



Bankieri

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No. 34
January 2020

ALBANIAN ASSOCIATION OF BANKS
SHOQATA SHQIPTARE E BANKAVE



ECONOMIC REMODELING?



ALBANIAN ASSOCIATION OF BANKS
SHOQATA SHQIPTARE E BANKAVE

Albanian Association of Banks in support of consequences of the earthquake dated 26 November 2019

* Donating the amount of EUR 200,000 (two hundred thousand).

* Waiving of fees and commissions applied to the financial transaction (domestic and international) for the transfer of funds in favor of the victims of the earthquake.

* Other contributions decided by the individual Members of the Association based on their own rules and policies.

* Dealing with the borrowers that have been damaged by the earthquake, based on the individual cases.

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 Raiffeisen BANK	 TIRANA BANK	 UNIONBANK	 UBA <small>Banka e Bashkuar e Shqiptarise United Bank of Albania</small>

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EDITORIAL TEAM:

Elvin Meka

Editor-in-Chief

Eftali Peçi

Coordinator

Junida Tafaj (Katroshti)

Collaborator

Dorina Zarka

Photographer

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ALBANIAN ASSOCIATION OF BANKS

Street "Ibrahim Rugova"

SKY TOWER, 9/3, Tirana

Tel: +355 4 2280371/2

Fax: +355 4 2280 359

www.aab.al

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Banks

**Gjithmonë të sigurt,
gjithmonë bashkë.**



ALPHA BANK _____

www.alphabank.al
+355 42 278 500

The new economic modeling

Preparing Albania for future generations

The actually discussed remodeling for national economy really needs a better understanding of the special role, each capital may and must play, within their contribution to the economic growth. Additionally, it requires finding ways how to energize the above cited capitals in a way that empowering one of them could reciprocally empower and stimulate others and vice-versa.



Prof. Asoc. Dr. Elvin MEKA¹
Editor-in-Chief

Almost three decades ago Albania entered the highway of capitalism and market economy, by leaving behind the centralized communist economy, which at the end brought it on the brink of existence and clinical death. In this respect, Albania has made its choice: it chose mostly the classical and liberal capitalism. Back in early nineties, it started with numerous socially and economically painful reforms, to transform its economy into a typical capitalist one, and today, after those deep political, economic and social transition and transformation, Albania and its economy has arrived at the point that it needs reflection and a new approach, towards its new modelling.

In practical terms, in case of Albania, we may only talk about new

economic modelling, rather than thinking about, inventing, or picking a brand-new economic model. The new economic modelling is not a matter of choosing between liberal and political capitalism; rather it has to do with decisions to ensure an optimal and new rearrangement of the six capitals, within the economic system, which are: business, infrastructure, human, social, intellectual and natural capital. The current set of economic model, and the above six capitals arrangement setup, which Albania has used for many years in a row, has enabled it to score a seamless period of time of positive economic growth, but not quite enough to generate a sizeable and sustainable well-being for all citizens. Put it simple, this economic setup and format has not produced, so far, a sustainable model for economic development, and this needs to change.

The actually discussed remodeling for national economy really needs a better understanding of the special role, each capital may and must play, within their contribution to the economic growth. Additionally, it requires finding ways how to energize the above cited capitals, in a way that empowering one of them could reciprocally empower and stimulate others and vice-versa. Surely, in this complex landscape, different stakeholders have a role to play, but undoubtedly the government must play the biggest part, as the development and advancement of

the majority of capitals depend, in a way or another, in the way how it sets development priorities and how effective and efficient, its investments are. In this framework, when the government set priorities according to the new economic modeling, it must tackle complex issues, such as: continuously decreasing demographics, low productivity, unskilled and ill-trained labor force, simplistic industrialized economy, underdeveloped agriculture and basic agri-industry, sizeable informal economy, modest IT infrastructure, rudimentary and traditional financial markets, etc., along with drafting viable long-term investment strategies and finding ways to pay for them, without significant cost and burden to state budget, in the long-run. Put it simple, such economic remodeling requires the government to build vision and think ahead and on a long-term basis.

To close, Albania needs to develop an economy that produces wealth and well-being for masses, eases inequality, promotes competition and works in a healthy business environment, and above all, an economy that creates a real economic added value for the whole society, and not a mere mechanical value for a part of it!

¹Dean of Faculty of Economy, Business & Development, European University of Tirana, UET.

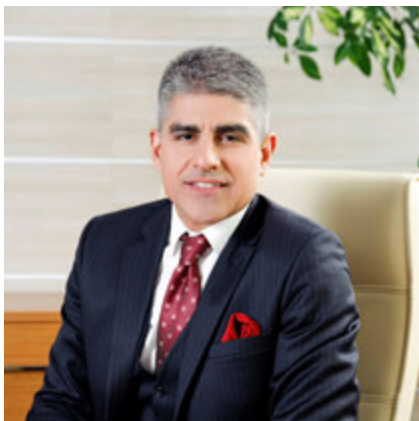
INTERVIEW

Banks in Albania during 2019 and the horizon for 2020

Interview with CEOs of AAB member banks

BANKIERI:

1. Another challenging year, like 2019, is closing for the Albanian banking sector. What was your bank's performance and key achievements & developments in this regard?
2. According to your bank's perspective, what are the main challenges for the Albania banking system, in the wake of shaping and implementing re-modelling for the national economy, in the near future and beyond?



BANKA KOMBËTARE TREGTARE
Seyhan Pencablilig
 CEO & Board Member

1 We broadly achieved our financial and operational targets in 2019. Our return on equity for the year is 17 per cent in US\$ terms, which is quite satisfactory, especially considering that we remain by far the largest bank in the country.

We have accelerated investments in technology to improve service quality. The ATM fleet is renewed with the latest model of cash recycle-type machines; e-banking and mobile banking platforms remain sector leaders etc. We have also reorganized the head office structure and undertaken a large-scale rotation among managerial staff across the Bank. Thanks to these achievements, BKT has been awarded as the best bank in country again by The Banker, Euromoney, Global Finance and EMEA Finance magazines in 2019.

2 The main challenge for the banks is that the non-performing loans ratio, although falling steadily, remains high, especially in the context of very low loan interest rates. The banking system must educate the corporates to improve their governance, so that such low rates, particularly in Euro, can be justified. Even the largest corporates in the country do not

produce financials audited by independent international auditors, but expect to be financed at very low rates, for instance.

Second big challenge for the banks is the scarcity of bankable/feasible large-ticket projects. Other than PPPs, which have become too political and controversial, few big projects come to our desks. Most of the current activity of the banks' corporate departments now is to refinance the existing clients of the other banks with even more favorable terms.

Finally, all banks must wake up that fintech threat is next to the corner. You either digitalize, or die. We are losing our sleep over this, because even if you are the best bank in the country, you may lose your clients, all of a sudden, to Google or Amazon, for example.



RAIFFEISEN BANK ALBANIA
Christian Canacaris
 CEO

1 The year 2019 was overall a satisfying year for Raiffeisen Bank Albania. Few challenges we had during this period didn't stop the good performance. Our loan portfolio has increased in all segments. We continue to focus on digital banking; we are proud to be the first bank in the market with a chatbot, so being a market leader when it comes to giving an innovative dimension to banking. We have always pushed the boundaries of status-quo to bring more value to our customers. No time was wasted in recognizing that the banking sector would soon face the upcoming digital disruption and made it our top priority to undertake an ambitious strategy to transform our customer's banking experience. That's why we were first to market with Raiffeisen On, our web and mobile digital platform, RONA the artificial intelligence based online assistant, KUIK and Scan & Pay - our peer-to-peer and peer-to-business instant payment tools, and Smart Pay our wearable micro-card. And even more importantly, digitalization has the potential to increase financial social inclusion

for people living in remote areas with difficult accessibility of banking centers. We want to make the life of our customers easier with all the features we offered to them.

Also, this year was the 15 years anniversary of the bank and as you can imagine was a particular year for us to reflect and see what we did as well make projections of much more we are going to bring in this market.

2 A few weeks ago, Albania faced a tragedy with the earthquake. The banking system will be involved to help the unfortunate customer recovery by postpone the credit payment or write off as well.

For the whole year, digital will continue to be our main focus, peer-to-peer to decrease the level of cash. Raiffeisen Bank will continue to develop in innovation in the Albanian banking market, by always offering innovative products and solutions to clients. The digitalization process has started, and the banking system is on the top, it is necessary to continue to invest to offer to our customer the best service through digital channels, as we are doing.

Also, we will continue to credit the economy in all segments as we did this year. So, we hope to affect the revitalization of the economy and set-off of new projects.



CREDINS BANK
Maltin Korkuti
 CEO

1 The year 2019 closed with a satisfactory performance, with a successful accomplishment of strategic objectives, set by the beginning of the year by bank's board of directors, and shareholders. Despite the persistent challenges encountered throughout the year, linked to the overall global economic situation, increasing regulatory requirements, exchange rate fluctuations, banking system consolidation processes, Credins Bank has successfully maintained a healthy position of liquidity, non-performing loans, revenue growth, and satisfactory consolidation of customer relationship.

The focus of bank executives and staff has been on the continued support for small and medium-sized businesses, as the main pillar of the country's economic development and employment growth. To enable small businesses access to finance, we created facilitating schemes with international partners, such as COSME agreement with the European Investment Fund, as well as the creation of specific packages for such client segment.

We strongly supported

BANKIERI:

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Agribusiness, as one of the most priority and strategic sectors in the country, by being present in every part of the country, even where there is no bank presence, through traveling banking unit, one of the most innovative services of the domestic market. We created tailored packages for each client group, thus addressing their specific needs with banking services and preferential commissions throughout the year, such as: student packages, small businesses, agri clients, etc. We created awareness-raising marketing campaigns to help reduce informality, by increasing bank card payments, installing POSs and providing payment convenience through the use of Credins Online app for tablet and smartphone. Continuous technological transformation has been our priority, which has been made real through the modernization of the mobile application, in a more attractive and simple version for every user.

"YOUARECREDINS" program, launched at the beginning of the year, has been transformed into a new talent education and employment academy, and today Credins Bank ranks one of the largest employers, with 920 employees.

All of these reflected a satisfactory performance, throughout 2018. Credins Bank was ranked the first bank in the market for total net loan portfolio,

at EUR 825.6 million, by being the main supporter of financing for any business and individual in the country. Other indicators also showed a satisfactory increase, such as: an 11.1% increase in deposits, 10.7% of bank assets, 11.2% of clients and 5.7% of bank employees.

2 The year 2020 is projected to be another challenging year, when encountering the country's current shape of economy. Credins Bank will continue to increase its loan portfolio cautiously, keeping its current portfolio under control, which hopefully will not be affected by the difficulties encountered by businesses and individuals, in the earthquake-affected areas. Credins Bank will continue to grow in the retail segment, by offering more innovative products, as well as supporting ambitious projects in interesting sectors, such as: tourism and agriculture.

The bank will continue its technological transformation, with very interesting projects, such as the opening of Smart branch, providing a unique digital experience for each customer. However, further technological modernization of the banking sector requires major regulatory, technical and administrative improvements, to support technological developments, such as: digital signature, or further simplification of processes and procedures, through online

applications.

Credins Bank has been very active in identifying the needs of Albanian society and drafting projects to help ease them. Improving infrastructure in education, health, environment, etc., will continue to be the focus of the bank. In addition to investing in the bank's infrastructure, we will continue to be involved in projects regarding: increasing green spaces, educating younger generations, reducing plastic consumption, etc. Credins Bank will continue to be one of the leading banking institutions in the country, supporting the overall development of the country, working for a reduction of informality and cash use in the economy, through attractive products and offers, and will continue to contribute to continued investment in staff and further youth employment.

Finally, after many successful years in the Albanian market, and with years of experience accumulated in the Albanian market, Credins Bank will undertake another important project in 2020, by expanding in Kosovo and creating new opportunities in an expanded market, for all clients and investors.



**INTESA SANPAOLO
BANK ALBANIA**

Silvio Pedrazzi
CEO

1 First of all, let me express my personal and Intesa's people condolences to families of victims of the earthquake. Such events brought to all of us a sense of sadness that, in a way, darkens the satisfaction for our results. Coming to facts, yes, we had to tackle indeed another challenging year. Nevertheless, Intesa Sanpaolo Bank's performance is quite satisfactory, especially taking into consideration that 2019 was the first full year after the acquisition of the ex - Veneto Banka. We increased significantly both customers' deposits and loan portfolio, consolidating our market position and recording an excellent net profit. Moreover, I'd like to stress a further strong reduction in the NPL level - that now is almost half of the average country level - and the impressive impulse given to digital channels, coupled with the enlargement of physical network. I would say that we went beyond our expectations, considering the not-so-easy-conditions under which we have operated

2 Albania is now, from several points of view, at a crossroad, and

the year 2020 has to be considered crucial, for many reasons. I expect the finalization of a number of reforms, aimed to make the market more efficient and in line with the European standards, knowing that this journey is complicated by all the uncertainties, affecting the world and European economy, that have already slowed down the GDP growth; all banks must contribute to fuel new investments in technology and efficiency, that the local enterprises have to realize, to keep the pace of the neighbor countries. At the same time, banks should adopt the utmost professional approach in the lending activity, finding the proper balance between risk appetite, growth, sustainability as well as profitability. It will not be an easy task if we consider the current circumstances, the introduction of new regulatory requirement - requiring huge investments - and the concurrent extremely low level of interest rates that push down the margins. In any case, I am optimistic on the ability of the Albanian Banking Industry to successfully overcome all difficulties.



OTP BANK ALBANIA
Bledar Shella

CEO

1 The year 2019 has been a very successful year for OTP Bank Albania. After the acquisition of shares by OTP Bank Nyrt from Societe Generale on March 2019, OTP Bank Albania has been fully integrated into OTP Group. The financial performance has been also very good. We have been able to increase notably lending, both in Retail and Business, and increase our market share in loans, by consolidating our place as the fourth largest bank in lending. The loan portfolio quality has continued to improve, and with NPL ratio of 6%, which positions our bank as the lowest ratio in the banking system. This year's profitability marked the highest historical level of our bank with a net profit, as of November data, at EUR 11.5 million and 20% ROE. The branch network is enlarged during the same year, by opening new branches and also by improving further our processes. Overall, I could say that has been an excellent year for OTP Bank Albania.

2 During 2019 the performance of the banking system has been generally positive, especially in lending. After several years of sluggish growth in lending, in 2019 the lending, especially to individuals, has been on good levels. The challenge of 2020 will be to keep this good momentum. Speaking about banking market offer, most of the banks have ambitious targets and want to increase lending. While on the demand side, it remains a question mark on willingness of clients, especially on businesses' segment to start new projects and have new loans. The economic growth of Albania will also be an important factor. We need to see if the slowdown in the last month of the economic activity and the consequences of the earthquake

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will decrease growth in 2020, or rather a pickup in economic activity shall occur.

Another challenge remains the informality. Besides the measures taken in the last years, informality remains at very high level and is a risk for the banking system, yet. More should be done in this regard, and hopefully the measures planned by the government will have the expected results.

The required investments in digitalization are another challenge for banks. Now digitalization is becoming a reality and banks should invest considerable funds in this process.



ALPHA BANK ALBANIA
George Papanastasiou
 CEO

1 The sustainable bank growth, the optimization of the cost to income and cost of risk ratios, the further reduction of NPL and NPE ratios and

the simplification of the “customer journey” through our servicing channels, were our main objectives for the year 2019; providing our Customers, both individuals and businesses, with more personalized products and services, fair prices, simple processes, access anytime and anywhere through our digital platforms.

All undertaken actions were related to the improvement of the financial position and the financial performance of the bank. The key performance indicators, set by the Board of Directors for all the corporate governance bodies and all our employees and managers, were efficiently monitored. The Internal Control System was improved, enriched in all areas of our banking activities. The customers' transactions were supported by an upgraded core banking system: Flexcube 12.3 and Oracle Banking Digital Experience, which will substantially improve customer experience in both branches and e-banking. COSME Loan Guarantee Facility Program will facilitate the access to the credit for many businesses and the Alpha BOT, an artificial intelligence assistant through our Facebook page, 24/7 will personalize Q&A regarding products and services.

2 The development of the banking system should precede, and actually precedes, the economic developments in the country.

At first, the banking system is supporting the economic growth

and is the most important player and contributor of the financial stability in the country. The banking consolidation of the last two years has produced an enhanced competitive environment which imposes the banks to differentiate through more competitive products and innovative solutions in order to provide both excellent experience and acceptable risks.

Second, the banking system developments are in line with the needs and requirements of the digitalization of the economy. Many initiatives, coming from different banks and from the entire banking system, are going to enhance the efficiency of the intermediation in the economy, the financial inclusion and the access to banking services and products for greater part of the population. However, the banking system should challenge any disruptive digital transformation and should adhere to the best international practices.

Third, a healthy banking market and its integrity require a continuous anti-informality reform and an improvement of the legal framework for the banking and financial markets. Authorities, banks and other financial institutions should work harder together to improve, not only the legal framework but also the smooth functioning of the market. This will increase the trust of the investors and of the fund users, which means more funds for the real economy and more jobs for the individuals.



AMERICAN BANK OF INVESTMENTS

Andi Ballta
CEO

1 We are very pleased with the performance of ABI Bank and do not think that 2019 was a challenging year. Top liquidity position and capital adequacy will continue to remain a priority for ABI. The consolidation of NBG Bank – Albania into ABI Bank was fully completed during the first six months of 2019. The home mortgage campaign and several other product specific campaigns have reaffirmed the position of ABI Bank in the market.

2 ABI Bank will focus in staying closer to its expanding client base by providing customized services and staying away from segments where the competition is crowded. The main challenge of ABI Bank and probably the entire banking system, is to remain disciplined in such a mature phase of the market, as it relates to pricing and risk reward. We do not exclude the possibility of average or mediocre results for the next few years, as the market becomes more competitive and we stay away from projects that have an asymmetric risk profile.



TIRANA BANK

Dritan Mustafa
CEO

1 In my opinion, the year 2019 reaffirms once again that the Albanian banking sector remains the most developed and well-regulated sector in the domestic market, with ambitions to develop within the framework of infrastructure and customer service standards. During 2019, Tirana Bank successfully completed the transition phase, as regards the change of bank's shareholding structure and consolidating its business strategy, in the medium and long term, in line with the development vision of new shareholders.

The Bank reports fundamental changes, in terms of its key performance indicators, specifically: increasing total assets and client base, as referred to the development strategy; increase in customer deposits and further consolidation of its liquidity base, which reaffirms customer confidence in the bank; significant growth of lending portfolio, in support of the development of local economy and its clients' needs, with a clear objective to continue in this direction also in 2020; a real reduction, in volume

and percentage, of non-performing assets, following the increase in credit quality and recovery measures by debtors; return to positive financial results, etc.

Tirana Bank continued its transformation process, referring to the IT infrastructure upgrading project, until end-2020, with the objective of enhancing the quality of customer service, optimizing processes and working practices, in line with best banking standards.

2 The process of further consolidation of the domestic banking system, which is expected to continue in the medium term, will create opportunity for new operators to enter the market, or to strengthen existing ones, which have a clear vision of market development. This will enable a more resilient and dynamic banking system, which will continue to invest in modernizing its service infrastructure and increasing the penetration rate of services and products, in the domestic market.

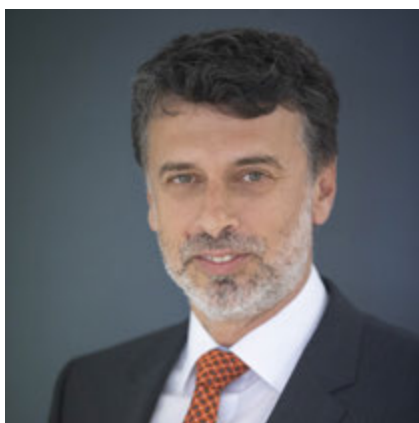
Recent developments in the domestic economy highlight the need for increased foreign investments, further modernization of local infrastructure, as well as a clear profile of economic sectors, that show development potential. The integration processes in the political and economic structures of the European Union, and those of a regional nature, are expected to affect the revival and increase of support for specific sectors, such as: agriculture, agribusiness, tourism, consumer goods trade, etc. These developments will probably also influence the reshaping of consumer behavior and demand in the years to come, thus affecting specific policy orientations and banking practices.

Tirana Bank will continue its further development, with the clear

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objective of expanding its client base and increasing financial support to individuals and businesses.



UNION BANK
Gazmend Kadriu
CEO

1 The year 2019 was a dynamic year, in terms of the banking system, where some shareholding changes, initiated during 2018, were finalized throughout 2019. As a result, today we have a reduced number of banks in the system and a more consolidated and healthy market for the Albanian consumer.

Although 2019 was generally a year of challenges for the country's economy and development, the Albanian banking system continued to perform its duty of weathering the adverse environmental effects and reinforcing positive developments, in terms of economic growth.

The year 2019 was very successful for Union Bank, as the acquisition of ICB Bank was finalized. Such acquisition helped us achieving the primary objective of increasing Union Bank's market presence, in terms of customer base, geographic footprint and asset levels. By taking over ICB Bank, the Union Bank approaches 5% of market coverage for loans and securities investments and about 4.5% in total assets and funds. The bank accounted for about 7% of the market, in terms of total number of branches. This, combined with the natural growth of funds and bank lending, enabled us a very positive double-digit growth performance, as projected for 2019, together with a double-digit profitability, in terms of return on equity (ROE)

2 The year 2020 finds the banking system in Albania quite consolidated, after years of restructuring. I believe that this sustainable system will contribute positively to the country's economy in general, by stimulating healthy competition, in terms of investments. We, as Union Bank, intend to continue our mission for the domestic economy, aiming at increasing lending portfolio, by always being careful in maintaining assets' quality.

Although the beginning of 2020 will probably come with a defocusing on developments in the country, due to the earthquake situation of November 26th, 2019, I think that commercial banks will

engage at maximum throttle, in order to perform their duties better to the customers and the economy.



PROCREDIT BANK ALBANIA
Mirsad Haliti
Member of the Management Board

1 The year 2019 has been a positive one for ProCredit Bank, in terms of consolidating our Retail Client business strategy, where the development of "Direct Banking" concept has been our top priority. ProCredit Bank - Albania, as part of the German group ProCredit Holding, has brought the European experience in banking services. It is of utmost importance, for our bank, offering responsible services to customers and this is achieved by promoting savings, consumption-enhancing services, and by providing an exclusive banking service that offers valuable features to customers, such as: speed, flexibility to manage, on

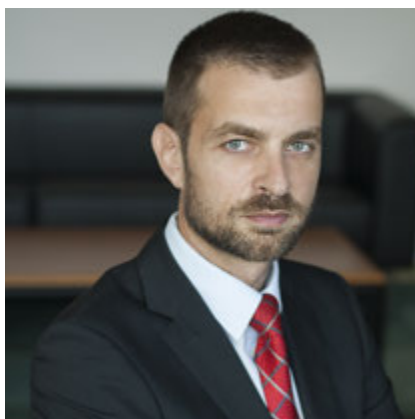
24/7, all operations from their accounts, savings, cards, as well as access to favorable financing. All these features are best realized by advanced electronic platforms, such as: e-banking, mobile banking, 24/7 Zones, or other services that are part of the ProCredit Direct concept. As I mentioned above, ProCredit Direct enables our Private Clients to access electronic channels at any time, thus giving them the flexibility to manage their accounts and financial services directly from their computers, tablets, or their cell phones.

We have also continued to invest in the development of long-term relationships with SME clients, by supporting numerous investments in key sectors of the economy, like: manufacturing, processing, services and green projects. We have maintained a very good quality of loan portfolio, where we managed to maintain a minimal NPL level, well below market average. A positive indication is the growth of Green investment portfolio, where during the last year alone we have funded over EUR 12 million of these projects. Green portfolio also grew, and it is accounting for 16% of bank's total portfolio.

2 The main challenges of the Albanian banking system, in general, are closely linked to the performance of the country's economy. Based on expectations about the country's economic growth, as well as the conditions of an accommodative monetary policy, 2020 is expected to be a positive year for the banking system. However, recent natural events and their impact on the economy will certainly be felt, especially in the forecasted development of several sectors of the economy, such as: tourism or services, in general.

Regarding the strategic focus of

banks, a key role plays focusing on important sectors of the economy, such as: manufacturing or services, which have the potential to provide more jobs and impact on the country's economy. Banks, on the other hand, have set before them a very significant challenge for the future: the continuous improvement of digital services. For ProCredit Bank, this challenge is at an advanced stage, as long as we have had such approach since 2015, but now that we are talking, digital revolution in the banking system is a fact, thus putting new requirements ahead of us, such as: state-of-the-art technology, in order to provide fast and qualitative banking services through digital channels.



**FIRST INVESTMENT BANK
ALBANIA**
Bozhidar Todorov
CEO

1 It was another positive year for Fibank Albania. Fibank activity increased with more than 25% in the main components, total assets, loans and deposits, probably the highest growth rate in the Albanian banking system, contributing in an increase of our market share. Financial performance will be again

very good and in the same pace of the recent years, approaching net profit of EUR 4 million.

We opened new branches, in the beginning of 2019, at a time when other banks were shrinking their network, and we had a staff increase of more than 20%, showing our strong dedication to business growth and further developments. The orientation toward clients is our continuous focus, and the important survey we conducted during this year about Customer Satisfaction in our network, showed an excellent indicator of our Net Promoters Call, a high level considering also international practices.

2 Improving the conditions of doing business in general will help companies to be more competitive, in the national and international market, and this is also helping banks to perform much better in general. Our banking system is continuing to face the challenge of informality, despite government efforts on that direction, and I think there should/will be taken even more measures, in order to solve this issue. Justice reform is another tool of the government that will help all the systems to perform in better conditions and bring more prosperity to the country.

Fibank aims to continue the positive trend of influencing the country welfare, by improving people's lives as staff, as customers and as citizens. We will continue to exploit opportunities in the market with our dedication to business development, new products and services tailor made, as per the current requirements and supported by a strongly motivated team of professionals.

KËTË VIT, DHURATËN E PARË JUA BËJME NE!



Depozitë në monedhën lek

- Afati: 15 muaj
- Normë interesi: deri në 1.5%
- Kapitalizimi i interesave: në fund të maturitetit

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INTERVIEW

Economic remodeling in Albania: a multi-faceted endeavor



Anila DENAJ

Minister
MINISTRY OF FINANCE &
ECONOMY

The new fiscal year has just begun. In your opinion, what are the major objectives the Albanian government aims to achieve within such timespan?

Along with the objectives of our government's program, which we are committed to implement, the year 2020 will be quite a challenging year, as it coincides with overcoming the consequences of the earthquake of November 26th. In this regard, the budget of 2020 has allocated a fund of ALL 20 billion, fully dedicated to the reconstruction of all areas affected by the earthquake.

The year 2020 will be the year of further consolidation of macro-fiscal parameters. In the context of reforms undertaken so far, it is necessary to focus on addressing mid-term policies, mainly in terms of fiscal policies and policies that spur economic growth, in a more sustainable medium-term structure. It is worth noting that, positive policy outcomes, focusing on

increasing employment, improving the quality of services to citizens, gender equality and the EU integration process, are and remain the focus of a continued consolidation.

Access to quality education remains a government priority, through investments in educational infrastructure, the construction and rehabilitation of over 180 educational facilities, or 1,800 - 2,000 classrooms and laboratories, as well as through student support, in the frame of the Pact for University.

In the health sector, universal coverage with quality health care will continue, through investments in health infrastructure at health centers, maternity hospitals and the modernization of UMCT (QSUT).

Financing the upgrade of social services for disabled citizens and families in need, as well as increasing the level of coverage of pension contributions for citizens will again be the focus of government.

Infrastructure and agriculture, also, remain priority sectors, with a total of ALL 21 billion allocated for road projects. In the framework of rural and agricultural development, we have allocated ALL 3 billion for infrastructure investments

Given the general macroeconomic and microeconomic developments, and in a broader perspective, in the context of the regional and European integration, what are the expectations regarding overall economic development and how much do they converge with the government program?

European integration and regional integration are two processes running in parallel. There are four main pillars

of regional cooperation, which guide developments in each country, such as: Free Trade in Goods; Digital integration; Mobility and Investment.

Freetrade policies aim at eliminating tariff and non-tariff barriers between countries in the region, to facilitate relations. At national level, this is of paramount importance, as it eliminates bureaucratic customs procedures. Albania has completed the project: "Electronic Customs", since July 2019. Such process saves business time at the border crossing, by creating common customs and border points, unified trade documents, mutual recognition of authorized economic operators and a unified risk management strategy.

Digital integration will provide free roaming between Western Balkan countries, a shared digital agenda, a platform for trusted services, improved cyber security, etc.

Mobility aims to ensure and facilitate mutual recognition of academic qualifications, as well as guaranteeing the implementation of European standards, through creation of quality assurance agencies, the approximation of European Union legislation and manuals for various professions.

The Regional Investment Agenda, driven by regional reform and individual investment plans, aims to turn the region into a unique destination for foreign investors. Albania has included Vlora Airport project, in its national plans. Meanwhile, investments in road infrastructure, the plan for Durrës-Tirana-Rinas railway, as well as other investments of strategic importance, continue as planned.

What are the challenges, national economy is posed to face in 2020 and beyond?

The outlook for the Albanian economy in 2020 faces challenges, which have substantially impacted our region and our country, since 2019. Economic growth at lower than projected rates, during last year, indicated the need for a broader discussion about addressing the investment growth platforms and policy coordination, in key sectors of the economy.

The economic growth rate of 4.1% in 2020 is expected to be mainly driven by domestic demand, such as: consumption and investment, but also net foreign demand. Further growth in private investments, especially foreign direct investments (FDIs) and unemployment reduction are two objectives, we remain optimistic about. A close challenge is the structural change of FDIs, by directing them towards the priority and strategic sectors and by bringing a higher impact on revenues. In the first 9 months of 2019 alone, FDIs scored a value of EUR 810 million and unemployment continued its downward trend, reaching below 11.4%.

During 2020, we will see an increase in employment, in most important sectors. The medium-term expectation is the reduction of unemployment, to a single-digit value. Creating quality jobs and developing a quality education for current and future jobs, remains a challenge per se. Here we still have a lot of work to do! The combination of supply and demand for quality vocational education cannot be done without the input from business community, which invests in human resources and capital, with the same dimension of value and focus.

Changing the current approach of citizens and businesses, in the implementation of fiscalization initiative, and incentives to get the tax voucher, will be another challenging process. Such process is expected to reduce the degree of informality, through e-billing and real-time reporting.

The successful issuance of Eurobond will be fundamental at maintaining the credibility of the Albanian economy, in global financial markets. We believe that government reforms and the progress of our major projects provide the stability, required by investors.

Commitment to the reconstruction process is a challenge, but also an opportunity to revitalize areas affected by the earthquake.

Do you think such challenges raise the need for a remodeling of the national economy? How prepared is the government to support, promote and assist the remodeling of the national economy?

Honest taxation, the promotion and orientation of strategic private investments in sectors with growth potential and increasing social cohesion are on the Government's attention for the coming decade in Albania.

The remodeling of national economy is an issue set for discussion in 2019 at the Investment Council, as well as at the Consultative Council of the Ministry of Finance and Economy. It is quintessential a combination of appropriate technological, fiscal and sector variables to bring innovation and solutions. Therefore, in 2019, three technical groups were created, with commitments from relevant Ministries, the academy and private sector, to assess the country's development potential, in three key sectors: agri-processing, digitalization and energy.

The results of the experts' work will be the basis for supporting and promoting a model that stimulates the economy in its priority sectors, beyond fiscal incentives and that helps the country's development, in the medium and long term.

A series of parallel initiatives will be the theme of 2020, to implement a vision that embraces every Albanian citizen for a marketplace with fair rules and a welcoming climate to entrepreneurs.

Since January 1st, 2020, the government has launched a digital revolution, by enabling 472 online services, through e-Albania portal and assisting citizens with facilitated services. This is only the first phase of implementing such an ambitious project, which will be completed by the end of 2020.

Another major initiative is the legislative intervention for the functioning of financial markets, as an indispensable sector catch up the pace of development of the region and Europe.

Fiscalization, which is expected to begin implementation in 2020, will bring real-time communication between business and tax administration and will serve as the basic instrument of Government's efforts for a fully formal and well-functioning economy.

Strengthening small and medium-sized businesses and human capital development initiatives, through vocational education curricula remain also at the center of our attention.

Through this approach, we pave the way for an economic remodeling of the country; we serve as catalysts for continued growth and create a framework for the private sector to mobilize investments, generate employment and sustainable development. However, timely coordination of measures for increased effectiveness and understanding of reforms, firstly and foremost by business community, are accompanying challenges in the medium term. Communication with stakeholders is in focus, but it's never enough. The reshaping of an effective and visionary communication of measures and reforms, for a comprehensive plan and analysis of costs and benefits, should be in focus to push forward projects that spur economic development and solve many problems, even the old ones, of the Albanian economy.

New economic model for Albania

A need for qualified human capital and technology infrastructure

The time has come for education and training of the workforce to be placed on the country's top priority list. Also, the strong economic growth model in the long run requires special attention in further improving of the "traditional" infrastructure, as well as the information and communication technology infrastructure.



Prof. Dr. Luljeta MINXHOZI

First Deputy Governor
BANK OF ALBANIA¹

The slowdown of the world economy and its effects on the Eurozone, as well as in the Balkan region, have had significant impact on the Albanian economy as well, thus bringing to the light discussions about the economic growth model. Although Albania has experienced increasing GDP growth rates, for almost a decade during recent years, cyclical growth puts the Albanian economy in front of new dynamics, by facing situations with more moderate economic growth rates.

Economic reports show that, foreign investment, a very important lever for economic

development of countries in our region, remains generally satisfactory, despite the sluggish economic growth in Eurozone. However, shaky economic activity in the Eurozone, and beyond, may dampen enthusiasm for greenfield foreign investments in the future. Attracting foreign investment and future economic growth



The greatest constraints for a further growth of the Albanian economy appear to be due to the scarcity of human capital and the lack of more sophisticated infrastructure. Expectations for a significant demographic decrease in the not-too-distant future raise many questions about growth opportunities.



will depend on the economies' ability to reduce the gap created in this regard. Therefore, prioritizing "complementary factors of production" is deemed as necessary, to support rapid economic growth.

Estimates for the the Albanian economy in coming years suggest that economic activity will continue to be supported by an expanding domestic demand, in particular by the increase of private consumption and private investments. Such tendency is quite similar to the economic behavior of other countries in the region, which also support their economic growth in increasing consumer spending and investments. The main characteristic of the Albanian economy dynamics is that, it is operating under conditions of low inflation, which is caused by both the insufficient inflationary pressures of domestic sectors and the weakness of imported inflation, as well.

Financial Developments

Contrary to moderate dynamics of the real sector, the financial markets in Albania have been calm and have witnessed low risk premiums. The low costs of bank financing, as well as an increased competition in the banking market, have created very positive conditions for further decline in loan interest rates, both for businesses and households. Under these conditions, positive developments

¹ The views and opinions expressed in this article are those of the author and do not necessarily reflect the official policy, or position of Bank of Albania.

in the financial markets provide a good opportunity to finance future economic growth.

In addition to the global trends and regional economic outlook, the transformation that is taking place in the financial sector poses another challenge, related to the restructuring of banks in the region, the evolution of the financial system's regulatory framework, as well as technological innovations, especially in payment instruments. All of such challenges have fundamental consequences for regulating and overseeing the financial system, in order to increase market efficiency and improve central bank's policy effectiveness.

Overall, the latest data from the Bank of Albania show that the banking sector appears healthy and in strong shape. The financial system's exposure to market, liquidity, and capitalization risks appears to be limited and with good resistance. It should be noted that, it is very encouraging that non-performing loans have been significantly reduced, thanks to repayments, write-offs of lost loans and, of course, measures taken to restructure loans.

Today, liquid assets score a much higher level than the minimum ratios, required by the Bank of Albania's regulatory framework. However, the increase in FX bank deposits can be seen and deemed as a concern. This development reflects the widespread presence of foreign currency in the economy, which poses, inter alia, certain risks to financial stability. In this regard, the Bank of Albania's practical actions, taken in the frame of implementing the Inter-

Institutional Memorandum on Enhancing the Use of Domestic Currency, in order to reduce the use of foreign currency in the economy, are to be appreciated.

As a result of these developments, private sector lending continued to improve, with a 7.5 percent growth in the third quarter of 2019. Increased lending demand by the private sector was also supported by positive developments in the labor market, and by positive



This requires increased productivity, through investments and adoption of technology, which can foster convergence with Western Europe, help reduce the wage gap, and thereby curb migration flows.



indicators of business confidence. Another indicator of sustainability is the revival of funding in local currency. During the third quarter of 2019, credit in ALL expanded by ALL 9.4 billion, or more than twice the average growth of two previous quarters.

The global financial crisis has pushed developed countries to display less and less interest in maintaining investments abroad. Such restructuring requires careful management. Whatever the trend of developing countries' pullout strategy, our institutions should not be affected, in terms of commitments to liberalize the

financial services market, and initiatives taken to strengthen the coordination of regulatory framework and oversight. The Bank of Albania will continue its accommodative monetary policy, through lower financing costs and credit growth. Monetary stimulus will be transmitted through the low interest rate level and the continuous injection of liquidity into the interbank market.

Challenges

All estimates point that the slowdown of the Albanian economy was mostly influenced by aggregate supply factors. Moreover, the greatest constraints for a further growth of the Albanian economy appear to be due to the scarcity of human capital and the lack of more sophisticated infrastructure. Expectations for a significant demographic decrease in the not-too-distant future raise many questions about growth opportunities. This requires increased productivity, through investments and adoption of technology, which can foster convergence with Western Europe, help reduce the wage gap, and thereby curb migration flows. But it largely depends on the state of human capital that is created through education and professional skills.

The time has come for education and training of the workforce to be placed on the country's top priority list. Also, the strong economic growth model in the long run requires special attention in further improving of the "traditional" infrastructure, as well as the information and communication technology infrastructure.

BANKING SYSTEM

Banking system in Bosnia and Herzegovina

Aiming to permanently remain in the process of growth

We must be aware that the future mostly depends on what we do today – now, in order to bring it about. Without the present effort, continuous rational activity, the future may remain only an unfulfilled dream.



Berislav KUTLE

Director
BANKS ASSOCIATION OF BOSNIA AND
HERZEGOVINA

Banks Association of Bosnia and Herzegovina encompasses all the banks that do business in BiH. Through its task forces, primarily the Management Board, it considers its obligation, right and responsibility to publicly present its first White Book, under the auspices of the Management Board of Banks Association, with active participation of all banks' representatives, with maximum respect for clients and the entire social community of Bosnia and Herzegovina.

Modern development of banking in BiH began simultaneously with the establishment of Bosnia and Herzegovina, as an independent and internationally recognized state. The end of the war (1992-1995) witnessed the beginning of restoration and construction of all components of the state, including financial institutions, particularly in the sphere of banking: Central Bank of BiH, Entity banking

agencies, numerous commercial banks, Deposit Insurance Agency, as well as other financial institutions. In the first post-war years we had nothing special for the development of banking, except for desire, willingness and part of vision. We lacked modern knowledge, quality staff, money, organizational and material infrastructure, essential credible clients, adequate legislation, etc. Help by international institutions was of vital significance and a true catalyst in constructing the present banking system in Bosnia and Herzegovina. Banking has traversed a painstaking, arduous though - most importantly - successful road. At present, it is the most up-to-date part of Bosnian and Herzegovinian economy and society. We have modern European and world regulations substantially aligned with the European Union. Due to the quality of their work, operations and products, banks are able to provide top-class services to their clients.

And how does Bosnia and Herzegovina ranks, measured by the international institutions' criteria? In its Global Competitiveness Report for 2018, World Economic Forum in Davos ranks Bosnia and Herzegovina 91, out of a total of 140 ranked world

countries. In mid-2019, BiH credit rating was B with positive prospects according to Standard & Poors, and B3 with stable prospects according to Moody's. If political conditions in BiH do not change significantly, there will be realistic bases for downgrading this credit rating, which will affect the banking sector, as well. All macroeconomic parameters in BiH are at an absolutely low level: nominal GDP, exports, imports, export-import ratio, external and internal debt, unemployment rate, industrial production growth rate, monetary policy based on currency board, complexity of the fiscal system, volume of foreign direct investment, etc.

It is important to note that each percent of growth on a low basis brings no significant positive breakthroughs. A positive breakthrough requires at least double growth rates, compared to the present ones. Unstable political conditions in the country, additionally slow down the possibilities of growth and changes, which are a prerequisite for major reforms.

The banking sector of Bosnia and Herzegovina is characterized by strong concentration, dominated by four banks/groups, which hold

Conditions and projections of macroeconomic indicators in the period 2017-2022 are as follows:

Description / year	2017	2018	2019f	2020f	2021f	2022f
Nominal GDP (BAM bn)	31,3	31,8	33,6	36,5	38,6	40,9
Nominal GDP (EUR bn)	16,0	16,3	17,2	18,6	19,7	20,9
GDP per capita (EUR)	4.090	4.272	4.507	4.906	5.188	5.503
Real GDP (growth y/y %)	3,0	3,2	3,4	3,7	3,9	4,0
CPI (y/y, average %)	1,4	1,5	2,1	1,7	1,8	2,0
Trade balance (% of GDP)	-23,9	-26,0	-26,3	-23,8	-23,2	-22,8
FDI (% of GDP)	2,0	2,4	2,5	2,5	2,7	2,9
Public debt (% of GDP) IFM estimate	45,6	43,4	40,7	37,4	36,9	35,7
Total private sector credit (growth y/y%)	7,3	6,3	6,8	7,0	7,8	7,9

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almost half of banking sector's assets (UniCredit Group, Raiffeisen Bank, Intesa Sanpaolo Bank and NLB Group). Conditions in the banking sectors are improving every year. Banks' self-sustainability, security and profitability are satisfactory. The level of non-performing loans should be viewed in two different ways. If it is compared to other countries in the region, it is among the highest. On the other hand, if viewed taking into account the reality of the BiH market where banks do business, it is low and its coverage with reserves is satisfactory. It means that banks manage risks well, in actual BiH conditions. However, regulation and supervision of banks' operations are of particular significance. Legislation, aligned with contemporary European norms, should be an additional factor of security. Practices and principles of the banking business in the European Union are present in the BiH market as well, through large banking groups that do business here and have a dominant market share.

Competition in BiH banking is extremely strong. Supply of banking products is considerably greater than demand, not because the banking sector is large, but rather the degree of BiH economic development, which relatively small, compared to assets, being too great for it. In the forthcoming period we may expect a smaller number of banks with far faster possibility of adjustment to new market conditions. Digitalization, entry of new large players in the market, decrease of loan margins, increase of passive interest rate and many other, so-far unknown but certain risks are part of what banks will have to take into account in the near future. In the globalized environment, the banking industry of BiH is also part of the worldwide turmoil.

Change management implies a complete framework of all activities needed to bring about positive changes. We manage the "chain" of our mission in the contemporary market, with the following "links": vision + strategy + ability + incentives + resources + action plan = positive change. For each segment of change management we seek continuous answer to the following questions:

Is the new vision sufficient to inspire the action of present and new partners and interested parties? Without a clear vision we will have confusion!

What is the strategy? Strategic positioning means performing activities differently from rivals who perform similar activities in different (better) ways.

Which skills should be strengthened among the staff and management to achieve the changes? Without necessary skills we will have anxiety.

Which incentives and measurements must be in force to achieve every goal? Lack of incentives creates resistance.

Which resources are lacking and how can one increase additional resources or achieve sustainability? Without resources we have frustration.

Does the action plan we are developing provide a clear road map for the next 3 – 5 – 10 years?

Will we be able to follow this action plan without obstructions? Without a clear action plan we will probably have a wrong start.

This is followed by the following questions, which call for clear answers:

- Which needs are we solving today for our clients? Are they still worth solving?
- What are our greatest fears about the future?
- What trends do we believe will affect our business?
- What is our priority in terms of these trends?
- What are the possibilities that each trend presents?
- What threats are related to each trend?
- What will our business look like in 3 – 5 years, does it make a full use of the advantages of this trend?
- Which steps do we have to take to start in the right direction and on the right course today?

We should not lose sight of our fundamental mission, led by the desire for as great growth and profit as possible. The biggest enemy of strategic development – achievement of vision is too great a desire for fast short-term growth. Any changes we want to achieve should be evolutionary, rather than revolutionary. It is disastrous to imagine and dream of the future without building and achieving it right now, actively and meaningfully. It is one of the fundamental reasons why Banks Association of Bosnia and Herzegovina published the White Book.

	2013	2014	2015	2016	2017	2018	Last available data	2019e
Banking Sector Indicators								
Total Assets (EUR bn)	11.8	12.3	12.8	13.3	14.4	15.8	15.9	16.6
Total Assets (in % of GDP)	86.1	87.9	87.3	87.3	90.0	94.1	89.3	93.3
Total loans (EUR bn)	8.2	8.4	8.6	8.8	9.3	10.0	10.0	10.5
Total deposits (EUR bn)	7.3	7.9	8.5	9.1	10.1	11.1	11.2	12.0
Non-performing Loans (%) - NPL	15.1	14.2	13.7	11.8	10.0	9.4	n.a	9.1
Return on Assets (%) - ROA	-0.1	0.8	0.3	1.1	1.5	1.5	n.a	1.5
Return on Equity (%) - ROE	-0.5	5.4	2.0	7.3	10.3	11.1	n.a	10.5

BANKING SYSTEM

Alternative Collaterals

Another opportunity to spur credit to economy

The lack of a proper collateral management service hinders the use of inventory pledge, as a genuine collateral.



Admira Llazari (Mlika)

Manager, Credit Risk Department
BANKA KOMBËTARE TREGTARE

In any emerging economy, lending has an enormous importance and role to play in developing and enhancing its capacity. In Albania, the modern banking sector marks almost 28 years, since its establishment and currently it remains the most important sector of the country's financial system, whose assets score about 90% of it, implying at the same time the weak or non-existent role of the capital market.

How has the lending evolved in the system, which can be called a relatively new one?

Developments in the global economy, and especially the global economic crisis of 2008, produced a negative impact on the Albanian market, by shrinking the credit market, and slowing it down, progressively. However, despite the many challenges, for 2019, Albania

ranks among the markets with the highest growth rates in the Western Balkans and Central & Southeast Europe. According to the Bank of Albania, in Q3 2019, the loan portfolio recorded an average growth of 6%, out of which the private sector lending grew by 7.5%, significantly higher than the average growth for the Western Balkans and Central & Southeast Europe. This tendency is explained, inter alia, by factors such as: the completion of banks' sale process and the entry of new



The simplest collateral alternatives would be: inventory pledge, equity shares, metals and commodities, Letter of Guarantee and Letter of Credit, which although their formal existence, their widespread use dictates the need for an efficient execution, along with a cooperative approach between the guarantee issuer and its final beneficiary.



investors in the market, which has led to a more favorable approach to businesses and fostered banking competition; loan restructuring, or write-offs; investment plans and economically acceptable business requirements; as well as the long timespan of historically low interest rates. However, the loan-to-deposit ratio stands at 49.2% (December 2018) and banks in Albania still

consider collateral offering a certain coverage for the loan, as one of essential elements, when analyzing and approving a lending practice.

Property collateral ranks 3rd, among the factors to be analyzed during lending, the 5 C's, (Character, Capacity, Collateral, Capital and Conditions), each of which having its own impact on decision making. Whilst the main consideration during the lending decision-making should be given to the customer character, credibility and his repayment capacity, the main reason why banks take collateral is to reduce the credit risk, especially in the event of debt default, various crises and failure to obtain/secure funds by the borrower. On the other hand, collateral is a risk mitigation technique for loan losses and allows banks to increase their portfolios, achieve adequate levels of capital adequacy and offer better pricing for loans.

While each bank's motivations for collateral requirements are interconnected, the overwhelming driver for its use is eventual desire for credit risk protection. The need for protection against credit risk becomes even more significant, in an environment where the ratio of non-performing loans is relatively high. Depending on each bank policies, in the Albanian banking sector the collateral coverage requirement ranges from 100% to 150%. According to the Bank of Albania, in December 2018, most of bank loans portfolio (78.2%) is collateralized. Regarding the collateral type, the majority of

loans, about 53%, are collateralized with real estate. Loans to households have a higher level of real estate coverage, at 63%, compared to 48% for business loans. The banking sector trend in this regard is mainly related to:

- uncertainty of the financial situation of businesses, banks' forecasts and analyzes of borrower's repayment capacity, in an environment where cash economy still occupies a significant share of economic activity;
- sector-specific problems, related to the sector where the entity operates;
- investment plan and its economic rationality/profitability;
- overall political and macro-economic situation, that has accompanied the country in these years.

As mentioned above, despite the decrease of non-performing loans to 10.6%, by end-Q3 2019, collateral coverage requirement, in relation to the loan amount, remains tight. However, collateral foreclosure is not an easy process at all, on the contrary, a bumpy road with legal nature obstacles, accompanied by bureaucracies and corruption cases in various instances, problems with legal documentation of property or its sale in the market and what's more: human factor and social impact. Non-performing loans management has faced banks with a relatively high number of foreclosures and bank buybacks, at the end of this process. The sale of apartment, house, or commercial unit as collateral type is relatively more successful than that of factories, warehouses, agricultural land or production lines, where sales are almost impossible. The negative impact of holding

collateral on bank balance sheets, in terms of financial stability, but also in the context of a possible pressure for falling market prices, drives banks away from their main lending mission and encourages them to invest increasingly considerably in administration and sale of foreclosed property.

In the frame of encountering with such challenges, exploring other types and alternatives, that could be easily considered as guarantees for the loan repayment, or alternative financing means, becomes a necessity. Unlike countries in the region, such as: Greece, Serbia, Montenegro, or Northern Macedonia, where the capital market is organized and functioning, the absence of such a market and the non-functioning of any real Securities Exchange, means an inability to trade stocks, or issuing debt securities by the Albanian companies. The organization and operation of a consolidated securities market not only reduces informality, enhances public transparency and financial statements' certification by auditing companies, but it enables as well to the listed companies an efficient mechanism for securing necessary funds to finance long-term projects and investments.

Overall, over-reliance on collateral lending is detrimental to borrowers, lenders and the economy as a whole, as collateral resources are also limited. The establishment of the Credit Bureau, as an information intermediary, a project currently underway, would provide a range of benefits to creditors and applicants. A thorough assessment of credit history and access to borrower's payments would provide the latter with non-collateralized loans or facilitate the collateral requirement.

Credit Default Swaps (CDS).

CDS is an instrument that offers

protection against the risk of losing a loan, by transferring the loan loss risk from the bank to another institution, which specializes in the sale of such product, like: insurance companies. In this case, the insurance company, would, for a premium, commit itself to repay to the bank the full, or partial amount of the secured loan, if the issuing/borrowing company fails to pay back the contractual obligation to the bank. CDSs diversify loan risk and increase lending capacity in the financial system, but given the experience of past crises, it is clear and very important that, such markets require very strict and well-structured legal and regulatory systems.

The simplest collateral alternatives would be: inventory pledge, equity shares, metals and commodities, Letter of Guarantee and Letter of Credit, which although of their formal existence, their widespread use dictates the need for an efficient execution, along with a collaborative approach between the guarantee issuer and its final beneficiary. On the other hand, the lack of a proper collateral management service hinders the use of inventory pledge, as a genuine collateral. For example: VAT Accounts Receivables pledge is a very effective lending incentive tool, that also requires legal adjustments and approaches, to provide security and protection for lender's rights, over such collateral.

Finally, the alignment of regulatory framework with Basel III requirements, an ongoing process focusing mainly on regulatory acts related to liquidity indicators, capital adequacy, large exposures and stress-tests for banks, show inter alia, the impact of collateral in the calculation of the above indicators and its impact on banks' lending capacity.

When legal amendments are endorsed without a consultation process

The provisions of the new Law: "On the Private Judicial Bailiff Service", undermine the general interest of all creditors and debtors and create a clear conflict of interest with the primary function of the bailiff and, in general terms, goes against the constitutional right of freedom to establish an economic activity.



Brunilda KOSTARE

Legal adviser

ALBANIAN ASSOCIATION OF BANKS, AAB

On May 8th, 2019, the Parliament of the Republic of Albania adopted the Law 26/2019 "On the Private Judicial Bailiff Service". The banking sector, as an interested party, was included, among other stakeholders, in the discussion and consultation process of the draft Law: "On some changes and amendments to the Law no.10031, dated 11.12.2008 "On private bailiff's service"", with the Parliamentary Committee on Legal Affairs, Public Administration and Human Rights. The proposed amendments, as discussed, were not taken into consideration; furthermore, without any prior discussion/consultation, and in the total lack of transparency, on May 8th, 2019, a new draft law was presented, during the parliamentary session, which

contained important provisions that were never introduced within the draft law, projected to amend the actual law in force at that time, and therefore, such provisions were never discussed/consulted with interested groups and stakeholders, and not even in the parliamentary committees.

Notwithstanding the improvements that the Law 26/2019 may have brought to the organization, operation and control of the private judicial bailiff's service, the provisions which entitle the private judicial bailiff to exercise "the notification of debtors and the collection of the financial obligation in mutual understanding" as a secondary activity, is an all-new element that was never introduced before in any draft law, or during any discussions with any stakeholders, ever. Widely discussed within the banking sector, it is reasoned that such forecasts will have a negative impact on banking activity, and not only.

The collection of financial obligations by "mutual understanding" is a legally and procedurally different process from the collection of financial obligations "through enforced execution". The collection of financial obligation by "mutual understanding" means the process of negotiation between the debtor and the creditor, or a third party, authorized to act on behalf of the creditor, and in any case, with no additional fees charged to the debtor. On the other hand, debt

collection "through enforcement execution" is a process that procedurally begins only after the issuance of an executive order by the court and according to a specific legal procedure, governed by a fundamental law, such as the Civil Procedure Code, accompanied by a fee charged to the debtor.

This law imposes an abusive and monopolistic restriction on the free market with potential disruptive effects of the respective market. The law also prescribes an abusive restraint by defining the secondary activity of "notifying debtors and collecting the financial obligation by mutual understanding" as an activity that should be performed by private judicial bailiffs, only, thus monopolizing an activity that is not essentially unique and requires no specific skills. Furthermore, such activities comply with the functioning of banks and non-bank financial institutions, under the Law: "On Banks in the Republic of Albania", and with the role of intermediary, as defined by the Law: "On Mediation in Disputes' Settlement", or as provided by the Civil Code on mediation and the mediator. The new law provides for the private judicial bailiff to act on behalf of the creditor in the conduct of its secondary activity (a clear conflict of interest) given that after such process (if not successful) the creditor, must go through an enforcement execution, through the private bailiff service, as the consequent step. Seen from the

perspective of the banking sector, such provision does not help in reducing the outstanding financial liabilities, including bank loans; rather it undermines the banking system (and not only), because it prevents/restricts commercial banks to carry out the process of collecting financial obligations with mutual understanding, by themselves. But not only that. This restrictive provision, which disrupts a market and a process that has been operating for many years and has yielded satisfactory results, intends to give to private judicial bailiffs the function of a financial institution, in collecting outstanding liabilities (and also negotiating them), whereas the bailiff function itself is limited up to the mandatory execution of executive titles for those obligations that have not been fulfilled, either voluntarily, or in mutual understanding.

Such act causes a direct damage to the banking industry, all other licensed institutions (and all creditors in general), in the process of collecting loans, or financial liabilities; it assigns the status of financial institutions to private judicial bailiffs, in the process of debt collection and their negotiations. The activity of commercial banks and non-bank financial institutions is regulated and supervised by the Bank of Albania. Companies licensed to operate in the banking sector have included the lending and financing process in their scope of activity. Lending and financing also include the handling of non-performing loans (transfer, purchase and collection with mutual understanding) and this is applicable to all companies licensed to lend, or simply handle non-performing portfolios. Therefore, the new law on private bailiffs has interfered with the freedom of economic activity of companies

conducting intermediation and collection of non-performing loans; moreover, it has violated the organic law regulating the relevant activities. The legal prescription, that the activity of collecting financial obligations with mutual understanding will be carried out by private judicial bailiffs only, deprives banks and non-banks financial institutions from exercising and following the procedures approved by law, to which these entities are licensed by the Bank of Albania.



The implementation of the provisions of this law will negatively affect the financing and lending to the economy and could lead to an artificial increase in the number of non-performing loans, because arrears will fail to be collected/executed on time, thus threatening at the same time the financial stability, precisely at a time when – after so many efforts – we are seeing a satisfactory improvement in the reduce of non-performing loans.



Deprivation of these entities from this right violates the constitutional standard of the right of freedom of economic activity.

The law increases debtors' liabilities, quite artificially and without any justified reason, as they will be charged with unreasonable additional costs, required by the private bailiff for its own business. The new law has provided for the secondary activity a specific tariff, thus placing a considerable burden on debtors, and by artificially worsening the financial position

of the debtor; such fee is not recognized/charged when the collection of obligations is made by mutual agreement, by the creditor or under its contractors. By making fee specification a sole competence of the Minister of Justice, it violates the legislative process in general, considering that the specification/setting of tariffs is a joint responsibility of the Minister of Finance & Economy and the Minister of the relevant Ministry.

We strongly believe that the above contested provisions undermine the general interest of all creditors and debtors and create a clear conflict of interest with the primary function of the bailiff and, in general terms, goes against the constitutional right of freedom to establish an economic activity.

To summarize, from the viewpoint of banking and financial industry, the implementation of the provisions of this law will negatively affect the financing and lending to the economy and could lead to an artificial increase in the number of non-performing loans, because arrears will fail to be collected/executed on time, thus threatening at the same time the financial stability, precisely at a time when - after so many concerted efforts by the Government, regulators, as well as by international and domestic financial institutions - we are seeing a satisfactory improvement in the reduce of non-performing loans. The Albanian Association of Banks (AAB) has supported and will continue to support the improvement of standards of legal framework, including, of course, legislation related to free professions within the justice system, and will continue to require the amendments of relevant articles of Law no. 26/2019 "On the Private Bailiff Service".

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BANKING SYSTEM

A sizeable informal economy and the low usage of bank cards and POS terminals

The informality level, especially in coastal cities, remains particularly problematic, so businesses operate in informality, which is why they may prefer not to install POS terminal to hide their turnover, but also as part of unfair competition.



Diana LEKA

Head of Secretariat
ALBANIA INVESTMENT COUNCIL

Informality has been one of the main pillars of our work, from the beginning, in the frame of stimulating debate on key issues regarding country's investment climate. The Secretariat of Albania Investment Council has analyzed informality (2015-2019) in the Albanian economy in general, as well as in particular sectors, such as: tourism and agriculture. Specifically, in tourism, the analysis aimed to identify the extent to which economic activity is affected by informal activity and tax evasion, where "informal economy" means economic activities involving monetary transactions, related to legitimate economic activity, carrying tax evasion, or tax avoidance. It must be emphasized that, the majority of subjects engaged in tourism (about 300) and

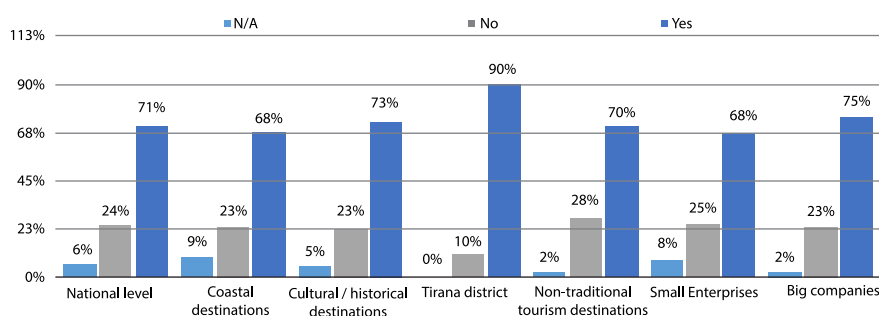
included in the analysis, were small and medium-sized businesses, mainly "hotel accommodation" and "tourist agencies." During the analysis and consultations, a low number of debit/credit card transactions was identified as an issue in general in the country, specifically in touristic areas. The issue was initially perceived as a problem from the viewpoint of tourists, rather than the owners of accommodation units/restaurants/bars, etc. Specifically, tourists have identified cases of lack of POS terminals in touristic areas, often making cash payments. Furthermore, there were cases when entity owners were equipped with POS terminals, but they raised the issues of the cost of their maintenance, as long as the users' number was not high enough.

Also, the Secretariat referred to some studies, which confirmed a direct link between the level of informality and the low level of transactions by electronic means, such as: POS terminals, or payments

via mobile phones, especially in the sector of trade and services. This due to the fact that, cash payments leave no trace and allow them to avoid transaction reporting, as part of turnover, thus becoming one of the causes for shadow economy and tax evasion in tourism. On the other hand, the number and use of debit & credit cards by the population still remain the lowest in the region. Also, official data from the Bank of Albania were analyzed, which showed that the total number of POS terminals in Albania, by the end of 2018, was only 8,726, out of which 7,259 were located in Tirana district. In the third quarter of 2019, the total number of POS terminals increased to 10,837, but still remains the lowest in the region.

In this context, we recommended a deeper analysis of the issue, both in the frame of globalization and compared with countries in the region, and from the perspective of the important role that financial inclusion education has in the economy.

Percentage of companies that perceive competition from informal economic activities, by region and business size



Source: Our calculations, based upon AIC survey data 2018

¹ The informality understanding and measure remains a great challenge, given that the sector is based upon "shared economy" and interacts with other value chains of the economy.

² Reducing the Shadow Economy Through Electronic Payments - Ernst & Young / MasterCard (2016)

³ https://www.bankofalbania.org/Pagesat/Statistika_te_sistemeve_te_pagesave/

1. Reasons for the low use of such instruments in Albania.

The low level of use for such instruments by businesses, especially SME ones, is related to costs, procedures and limited access to banking services. The informality level, especially in coastal cities, remains particularly problematic, so businesses operate in informality, which is why they may prefer not to install POS terminal to hide their turnover, but also as part of unfair competition. This situation is changing somewhat as the sector is growing and such a service is a must, especially in tourism, where foreign tourists demand standards. From the sectoral point of view, although being a strategic sector for the country, tourism or agriculture remain seasonal, and therefore (especially small and medium-sized) businesses take into account the potential costs of this banking service. Meanwhile, Albania remains a new tourist destination, with the challenge of positioning itself in the world market. Therefore, the latest dynamics analyzed by AIC, not only identify demand growth potentials, but they need to be analyzed with the "demand for quality" and competitiveness, from the demand side, as well. **Understanding the features of the sector from the supply side, including card payments, remains crucial, given that most of challenges, the sector faces today, relate to the supply structure and quality,** despite significant developments in the sector.

2. Some measures to be taken to promote the use of these instruments

Certainly, the payment system is an important part of the country's financial infrastructure and relates to a variety of factors, including institutions, rules, and/

or standards that enable financial interactions, where the support for SMEs in priority sectors requires a particular focus. In this regard, in the context of the formalization of economy, the intervention should not be with partial policies, instead it must be integrated with the cooperation of key stakeholders: government, central bank, banking sector, and private entities, which have an interest for fair competition, as "high informality brings informality". In addition to using bank cards as a means of payment, the emphasis should generally be on low/limited access to financial



Businesses are reluctant to fully cooperate with the bank, by failing to provide proper signs in their business premises, concealing POS terminals and accepting card payments, selectively.



services for businesses and individuals, due to limited presence of banks, low number of POS terminals, high administrative and maintenance costs, related to bank accounts and the lack of any risk undertaking from BANKS, related to funding in general and promoting the use of payment instruments, in particular.

On the other hand, the access of the population and business to banking services should be increased, through financial education and confidence buildup in the banking sector, whereas banks must increase the transparency about costs of services and cards, and in particular must review their commissions on providing

and maintaining such devices and instruments. Also, a coordination of anti-informality measures and those promoting voluntary formalization, between the Ministry of Finance & Economy and the Bank of Albania is needed, in terms of: encouraging the use of cards through fiscal instruments and at the same time, providing banking service closer to businesses, especially to small ones.

Finally, the Albania Investment Council would recommend that:

Encouraging payments through the use of POS terminals and electronic payments would affect the high level of the shadow economy in tourism activity; they would increase business compliance with tax administration and contribute significantly to increasing the transparency and reputation of the Albanian tourism offer, especially for foreigners. Ways to face such challenge should be further discussed with the Bank of Albania, commercial banks and the Ministry of Finance & Economy, in order to find an acceptable solution and avoiding additional costs for businesses, especially micro-businesses. International practice offers several measures that can be followed. In addition to the above, the practical implementation of the rules on categorization and classification of accommodation structures, according to the provisions of Decree No.730, dated 20.10.2016 of the Council of Ministers: "On rules for terms, requirements, tariffs, timing and procedure for classification of accommodation structures", which make the use of POS terminals at 4 and 5-star hotels/resorts mandatory, would give a hand in the formalization process.

BANKING SYSTEM

Reluctance in cooperating with banks and informality

Serious obstacles in increasing the use of bank cards and POS terminals

There is a reluctance and uncertainty, from business part, since the very first steps, to approach the bank and open business bank account, and then such reluctance is noticed after having a POS terminal, where there are cases when the terminal is switched off, is hidden and customers are not provided with a card payment option.



Erion MAXHARI

Head of AAB Cards Committee
ALBANIAN ASSOCIATION OF BANKS, AAB

As the Albania Investment Council puts it, there are significant problems in the tourism sector, which are, at a certain extent, caused by businesses, themselves. Regarding the expansion of the POS network, I do not think that seasonality is the key issue, or any other element related to business and infrastructure; instead I do think that it's a necessity to eliminate

and combat the spirit of informality, created in these areas.

From an infrastructure perspective, we, as AAB Card Committee, do not believe that there are any barriers, regardless the costs that these terminals require, such as: investment in equipment, interconnection costs, maintenance and training. Banks in Albania have provided businesses with POS card acceptance services mainly without fixed maintenance fees, but only with transaction fees, the latter deemed as necessary, due to the costs of interoperability with VISA, MasterCard, AmericanExpress card networks, etc. Albanian banks have also offered extra services, such as: POS in Euro currency, an advantage for both the customer and business, with no conversion losses, but also an expansion of ATM terminals in such areas.

In the meantime, AAB Card Committee points out that despite the banks' mitigation of costs, we are witnessing a reluctance, from a sizeable mass of businesses,

to get POS terminals. This is due to the issues specified by Albania Investment Council study, such as: distance from bank branches/networks, seasonality, infrastructure problems, education, but not only. From our point of view, there is a reluctance and uncertainty, from business part, since the very first steps, to approach the bank and open business bank account, and then such reluctance is noticed after having a POS terminal, where there are cases when the terminal is switched off, is hidden and customers are not provided with a card payment option. Furthermore, it is important to note that many businesses are reluctant to fully cooperate with the bank, by failing to provide proper signs in their business premises, concealing POS terminals and accepting card payments, selectively. Despite the fact, that some businesses do such actions because of their inadequate training, or of their employees, the main cause remains high informality, in most cases, especially in touristic areas and small businesses.



Cyber security in an interconnected world

Cyber security will undoubtedly continue for the foreseeable future, but the threat can be turned into a manageable nuisance if financial organizations are vigilant, maintain robust cyber defenses, and collaborate with each other, as much as possible.



Gizem TANSU, ICA

Financial Crime Compliance Initiatives
EMEA, SWIFT

The financial sector is arguably among the most advanced, when it comes to the use of IT and has invested heavily in IT security systems. It is also one of the most interconnected worlds — and an attractive target for cybercriminals. The World Economic Forum (WEF) has cited cyberattacks as a top global risk, for several years running. Cyber security for financial institutions in Albania is a clear and present danger, as it is for companies worldwide. Fraud and cyber threats are by no means new challenges for the financial industry.

However, in recent years, we have seen threats become increasingly more organized, more sophisticated, and more global than ever before. In early 2016,

Bangladesh Bank famously became the victim of a cyberattack, that resulted in an attempted theft. While, only a fraction of the funds was stolen, the event proved a watershed moment for the financial industry. It rapidly became clear that this incident was not going to prove a single occurrence, instead, it was part of a wider and highly adaptive campaign, targeting banks around the world. In the few years, since the Bangladesh Bank incident, we have seen the cyber threat



Banks in Albania do not operate in a vacuum and are part of the wider financial ecosystem. They interact and transact with numerous counterparties, on a daily basis, so cybersecurity risks represented by their counterparties also need to be assessed.



continues to evolve, with banks now facing attacks of increasing levels of sophistication.

In our industry, cyber criminals seek to corrupt the local operating environment and payment processes of financial institutions, by obtaining valid operator credentials and injecting fraudulent transactions

directly into the interface that connects to the SWIFT network. Cyber criminals are skilled and determined, can breach networks in minutes and then evade detection for months. Once fraudulent payments have been sent, attackers will typically cover their tracks, hiding evidence of their actions. Using various tools and techniques, they delete or manipulate records and deliberately corrupt systems to confuse forensic experts. The longer it takes a bank to notice it has been attacked the better chance the criminals have of cashing funds out of the system completely.

Since the Bangladesh Bank incident, banks have devoted significant resources to strengthening their defenses. But as the industry steps up its defenses, cyber criminals change their tactics. Initially, they would issue fraudulent payments, outside business hours to avoid detection, but have more recently turned this approach on its head, acting during business hours to blend in with legitimate traffic. Increasingly, criminals are also using new payment corridors and have started using European currencies in fraud attempts, in addition to the US dollar.

These new tactics make it more difficult for banks to spot anomalous transactions. However, there are tools, that Albanian banks can put in place, to help them check that their transactions are indeed legitimate. Anti-fraud tools help detection, by analyzing data and looking for

trends and anomalies that can help to pre-empt potential attacks. Such tools are important in helping to strengthen the global financial community's defenses against cyber threats, as the frequency and speed of payments increases, and their use is having a tangible positive impact in helping banks to protect themselves against fraud. For example, SWIFT's new Payment Controls Service provides real-time, 'in-flight' monitoring of the payments SWIFT users send. Hosted by SWIFT and with zero footprint, this last-resort transaction filter is independent from a user's internal back-office systems, or on-premise anti-fraud systems, which may have been compromised during a cyber-incident.

Banks in Albania do not operate in a vacuum and are part of the wider financial ecosystem. They interact and transact with numerous counterparties, on a daily basis, so cybersecurity risks represented by their counterparties also need to be

assessed. Industry's Know-Your-Customer (KYC) utilities can help by allowing banks to centralize and share information about themselves with relevant counterparties. Given the significant reliance banks have on each other through long-established customer trading relationships, a utility approach to KYC makes good business sense. SWIFT's KYC Registry, for example, has more than 5,000 financial institutions on its books and enables banks to provide validated information, making it cheaper and easier for their correspondents to access the information they need.

Another area of critical importance in tackling cybercrime is information sharing, especially given the global and connected nature of the financial industry. The more relevant and timely intelligence information the financial community can share – through trusted channels – the better chance it has of avoiding or fending off an attack. SWIFT has launched the SWIFT

Information Sharing and Analysis Centre (SWIFT ISAC) to facilitate the community's access to actionable cyber-security threat intelligence, enabling the community to better defend itself against potential future cyber-attacks. SWIFT has been also engaged closely with industry experts, such as anti-virus vendors and incident response teams. We are already seeing the benefits of this collaboration, which has resulted in the quick identification of financial institutions targeted by cyber criminals – in most cases, before attackers were even able to generate fraudulent messages.

Combating fraud is a challenge for the whole financial industry and there are no quick fixes. Cyber security will undoubtedly continue for the foreseeable future, but the threat can be turned into a manageable nuisance if financial organizations are vigilant, maintain robust cyber defenses and collaborate with each other, as much as possible.



KREDI E SHPEJTË PËR PUSHIME



Fibank
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Corporate Social Responsibility

A bridge towards Sustainable Development

Today, business organizations need to conduct activity by implementing social responsibility projects that ensure sustainability for society, environment and good governance.



Ardita SEKNAJ

Secretary General
INTERNATIONAL CHAMBER OF COMMERCE,
ICC

The traditional goal of any business is to make a profit and distribute it to its shareholders. However, the goals of business organizations today are more focused on finding and developing sustainable solutions, that ensure long-term profits for shareholders.

The more a company grows, the greater the impact and value it brings to the economy and society. On the other hand, the challenges a business organization faces today, are far more complex and dynamic, than a few years, or decades ago. To better respond to such challenges, companies draft their business plans, upon the value and investment they can make in improving society, environment, or good governance, along with

profit per se. Social responsibility is one of those processes that has now become an integral part of doing business. For many companies, social responsibility is part of shareholders' and senior managers' values. Social responsibility is found as a concept implemented in different forms, in different countries, depending on the stage development of the economy, or the market, itself.

Corporate Social responsibility, in the most primitive sense, is built on current need of a company's shareholders to compensate society for the use of resources it makes, through its activities, such as sponsorships. In the more advanced sense, social responsibility develops as an integral part of the processes, services, products and culture of any business organization, striving to reach a balance between the resources used and the supply given to society, over a period of time. Today, it is not deemed as enough for a business organization to conduct activities and promote itself with social responsibility activities. Today, business organizations need to conduct activity by implementing social responsibility projects that ensure sustainability for society, environment and good governance.

Sustainable development depends on business solutions, opportunities, contributions and commitments. In this regard, international institutions develop tools and instruments that enable

stakeholders to tailor their operations according to market developments and the economy, not only locally but also regionally and globally. The International Chamber of Commerce, a business organization with over 45 million members worldwide, has for years produced instruments and tools that help businesses and other stakeholders to orient their activities towards the development of sustainability and implementation of the Sustainable Development Goals. The Business Charter for Sustainable Development offers for businesses, but also to other parties, eight principle guidelines, aimed at implementing a sustainable activity.

Eight guidelines for Sustainable Development

Sustainable development as a business priority

It is essential that, all actors in the economy, including governments, intergovernmental bodies, business, civil society and consumers, see sustainable development and growth as a shared responsibility and that they all take action, locally and globally, for the challenges and benefits associated therewith.

Objective 5,8,12,16: Economic Growth and Sustainable Development

Inclusive business models

must be developed and promoted, which meet the needs of a more sustainable economy. For a more sustainable economy to become operational, indicators, metrics, accounting measures and better disclosures are critical. Better approaches to sustainability reporting are needed to help ensure that all relevant actors have the necessary flexibility to reflect their particular circumstances and that engagement in sustainability reporting be adequately supported.

**Objective 1,2,3,4,5,8,11,12:
Environmental responsibility and management**

Shifting to more sustainable growth requires that the environmental footprint of economic activities be further minimized and that the efficient use of natural resources be further enhanced. In this context, business must take steps to recognize and assess environmental impacts associated with business activities and maximize resource efficiency of all natural resources, particularly water, energy and soil.

**Objective 6,7,8,9,11,12,13,14,15:
Responsibility towards people and societies**

Business can support sustainable development by providing decent jobs and livelihoods, creating value, contributing to poverty eradication and alleviation, and by fostering prosperity. Access to education is a key element for economic growth and development, and therefore for a more sustainable economy. Business commitments in strengthening working capacities, along with additional efforts for a better access to education, for all, is key to a sustainable development. Also, responsible businesses, along with complying with the

legal requirements on protection of human and workers' rights and environment, may, require and expect that their business partners to be also compliant with such requirements.

**Objective 1,2,3,4,5,8,9:
Products and services**

Transitioning towards a more sustainable economy requires long-term efforts by all the actors involved, as well as the adoption of a life-cycle approach, across all sectors. Businesses must develop products that provide good value for the customer, are safe in their intended use, are compliant with applicable laws and regulations, and minimize adverse environmental and/or societal impacts.

**Objective 3,6,8,11,12,13:
Value-chain approach**

Companies are devoting increasing efforts to manage value-chain risks and to building long-term relationships with suppliers, customers, agents, distributors, service providers, and other relevant partners.

**Objective 5,8:
Transparency, communications and reporting**

Businesses' decision-making must be based on sustainability performance, as well as of enhancing transparency and reporting of practices, in particular, with respect to project selection criteria and to public funding allocation. Businesses must develop the sustainability reporting. Sustainability reporting can be a powerful communication tool, which can help companies to respond to stakeholder, investor or shareholder needs, as well as to measure track and improve business sustainability

performance.

**Objective 5,8,12 16:
Collaboration and partnerships for continuous improvement**

Businesses must foster innovative collaborations for shared value creation, such as engagements and alliances with other businesses, academia, governments, or consumers to deliver jobs, innovative business models and solutions. Businesses must engage with employees, shareholders and other stakeholders through regular dialogue and communication. In doing so, to engender trust between the business and its various stakeholders.

Objective 17

These eight guidelines help companies in Sustainable Development Goals' implementation. The Sustainable Development Goals cannot be implemented on a stand - alone basis, so businesses must be included in enhanced public-private partnerships at global and national level, and enhanced opportunities for engagement to better leverage business expertise and experience.

The above guidelines are part of Business Charter for Sustainable Development, published by ICC and drafted in cooperation with member businesses' experts, at global level.



Causes and effects of trade wars

Winners and losers

The China – US currency war and the mutual depreciation of their currencies, the USD and the yuan, could provoke a rise in the value of the Euro, lower the competitiveness of its industrial exports, posing the risk of an open war on import – export sector of automobiles and agri-food products, increasing the risk of recessionist tendencies.



Prof. Dr. Adrian CIVICI

Dean, Faculty of Economic Sciences
MEDITERRANEAN UNIVERSITY OF ALBANIA,
UMSH

In March 2018, just ten years after the outbreak of the global financial crisis, Mr. Donald Trump, the US President, said: "trade wars are good and easy to win." It was about the commencement of a major US – China trade conflict, which would gradually engulf states and even continents, with the most unpredictable effects and consequences. "When two elephants fight in the savannah, they are likely to be injured, but one thing is certain: it is the grass in the field that suffers most." In a globalized world economy, the trade war between the world's two major powers threatens to produce great risks to other, developed, or developing countries. All the world's economic growth is threatened by the US – China trade war. For the

world trade, such a situation had not been seen since the 1930s, in the context of effects produced by the "Great Depression".

For President Trump, "resentment" with China had begun since 2016, during the election campaign, when China was accused of "raping" the US and that it was "the greatest theft in the history of the world". The largest exporting power of the planet, since 2009, and then the first place in the world economy in 2014 had to face the famous slogan: "Make America



The trade war was also extended to monetary policy and exchange rates. In response to the "American attack" on Chinese exports, Beijing depreciated its yuan against dollar at a lower rate than in 2008, despite risks and losses, such an action posed to attract foreign investments and capital flows into the Chinese economy.



Great Again"; some US\$ 558 billion of Chinese exports to the U.S. in 2018, in front of US\$ 178 billion of US exports, with a trade deficit of US\$ 380 billion. The US administration thought that China

was "breaking the rules", by putting itself on a mission of "restoring trade balance" between the two biggest superpowers on the planet, thus "giving a lecture to Beijing."

But what the "Chinese exaggeration" was all about? In the WTO context, but also in the frame of bilateral relations between US, or EU, China has often been accused of "having a very specific, personal concept of a market economy" for "mass subsidy practices for business and corporations, by guaranteeing them significant portions of public markets," "evident dumping practices," "the obligation imposed on foreign companies investing in China to donate their technologies to China," "non-transparent policies with trademarks and patents, especially in the field of high-tech," "for purchasing foreign corporates through state funds, in order to dominate and control the market", etc. The US response is a direct "iron hand" confrontation against Beijing, with the logic that "we will tax them more and more until they behave correctly."

The "war" began with a 25% increase in the tax on steel imports and 10% on imports of aluminum. Mr. Trump said "over 1,300 Chinese products will be taxed." Beijing responded immediately with a list of 128 U.S. products that would be taxed at 15-25%. That's how it started. Tax, and counter taxes, and vice versa ...! By August 2019, the value of the taxation of Chinese

products exported to the U.S. exceeded US\$ 300 billion; China responded to this "table tennis" with a tax figure on US exports to China of over US\$ 110 billion. In addition to over-taxation, US and China have also waged a trade war by blocking imports and exports between them of many typical products and services, especially US agricultural products. It also extended to technological territory. The US banned US telecommunications networks from selling equipment in China, especially to Chinese telecommunications giant Huawei, by considering it a "threat" to US security. As a direct consequence of this "technological war", Huawei's high-tech smartphone models would not be able to access Android systems and would therefore be deprived of Google apps. The rivalry also extended to network giants: Google, Amazon, Facebook, Apple and their Chinese equivalents: Baidu, Alibaba, Tencent, Xiaomi.

But the trade war was not enough; it was also extended to monetary policy and exchange rates. In response to the "American attack" on Chinese exports, Beijing depreciated its yuan against dollar at a lower rate than in 2008, despite risks and losses, such an action posed to attract foreign investments and capital flows into the Chinese economy. This action significantly reduced the effect of US customs taxes. The Americans immediately described the Chinese state as a "currency manipulator". The central banks of India, New Zealand, Thailand and the Asian monetary markets were immediately involved in such vortex. At the same time, the FED announced a cut in key interest rates, a move it had not made since 2008.

This "war situation" with

"attacks and counterattacks" continued throughout 2019, with almost no sign of any "trade and economic peace" between these world powers. But who won and who lost in such trade war? Beyond the US and China, what are the consequences and impacts of this trade war on EU countries, other Asian countries, in Africa and Latin America, or even in the Western Balkans and even Albania?

In the US, a significant proportion of Chinese importing and exporting corporations began to suffer such aggressive trade policy. US powerful industrial and agri-food groups have publicly urged the Trump administration to end punitive tariffs on steel and aluminum imports; US meat producers complained of losing over a billion US dollars within months; soybean producers reported a loss of 77% of their profits, as a result of Chinese punitive tariffs on US exports; the US government was forced to pay its farmers US\$ 28 billion in "aid" to offset the loss of trade relations with China; according to the University of California, the trade war would cost about US\$ 70 billion a year to American consumers, or US\$ 225/person, etc.

Even China suffered significantly from this "trade war" situation. It is estimated that China has lost about 5 million jobs and over US\$ 35 billion from this situation. After taxing, in response to the American attitude, several thousand US products, and suffering, more or less, the same effects as the American economy, Beijing "surprised" with the introduction of the "monetary weapon" into the battlefield, by embedding currency war with the trade war. This policy consisted in lowering the value of the Chinese currency against the

US dollar, so that Chinese exports would become cheaper and more competitive, by nullifying, to some extent, the effects of additional US tariffs. But such Chinese move, in addition to the backlash from the US, caused panic in the financial markets, which feared that this war between the world's two largest superpowers could cause side effects to Europe's economy and financial and monetary stability and BRICS countries (Brazil, Russia, India, China, South Africa).

There were major concerns in Europe, as well, so far as to declare that "Europe would be the great loser of this China-US conflict." The China - US currency war and the mutual depreciation of their currencies, the USD and the yuan, could provoke a rise in the value of the Euro, lower the competitiveness of its industrial exports, posing the risk of an open war on import - export sector of automobiles and agri-food products, increasing the risk of recessionist tendencies. The US president has stated that "the EU is as bad as China", by implying that an open US - EU trade war could be imminent, over the horizon.

Meanwhile, in the list of beneficiaries of this situation are the emerging countries, such as: Taiwan, Mexico, Japan, South Korea, Canada, Turkey, Vietnam, India, Bangladesh, Indonesia, Singapore, Russia, another large group of CNUCED member countries, etc. Their benefits stem from factors, such as: increasing their export and import opportunities in the US and China; the de-localization of a large number of manufacturing companies in these countries, which leave China, or the US, to escape trade sanctions; job growth in export-related sectors; more massive attraction of foreign direct investment, etc.

SOCIAL DEVELOPMENT GOALS



ALPHA BANK

OBJECTIVE 5

The bank supported the organization of the second edition of Jazz NYOU Festival, where all the proceeds of the festival went to "Shelters for Women and Girls" organization.

OBJECTIVE 17

The Bank undertook numerous earthquake-related initiatives, such as: distribution of emergency aids, event organizing and donations distribution to more than 80 children, accommodated in Durrës city hotels, ticket purchases at the Charity Concert: "You'll never be alone." With the support of Alpha Bank Group, funds were transferred to the emergency funds account, where the allocated fund for holiday baskets for associates, was also transferred there. A number of initiatives were also undertaken by the bank's Human Resources Department for the staff affected by the earthquake of November 26th.



OBJECTIVE 2

The bank, in collaboration with Food Bank Albania, undertook the voluntary "Food Donation" initiative, by collecting 2.5 tons of food products, distributed to 125 families in need.

OBJECTIVE 3

The Bank supported:

- The Fifth Congress: "Care during pregnancy and childbirth", October 24-26th, in Tirana.
- "Hope Albania" for the Halloween 70s theme party, a party to combat the stigma and discrimination that exists for the mental health in Albania.
- For the third consecutive year, the Breast Cancer Early Discovery

Awareness Campaign, by joining the Symbolic Walk in Tirana, in October, under the motto: "Pink Ribbon Reminds Me"!

- The charity concert, in support of "Pink Ribbon", by Ermonela Jaho, the YWCA Ambassador for the Pink Ribbon Cause, on October 22nd. Proceeds from this concert went to the YWCA for the establishment of a psychosocial and legal center for women and girls affected by breast cancer and their families.



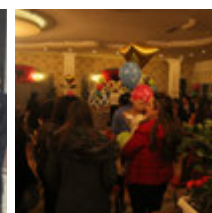
OBJECTIVE 4

The Bank supported:

- The organization of the 7th meeting of the Albanian Network for Financial Education (ANFE), November 13th.
- The training event: "The Road to Success", by Vasil Naçi, November 8-10th, 2019.

OBJECTIVE 11

ABI Bank supported, for the third consecutive year, the Ethno Vibe Museum of Style, organized on the occasion of Cultural Heritage Day, on September 28th, at Korça Bazaar.

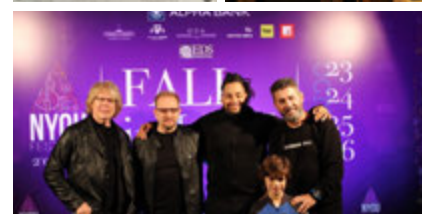


OBJECTIVE 17

The bank provided financial support of the 41st International Conference of Commissioners for Data Protection and Privacy, on October 22-24th, in Tirana.

ART, SPORT AND CULTURE

ABI Bank was the general sponsor of the 21ST edition of the International Theater Festival, at "Skampa" Theater, Elbasan, in October 10-17th.



OBJECTIVE 11

Interest-free financing for the homeless of the earthquake of September 21st and November 26th 2019 is a product that BKT aims to



provide to the affected individuals in Albania, in the form of real estate purchase at an agreed price between parties, lessor and lessee, whereby the client agrees to use the property in exchange of the lease with a fixed term, during which, the lessee will pay the rent to the bank.

OBJECTIVE 3

- The 4th edition of 1/2 and 10K Tirana Marathon welcomed runners from 42 different countries around the world, along with BKT staff.
- Donate blood, save life! BKT, together with its staff, decided to be close to people who need blood.
- Down Syndrome Albania Foundation's representatives attended the sale of postcards designed with paintings from children diagnosed with Down Syndrome at BKT's headquarters.

OBJECTIVE 4

- University of New York Tirana (UNYT) welcomed BKT in its premises to present to the students of university the latest collaboration project. Thanks to this agreement, BKT will offer to UNYT's best students 10 scholarships and 20 paid internships, for every academic year. Furthermore, the recruitment process will be finalized with the employment of students.
- "Aleksandër Moisiu" University Durrës (UAMD), organized the graduation ceremony of students from the Faculty of Integrated Studies with Practice (FASTIP). As a gift from BKT to graduates and their parents for this year 2019 - the employment of 14 students in the period July - September 1st, much earlier than graduation!
- Banka Kombëtare Tregtare donated different furniture to be used in different public schools, and

by purchasing new equipment: 2 PCs, 2 Laptops and 3 printers for Kamëz Education Office (KEO).

- BKT supported "Luigj Gurakuqi" University, Shkodër, in organizing the workshop: "On Challenges of Regional Development".
- "Pëllumbat" Developing Center. Children of "Pëllumbat" Development Center celebrated again the year-end holidays together with BKT staff.



OBJECTIVE 2

- Credins Bank, along with its staff, organized a food donation on the occasion of World Food Day, together with the Albanian Red Cross.
- Credins Bank covered the expenses of some SOS Village children, by giving them more opportunities and investing in a happy home.

OBJECTIVE 3

The bank supported:

- "Queen Geraldine" Maternity Hospital, by purchasing beds for operating room.
- Projects to improve working conditions, most notably: Vlora Regional Hospital, where it sponsored the purchase of 5 Chemotherapy chairs, and in Durrës to improve premises of the Maternity Hospital.

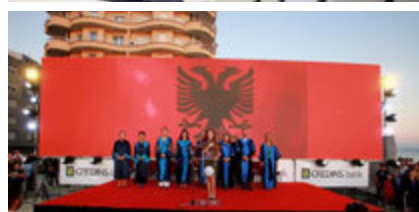
OBJECTIVE 4

On International Savings Day, Credins Bank decided to be with students at "Edith Durham" Elementary School, with the participation of Mr. Rinald Gjyli, Deputy Director of the Treasury.

OBJECTIVE 9

The bank supported:

- "Ihsan Cabej" Hospital, for the restoration of its premises.



- Land Forces Command, in upgrading the infrastructure.
- Health Center No.1 and Kodër-Kamza Health Center, for the restoration of their premises.
- Fier Education Directorate and Fier Regional Education Directorate, in improving their premises.
- Dibër District, to improve the infrastructure and working and premises' conditions.
- The purchase of computer equipment for Kamza Local Education Office.

OBJECTIVE 17

Credins Bank sponsored the American Chamber of Commerce, in organizing the Thanksgiving Day. Also, the bank supported Shkodra Local Education Office, in celebrating its year-end activity.

ART, SPORT AND CULTURE

The bank supported:

- Ministry of Agriculture and Rural Development in organizing the fair: "Albania Soils Land".
- Navy Command, in the organization of the Official Ceremony, on the occasion of the 94th anniversary.
- ITCS Media and activities that support the promotion of the most innovative startups in Albania, Kosovo and the region. The bank was the main sponsor of Uplift Albania, the largest accelerator in the country for the most innovative startups in Albania, Kosovo and the region.
- "Aleksandër Moisiu" University, Durrës, in the organization of graduation ceremony of students.
- Ministry of Europe and Foreign Affairs and also provided the awards for the event: "Colors of Albania".
- Skrapar Municipality, by sponsoring the organization of the event: "Skrapar in a glass".
- The 11th edition of Bunk'Art Festival.

- "I'm from Tirana", a show by Kujtim Prodani, held at the "ArTurbina Experimental Theater".
- "Partizani" Association VOLLEJ, Men.
- "Mandarina Fest 2019" event.
- The cultural event: "Cult Awards".

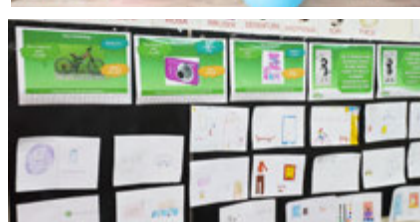


OBJECTIVE 3

- On October 2nd, Fibank Albania joined Red Cross Albania, by organizing a day of blood donation at its main premises.
- On October 13th, 2019, Fibank Albania became part of the 4th edition of Tirana Marathon 10 and 21K.
- All funds raised during October, including those donated by the bank, went for a Fibank staff member, who is battling with such a disease, in order to support the colleague's journey in defeating this illness.
- Fibank, for the second consecutive year, sponsored the show: "Dance with Me" on Klan TV.
- Fibank sponsored MamiCare, first social center project for mothers and their newborns in Tirana.

OBJECTIVE 4

- Fibank Albania, in collaboration with EPPC training company, conducted a training throughout October for Bank's sales force training on: "CLIENT EXPERIENCE - a life relationship".
- CyberCon Albania/ October 10th, 2019. The content of such education must be relevant, with a focus on both cognitive and non-cognitive aspects of learning organized by the



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Ky është një publikim reklamues. Për kushtet e plotë të Kredisë dhe dokumentat që duhen paraqitur, eja në cilëndo prej degëve të Intesa Sanpaolo Bank Albania, ose telefono në Shërbimin Call Center.

Bankë e **INTESA**  **SANPAOLO**

Canadian Institute of Technology in collaboration with ICT Academy and Ecronex Media.

- Fibank internal departments organized training on: "Cash and operational procedures", about latest updates and their adaptation.
- On November 2nd, the staff was trained on AML, ASD, operational risk management, banking transactions, news on bank cards, information security & information technology.
- Fibank supported the recital concert: "The Other Side of Me", at "Bylis" Theater, Fier on December 19th, 2019.

OBJECTIVE 8 & 11

- The UN International Day of Older Persons/ October 1st, 2019. The theme for 2019 was: "The Journey to Age Equality". Fibank wished all his gold age customers with kind gesture of contributing funds into their pension bank accounts by wishing them good health and wellbeing.
- New Branch Opening at Bulevardi "Zogul". This branch was launched with a special consumer loan product with Zero commission on disbursement specifically for all the new Fibank customers of that area.

OBJECTIVE 17

- #Takohemi ne.../ October – December 2019. The new partnership of Fibank Albania with Globus Travel to bring a great opportunity to customers to book their travel holidays with zero interest rates for these types of consumer loans.
- On December 11, Fibank Albania signed a partnership agreement with Rural Credit Guarantee Foundation in Albania.



OBJECTIVE 1

- Bank employees supported the SOS Village initiative, for the second consecutive year, by purchasing 222 charity cards prepared by children, themselves.
- The Bank provided a donation to the General Directorate of State Police, on the occasion of the year-end festivities, organized to support the families of 226 police officers who have fallen in the line of duty.
- Bank employees, in cooperation with the Albanian Red Cross, voluntarily collected a significant amount of clothes for children and adults.

OBJECTIVE 2

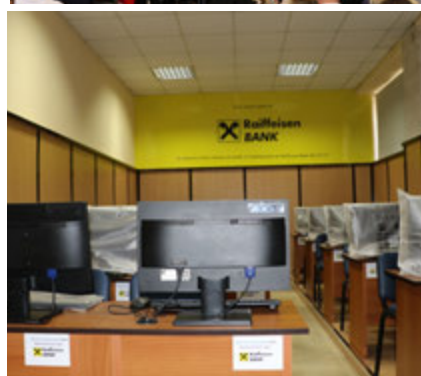
The bank partnered with "Food Bank Albania", to help all families in need. The bank employees of Tirana, Durrës, Shkodra, Lezha, Kavaja, Fier, Lushnja, Elbasan and Korça, donated 760 kg of food.

OBJECTIVE 3

Employees of Intesa Sanpaolo Bank Albania joined, for the 11th consecutive year, the "Safe Blood for All" initiative, in cooperation with the Albanian Blood Bank.

OBJECTIVE 4

- Intesa Sanpaolo Bank Albania supported, for the second year in a row, the competition: "Big Data Analysis", organized by EESTEC Tirana, attended by students from Tirana universities.
- On the occasion of World Savings Day, October 31st, 2019, the bank joined, for the third year in a row, the successful international initiative: "The Art of Savings" by Intesa Sanpaolo Group & Museum of Savings (Museo del



Risparmio), Gallerie d 'Italy & Historical Archive.

OBJECTIVE 9

The Bank supported the Albanian Robotics Squad, which represented the country at the FIRST Global Challenge, held in Dubai on October 24-27th, where 5 young people introduced the robot created by them and reached the final stage, where they won the second place: "Clara Barton Award for Helping Hands".

OBJECTIVE 10

The Intesa Sanpaolo Bank Albania team of 35 employees participated at the 4th edition of Tirana Marathon on October 13th, 2019. The employees' participation served as a direct contribution to support the UNHCR campaign: "2 Billion Km for Security", in support of refugees.

OBJECTIVE 17

Following the earthquake of November 26th, 2019, the bank immediately took measures to assist the affected families. Commissions for all deposit accounts opened to help earthquake-affected families, whether from state institutions or NGOs, were all lifted up. Special financial schemes were designed for citizens and legal entities affected by the earthquake. Also, employees of Fier and Lezha branches donated aids to families affected by the earthquake. Bank's employees voluntarily contributed to the fundraising accounts for those affected by this natural disaster.



OBJECTIVE 1

Raiffeisen Bank joined all citizens and institutions' initiative to support people affected by the devastating

earthquake. The bank's staff, through the initiative: "Raiffeisen for Albania", reached out to all the injured families, by donating food, clothing, blankets and other help needed to pass difficult days.

OBJECTIVE 3

Raiffeisen Bank supported Berat Regional Hospital in the important project of improving hospital facilities, especially the surgery unit. Another project, supported by the bank, was the partial reconstruction of Korça Regional Hospital.

OBJECTIVE 4

- The beginning of the new academic year, found the Faculty of Economics at the University of Tirana with a new computer lab, supported by Raiffeisen Bank.
- Children of "Buzëqeshja" kindergarten in Gjirokastra started the new educational year with new and very comfortable facilities, thanks to the support that Raiffeisen Bank provided to Gjirokastra Municipality, for the complete reconstruction of kindergartens.

OBJECTIVE 9

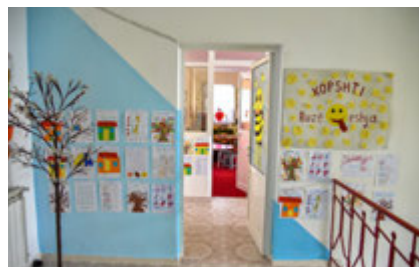
- Raiffeisen Bank supported:
- For the fourth consecutive year, AllWeb, the digital marketing conference.
 - The first edition of Tirana Tech Open 2019, which focused on fostering innovation and creativity in the technology services sector.

OBJECTIVE 11

Raiffeisen Bank supported Tirana Municipality for "Student Card" project, by offering a package of free services to all young people who have a student card.

ART, SPORT AND CULTURE

- Raiffeisen Bank supported:
- The drama: "Angels of America".



- "Alles Walzer" Grand Gala.
- Charity Concert: "You'll never be alone".
- "Zizel" Ballet.
- "Die Fledermaus" operetta.
- "The Three Tenors" Concert.
- "Tennis Tirana" Association, in the project: "Sport for Health".



The OTP Group announced a personal contribution of EUR 500,000 to relieve the damages and help people affected by the strong earthquake of November 26th, 2019. At the same time, a fundraising campaign was launched, at the group level, through which each OTP subsidiary office could make a personal donation. The Hungarian Red Cross is collecting private donations to help earthquake victims. Donations will be spent on assistance in daily supplies and long-term reconstruction of affected areas.



OBJECTIVE 1

- Following the Poka family's case broadcast at "Stop" show, about their difficult living conditions, Mr. Mane, Balfin Group President, reacted immediately by donating a house, owned by Tirana Bank.
- Tirana Bank, with the mission to support families in need, has been close to children in the Vora area, whose families were affected by the earthquake this year. In cooperation with the Red Cross, an initiative was taken to organize a New Year's celebration for 50 children.

OBJECTIVE 3

Tirana Bank supported "Tirana Marathon", an annual event with ever-increasing role, in terms of runners' participation.



OBJECTIVE 7

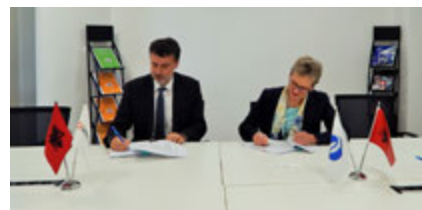
Union Bank presented, at the third edition of the Energy Expo & Forum 2019 fair, October 4-5th, the Savings + loan, which is dedicated to those individual clients who wish to invest in their homes. Union Bank offers this product in cooperation with the EBRD.

OBJECTIVE 9

- Union Bank entered into an agreement with Rural Credit Guarantee Fund (RCGF), on December 11th, 2019, aimed at expanding and facilitating access to finance for Albanian entrepreneurs and farmers.
- EBRD signed the Risk Sharing Agreement with Union Bank. Albanian companies will gain better access to finance, thanks to the EUR 30 million risk-sharing arrangement, that Mrs. Charlotte Ruhe, Regional Director for Central and Southeast Europe, EBRD, signed with Mr. Gazmend Kadriu, CEO of Union Bank.

OBJECTIVE 10

During December, Union Bank launched the campaign: "Charity with Union Bank's Cards". This awareness campaign helped in fulfilling the wishes of SOS Village children for year-end holiday gifts.



AAB ACTIVITIES

Training trip with economic journalists

This year the event was organized on October 20 – 22nd, in the city of Turin, Italy and was supported by Intesa Sanpaolo Bank - Albania & Intesa Sanpaolo Group.

Workshop organized by AAB and VISA

On October 24th, AAB collaborated with VISA and organized a workshop with the presence of two VISA CEMEA experts, Mrs. Anzhela Kashperuk and Mr. Srdjan Tutoric.

Workshop for Cybersecurity

On October 29th, AAB with the support of European Fund for Southeast Europe, Development Facility (EFSE DF), organized the workshop on "Hack for Life".

SWIFT Payment controls event

On November 6th, AAB collaborated with SWIFT and organized a workshop with the presence of SWIFT experts, Mrs. Gizem Tansu, ICA, Financial Crime Compliance Initiatives – EMEA.

Awareness campaign on card usage

The AAB further extended the awareness campaign on the use of cards, with the support of MasterCard. The campaign featured a TV spot, which is on air in several national TV channels. In addition, the campaign includes various social media platforms.

The Law: On the private judicial bailiff service

AAB sent a letter to relevant authorities, asking for the review of the Law no. 26/2019 "On the private judicial bailiff service".

Round table on "Revitalizing lending and reducing NPLs"

On December 6th, the Albanian Association of Banks (AAB), in cooperation with the International Finance Corporation (IFC) and with the support from SECO, organized a roundtable on "Revitalizing lending and reducing NPLs".



AAB TRAININGS

AAB organizes trainings October - December 2019

Innovation in human resources Management, organized in October 10-11th, in cooperation with AIMS International Albania.

"Leadership Teams" on October 21-22nd and **"Manager as Coach"** on October 23-24th, in cooperation with AIEA.

Risk Management: Assets & Liability Management, organized in October 23-25th, in cooperation with ATTF.

Points of You® Academy in Albania, in partnership with AIEA and Galagan Advisory. On October 25th it organized the workshop: Level 1 - Hello Points workshop.

Roadmap to Building a Culture Engagement, November 21st, in cooperation with Lincoln Centre.

Greenback Academy Workshop, organized in December 18th, with the World Bank, Bank of Albania and the Albanian Association of Banks.