources to help capacitate themselves and strengthen their positioning as leaders in sustainable finance. These banks are joined by 26 stakeholders, which include regulators, banking associations, and civil society organisations, that have endorsed the Principles to exhibit their support for them.

> As the leading providers of finance in their countries, banks have significant influence over what gets financed, positioning them well to make significant contributions towards the achievement of the SDGs, the Paris Climate Agreement, and national policy goals.

The Principles have been through an extensive six-month public consultation process, in which banks, investors, regulators and civil society, amongst others, contributed input that ensures the Principles represent the global benchmark for a sustainable banking system fit for the 21st century.
Bank CEOs who commit to becoming signatories to the Principles will congregate at the UN Headquarters in New York, during the UN General Assembly, to sign the Principles for Responsible Banking, officially becoming the Founding Signatories to the Principles. The Principles are designed to leverage the potential the banking industry has to drive the achievement of the SDGs, the Paris Climate Agreement, and national policy goals, thereby creating a stronger global economy and better world for everyone, everywhere. We encourage you to get involved!
**Learn how your bank can become a Signatory to the Principles for Responsible Banking at**
*www.unepfi.org/responsiblebanking.*

FRONTLINE

# The Role for banks in Sustainable Finance

## Views from the European Banking Federation

*The goal should be a financial system in which all gains (financial, societal and environmental) are completely engrained. At which point, we will no longer need to talk about sustainable finance as, by definition, all finance will be sustainable.*

**Sébastien de BROUWER**
Chief Policy Officer
EUROPEAN BANKING FEDERATION, EBF

There is non-controversial scientific evidence of global warming, and its negative effects are already felt around the world. The present climate change will have a progressively significant impact on economies, societies and markets. There is also growing evidence suggesting that climate change and environmental risks have important implications for financial stability, that cannot be disregarded. Growing awareness on this impact has compelled governments to act and they agreed, accordingly, in the Paris Agreement to put policies in place to limit the global rise in temperatures to 2°C, and preferably as close to 1.5°C, as possible.

Along with reflecting upon the risks, this requires massive investments and reallocation of capital. Europe alone is estimated to have a sustainability investment gap of roughly to EUR 180 billion per year. Awareness raising has brought Sustainable Finance to the heart of the current political agenda in Europe. The European Union is committed to playing a leading role in the global fight against climate change. The ambition is to make Europe the most advanced capital market, where companies and retail investors are encouraged (with the help of digital tools and solutions) to shift their investment to environmentally friendly projects, thereby contributing to the EU's sustainable and carbon-neutral agenda. It is in this context, the European Commission adopted last year, in March 2018, an ambitious Action Plan for Sustainable Finance, which was followed up by three legislative proposals (on taxonomy, disclosure requirements and financial benchmarks). It lays ground for reorienting capital flows towards sustainable investments, and for embedding long-termism within the financial sector. It also aims to improve the handling of climate change risks in the financial sector.

The public sector cannot, however, do it alone. As stated by V. Dombrovskis, Vice-President for the Euro and Social Dialogue, Financial Stability, Financial Services and Capital Markets Union: "the financial sector needs to throw its full weight behind the fight against climate change. This is a challenge, but also an exceptional opportunity. In the next few years, Europe's banks and financial institutions have a chance to drive global developments in sustainable finance. By moving to an economy based around low-carbon technology and resource-efficiency, we can boost job creation, productivity, and the well-being of our people." Both public and private sectors need to work together to achieve changes. The transformation can only be achieved with the banking sector taking an active role, as important investments must be financed. This is especially true in Europe, where banks finance two thirds of the economy. More particularly, when it comes to Sustainable Finance, we at the EBF believe in 4 E's: Enabling, Encouraging, Engaging and Educating.

### Enabling

The European Commission's leadership substantially accelerated the sustainability agenda across Europe. Voluntary actions and exemplary moves from leading institutions and businesses are not sufficient to mobilize finances at the required scale and pace, nor enough to transform all aspects of our society. Public action is needed to help banks and markets channel financing to societally beneficial purposes. Private initiatives are great, but they must be complemented by smart regulatory frameworks that take away uncertainty, ensure comparability and allow competitive solutions, that enable the financing of the transition to more sustainable economies on a level playing field. It is why the EBF is supportive of the European Commission Action Plan for Sustainable Finance.

### Encouraging

Enabling is not sufficient, if markets are to be mobilized at the required size and speed. Positive research and evidence on the performance, both in terms of risk and profitability of the sustainable investments, are emerging. Environmental, Social and Governance (ESG) leaders are not only in the position to anticipate more effectively future climate-related risks and opportunities but are also expected to see the cost of equity and debt going down. Well rated ESG companies have less volatile equity and bonds, and also better performance. Smart companies, using sustainability strategies, are gaining competitive advantage, often with help of innovative technologies. On the demand side, most of the retail investors would want to invest sustainably. Despite these positive developments, we are still talking about a substantial financial investment gap. There is no shortage of capital. It is a question of redirecting the flows where the impact would make the most difference.

While lack of taxonomy and data, as well as insufficient pipeline may play a role in markets not picking up at the required scale, both legislative and non-legislative frameworks have to be reviewed to encourage and reward the shift towards sustainable economy. The EBF is preparing a report that will focus on limited number of incentives, with a potential to scale up sustainable finance in the banking sector. The chosen approach is for a limited number of incentives, most relevant from the banking perspective. Green securitization, review of prudential treatment of sustainable assets, where there is indication of lower risk, as well as public intervention in the form of guarantees, tax benefits and subsidies may substantially contribute to mainstreaming sustainable activities and their financing. The Report will be published in the coming months to feed the reflection of the Commission, the Parliament as well as the European Banking Authority (EBA), as an input to its report on prudential treatment of sustainable/ unsustainable assets.

## Engaging

Banks are also acting together to leverage and amplify individual efforts. For example, 28 leading banks from around the globe, including nine from Europe, developed with the UNEP FI, the Principles for Responsible Banking. These Principles align banks with society's goals as expressed in the Sustainable Development Goals (SDGs) and the Paris Climate Agreement. The EBF was amongst the first endorser and promoter of the Principles which have a great potential to accelerate the transition of the banking sector and consequently the whole economy towards the sustainable path. Sustainability and particularly, climate change, will leave no sector untouched. As a result, there is e a need to reinforce the dialogue with stakeholders, including banks' clients at European level, to understand the impact of the "sustainability agenda" on respective business models, strategies and risk management.

Gathering experts from all over Europe, the EBF Sustainable Finance Working Group is prepared to engage with key actors and decision-makers on ESG-related issues. The WG has organized itself so that it can provide the European Commission with timely and relevant input on the key aspects of its Action Plan, notably, taxonomy, green bonds, indices and metrics, and finally incentives/disincentives as an extra topic of critical interest for banks. Very important too, is to engage with banking regulators and supervisors to rethink together the ways the financial system approaches sustainability, transparency, and long-term risks. Whereas climate risks are considered ever more as financial risk, given the lack of data and limited know how when it comes to calculation and modelling, risk managers still find it challenging to calculate the financial impact of these risks. Having said that, data and methodologies are slowly emerging, also thanks to the enhanced disclosures, enabling their progressive incorporation into risk management and internal processes. Still, more work together will be necessary to improve our knowledge of ESG risks, to identify challenges and to work on solutions, as well as building partnerships to raise awareness and scale up competences. This brings us to the last "E".

## Educating

Financial education is important in empowering people with skills and competences, which help them ask the right questions and make the correct choices when it comes to saving and investing, including, on sustainability risks. Education on sustainability should include the financially trained professionals to help them understand sustainability risks more thoroughly, and to measure, integrate and price them more accurately. Further integration of financial industry experts in training programs on how to approach sustainability is necessary. From portfolio managers, to risk managers, from Board rooms to financial advisers, sustainability should be an integral part of everyday processes and decision-making.

## Conclusion

Banks have a clear and key role in sustainable finance. It is about connecting sustainability with financial objectives. While it will take time and different stakeholders will find themselves at different levels of the scale - adopting a different pace and approach - the trend is clearly set. The goal should be a financial system in which all gains (financial, societal and environmental) are completely engrained. At which point, we will no longer need to talk about sustainable finance as, by definition, all finance will be sustainable.

FRONTLINE

# Developing Sustainable Finance: Conclusions of the Central Banks' Network for Greening Financial Systems[1]

*Network for Greening the Financial System was established in December 2017 by eight founding Central Banks, including French, German, Dutch, and UK central banks, among others. The network – a "coalition of willing central banks" – has now grown to more than thirty members, including IFI observers, such as the EBRD and the World Bank Group.*

**Sean GOODIER**
FCA

**Dejan VASILJEV**
EBRD

The recognition of climate change as a financial risk is propelling the expansion of sustainable finance – legislative and regulatory reforms led by the European Commission, work by IFI's on the development of green finance instruments and more recently, the establishment of the "Network for Greening the Financial System" (NGFS) – an important "coalition of willing" Central Banks which are working on understanding mechanisms by which climate and environmental risks affect their mandates, but also on what they can do to support the transition to more sustainable financial systems.

The mandates of central banks have changed remarkably since the 2008 financial crisis and their remits are recently beginning to expand into the area of climate change. Central banks are well – placed to take on this role through their capacity as both regulators – who can stress-test the ability of firms to deal with climate risks and encourage climate related disclosures – and also guardians of financial stability – who can set capital requirements for institutions to account for climate-related risks.

However, climate-related risks have a number of distinctive characteristics which, in combination, mean that they require a strategic approach to management. Climate change is far-reaching in its breath and magnitude, foreseeable in nature, uncertain in its time horizon and dependent on short-term actions given that the size of future impacts will be determined by today's actions. Understanding and managing the complicated nature of these risks and their implications for the financial system requires co-ordination between central banks and national authorities from across the globe. There is a need for collective leadership and actions across countries.

And so – in December 2017 – the Network for Greening the Financial System was established by eight founding Central Banks, including French, German, Dutch, and UK central banks, among others. The network – a "coalition of willing central banks" – has now grown to more than thirty members, including IFI observers, such as the EBRD and the World Bank Group.

The NGFS aims to build on other international initiatives which focus on climate-related financial risks – including the Task Force on Climate-related Financial Disclosures, G20 Green/Sustainable Finance Study Group, as well as broader activity, such as the Paris Agreement and Sustainable Development Goals.

To put it in context, the mechanisms by which climate and environmental risks can affect financial stability

[1] The article represents personal views and not those of FCA nor EBRD.

are still relatively poorly understood – this central banking forum is at the forefront of developing our understanding of these risks.

The network has two main objectives: to contribute to the analysis and management of climate and environment-related risks in the financial sector and mobilize mainstream finance to support the transition towards a sustainable global economy.

In April this year NGFS published its first comprehensive report, which includes six key recommendations for central banks, supervisors and policymakers to enhance their role in greening the financial system. These reflect the best practices, identified by NGFS members to facilitate the role of the financial sector in helping to achieve the objectives of the Paris Agreement.

Firstly – and most importantly – climate-related risks should be integrated into micro-supervision and financial stability monitoring. Before this happens, it is essential that such climate-related risks are adequately assessed – and this includes both physical risks (the value of financial assets lost, as a result of climate change and natural disasters) and transition risks (the legal and adjustment cost that the financial sector will incur in transitioning towards a lower-carbon economy). It also requires strong engagement with financial institutions to raise awareness of climate - related financial risks and that are able to identify, analyze and report them.

The second recommendation is that sustainability factors should be integrated into portfolio management. Here – central banks should lead by example in their own operations through integrating such factors in the management of their own portfolios – taking into account different institutional arrangement in each jurisdiction. It must be noted that the People's Bank of China is currently the only NGFS member to promote green finance via its own dedicated monetary policy.

Thirdly – national authorities should share data relevant to Climate Risk Assessment and potentially make this publically available in a data repository. This will help to bridge the data gap that is currently one of the main challenges for supervisors. And the fourth is that central banks, supervisors and financial institutions should build awareness and in-house intellectual capacity as well as encourage technical assistance and knowledge sharing amongst stakeholders to improve their understanding of how climate-related factors translate into financial risks and opportunities.

> Climate-related risks have a number of distinctive characteristics which, in combination, mean that they require a strategic approach to management. Climate change is far-reaching in its breath and magnitude, foreseeable in nature, uncertain in its time horizon and dependent on short-term actions given that the size of future impacts will be determined by today's actions.

The final two recommendations are aimed not only at central bankers but more broadly at regulators. The NGFS seeks to achieve robust and internationally consistent climate and environmental related disclosure which will be integral to an efficient and well-functioning capital market with an effective price mechanism for climate related risks. Finally, the network strongly encourages regulators to develop taxonomies which aim to facilitate financial institutions' identification, assessment and management of climate and environmental risks – as well as mobilize capital for green and low - carbon investments, consistent with the Paris Agreement. The work of the European Commission is a very positive step towards this.

So what are the next steps for the NGFS? There is still a lot of analytical work that is needed to equip central banks and supervisors with the tools they need to identify, quantify and manage climate change risks in the financial system. And more broadly – the network is seeking to expand its engagement with relevant stakeholders to ensure a mutually beneficial exchange of experience and information.

FRONTLINE

# Banks in the changing world of financial intermediation

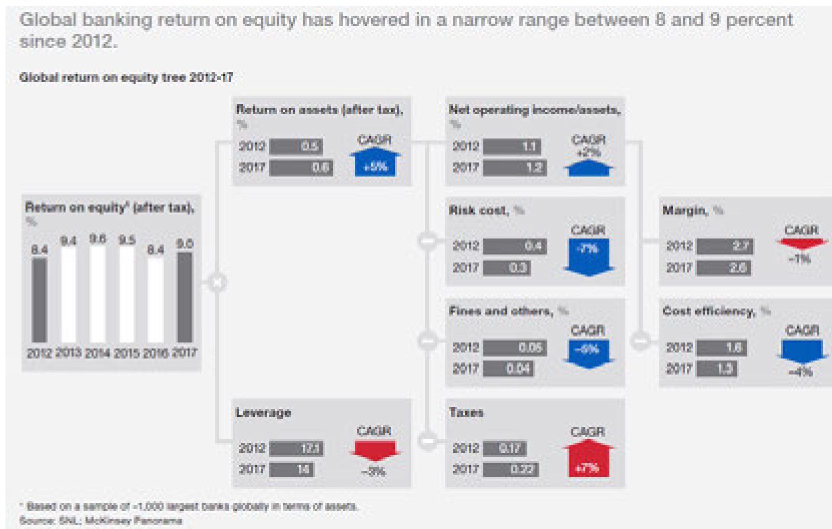
*Banks sit at the center of a vast, complex system that intermediates more than US$ 260 trillion in global funds. What happens when the system itself is significantly streamlined and reshaped?*

**by McKinsey**[1]
November 2018 Report

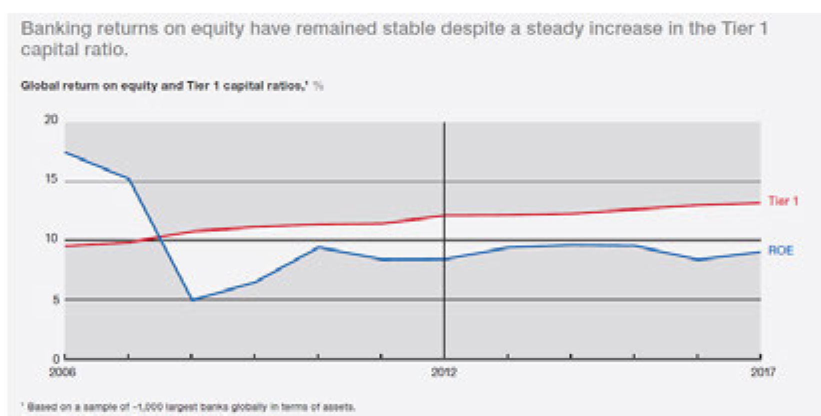
A decade after a financial crisis that shook the world, the global banking industry and financial regulators have worked in tandem to move the financial system from the brink of chaos to a solid ground with a higher level of safety. In numerical terms, the global Tier 1 capital ratio – one measure of banking system safety – increased from 9.8 percent in 2007 to 13.2 percent in 2017. Other measures of risk have improved as well; for example, the ratio of tangible equity to tangible assets has increased from 4.6 percent in 2010 to 6.2 percent in 2017.

Performance has been stable, particularly in the last five years or so, and when the above-mentioned increases in capital are figured in (Exhibit 1), but not spectacular. Global banking return on equity (ROE) has hovered in a narrow range between 8 and 9 percent, since 2012 (Exhibit 2). Global industry market capitalization increased from US$ 5.8 trillion in 2010 to US$ 8.5 trillion in 2017. A decade after the crisis, these accomplishments speak to the resiliency of the industry.

But growth for the banking industry continues to be muted – industry revenues grew at 2 percent per year over the last five years, significantly below banking's historical annual growth of 5 to 6 percent.




*Picture 1*

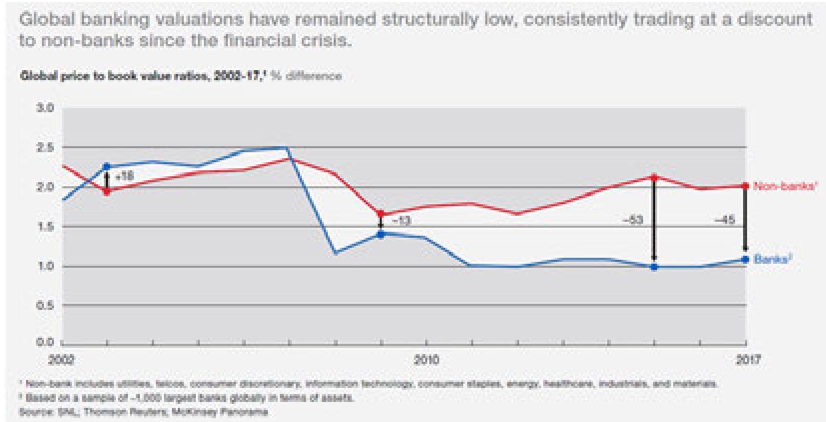



*Picture 2*

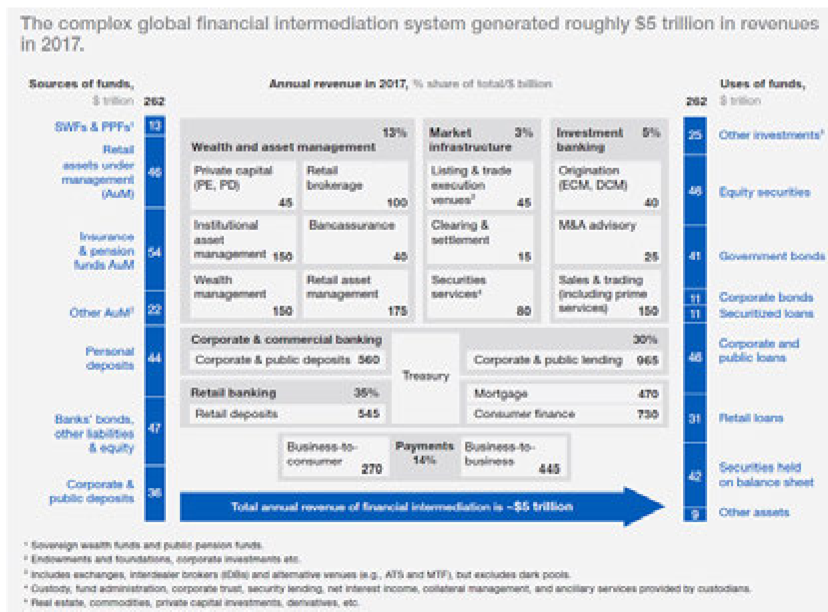
[1] This article was originally published by McKinsey & Company, www.mckinsey.com. 

Compared to other industries, the ROE of the banking sector places it squarely in the middle of the pack. However, from an investor's point of view, a jarring displacement exists. Banking valuations have traded at a discount to nonbanks since the 2008–09 financial crisis. In 2015, that discount stood at 53 percent; by 2017, despite steady performance by the banking sector, it had only seen minor improvements at 45 percent (Exhibit 3).

What do investors know, or think they know, about the future prospects for the banking industry? In part, low valuation multiples for the banking industry stem from investor concerns about banks' ability to break out of the fixed orbit of stable but unexciting performance. Lack of growth and an increase in nonperforming loans in some markets may also be dampening expectations. Our view, however, is that the lack of investor faith in the future of banking is tied in part to doubts about whether banks can maintain their historical leadership of the financial-intermediation system. By our estimates, this financial-intermediation system stores, transfers, lends, invests, and manages risk for roughly US$ 260 trillion in funds. The revenue pool associated with intermediation – the vast majority of which is captured by banks – was roughly US$ 5 trillion in 2017, or approximately 190 basis points. (Note that as recently as 2011, the average was approximately 220 basis points.)




Picture 3




Picture 4

Banks' position in this system is under threat. The dual forces of technological (and data) innovation and shifts in the regulatory and broader sociopolitical environment are opening great swaths of this financial-intermediation system to new entrants, including other large financial institutions, specialist-finance providers, and technology firms. This opening has not had a one-sided impact nor does it spell disaster for banks.

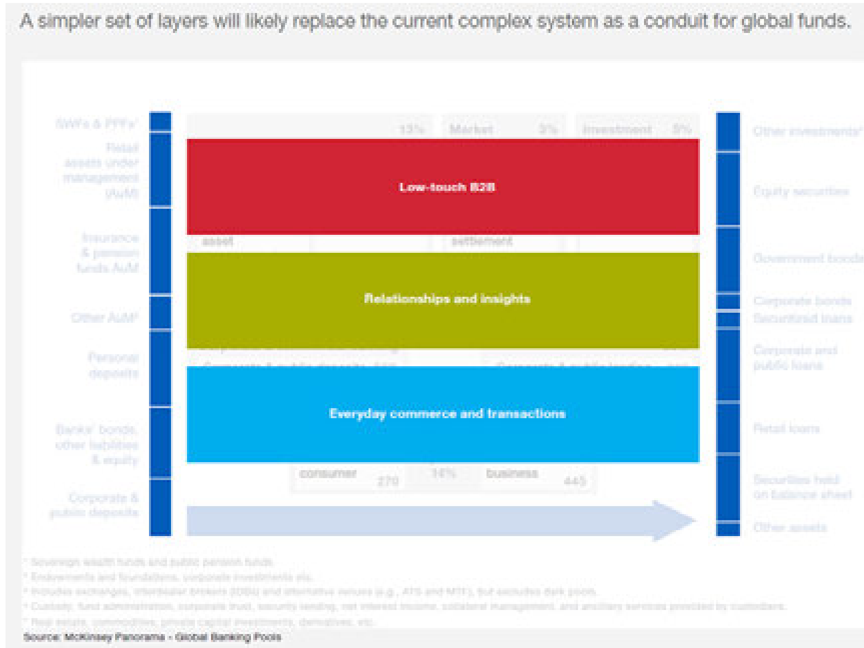
Where will these changes lead? Our view is that the current complex and interlocking system of financial intermediation will be streamlined by the forces of technology and regulation into a simpler system with three layers (Exhibit 5). In the way that water will always find the shortest route to its destination, global funds will flow through the intermediation layer that best fits their purpose.

The first layer would consist of everyday commerce and transactions (for example, deposits, payments, and consumer loans). Intermediation here would be virtually invisible and ultimately embedded into the routine digital lives of customers. The second and third layers would hinge on a barbell effect of technology and data, which, on one hand, enables more effective human interactions and, on the other, full automation. The second layer would also comprise products and services in which relationships and insights are the predominant differentiators (for example, M&A, derivatives structuring, wealth management, corporate lending). Leaders here will use artificial intelligence to radically enhance but not entirely replace human interaction. The third layer will largely be business to business, such as scale-driven sales and trading, standardized parts of wealth and asset management, and part of origination. In this layer, institutional intermediation would be heavily automated and provided by efficient technology infrastructures with low costs.

This condensed financial-intermediation system may seem like a distant vision, but there are parallel examples of significant structural change in industries other than banking. Consider the impact of online ticket booking and sharing platforms, such as: Airbnb on travel agencies and hotels or how technology-enabled disruptors such as Netflix, upended film distribution.

Our view of a streamlined system of financial intermediation, it should be noted, is an "insider's" perspective: we do not believe that customers or clients will really take note of this underlying structural change. The burning question, of course, is what these changes mean for banks. McKinsey's view is that there will be four strategic options open to banks in the reshaped system:

- the innovative, end-to-end ecosystem orchestrator
- the low-cost "manufacturer"
- the bank focused on specific business segments
- the traditional but fully optimized and digitized bank




*Picture 5*

The right path for each bank will, of course, differ based on its current sources of competitive advantage and on which of the layers matches its profile – or the profile it intends to take in the future. We believe the rewards will be disproportionate for those firms that are clear about their true competitive advantage and then make – and follow through on – definitive strategic choices. The result will be a financial sector that is more efficient and delivers value to customers and society at large. That is a future that should energize any forward-looking banking leader.

FRONTLINE

# EIB and sustainable finance

*"Sustainability in everything we do – this is our aim when we finance projects in innovation and skills, infrastructure, small and medium-sized enterprises, the environment, climate action and regional cohesion. We carry out due diligence to ensure that projects meet environmental and social criteria, and that they deliver the desired long-term economic benefits. The funds raised in the capital markets through green and sustainable bonds are used for specific projects that make a substantial contribution to sustainable development."*

**Ines HOBDARI**
Senior Banker
EUROPEAN INVESTMENT BANK


**Alessandro BRAGONZI**
Representative for Albania, Kosovo[2], and North Macedonia
EUROPEAN INVESTMENT BANK

The EIB Group is the European Union's long-term financing institution (the 'EU Bank'). It provides finance and technical assistance to achieve sustainable, inclusive growth through two complementary entities: the European Investment Bank (EIB) and the European Investment Fund (EIF) . In 2018, the EIB Group provided EUR 64.2 billion of financing, out of which EUR 13.8 billion went to innovation and skills, EUR 12.3 billion to infrastructure, EUR 23.3 billion for SMEs, and EUR 15.2 billion for environment support.

The EIB is the world's largest multilateral borrower and lender. Founded in 1958, it operates across the EU and in more than 130 other countries. While the majority of EIB financing goes to EU Member States, the EIB operates globally as a multilateral development bank. By financing investments outside the EU, the EIB actively contributes to the EU's external policy objectives. Indeed, the EIB is the EU's key instrument for development banking, with an activity volume outside EU of EUR 7.8 billion in 2018.

The Western Balkans are a key priority for lending activity and since 2008 the EIB Group has financed over EUR 8 billion projects in the region. This reflects our commitment to supporting the construction and upgrading of key infrastructure, as well as our multidimensional assistance to the private sector, catalyzing foreign direct investments to major investment projects (e.g. Trans Adriatic Pipeline, Fiat Auto Serbia, etc.), also offering assistance to small and medium-sized enterprises (SMEs) via funding to European banks in the region, all of which reinforces the EU's enlargement policy. Furthermore, in 2016 EIB launched the Economic Resilience Initiative (ERI) following a request from the European Council to address social and economic infrastructure gaps and stimulating private sector-led growth and job creation in the region with the aim to tackle the root causes of migration and brain drain. To reinforce its local presence in 2019, EIB has opened offices in Albania and Bosnia Herzegovina, working closely with the operational team, based in Luxembourg. These offices, together with the already active Regional Office in Belgrade, map out the EIB's presence in the Western Balkans and its commitment to bring the region even closer to the European Union.

### Climate action is a key priority for the EU and the EIB

Climate action is a pillar of the EU Action Plan on Sustainable Finance and positioned at the heart of the EIB strategic framework. In its activities, the EIB has played, and

[1] From European Investment Bank Group Sustainability Report - https://www.eib.org/en/publications/sustainability-report-2018.htm.
[2] This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Independence Declaration.
[3] The EIF is a specialized entity on risk finance (i.e. equity and guarantee) to benefit micro, small and medium-sized enterprises (SMEs) across Europe.

will continue to play, a substantial role in achieving the United Nations' Sustainable Development Goals (SDGs). While the EIB's lending remains focused on its public policy goals, namely innovation, SME and mid-cap financing, infrastructure and the environment, we at EIB believe that support for climate action is compatible with reaching other policy targets. Supporting a transition towards a carbon-neutral, greener, more resilient and circular economy must go hand in hand. Against this backdrop, the EIB has been a pioneer on both financing and funding sides, as regarding climate action.

### On the financing side...

The EIB has developed a broad range of financial instruments to support climate – related investments by public and private sector project promoters. This includes reducing the risk for certain investors who would otherwise not support climate – related schemes. These innovative climate finance products attract more private sector finance to the fight against climate change and for the mitigation of its effects, Ensuring that sustainability is embedded in EIB financing means three things: first, certain activities are completely excluded from EIB financing; second, projects and investments are subject to EIB own environmental and social principles and standards; and third, an economic appraisal is carried out to measure a project's costs and financial impact to determine whether society at large gains from the investment. We identify systematically climate risks for all investment projects, we measure thoroughly the climate components of projects and we increase investment in climate adaptation and resilience.

As a result, in 2018 we exceeded our 25% Climate action target for the ninth year in a row, providing more than EUR 16 billion to fight climate change. That is over 29% of all our financing. We are well on our way to fulfill our commitment to support the implementation of the Paris Agreement, and we will increase our support for Climate action in developing countries to 35 percent of our total lending by 2020.


> Sustainable finance does not mean that we focus on selected, "pure" climate action sectors. Rather, it means ensuring that opportunities for climate action are sought across our whole portfolio. It also means that with our activities we aim to support the economic activities that foster the transition to a low-carbon and climate resilient future.


### ...and on the funding side...

The EIB launched the world's first green bond in 2007. Since then we continued fostering the sustainable growth of this market, as the largest multilateral issuer, as Chair of the Green Bond Principles, coordinator of the International Financial Institutions (IFI) Framework for Green Bond Impact Reporting Harmonization, and contributor of expertise in the European Commission's working groups. The Green Bond market has drawn global attention to the climate agenda and promoted transparency and accountability in financial markets in a transformational way. The European Commission's Technical Expert Group (TEG) on sustainable finance – with direct help of EIB's experts in the TEG subgroups tasked with taxonomy and green bond standard - is defining clear classification criteria for economic activities and related investment instruments.

As a confirmation of the EIB's commitment to the SDGs and the EU Action Plan on Sustainable Finance in September 2018, the EIB issued its first EUR 500 million Sustainability Awareness Bond (SAB). SAB proceeds will initially be dedicated to supporting water supply, sanitation and flood protection projects.

### EIB is prepared to contribute more to climate action

Sustainable finance does not mean that we focus on selected, "pure" climate action sectors. Rather, it means ensuring that opportunities for climate action are sought across our whole portfolio. It also means that with our activities we aim to support the economic activities that foster the transition to a low-carbon and climate resilient future. Through the implementation of the EIB Climate Strategy, the EIB is aligning its activities with the principles and goals of the Paris Agreement. To this end, we are working with Multilateral Development Banks (MDBs) to develop a joint MDB approach and we are participating in the OECD workstream on this subject.

We also recognize that more needs to be done to tackle climate change and that the EIB cannot do it alone, nor can all the IFIs put together. The EIB therefore welcomes all new initiatives aimed at channeling more public funding to climate action, and especially those aiming to do so in a way that enhances the impact of such funding in addressing climate change - including through increased leveraging of private capital.

[4] https://ec.europa.eu/info/files/190618-sustainable-finance-teg-report-taxonomy_en
https://ec.europa.eu/info/files/190618-sustainable-finance-teg-report-overview-green-bond-standard_en

FRONTLINE

# International Crisis of 2007/2008 had a small impact: Greek Crisis hit hard

*The international (sub-prime) crisis of 2008 left Greek banks mostly unscathed, with only limited action required. The Greek crisis hit the Greek banking system hard on all fronts: liquidity, asset quality and ultimately capital, in varying degrees.*

**Prof. Charoula APALAGAKI**
Secretary General
HELLENIC BANK ASSOCIATION

Everybody is familiar with recent challenges of the Greek Banking sector, which nevertheless gradually recovers and is ready to finance the real economy, following the current restrictions and guidelines, among others on the sustainable growth.

## A quick view on the changes in the Greek Banking system

Before the crisis, Greek banks were well capitalized (Core Tier 1 of 10.6% in 2010), mildly leveraged (Loans/Assets at 51%) and relatively liquid (L/D at 120%). The international (sub-prime) crisis of 2008 left Greek banks mostly unscathed, with only limited action required. The Greek crisis hit the Greek banking system hard on all fronts: liquidity, asset quality and ultimately capital, in varying degrees. Profitability suffered seriously, and international presence was considerably downsized. The prolonged deep recession, with high unemployment which fueled NPLs and PSI losses, led to three large-scale re-capitalizations in the region of EUR 64 billion, with massive dilution for shareholders. In parallel, Greek banking system underwent a large-scale consolidation, with the total number of commercial banks (excluding cooperative banks) going from 19 to just 8, of which only 4 are deemed "significant", while most foreign banks withdrew from the market. On corporate governance, Greek banks aligned themselves with the European Directive 2013/36/EU (CRD IV), which was transposed in Greek law with the Law 4261/2014; Board of Directors composition altered significantly, and as a result, the number of the domestic banks was drastically reduced from 35 in 2009 to 15 today, of which 8 commercial and 7 cooperative, 4 banks are deemed significant and, post consolidation, control approximately 95% of banking assets: Piraeus Bank, National Bank of Greece, Alpha Bank, and Eurobank; foreign banks, albeit present in Greece, have an insignificant market share.

Corporate governance rules were established, at European level, by Directive 2013/36/EU (CRD IV), which was transposed in Greek law with Law 4261/2014. According to the new requirements, Greek credit institutions proceeded in significant changes, concerning the composition of their boards as, among other:

- all members of boards of directors must have at least 10 years of experience at senior managerial level, in the areas of banking, audit, risk management, or distressed asset management,
- the non-executive members must, additionally to the above, have been at least 3 years as a board member of a bank, or of a company of the financial sector, or of an international financial institution,
- independent non-executive members - at least 3 - must have adequate knowledge and international experience of at least 15 years in relevant banking institutions of which at least 3-year experience on a board of an international banking group, not operating on the Greek market. These experts should have no affiliation over the previous ten years with credit institutions operating in Greece.

Greek banks were committed

to implement restructuring plans. The restructuring plans are commitments to the European Commission and Directorate-General for Competition, following extensive use of State aid. Basic commitments were:

- Reduce exposure to domestic non-core business,
- Reduce exposure to non-Greek business:
  - divestments from the SEE and other regions,
  - limit the capital support to remaining activities,
- Scaling down of investment portfolios,
- Reduce operating expenses,
- Downsizing of personnel and branch network,
- Loans-to-deposits ratio in Greece at below 115%,
- Reduction of cost of deposits.

Greek banks are already delivering on the commitments with significant divestments of banking subsidiary in the SEE region, as well as from non-core assets in Greece (insurance, hotels, REIT). On aggregate, Greek banks have committed to reduce:

- The absolute amount of NPEs from EUR 106.9 billon in September 2016 to EUR 64.6 billion, by December 2019 (-40%),
- The absolute amount of NPLs from EUR 78.3 billion in September 2016 to EUR 38.6 billion, by December 2019 (-51%).

The abovementioned targets, when achieved, will have no adverse effect on capital.

The main drivers to achieve those targets are: Curing, Write-offs, Collateral liquidations, Sale of NPEs. Under the revised targets, the bulk of NPEs' reduction is projected to stem from the business segment (61%) vs. 58% under previous targets. The total reduction of NPEs from 9M17A to FY19 targeted stands at EUR 34.5 billion. The total reduction of NPLs, for the same period, stands at EUR 31.6 billion.

## HBA Initiatives, in relation to Sustainable Finance

The Greek Banking System plays a pivotal role to achieve sustainable growth, which is consistent with social and environmental policy goals and fully aligned to the existing EU and national regulatory framework. In particular, the HBA member banks actively support sustainable finance in lending and investments by (inter alia):

- promoting green/sustainable products and services, in order to reduce the environmental footprint and encourage firms and households to adopt environmental and social best practices;
- providing, on an ongoing basis, training courses for their personnel through the launch of dedicated programs, either by establishing strategic partnerships at international level (i.e. with the UNEP Finance Initiative), or by taking up relevant initiatives at national level;
- participating into international sustainable indices (e.g. Dow Jones Sustainability Index, Sustainalytics, oekom research, Vigeo ratings, CDP etc.); and
- implementing international and EU standards (e.g. ISO 14001, EMAS) in their internal mechanisms and processes for analyzing and addressing environmental and social risks, as well as formulate relevant policy guidelines.

As of 2010, a dedicated interbank committee has been established by the HBA, which monitors, on an ongoing basis, all the sustainable finance/CSR-related issues and collaborates with relevant national stakeholders in this field. One of the most recent initiatives of this dedicated committee is the successful interbank coordination towards the implementation (as of 2018) of the so-called **Environmental and Social Management System** (ESMS) by HBA member-banks. ESMS constitutes a set of procedures, application forms and actions that became part of banks' ongoing credit procedures and are taken into account for the assessment of financing requests, according to their internal credit policy, IFC and EBRD Standards, as well as International Best Practices. It is considered a methodology for identifying and mitigating environmental and social risks that may arise from business activities of either the bank involved, or the undertaking concerned. In relation to the ESMS, HBA has produced a user-friendly information leaflet, which is addressed to the corporate clientele of its member banks. This information leaflet is available in Greek and in English at the HBA website.

In November 2018, the United Nations Environmental Programme Finance Initiative (UNEP FI) has launched a public consultation in relation to the so-called Principles for Responsible Banking (PRB), which were developed in close collaboration with 28 banks from around the globe (jointly representing more than US$ 17 trillion in assets). These Principles provide the banking industry with a single framework that embeds sustainability at the strategic, portfolio and transactional levels and across all business areas and also align banks with society's goals as expressed in the UN Sustainable Development Goals and the Paris Climate Agreement. One of HBA's member banks was in the founding banks, which actively participated in developing these Principles. Other HBA member banks are in the process of exploring the possibility of signing and implementing these Principles. The Principles are open to consultation until 31 May 2019 and will be finalized in Q3 2019.

The European Commission has published, since March 2018, a comprehensive Action Plan[1] on financing sustainable growth. Particularly, this Action Plan aims to further connect finance with the specific needs of the EU and international economy for the benefit of the planet and the society.

On May 2018, the European Commission published the first legislative proposals, in relation to its Action Plan, on financing sustainable growth in order to enable the EU financial sector towards a greener economy. These proposals include:

- the development of a unified EU classification system ("taxonomy") for green/ sustainable investment projects;[2]
- the integration of environmental, social and governance ("ESG") factors in the decision-making process of institutional investors (such as credit institutions) and asset managers;[3] and
- the establishment of a new category of benchmarks, comprising the low-carbon benchmarks and the positive-carbon impact benchmarks.[4]

As of mid-June 2019, the legislative proposals pertaining to benchmarks and the incorporation of ESG factors in the decision-making process of institutional investors and asset managers have been finalized and are expected to be published in the Official Journal of the EU in the coming weeks/ months. The action plan of the European Commission builds on the policy recommendations of a dedicated High-Level Expert Group (HLEG) on Sustainable Finance, which were presented in late January 2018. This HLEG was set up by the European Commission in December 2016. The European Commission's Action Plan has the following 3 key objectives:

- re-orientation of capital flows towards sustainable investment, aiming at achieving sustainable and inclusive growth;
- management of financial risks stemming from climate change, natural disasters, environmental degradation and social issues; and
- fostering transparency and long-termism in financial and economic activity.

On the other hand, the European banking industry looks overregulated, due to the crisis of 2008 and therefore it's the due time to explore the balance between stability and financing the real economy. EU's economic success depends largely on the growth of Small and Medium sized Enterprises (SMEs) achieving their potential. SMEs contribute more than half of the total value added in the non-financial business economy and provided 80% of all new jobs in Europe in the past five years. SMEs often face significant difficulties in obtaining the financing they need, in order to grow and innovate. To enhance the financial supporting of SMEs the decision makers should further work on the integration of regulation (risk reduction) and with the real economy.

[1] COM (2018) 97 final.
[2] COM (2018) 353 final.
[3] COM (2018) 354 final.
[4] COM (2018) 355 final.

# NPL Market and credit growth in the Republic of Serbia

*In the three-year period of the Strategy's application, a great number of legal acts and by-laws were adopted and amended, the institutional capacity was improved and many measures for easier write-off and transfer of uncollectable claims were implemented.*

**Vladimir VASIĆ**
Secretary General
ASSOCIATION OF SERBIAN BANKS

Serbia is a good example of the numerous measures and activities taken to reduce the level of NPLs in the last six years, the most important thing being the systemic approach in resolving that problem. Moreover, in the last six years Serbia had significant results, in terms of strengthening macroeconomic stability and the country was recognized as a leader in terms of the resolution of non-performing loans, whose share fell to 5.7% in December 2018. In this article we are going to present Serbian experience in resolving NPLs in the banking sector and key priorities for the forthcoming period in resolving state owned NPLs, as well as the measures planned for real sector, in order to prevent new NPLs. We will also make an overview of current macroeconomic developments and the main indicators of the banking sector of Serbia.

> The aim of the Program and NPL Resolution Action Plan for 2018-2020 period consists in a removal of obstacles identified in the system, which prevent timely solving of non-performing claims and establishment of the system which will prevent the accumulation of NPLs and the appearance of negative effects on loan activity, endangering potential economic growth. In order to attain the fundamental goal, several crucial fields were identified and within these, it is necessary to improve (1) regulatory framework, (2) capacity building and/or (3) application of regulations.

## Macroeconomic Developments in Serbia

The year 2018 was marked by positive economic trends, including GDP growth by 4.4%, which is the highest increase in ten years. In 2019 the expected GDP growth is 3.5%. Inflation has been kept at a low level (average level of 2.0% in 2018), the current account deficit halved, the country risk premium is significantly reduced and credit rating upgraded. Strong fiscal adjustment enabled a faster than expected fall in the public debt share in GDP – to about 50%. There was a fixed investment growth of around 30%, led by investments of private and government sectors, and accompanied by the halved unemployment rate. The robust growth in dinar savings was positively assessed – savings rose by close to 25% in 2018 and are continuing up this year. Led by demand and supply factors, lending activity recorded a 10.0% y/y growth rate in February 2019 (9.9% end-2018). Further growth of lending activity is expected in the coming period, a result of sustainable economic growth, improved conditions in the labor market, effects of past monetary policy easing by the NBS, low interest rates in the euro area, interbank competition and reduced NPLs.

## Banking Sector of Serbia

The banking sector consists of 28 banks (by end-2018) and is adequately capitalized and highly liquid. A declining level of NPLs, the fact that there is no concentration of some types of assets in the banking sector, and the satisfactory degree of competition witness a stability of the banking sector. At end-Q1 2019, the capital adequacy ratio was 23.7%, well above the regulatory minimum (which as of 30 June 2017 equals 8%). The share of NPLs in total banking sector loans decreased significantly and displays an evident downward trend, owing to the implementation of NPL Resolution Strategy, adopted in 2015, as well as to other regulatory activities by National Bank of Serbia. The NPL share equaled 5.5% at end-Q1 2019, down by 3.7 pp relative to Q1 2018, or by 16.8 pp, relative to August 2015, when the Strategy was adopted.

Illustration 1: NPL share in total loans, gross principle


Source: NBS

## Efforts on NPL Resolution

*NPL Strategy/2015-2018*

In the late 2008 the share of gross NPLs in Serbia was 11.3% and in 2009, as the crisis escalated, the stock of NPLs increased by over 50%, by expanding their share in total loans by 4.4% to 15.7%. The rise of total NPLs continued in the years that followed; their share reached a historic high of 21.6% in 2015, when the Strategy was being developed.

The NPL ratio was the highest in Serbia in 2015 but fell sharply during the Strategy's implementation to the level of 5.7%, at the end of 2018. After several attempts to resolve this complex issue by using individual measures, it was confirmed in practice that a permanent resolution of NPLs requires a systemic approach and active involvement of all relevant institutions. On 13 August 2015, the Government adopted the national NPL Resolution Strategy. In addition, both Government and National Bank of Serbia adopted action plans, in order to fulfil strategic objectives.

## Activities Implemented during the Strategy's Application

The main goal behind the Strategy was to:

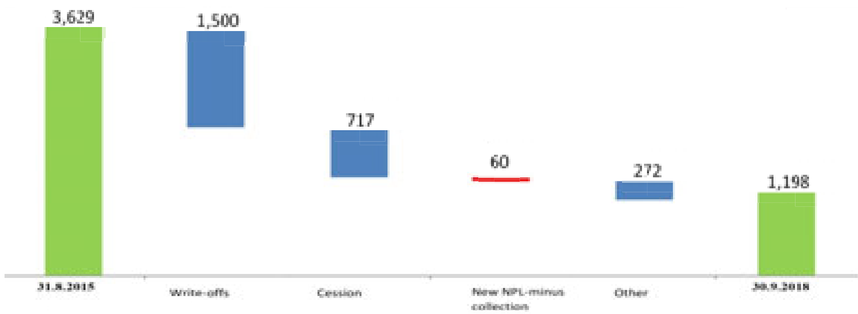
- prevent NPLs accumulation at the level that would negatively impact lending activity and economic growth, and
- improve the conditions for NPLs' market development.

In the three-year period of the Strategy's application, a great number of legal acts and by-laws were adopted and amended, the institutional capacity was improved and many measures for easier write-off and transfer of uncollectable claims were implemented. A great number of legal acts were amended and adopted, especially in the field of real estate value appraisal, taxation – in order to enable a more favorable treatment, in case of claims write/off, of voluntary financial restructuring, which enables restructuring of debts both of companies and entrepreneurs. During the previous period, NBS carried out all activities envisaged by its Action Plan, aimed primarily at the enhancement of banks' capacities to resolve NPLs. Important improvements have been implemented in certain areas, such as accounting standards and practices, as well as collateral assessment, disclosure requirements for banks, regarding collateral, biggest exposure and recognition of interest of NPLs. In August 2017 the NBS adopted the Decision on obligatory write-off of receivables that are fully impaired and transferred to the banks' off-balance sheet.

It is also important to mention the activity of NBS on NPLs' resolution, prior to the Strategy. In 2015, NBS conducted a special diagnostic study about the bank assets' quality, whose results provided a basis for improving regulatory and supervisory regulations (in the area of IFRS) and were of great assistance, when more practical activities in the Action Plan of the Strategy were defined. Several factors contributed to a significant decrease of the level of NPLs in the previous three-year period: claims' write-offs, cession or sale of claims, repayment and settlement and, to a lesser extent, claims' restructuring.

The illustration above presents the individual importance of factors that led to the reduction of NPLs. An important indicator of success of the Strategy in the segment of the NPLs market development in Serbia is also the total amount of sold claims, balance and off-balance, to parties outside and

Structure of the reduction of NPLs in EUR mil.




Source: NBS, www.nbs.rs

within the banking sector, which amounted to EUR 1,651 million in the observed three-year period. Out of this amount, 81 percent of claims were sold to persons outside the banking sector (EUR 1,331 million).

### Next Steps (NPL Program /2018-2020)

The implementation of measures, stipulated by the Strategy, yielded significant results. The level of NPLs decreased significantly, after the Strategy was passed. After more than three years since the Strategy was adopted, the level of NPLs decreased, in September 2018, to the lowest level since 2008, when this quality indicator of the bank portfolio started to be measured.

Nevertheless, along with successful implementation of the Strategy, it is necessary to undertake activities, so as to address and solve the remaining issues and ensure sustainability of the accomplished results.

The aim of the Program and NPL Resolution Action Plan for 2018-2020 period consists in a removal of obstacles identified in the system, which prevent timely solving of non-performing claims and establishment of the system which will prevent the accumulation of NPLs and the appearance of negative effects on loan activity, endangering potential economic growth. In order to attain the fundamental goal, several crucial fields were identified and within these, it is necessary to improve (1) regulatory framework, (2) capacity building and/or (3) application of regulations regarding:

- resolution of non-performing claims of banks in bankruptcy, as well as claims in the name and for the account of the state,
- improvement of bankruptcy framework (establishment of the internet portal for online auctions of bankruptcy assets, improvement of the profession of bankruptcy administrators through trainings, improvement of the operation of bankruptcy courts. Regulation of the bankruptcy of entrepreneurs),
- activities aimed at the prevention of non-performing loan (development of a study on corporate indebtedness and prevention of NPLs in the real sector, the development of tools for the purpose of preventing financial distress and an outreach campaign, the improvement of legal framework of the Law on Deadlines for Obligation Settlement in Commercial Transactions, enhancement of the legal framework governing real estate valuation).

### Conclusion

The activities implemented during the previous period have strengthened the system, by preventing the NPLs build-up, with banks encouraged to manage credit risk more efficiently, further cleaning their balance sheets, instead of postponing the NPLs resolution. All this resulted in the creation of an adequate environment and room for new lending, i.e. further growth in lending and economic activity in the Republic of Serbia.

BANKING SYSTEM

# OTP BANK Albania

## An ambitious bank for developing the Albanian banking market

*OTP Bank Albania will be a very active player in the Albanian banking market. Our bank's goal is to grow further, and to maintain a very good service quality for our customers.*

**Bledar SHELLA**
CEO
OTP BANK Albania

**BANKIERI: OTP Bank is now a reality in the Albanian banking market. Who is OTP Bank?**
OTP Group is an important player in the banking industry, in Hungary and in Central and Eastern Europe. Established in 1949, the group has been developing continuously, by being today a banking group which provide universal financial services.

OTP has a dominant role in the Hungarian banking market, thus being the largest bank, with over 30% market share. Since early 2000s, OTP Bank has been active in its expansion in the region and has completed several successful acquisitions. OTP Group has been transformed into a leading player in the region, where besides Hungary, and its entry in Albania, the OTP Group currently operates in 9 other countries, through its subsidiaries: Bulgaria (DSK Bank, Expressbank), Croatia (OTP Banka Hrvatska) (OTP Bank Romania), Serbia (OTP Bank Serbia, Vojvodjanska Banka) Slovakia (OTP Banka Slovensko), Ukraine (CJSC OTP Bank), Montenegro (Crnogorska Komercijalna Banka), Russia (OAO OTP Bank) and in Slovenia and Moldova. The OTP Group's goal is to be the largest bank in the Central and Eastern European region.

**BANKIERI: Why did OTP Bank choose to come to Albania, at a time when other banking groups are withdrawing from the Balkan region?**
OTP Group has begun its expansion in 2001 and the OTP Group's goal is to be the largest bank in the Central and Eastern European region. We could say that this group has expanded with a high consistency, by increasing its profitability, at the same time. OTP Group aimed at entering the Albanian banking market since 2003, a move that was accomplished now, through the acquisition of another European bank, and in a favorable position. The Albanian market is a developing and sustainable market, from the macroeconomic point of view, and there are still rooms for growth and development, both in the size of market and in terms of banking products and services.

**BANKIERI: As part of one of the largest banking groups in Central Europe, can you briefly explain the business strategy to develop banking activity in Albania?**
Expectations for the banking system in 2019 are positive. I think there will be a further improvement, compared to 2018. The economic growth is satisfactory, about 4%, non-performing loans have fallen, and liquidity and capital adequacy is at high levels. All these indicators create the appropriate conditions for an increase in banking activity.

As regards the OTP Bank Albania, our expectations for 2019, as confirmed by the results of first quarter, are quite positive. We will be very active, by increasing lending, both for individuals and businesses; we will open new branches and invest in new products. The quality of our loan portfolio is very good. Me and the staff are very confident that it will be a very positive year for OTP Bank Albania.

**BANKIERI: How do you see the position of OTP Albania in the Albanian banking sector and in the financial system, regarding banking products and services?**
OTP Bank Albania will be a very active player in the Albanian banking market. Our bank's goal is to grow further, and to maintain a very good service quality for our customers. Further development of banking products and services is one of our key objectives. This is achieved by establishing a long-term relationship with our customers and partners. Also, we are working on opening new branches in Tirana, to get closer to businesses and better respond to their needs. All this will be accompanied by increasing the quality of service to our customers, through digitalization of a number of processes. We will continue to invest in developing new products, by putting special emphasis on digitalization opportunities.

BANKING SYSTEM

# Tirana Bank

## Consolidation and its further growth; objectives for 2019

*Tirana Bank will explore and utilize the development opportunities of local market, with a dynamic but prudential approach, in terms of expanding credit portfolio for the domestic economy, with a balanced reference to individuals and business segment.*

**Dritan MUSTAFA**
CEO
TIRANA BANK

**BANKIERI: Tirana Bank has new shareholders, already. Why such a move towards banking, in a time of mergers, acquisitions and withdrawals from certain markets, by international banking groups?**

The most important development during 2018-2019 is the trend of banking system consolidation and changes in ownership of some banks, and consequently, the reduction of the number of operators in the market. Such transformation process has been inevitable and completely in tandem with trends in global financial industry. Following the last economic crisis, mainly during the current decade, many banking groups expressed the need for strategic changes, referring to their business model, reshaping the geographic presence, changes in specific business lines, and so on. This is basically why, over the last few years, some international banking groups have decided to sell the shares of their subsidiaries in Albania and exit from the domestic market.

The withdraw of traditional banking groups is accompanied by the entry of new players in the market, which is an indicator of the level of interest in the Albanian banking sector, due to the potential for a higher penetration to customers with banking services and products in line with the trend of activity in the developed markets. Also, it is deemed that domestic, or regional economic groups, are playing an increasingly important role in the structure and economic development of respective countries, aiming at pursuing investment in different sectors and industries.

> Our strategy consists in increasing the dynamics of bank activity, with the main objective to increase the lending rate and portfolio, along with specific offers designed for specific segments of clientele.

Balfin Group, which owns the majority stake in Tirana Bank, has a solid and positive experience, in terms of expanding and diversifying its investments in Albania, and in the region. Entering into the banking sector is considered a natural move, coupled with a clear vision, to continue supporting national economy's development and increasing customer service standards. The Bank has preserved its identity, as a key domestic financial institution during the last two decades, as well as the connections with traditional and stable customer base.

**BANKIERI: What will be the distinctive feature and what is the difference, Tirana Bank will bring into the Albanian banking market?**

The local banking sector has stable development features. Banks continue to make careful steps towards optimizing their presence and reshaping the activity, in line with trends in the global financial industry, chiefly towards a reduced number of branches and gradual growth of alternative channels.

Tirana Bank applies a universal bank business model, thus serving individual customers, as well as business and institutional clients. The bank has a sufficient presence, in terms of branch network and geographic coverage. Despite the process of shareholder structure's change, as finalized in February 2019, the bank has operated normally, pursuant to its strategic objectives in terms of maintaining financial stability, enhancing customer relationships and clientele base, reconstructing financial assets' portfolio, through a sound lending activity.

Also, the bank continues to maintain a strong capital and liquidity position, by being one of the safest financial institutions in the market. This is an opportunity to turn into a benchmark for supporting the needs of individuals or businesses, by considering synergies with the broader clients and associates' network. Our strategy consists in increasing the dynamics of bank activity, with the main objective to increase the lending rate and portfolio, along with specific offers designed for specific segments of clientele.

Our investments in the field of information technology and alternative sales channels are a clear commitment to innovation, infrastructure and process modernization, as well as to improving the quality of customer service, with the aim to optimize the resources of the bank.

**BANKIERI: What do you think about the major challenges Tirana Bank will be facing, over the next few years, within the Albanian banking sector?**

The trend of further consolidation in the banking sector will continue, throughout mid-term, to reach a more reasonable number of banks, given the relatively small size of the Albanian market. This poses a strategic challenge, which will also determine the possibilities and capacities of the organic growth of the system in general and of individual banks, in particular. The fast-changing developments in the field of information technology will pose particular challenges, so this issue requires constant attention from all banking operators to prevent operational risks of a technological nature.

**BANKIERI: What is Tirana Bank's strategic objective in a more consolidated domestic banking market?**

We aim and deem that Tirana Bank will continue to be a systemically significant bank and a long-term and stable partner for its customers. Tirana Bank will explore and utilize the development opportunities of local market, with a dynamic but prudential approach, in terms of expanding credit portfolio for the domestic economy, with a balanced reference to individuals and business segment. Also, we will continue to invest in modernization of our operational infrastructure, in line with best banking standards and practices.

EXPERTS' FORUM

# Three effective strategies to fight informal economy

*Because it has a negative impact on many aspects of society, reducing the size of the informal economy can improve the lives of people around the world and bring a variety of benefits to workers, businesses, and governments.*

**Vladimir DJORDJEVIC**
General Manager
SEE, VISA

More than 23 percent of the world's economy operates out of sight of governments, leaving more than US$ 10.7 trillion of economic activity unreported annually. These are the findings of a first-of-its-kind study, commissioned by Visa and conducted by A.T.Kearney. Indeed, the informal economy is found in many facets of our everyday lives. Although its size and visibility differ, every country and every industry has some level of informal activities, or off-the books transactions, and they all have one thing in common: most of the transactions are made with cash. Moving these transactions into the formal economy could bring a wide array of benefits, including less poverty, more job security, and greater access to social benefits, as well as additional tax revenue to boost the development of infrastructure, education, and healthcare. As the study shows, increasing digital payments by 10 percent per year for five consecutive years could lift global GDP by up to US$ 1.5 trillion, by 2021.

The factors that drive individuals and businesses into the informal economy differ from country to country, and their impact is not the same. When economies go through a crisis, or economic stagnation, individuals and businesses attempt to make up for loss of income from the official economy, by entering the informal economy. For instance, in the years after the global financial and economic crisis, official global unemployment rose from 6.8 percent in 2008 to 8.5 percent in 2013, accompanied by a parallel increase in the informal economy. While this rise in global average unemployment might not sound like a major increase, many countries experienced significant unemployment.

Even some well-intentioned businesses operate in the informal economy, because of a tangle of bureaucratic and administrative red tape. But even when the risks of operating in the informal economy outweigh the perceived benefits, there may be no credible deterrent because of prevailing social and other non-economic factors.

Because the informal economy has a negative impact on many aspects of a country and its society, dismantling it can improve citizens' lives and create benefits for governments and the businesses that operate under their jurisdiction. Consumers and individuals, who use goods and services from the informal economy, are also at greater risk because of the lack of adherence to quality and safety standards. Businesses also face an array of negative impacts, including unfair competition. For governments, the most obvious effect is lower tax revenue. Off-the-books employment reduces both corporate employee contributions and personal income taxes. Underreporting sales reduces the amount of value-added or sales tax, duties, and excise tax—meaning that governments have less funds to invest in programs, including infrastructure, health, education, and security, which benefit all citizens.

Countries try to curtail the informal economy and encourage the use of digital payments in a variety of ways. Because the informal economy relies on the use of cash and thrives when transactions cannot be detected by authorities, it faces major

obstacles in the digital world. Digital payments strategies are now playing a greater role than in the past, when an enforcement – based approach predominated.

**Discouraging the use of cash** involves reducing the perceived advantages of paying with cash, as well as changing habits and other traditions that perpetuate its use. There are ways to reduce the amount of cash in circulation, including higher fees for withdrawals from an ATM, or a bank branch, daily or weekly cash withdrawal limits, and easy access to free or low-cost cash deposits.

**Broadening and modernizing the infrastructure for accepting cards and contactless payments** is another approach to increasing the use of digital payments. Consumers' choice of whether to use cash or a digital payment is influenced by the payment infrastructure and merchants' willingness to accept digital payments.

A third approach is to **encourage the use of digital payments.** Most measures fall into this category. As the largest payer and payee in most countries, the government has a significant opportunity to shape the payment behaviors of companies and individuals—for example, by enabling digital transactions for all public matters or providing infrastructure for digital payments at its offices.

Incentives for using card payments have proven to be an effective way to increase the use of digital payments, especially when linked to lower taxes.

Smart value cards have revolutionized the transportation sector by sustainably converting low-value cash payments into digital transactions. Transport for London has seen success with open-loop contactless, with more than 1 billion journeys made by contactless payment, as of July 2017.

Despite being largely invisible, the informal economy impairs society in a variety of ways that go far beyond the financial

> The role of digital payments is bound to grow—making a positive impact not from coercion but from convenience. However, no generic set of policies can reduce the size of an informal economy, and no universal recipe exists that can create an effective digital payments policy. The ideal approach varies from country to country.

implications of GDP and tax revenues—from unfavorable working conditions and a lack of safety standards to unfair competition and sustained levels of poverty and inequality. Because it has a negative impact on many aspects of society, reducing the size of the informal economy can improve the lives of people around the world and bring a variety of benefits to workers, businesses, and governments.

Looking ahead, the role of digital payments is bound to grow—making a positive impact not from coercion but from convenience. However, no generic set of policies can reduce the size of an informal economy, and no universal recipe exists that can create an effective digital payments policy. The ideal approach varies from country to country.

All stakeholders – public authorities, payment service providers, financial institutions, mobile operators, merchants, and businesses – have different roles to play in their market and in advancing digital payments. Public authorities have an essential and multifaceted role. In addition to providing a regulatory and legal framework, they can act as the glue between stakeholders – moderating a dialogue about the national road map, setting priorities, spearheading collective actions, and ensuring transparency and accountability for results.

EXPERTS' FORUM

# BASEL III and its impact on the banking sector

*What it is more alike to occur is that both, the regulators and also the financial market participants, are willing to accept slightly slower economic growth if it means greater stability and a decreased likelihood of a repeat of the events of 2008-2009.*

**Rajmond PAVACI**
Manager, Risk Management Division
ALPHA BANK ALBANIA

Basel III signs the entrance of the banking system in a new era, where everybody involved at all levels and in all roles, has started to comprehend that banking is more complex than ever and that problems should be identified before they become serious.

Basel III is an agreed set of international banking regulations, developed by the "Bank for International Settlements" to promote stability in the international financial system. The Basel III regulations are designed to reduce damage to the economy by banks that take on excess risk. It is an extension of the existing Basel II Framework, which is aimed to get stronger, by being focused on the liabilities side, i.e. capital and liquidity, in continuance of the focus that was given on the asset side by Basel II. The suggested measures from the Basel III aim to introduce new capital and liquidity standards to strengthen the regulation, supervision, and risk management of the whole of the banking and the finance sector. Basel III will result in a safer financial system while restraining future economic growth to a small degree.

The credit crisis, that followed after 2008, the increase of bad debts, global recession, the pressure on banks' capital levels and the need for new rules and regulations, had all combined the prerequisites of bank management at more challenging than ever. Upon implementation, Basel III it is expected to give its impact on the cutting of the profitability of the banks in the short and medium run, but it is expected that, in combination with other measures, to increase stability in the financial system, which in turn ensures steady levels of economic growth in the medium and long run perspective.

> Problems with the original accord became evident during the subprime crisis in 2007-2009. Members of the Basel Committee on Banking Supervision agreed on Basel III in November 2010. Regulations were initially introduced from 2013 until 2015, but there have been several extensions until final expected implementation in January 2022.

As it has happened for more than a decade, the Bank of Albania as the Regulator of the banking sector in the country has applied the (especially after) Basel II requirements and adopted as per market's local characteristics and needs. This is valid also with the approved new Regulation no. 27/2019 "On the Liquidity Coverage Ratio" as of 28.03.2019 and which enters into force in March 2020. This will further complete the necessary framework after the Regulation no. 48/2013, "On Capital Adequacy Ratio", which entered into force in May 2018, especially after being completed with the Guideline no. 26/2017 "On the Internal Capital Adequacy Assessment Process – ICAAP".

The Capital (under the Basel III prerequisites) serves as a buffer to absorb unexpected losses and to fund ongoing activities of banks, which on the other hand, are required by regulators to hold minimum amounts of capital and banks must hold more capital against their assets, thereby decreasing the size of their balance sheets and their ability to leverage themselves. The Basel III regulations contain several important changes for banks' capital structures. The minimum amount of equity, as a percentage of assets, it is suggested to increase and above that, it is also an additional buffer required, bringing the total equity requirement to higher percentages (the previous Basel II minimum is now increased from 2% to 4.5% plus a buffer of 2.5%, which means that a 7% level is set as the minimum for equity requirement) and it is likely that many banks will strive to maintain a somewhat higher figure to use as a cushion. Afterwards, if financial institutions are perceived as safer, the cost of capital for banks would actually decrease and more stable banks can issue debt at a lower cost.

It was agreed upon by the members of the Basel Committee on Banking Supervision even before April 2013, when it was thoroughly revised and the extended requirements for its implementation started after March 2018, and which is expected to be fully in place after January 2022. The Basel III requirements were in response to the deficiencies in financial regulation that is revealed by the 2000's financial crisis and intend to strengthen bank capital requirements by increasing bank liquidity and decreasing bank leverage.

In terms of Liquidity, the Basel III introduces two required liquidity ratios: a. Liquidity Coverage Ratio (LCR), which ensures that sufficient levels of high-quality liquid assets are available for one-month survival in a severe stress scenario; and b. Net Stable Funding Ratio (NSFR), which promotes resilience over long-term time horizons by creating more incentives for financial institutions to fund their activities with more stable sources of funding on an ongoing structural basis. The observed weaknesses in the risk management practices oriented the Basel Committee on Banking Supervision (BCBS) to include a significant strengthening of its framework for Counterparty Credit Risk (CCR) for securities financing transactions (SFTs) and both over-the-counter (OTC) and centrally-cleared derivatives in response to the crisis. The CCR itself is considered as a complex risk to assess, because due to its hybrid nature between credit and market risk it depends on both changes in the creditworthiness of the counterparty and movements in underlying market risk factors. Basel III introduces capital requirements to cover Credit Value Adjustment (CVA) risk and higher capital requirements for securitization products.

The revised new capital buffers require banks to hold more capital and higher quality of capital than under Basel II rules. The new liquidity ratios ensure that adequate funding is maintained in case there are other severe crises for the banking system. Banks were given plenty of time to implement these changes, in order to prevent a sudden lending freeze as banks scramble to improve their balance sheets. According to Basel Committee, an underlying cause of the financial crisis was the build-up of excessive on - and off - balance sheet leverage for systemic banks, which apparently maintain strong risk-based capital ratios. Under Basel II rules, at the height of the global crisis, financial markets forced the systemic banks to reduce their leverage in a manner that amplified downward pressures on asset prices, meaning on loans and securities. This deleveraging process exacerbated the feedback loop between losses, falling bank capital and shrinking credit availability. The Basel III framework as response to this situation, introduces a simple, transparent, non - risk based leverage ratio to act as a credible supplementary measure to the risk-based capital requirements for the banking sector. In other words, the capital leverage ratio is intended to: a. restrict the build-up of leverage of banks to avoid destabilizing deleveraging processes that can damage the system and the economy; and b. reinforce the risk-based requirements with a simple, non-risk based "backstop" measure. While regulations may help reduce the possibility of future financial crises, it may also restrain future economic growth. This is because bank lending and the provision of credit are among the primary drivers of economic activity in the modern economy. Therefore, any regulations designed to restrain the provision of credit are likely to hinder economic growth, at least to some degree. Nevertheless, what it is more alike to occur is that both, the regulators and also the financial market participants, are willing to accept slightly slower economic growth if it means greater stability and a decreased likelihood of a repeat of the events of 2008-2009.

**References:**

*(www.bis.org – Bank for International Settlements)*

*"Basel III: A global regulatory framework for more resilient banks and banking systems",*

*"Basel III: International Framework for liquidity risk measurement, standards and monitoring",*

*"Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools".*

# SOCIAL DEVELOPMENT GOALS

## ALPHA BANK

• On June 5th, 2019, Alpha Bank Albania was part of a humanitarian activity at Tirana Social Center, in cooperation with Albanian Red Cross volunteers.

• The bank supported the Project: "Let's learn and educate while having fun", at "Pashko Vasa" 9-year school, in Shkodra.

• The bank attendesd the 10th Edition of the Albanian Study and Employment Fair, April 30th - May 2nd.

• Alpha Bank Albania joined World Vision Albania in the project: "Hello (Tungjatjeta)", by supporting 36 disabled children in the remote areas of Librazhd.

• On April 25th, the bank was part of the initiative launched by Junior Achievement of Albania, "Leader for One Day".

## abi AMERICAN BANK OF INVESTMENTS

### OBJECTIVE 3

The American Bank of Investments supported:

• On April 21st: Trail Running Albania, in Dajti mountain.

• All teams of "Studenti" Sport Club.

• ABI Bank donated a vehicle, which will be in the service of "Staying Together" Social Community Center. It also donated home appliances to the "House of Hope" in Shën Vlash, Durrës.

• On May 24th, in cooperation with the Albanian Red Cross, it organized the voluntary "Blood Donation" initiative.

### OBJECTIVE 4

The Bank supported the publication of the book: "Trip to Three Times" by the renowned Prof. Adrian Civici.

### OBJECTIVE 5

On May 17th, the bank supported the annual gala' event, organized by activists of LGBT community in Tirana.

### OBJECTIVE 11, 15

ABI Bank, following the support of initiatives that promote volunteering and nature protection, supported the initiative of "OPTIMA" Foundation for cleaning the Darëzeza beach and forest, in Fier.

### ART, SPORT, CULTURE

The US Investment Bank supported:

• For the second consecutive year, the concert tour: "Cinema Sounds" of RTSH Symphonic Orchestra.

• "Rally Albania", 2019.

• Puppet Theater International Festival, May 25th - June 1st.

• Musical: "ANNIE", June 8th, at Arturbina.

• "Marie Kraja" International Opera Vocal Festival, on April 19-20th, at Cultural Center of Orthodox Cathedral in Tirana.

• as a general sponsor of the concert of Olen Çezari (musician), with his "International Clandestine Orchestra" group, April 23-24th, at the Palace of Congresses.

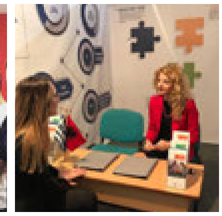
• The "Ritfolk" Concert, as a return to the beautiful music of the 90s.

• “Rudina podcast”. With Omer Kalesh, the Albanian, and so Turkish and French painter, opens the cycle on YouTube” "Wonderful Albanians", a collaboration of the American Bank of Investments and Rudina Xhunga with Dritare.net.

• “From the Beginning," in Vizion +, one of the most familiar TV formats,

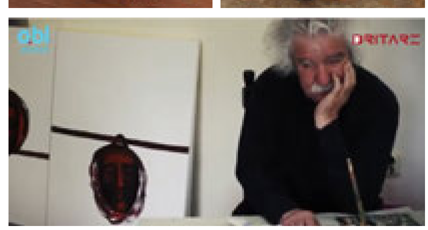
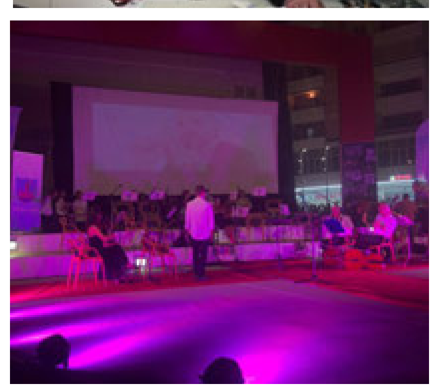
• "Give me the hand," another program that transmits optimism and hope.









The bank sponsored the organization of prom, an old tradition for the city of Vlora and for Vlora Regional Education Directorate.

**OBJECTIVE 3**
Credins donated incubators to the hospital "Koço Gliozheni".

Credins Bank supported the Red Cross. On May 28th, at the premises of Tirana's Social Center, an event was held with 50 orphanes living in the community. The bank's staff celebrated Bajram at the House of Elderies in Tirana, by having lunch with all residents of the house.

**OBJECTIVE 9**
The bank was honored with the certificate of gratitude from Mr. Xhelal Mziu, Mayor of Kamza town, for iths special contribution and activity at the benefit of Kamza town.

**OBJECTIVE 11**
Credins Bank supported Skrapar Municipality in organizing the event on opening the 2019 touristic season.

Credins supported Agribusiness and promoted the "Moving Bank", and organized regional meetings with rural farmers, throughout Albania.

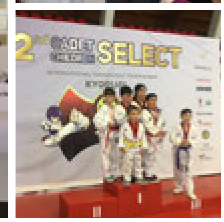
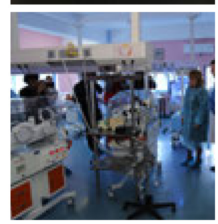
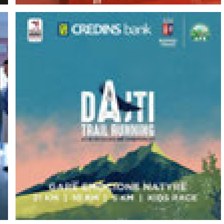
On June 1st, the children of Credins Bank's staff donated books for their peers at Children's Houses in the city of Shkodra, Durrës and Korça.

**OBJECTIVE 17**
Credins Bank became part of three activities:
• "Work and Study" Fair, April 30th - May 2nd.
• Investing in hiring young graduates and newly graduated students, in Career Day 2019, April 18th, at Faculty of Economics, Tirana University.
• The 6th Career Fair, on April 24th, at "Epoka" University.
Credins Bank supported successfully this year's "Green Ideas" competition, in cooperation with Partners Albania for Change and Development.

Credins Bank, supported the Students' Forum on: "Innovation in the Albanian Financial System", organized by students of Department of Economics & Finance of the European University of Tirana (UET).

**ART SPORT AND CULTURE**
Credins Bank supported:
• Second edition of "Dajti Trail Running", April 21st,
• Concert of Soni Malaj & Majk, organized by Tirana Municipality, at the Lake Tirana Amphitheater,
• Tirana Municipality and the Agency for Parks and Recreation, in promoting city and art in Tirana,
• "Albania Climbing Festival", a climbing discipline event in its 5th year, organized by Rock Tirana Climbing Gym, May 3-5th, in Bovillë, Brar,
• "Albanian Open" event, which coincided with the 20th anniversary of the Albanian Aeronautics, May 8 -11th, in Vlora, with the participation of more than 70 pilots from all over the world,
• "Romana Evening" Concert, organized at the Concert Hall of the Faculty of Arts, in honor of Tonin Arapi,
• Second Taekwondo International Championship,



• The concert organized by Tirana Municipality, on June 20th, at Lake Tirana Amphitheater.

Fibank
First Investment Bank

On April 19-21st, Fibank Albania sponsored "Vratsa Spring" folk festival in Vrasta, Bulgaria. The participation was made possible thanks to the contribution that Fibank Albania offered in favor of "Skampa" cultural association.

Fibank welcomes students to develop professional and teaching internships, not only in Tirana, but also in other cities. The internship program is based on several years of cooperation with the Ministry of Education, Sports and Youth. Based on the performance valuation of interns, Fibank selects the best for recruiting them for vacancies at the bank.

On May 9th, the "Flower Festival" was organized at Rapsodia Restaurant in Lezha, supported by Fibank.

Fibank presented its new branch, which is the fourth in Tirana and 14th out of Fibank Albania network.

On June 6th, it organized the "Work Relations" training for "Head of Departments and Branch Managers" mid management level, from "EPPC Albania & Kosovo" training company.

"Fast Holiday Financing", a 0% interest bank product, in cooperation with VAS Tour Operator, or its subcontractor agencies. Fibank & Booking.com in a unique partnership. If you reserve it at http://travel.fibank.al, the customer will be reimbursed up to 7% of the amount.

INTESA SANPAOLO BANK
Albania

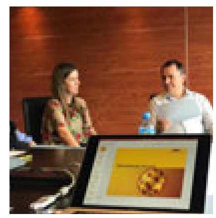
**OBJECTIVE 3**
Intesa Sanpaolo Bank Albania employees participated, for the 10th consecutive year, in the voluntary blood donation initiative. In order to raise awareness on Volunteer Blood Donors, the bank, delivered a special communication with customers and the general public, through ATM screens and official bank pages on social media.

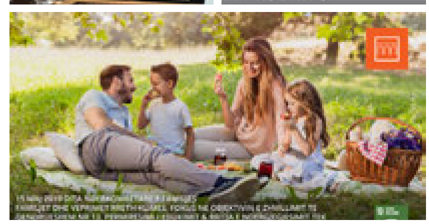
**OBJECTIVE 4**
The bank supported AIESEC in Albania, in the organization of SpringCo2019 (Student Conference), April 2nd.
The World Book and Copyright Day, is a symbolic date for world literature.

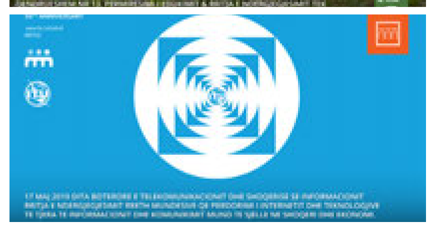
The Bank assisted te organization of the "Our Lady of Good Council" Foundation Event, at university campus, for its 26th anniversary, April 24th, 2019.

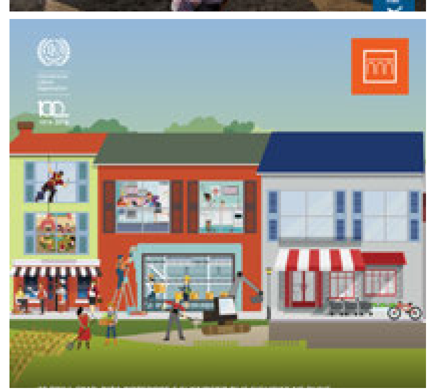
The Bank supported, for the second consecutive year, "Globalization in IN.E.AR up to its limits" Student Conference, April 25th. The winner of the First Prize for Best Work "Smart Planning Strategy" started a paid internship program at Intesa Sanpaolo Bank Albania.

Two winners of Money Week Essay Competition: "Denominations,







examples from History and the Albanian Case" were awarded with a paid internship program at Intesa Sanpaolo Bank Albania.

## OBJECTIVE 5

The International Girls' Day in ICT - aims to encourage and empower girls and young women who consider studies and having a career in ICT, by enabling technology companies and girls to benefit from greater participation of women in the ICT sector, April 25th.

## OBJECTIVE 8

The Bank was part of the 6th Career Fair, organized by "Epoka" University, April 24th.
World Health and Safety-at-Work Day, focusing on promoting health security and integrity, April 28th.
The bank was part of "Work Fair 2019 – Business Day at UET", on May 16th, and at UMT on May 29th.

## OBJECTIVE 9

The World Creativity and Innovation Day (#WCID) is positioned 6 days after Leonardo da Vinci's birthday and 1 day before the International Mother's Day Day, April 21st, 2019.

## OBJECTIVE 15

International Earth Day, April 22nd. Earth and its ecosystems are our home.

## OBJECTIVE 13

The Bank undertook a weekly awareness initiative for all its colleagues and clients, through postcards focusing on conveying messages about the impact that air pollution has on the environment today, June 5th.

## OBJECTIVE 10 & 16

On June 20th, the bank delivered a special communication with customers and the public, through ATM screens, footers on e-mail exchange, website site, official bank pages on social media, to raise awareness on refugee issues.

## ARTS AND CULTURE

On June 11-20th, Intesa Sanpaolo Bank Albania supported: "E DUA THEATRIN", a students' project, where students from 4 different faculties (Economics, Medicine of "Marin Barleti" University & UT Faculty of History and Philology) put on stage exhibitions which they directed with the help of new art directors.

**Raiffeisen BANK**

## OBJECTIVE 3

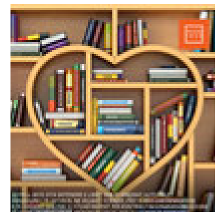
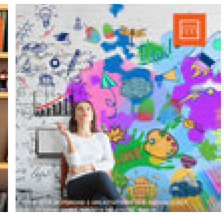
The bank supported Kruja Regional Hospital with an Echo machine. Another equally important project in supporting healthcare was the provision of some laboratory equipment for Lezha Hospital.
The Bank supported "You Are a Sunflower" Foundation, in organizing a party on June 1st, where the bank staff donated gifts to the children.

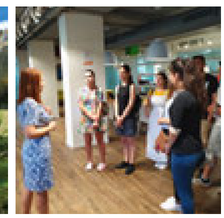
## OBJECTIVE 4

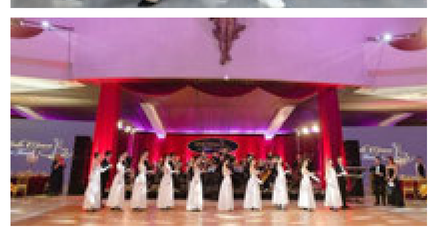
The Bank continued supporting, for the fourth consecutive year, "The City of Readers" project, which aims to create new literary spaces for educating young generations.

## OBJECTIVE 9

Raiffeisen Bank supported, for the fourth year, the InfoCom conference, which this year marked its 10th Edition, InfoCom X - the Anniversary, April 24th.






**OBJECTIVE 11**

On Autism Awareness Day, Raiffeisen Bank supported the Albanian Children Foundation in publishing an important therapeutic manual for parents, in DVD and hard copy format.

In the frame of the project of cooperation with Tirana Education Regional Directorate, the bank provided the relax room equipment for five 9-year schools in the capital, which will assist children with different abilities that are integrated in these schools.

On April 2nd, the second edition of Vienna Ball was organized at the Palace of Congresses, with the support of Raiffeisen Bank. A part of the proceeds collected from this event went to "You're a Sunflower" Foundation.

The bank supported the organization of "South Outdoor Festival" in Himara.

Raiffeisen supported the "Act for Society" Center in the "Power Up Community 2" project.

Raiffeisen Bank supported Tirana Municipality in the project to equip "Emil Le Grand" square with two new sports fields.

The bank supported Gymnastrade, in "The Future and the Hope" socio-cultural activity.

**OBJECTIVE 13**

In cooperation with Free Thought Forum through the Albanian Volunteer Corps, several actions were undertaken to clean coastal areas from debris. The areas were: Spille Beach, Tale Beach in Lezha, Zvërnec Beach, the Vilun Park, and recently the Llogara National Park. More green spaces in the capital, thanks to the support that Raiffeisen Bank has given to Tirana Municipality, by planting 500 trees in Tirana.

**ART AND CULTURE**

Raiffeisen Bank supported:

- Second edition of "Balkan Jazz showcase" festival, April 29-30th.
- The third Edition of "Swing Marathon", a 12-hour Jazz of 50s-60s music program, from Tirana to Shkodra, organized by Hemingway Fan Club Albania.
- Second edition of Color Day Festival.


## UNIONBANK

**OBJECTIVE 8**

On April 24th, Union Bank attended Career Day, organized by the Faculty of Economics of Tirana University.

Union Bank and "Luarasi" University College officially announced, on June 14th, the cooperation between them for the delivery of internship programs for students of the university. The agreement between the two institutions was signed by Mr. Gazmend Kadriu, CEO of Union Bank and Prof.Dr. Et'hem Ruka, Rector of "Luarasi" University College.

# The Albanian Association of Banks (AAB) celebrates its 20th anniversary

Established 20 years ago (on March 1999), AAB promotes the latest banking standards of its member banks, the development, stability and efficiency of the Albanian banking sector in general, and in partnership with public and private sector actors, it contributes to improving business environment and discuss key industry issues, as well as defining common strategies for the Albanian financial sector.

On May 13, the Albanian Association of Banks organized the 20th anniversary celebration ceremony of its establishment. The ceremony was attended by honored personalities with valuable contribution to the banking sector, representatives from various ministries, Bank of Albania, World Bank, UNDP, EBRD, European Investment Bank, European Banking Federation, national and international financial institutions, regional bank associations, representatives of non-profit organizations, universities and the media. As well, the present Minister of Finance and Economy, Ms. Anila Denaj, and the Minister of State for the Protection of Entrepreneurs, Mr.Eduart Shalsi also attended the event. Representatives of foreign organizations and partners, with whom AAB has established fruitful cooperation over the years, also honored this anniversary ceremony.



Mr. Silvio Pedrazzi, Chairman of AAB and CEO of Intesa Sanpaolo Bank Albania welcomed the participants and thanked them for their participation in this event. Following, Mrs.Anila Denaj, Minister of Finance and Economy, Ms. Maryam Salim, Permanent Representative of the World Bank in Albania and Mr. Istvan Lengyel, Secretary General, Banking Association for Central and Eastern Europe (BACEE), delivered their welcoming speeches. In addition, Mr. Lengyel awarded AAB with a Certificate on behalf of BACEE for its successful co-operation.

In her speech, Minister Denaj praised the valuable contribution of the banking system in Albania to the economic growth of the country, being an important means for promoting savings of Albanians, but also for the growth of the domestic economy through lending. The Minister emphasized


the necessity of returning credit to the expected level, as "credit enhancement is a necessity not only for the country's economic


and sustainable development, but also as a key activity for banks themselves."
The evening continued under a festive atmosphere with music, congratulations and greetings among the guests.

# The Albanian Association of Banks organizes the conference on "Banks for Sustainable Development"

On 14 May, 2019, the AAB organized the conference on "Banks for Sustainable Development". This conference was attended by representatives from member banks. In addition, representatives from the Ministry of Finance and Economy, Bank of Albania, World Bank, UNEP FI, European Bank for Reconstruction and Development (EBRD), European Investment Bank, European Banking Federation, regional bank associations, representatives of non-profit organizations, academic circles and the media attended the conference.


The conference proceedings were opened by Mr. Silvio Pedrazzi, Chairman of AAB and CEO of Intesa Sanpaolo Bank Albania. Also, in the opening session of the conference participants were welcomed by the Governor of the Bank of Albania, Gent Sejko.


The Governor of the Bank of Albania, Gent Sejko, during his speech, while highlighting, on the one hand, the progress made insofar, pointed out that the banking sector's development – and of the financial system in general – has not been a linear: it has constantly faced challenges of different forms and types. These challenges have required prudence as well as active, intelligent and courageous decision-making. He said that is confident that the combined experience may and will help in future decisions.


KARTA E KREDITIT CONTACTLESS
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The conference was organized in two panels. The first panel was moderated by Mr. Seyhan Pencabligil, CEO and Board Member, Banka Kombetare Tregtare, and focused on the role and responsibilities for a sustainable future. Mrs. Puleng Tumelo Ndjwili-Potele, Banking Project Coordinator, UNEP FI introduced the "Principles for Responsible Banking: A vehicle for driving lending that contributes to sustainable development". Mr. Dejan Vasiljev, principal economist, EBRD, focused on sustainable finance and growth.

Mr. Sebastien de Brouwer, Chief Policy Officer, European Banking Federation, EBF, spoke on the role of banks in sustainable finance and the European perspective. Mr. Alessandro Bragonzi, EIB representative for Albania, Kosovo and Northern Macedonia, brought the experience of how the EIB group finances a sustainable future. Banks in the challenging world of financial intermediation was introduced by Mr. Milan Mirjanic, Associate Partner of McKinsey.

Participants in the second panel of the conference addressed the banking challenges in the region under the moderation of Mr. Sebastien de Brouwer, Chief Policy Officer, European Banking Federation, EBF. More concretely, Mr. Pierfrancesco Gaggi, Head of International Relationship, Italian Association of Banks, ABI, presented the development of the banking sector for strengthening the recovery. Mr. Vladimir Vasic, Secretary General of the Association of Serbian Banks, brought Serbia's experience on the NPL market and increased lending, and Mrs. Charikleia Apalagaki, Secretary General of the Hellenic Bank Association, presented the view on governance and the balance between effectiveness and security in Greece. The consolidation of the Albanian banking sector was introduced by Mr. Silvio Pedrazzi, Chairman of AAB and CEO of Intesa Sanpaolo Bank Albania, who closed the proceedings of this conference.


# AAB ACTIVITIES

**Meeting of AAB Chairman with media representatives**

On Wednesday, April 24th, at the invitation of Mr. Silvio Pedrazzi, AAB Chairman, and in presence of Mr. Spiro Brumbulli, AAB Secretary General, at the premises of the AAB was held a meeting with media representatives, who cover economic news. The meeting took place in the framework of sustainable, fruitful relationship and coordination with media, aiming for better information. During his speech, Mr. Pedrazzi noted that AAB is committed to clarifying some of the issues, recently discussed in the media, about the activity conducted by banks in foreign currencies and money management in the banking system. Media representatives expressed their interest in issues related to the transportation of monetary values, cash in economy and informality, and Mr. Pedrazzi was open to any questions raised by them. The meeting was evaluated as an effective communication tool.

**Meeting of Governor Sejko with banking sector to discuss on: "The role of the banking industry in the future development of Albania"**

On May 29th, at the Bank of Albania premises was organized a meeting on: "The role of the banking industry in the future development of Albania". The meeting, organized as an initiative and chaired by Mr. Gent Sejko, Bank of Albania's Governor, was attended by senior officials from the Bank of Albania, commercial banks' executives (CEOs and deputies), and representatives from the International Monetary Fund and World Bank Group.

**The annual SWIFT User Group Meeting ("UGM")**

On May 9th, was organized the annual meeting of UGM, which consisted of two parts and was attended by member banks' representatives, such as: CISO – Chief Information Security Officers; IT director/managers; SWIFT main contacts and Bank of Albania representatives. The developments on the SWIFT platform and costumer security and compliance programs update were on the focus.

**Workshop on Open Banking & PSD2**

On June 12th, 2019, the AAB and the Facilization, an IT services and software business focused in providing full-fledged services in the Banking and Financial Services vertical, co – organized a workshop on Open Banking & PSD2 (the revised Payment Services Directive). In view of the PSD2 Directive of the EU, the workshop aimed at building understanding on the new banking environment that Open Banking revolution will create. Representatives from the commercial banks, Facilization and RedHat companies attended the workshop.

**Financial Education**

AAB signed a collaboration agreement with Finance in Motion GmbH for co-sponsoring the printing of an educational brochure on agriculture loans and sharing the brochure to a group of stakeholders in Albania. This educational brochure addresses the basic principles and risks associated with agriculture lending. Thank to members banks the material was adapted to the country specifics. The brochure will be available into Albanian and English language.

TRAININGS

# AAB organizes trainings
## April - June 2019

**Training on Agile Business Transformation**
organized on 1- 2 April, AAB in collaboration with AIEx.

**Training on Retail Banking and new distributions channels and e-banking** organized on May 6-8.

**Training on Leadership teams** organized on May 20 – 21, in collaboration with AIEx – Austrian Institute of Excellence and headed by Larissa Winter, MBA.

**Points of You™, training methodology On May 21st,** the AAB in collaboration with Austrian Institute of Excellence kindly organized a 2-hour info session regarding the newest training methodology that the institute offers to facilitate in Albania, Points of You™. This presentation was led by our Master trainer, Dr. Larissa Winter.

**Workshop on International Trade Compliance** organized by ICC Albania on June 18th, and supported by AAB.

**Training on Understanding and Auditing Cybersecurity** organized on June 20-21, in collaboration with AIIA.

**Workshop on "Basics of International Documentary Trade Finance Banking for Back Office"** on **June 25 – 26,** AAB organized in collaboration with ICC Albania and strongly supported by EBRD a general workshop arranged for local banks.

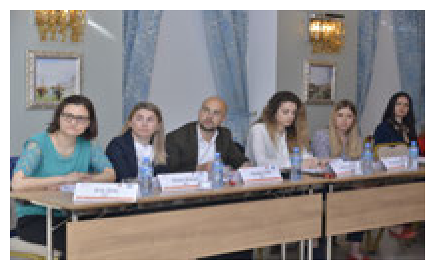
**Training on Technical Security and Running the Track Tool. On June 9th and June 20th,** AAB organized the participation of more than 25 bank security officers of members banks to conduct the training on "Technical Security and Vehicle driving at the airway" organized by Tirana International Airport.

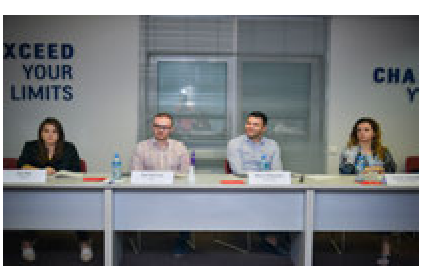
*AAB continued the collaboration with Austrian Institute of Excellence (AIEx) by offering more trainings in Albanian language in different regions of Albania.*

**Sales capacities and sales management** - Organized on 9-10 April in Korca and on **June 25-26**, in Gjirokastra.

**Motivating and leading a successful team** - Organized on **April 17-18,** in Fier, on **May 8-9,** in Lezha and on **May 29-30**, in Korça.





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