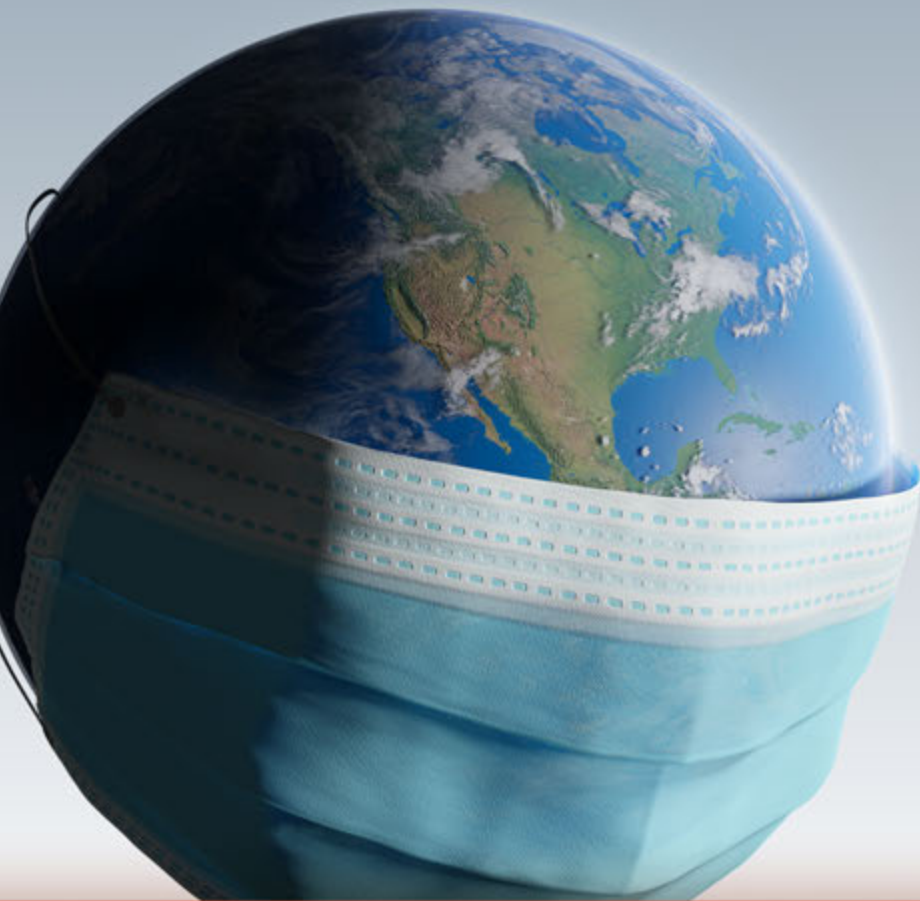




Bankieri

ALBANIAN ASSOCIATION OF BANKS
SHOQATA SHQIPTARE E BANKAVE

Publication
No. 36
July 2020



**FROM LOCKDOWN
TO OPEN UP**



The banking system
increased the disposable
liquidity for borrowers,
at over **EUR 75 million**,
during the first three-month
loan repayment holiday!



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EDITORIAL TEAM:

Elvin Meka
Editor-in-Chief
 Eftali Peçi
Coordinator
 Dorina Zarka
Photographer
Design & Layout: FCB Afirma

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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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From lockdown to open up: the road to confidence

The government, regulatory authorities, academia and business leaders must shore up confidence to the future, although it will be a hilly bumpy road; they must hurry up to adapt and remodel the economy by way of employing new business models and structure, improving productivity, developing new products, attracting talents, using technology massively, etc.



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

COVID-19 pandemic outbreak caught the whole world almost off-guard, although upsetting news from China were on display, since January. Surely, the health safety was of paramount importance and in this way, nearly all Europe, and naturally Albania, went into a rapid lockdown. Initially, the social and economic lockdown put reins on the coronavirus mass spreading, thus mitigating the pressure on the health system, but soon the health emergency met another more complex emergency: the economic hibernate and the risk of economy's collapse. So, the health emergency and crisis, was substituted with the economic emergency.

The most striking aspect of such emergency is that it has evolved as a highly virulent economic pandemic, where all the world economy was plunged into the crisis as a whole and within weeks, following an

unbelievable similar path towards economic abyss. After many weeks of struggle the economy began to open up, slowly but steadily, and unsurprisingly we all witnessed what we had in mind: the economy is suffering quite a lot, and the road to normality, would be long and painful, as the economic cost of the Covid-19 crisis is unprecedented, both globally and domestically. The Albanian Government and Bank of Albania took very quick and serious steps to halt the economic and financial collapse, by taking proper measures, like: two financial packages and sovereign guarantee schemes, loan repayment holiday for bank clients, liquidity supporting measures, accommodative monetary policy, relaxing risk management measures for the banking system, etc.

Fortunately, the banking system in Albania, as everywhere, faced the pandemic well-prepared, in terms of capitalization and liquidity, so they weathered successfully the first shockwave of pandemic, supported by proper measures from government and BoA, too. So far, the measures have prevented the long-term economic damage and debacle and ensured the financial system continuity, but they have not finally cleared the path towards economic recovery, as the coronavirus crisis has already caused a structural damage to the economy, and furthermore, the economy and the respective recovery process is currently moving into uncharted territory.

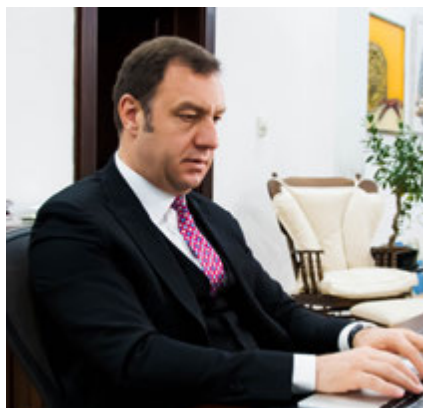
This is the most remarkable challenge, out of the whole set of challenges, for policymakers, regulators and financial institutions, banks included, as the last financial and economic crises are not a relevant lesson for the future.

However, for the future to come, the banking sector and the financial industry shall try to adapt to such set of challenges, from the increase of government debt, recession, lower income and spending, lack of business and households' confidence to take risk and invest, along with bolstering private expenditures, and the unavoidably reshape of the work and the workplace. One thing is clear: Nothing will ever be the same again! So, the government, regulatory authorities, academia and business leaders must shore up confidence to the future, although it will be a hilly bumpy road; they must hurry up to adapt and remodel the economy, by way of employing new business models and structure, improving productivity, developing new products, attracting talents, using technology massively, etc. Practically, we all need to recall and implement what US President Abraham Lincoln once said: **"The best way to predict your future is to create it!"**

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

Challenges for entrepreneurship and government support, during COVID-19 pandemic

Now that we will have to live in a "new normal", by having coronavirus between us, we have focused all our energies on the process of economic recovery, working with several scenarios, for which deep analyses are underway.



Eduard SHALSI

Minister of State for Entrepreneurship Protection

While the pandemic got, even the developed world, completely off guard, just two battles took place simultaneously, thus agreeing and acknowledging globally that, despite hesitations, insecure and hazy attitudes from some world leaders, the main and most important battle to be won was the health battle.

Such difficult and unimaginable period put everything in question and changed, within a short time, the way of perception for life and the world. While all forces became concentrated on the health battle front, the war on coronavirus would, unavoidably, begin to affect the economy, day by day. Whereas the social isolation and the restriction of people movement

were good measures for the health battle, they were asphyxiating measures for the economy and business, which were entering a very difficult period, which is expected to continue for a while.

The battle remains global, so be the reaction, too. This was the reason why, we started taking measures very quickly, while



While the banking system is facing extraordinary challenges, it should be understood that the traditional banking mechanisms and instruments it would be impossible to successfully overcome the consequences of COVID-19 pandemic and that new ways must be found, and extraordinary measures must be taken, to cope with the unprecedented situation.



carefully following the experience of other countries, by calculating, in a not-easy and unprecedented circumstances, what would be the most effective measures.

Another challenging front, during this two-month period, has been the holding of a series of online meetings with

stakeholders, as well as on site visits to enterprises allowed to operate, to better understand their problems, in order to set priorities. It was important, first, to create conditions for businesses that provide food products, either producers or importers, to be able to run their activity, as well as to discipline people movements, by not interrupting the supply chain of the population. Now we may already say that, together with entrepreneurs, we succeeded despite terrible difficult conditions.

The situation was managed effectively, by taking into account the requirements and complaints, which were presented by representatives of chambers of commerce and business associations in the country. Depending on the sector where businesses operate, the requirements have been of different typologies, the most important of which were related to tax reliefs (VAT, profit tax, health and social insurance, etc.), subsidies and financial support (for employees, services, or for rents), facilitating administrative procedures, issues with goods and employees' movements, as well as concerns about international and intercity transport. The ease of communication with the latter, thanks to the bridges of continuous cooperation, enabled the addressing of the main issues,

related to such unusual crisis.

Also, it has been extremely important to conceive and design economic assistance packages, along with the analysis of different needs for each business. These packages came out as a produce of numerous consultations, not only with businesses but also with experts of the field, trying to support the entrepreneurship, especially the most affected ones.

The first financial aid package, introduced on March 19th, 2020, included a series of measures that were taken to cope with the consequences and the fight against coronavirus, at all fronts. Such package consisted of the re-scheduling of profit tax for all businesses, with a turnover of up to ALL 14 million, the postponement of financial statements' submission, together with its annexes, until July 31st, the sovereign guarantee for businesses, "war salary" for employees, as well as payment holiday (postponement) for loan installments, as well as the postponement of rent payments. The first package supported about 38,645 businesses and some 64,886 employees. In this package, the government approved and enabled the implementation of a financial plan to weather the situation, dedicated to public health, people in need and the unemployed. Also, an important component of the first package was the state loan guarantee with commercial banks for the salaries of businesses' employees, whose activity was affected by COVID-19, with a value of ALL 11 billion, a guarantee for which the government covered even the interest payment.

Following the developments in the country, the second package continued to support businesses and employees, especially by subsidizing employees' salaries.

Also, this package offered a second state guarantee, not only for salaries, but also for companies' working capital, in the amount of ALL 15 billion. At the same time, it was possible to extend the terms of payment of preliminary profit-tax installments for all companies, excluding the banking system, telecommunications, public companies, as well as food supply chain companies. For entities operating in the field of tourism, contract manufacturing, call-center and businesses with an annual turnover of up to ALL 14 million, the postponement of profit tax payment was provided, as well.

As above-mentioned, a very specific requirement from the entrepreneurship and with a direct impact on the Albanian economy, has been the necessity for liquidity to meet the needs for employees' salaries, as well as for working capital. The two instruments of sovereign guarantee have been finalized, through a successful and intensive cooperation with the banking sector. Being aware about the importance of the banking sector, as one of the main pillars of development of a stable economy, the Albanian government in close cooperation with this sector, addressed the main demand of the entrepreneurship, in terms of liquidity. The flexibility shown by the banking sector in this situation reflected the maturity achieved during these years, thus proving the same level of performance with the countries of the region, and beyond.

Certainly, throughout this arduous and unusual journey, we have walked alongside business and entrepreneurship, working with several scenarios to overcome the situation, but also hoping for a balancing of the Albanian economy, in the near future. We

have, in front of us, a not-at-all easy global challenge. By having a special focus on the complexity of pandemic, the recovery phase will be accompanied by other measures, in order to minimize the damage and speed up the recovery of the economy, in the country.

Meanwhile, I think that the banking system is facing extraordinary challenges and, while we have agreed with the central bank and commercial banks, so far on how to manage the situation, regarding the liquidity issue, it should be understood that the traditional banking mechanisms and instruments it would be impossible to successfully overcome the consequences of COVID-19 pandemic and that new ways must be found, and extraordinary measures must be taken, to cope with the unprecedented situation.

Now that we will have to live in a "new normal", by having coronavirus between us, we have focused all our energies on the process of economic recovery, working with several scenarios, for which deep analyses are underway. There are still no clear-cut decisions, as the dynamics and evaluation of the consequences are still continuing and the path of recovery remains to be paved with care and prudence.

To close, I would like to invite all actors and economic and financial factors, both public and private, to continue the constructive communication they have had with us throughout this period, as only through continuous communication and monitoring of their issues, we can stand by and support them in overcoming such extremely difficult situation, which I am confident we will overcome successfully.

Monetary policy as a monetary control and economic stabilization instrument

The sudden shock of the pandemic called for a swift and targeted response from Bank of Albania, to mitigate the one-time costs of the crisis, to avoid its transformation from an economic shock to a financial crisis, and to create premises for an economic recovery, as soon as possible.



Erald THEMELI

Head of Monetary Policy Department
BANK OF ALBANIA¹

The negative consequences that Covid-19 pandemic is causing in the economy, have brought to the spotlight the response of public authorities to mitigate its economic and social costs. Monetary policy, along with fiscal and macroprudential policy, is one of the three main forms of state intervention in the economy, and it has a primary role in this regard. This article aims to provide a description of the role and mission of monetary policy in Albania, the stance and instruments it has used to manage the situation, as well as its immediate perspective.

Mission, regime and operational framework of the monetary policy of the Bank of Albania

According to the best principles of central banking, the Bank of

Albania's monetary policy has a clear objective: achieving and maintaining price stability.

In accomplishing such objective, the Bank of Albania implements the inflation targeting regime. This regime means that monetary policy decision-making: (i) is oriented towards the future, taking into account the time lags in the transmission mechanism of monetary policy; and (ii) factorizes all relevant economic information on current and future price performance. Also, the Monetary Policy Document stipulates



Given the narrow channel left for conventional stimulus, in the form of further reduction of key interest rate, the Bank of Albania has prepared contingency plans, which take into account the use of non-conventional instruments of monetary policy, such as quantitative easing programs.

that Bank of Albania implements a flexible inflation targeting regime, which means that - without prejudice to respecting the inflation target -

monetary policy aims to mitigate short-term fluctuations in economic activity around its trend.

Bank of Albania implements, in parallel with inflation targeting, a free exchange rate regime: the ALL exchange rate against currencies is freely set in the market, in accordance with the dynamics of supply and demand for foreign exchange. The flexible exchange rate enables the implementation of an independent monetary policy, oriented towards maintaining price stability, and provides the economy with an automatic stabilizer, against internal or external shocks.

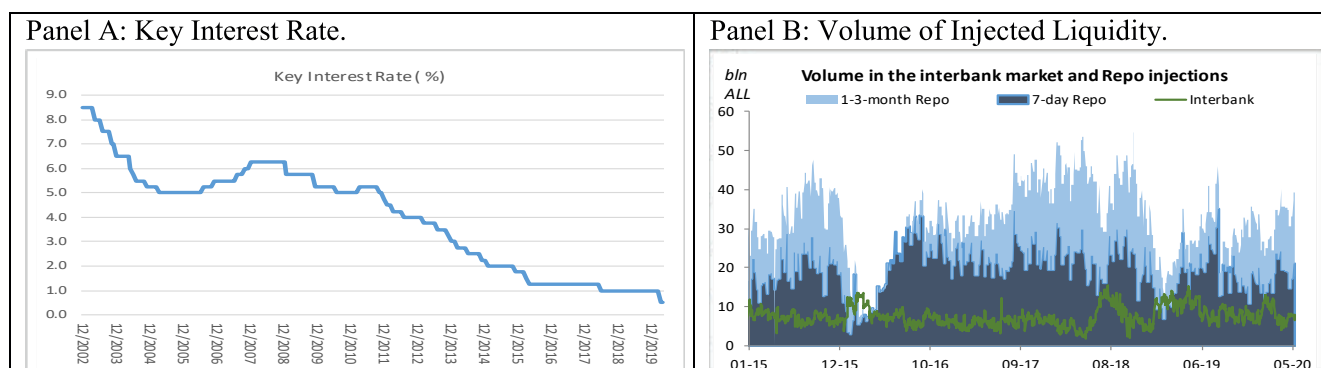
From an operational point of view, the implementation of monetary policy is based on a modern framework of instruments, which are in line with principles of a free market. This means that Bank of Albania does not impose administrative restrictions on interest rates' level, or the volume of loans. In contrast, it uses instruments that affect the volume and cost of liquidity in the banking system, as a starting point to affect the monetary and financial conditions in the economy, the volume and cost of borrowing, the progress of consumption and investment, and - lastly - the level of prices in the economy.

The current monetary policy stance

The shock of the pandemic found Bank of Albania in an accommodative course of monetary policy. This

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.

Graph 1. Bank of Albania's Monetary Policy Instruments



Source: Bank of Albania.

stance is dictated by the low and below-objective levels of inflation, which have reflected: (i) the insufficiency of aggregate demand to ensure the full use of country's productive capacities and (ii) low inflation in our trading partners' economies.

The monetary stimulus is administered mainly through conventional monetary policy instruments. The Bank of Albania has aggressively lowered the key

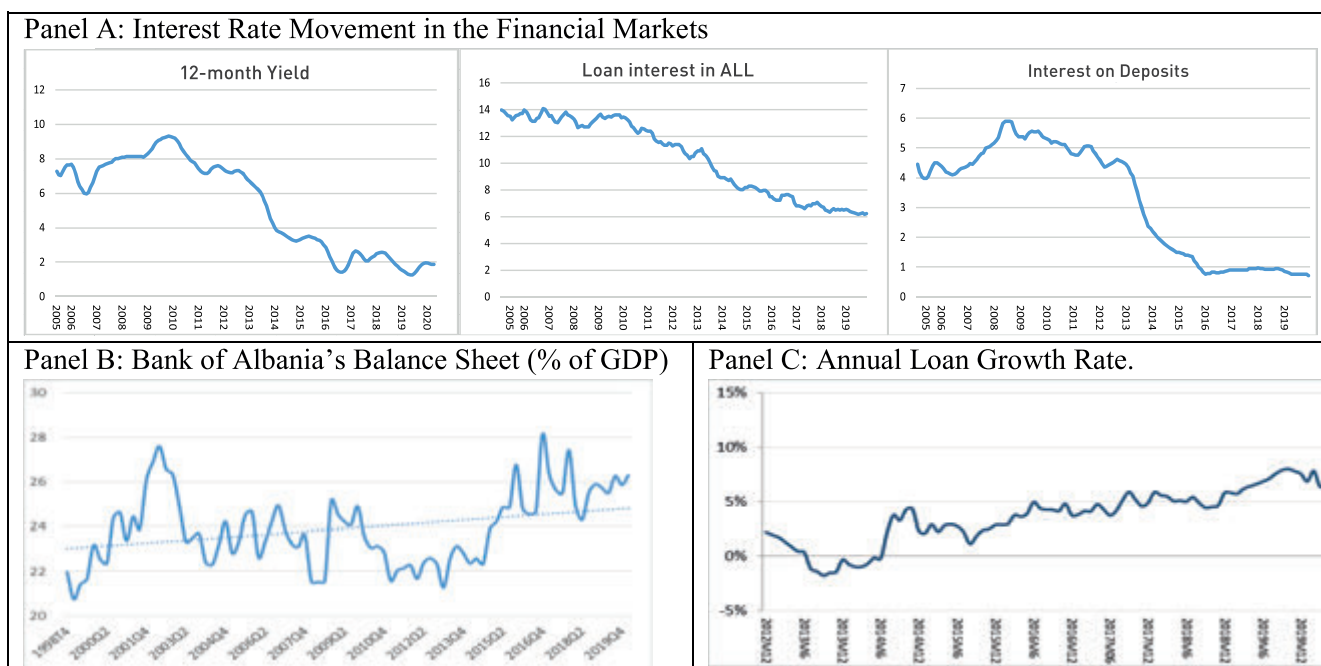
interest rate, by bringing it to the lowest historical levels (panel A, graph 1), increased the volume of liquidity it injects into the system, and extended the average term of such injection (panel B, graph 1). In parallel, the Bank of Albania has used market orientation on the future of monetary policy, also known as forward guidance. This instrument, which is part of the group of non-conventional instruments, increases transparency on the future of

monetary policy, by enabling a better control of the interest rate curve.

The use of these instruments was transmitted to interest rates of the financial market (panel A, graph 2), was reflected in the expansion of the Bank of Albania's balance sheet (panel B, graph 2) and created the premises for a gradual loan growth (panel C, graph 2).

Reducing the cost of borrowing and increasing its volume have supported the growth of aggregate

Graph 2. Interest Rate Movement and Bank of Albania's Balance Sheet.



Source: Bank of Albania.

demand and domestic inflationary pressures. Our empirical estimates show that our monetary stimulus has had a significant effect on economic growth (panel A, Graph 3) and inflation (panel B, graph 3).

The sudden shock of the pandemic called for a swift and targeted response from Bank of Albania, to mitigate the one-time costs of the crisis, to avoid its transformation from an economic shock to a financial crisis, and to create premises for an economic recovery, as soon as possible.

In the area of monetary policy, the measures taken just increased monetary stimulus further, aiming at a normal functioning of financial markets, reducing the cost of debt service, and promoting lending. The expansion of monetary stimulus was achieved through the reduction of key interest rate to a historic low of 0.5% and the removal of quantitative limits on liquidity injection, in the banking system. These actions complemented macroprudential measures, taken with the purpose of promoting loan restructuring and guaranteeing the health of banking sector, as well as fiscal measures aimed at mitigating social costs, in the most affected social categories

and improving the liquidity of businesses.

Their first effects have already been displayed, in improving the indicators of volatility, liquidity and in the relatively smooth movement of funds in the financial markets. The actions taken by the Bank of Albania highlighted once again the important role that central banks play in crisis management.

Near future perspective of monetary policy

The crisis we are experiencing is unprecedented, both in terms of gravity and complexity. During these turbulent times, the design and implementation of monetary policy continues to be guided by the accomplishment of its mandate for price stability.

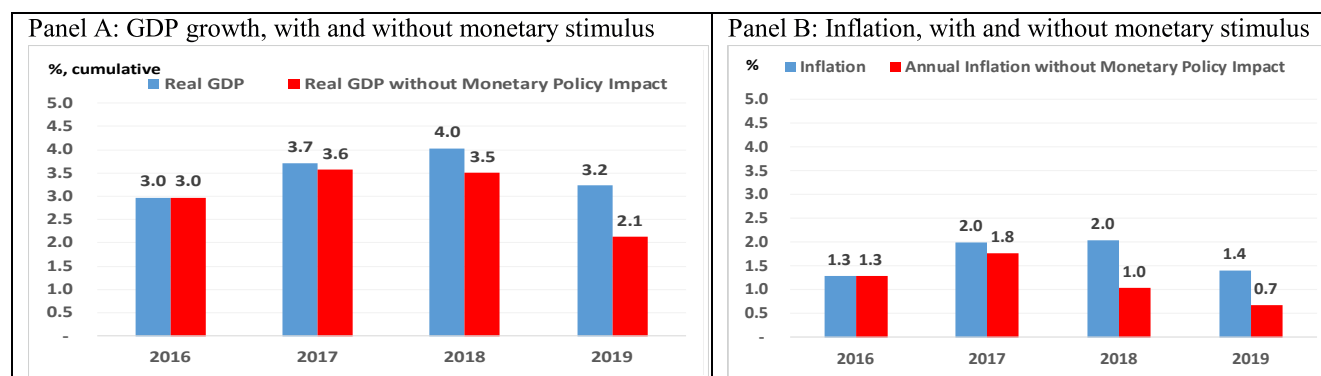
So far, the monetary stimulus injected through the calibration and careful interweaving of conventional monetary policy instruments is estimated to be quite sufficient at supporting the recovery of economy and the rise of inflation towards the target. This scenario considers the rapid end of pandemic and the smooth and complete transmission of monetary stimulus to the economy. However, it is clear that uncertainty in economic and

monetary developments remains high. A prolonged crisis, or eventual problems in the transmission mechanism of monetary policy, would require further relaxation of its stance. Given the narrow channel left for conventional stimulus, in the form of further reduction of key interest rate, the Bank of Albania has prepared contingency plans, which take into account the use of non-conventional instruments of monetary policy, such as quantitative easing programs.

In any case, the activation of contingency plans will be conditioned by the materialization of potential risks, while the use of non-conventional instruments will be effected in accordance with the legal framework in place, and will take into account the stage of development of financial markets, and a detailed analysis of costs and benefits.

The Bank of Albania will remain vigilant to monitor the situation and assess the effectiveness of its monetary policy. As an independent institution, oriented towards fulfilling the mandate and with a careful approach to risk management, it is ready and prepared to respond to future challenges.

Graph 3. Monetary Policy Impact on GDP and Inflation.



Source: Bank of Albania.

Banks striving for a strong growth and recovery

If recovery is to be strong sustainable, Europe needs to draw upon the strength of the European market, further integration within the EU, and promote best practices to all of its trade partners as a way of integrating the broader European market.



Burçak INEL

Head of Financing Growth,
European Banking Federation
EBF-FBE

In the last three months, Covid-19 has left a heavy mark on the European continent. An unprecedented health crisis impacted millions of citizens and businesses with devastating effects to their daily lives and activities. While some European countries topped the global pandemic rankings, no country was spared, and borders were closed, with public and professional life suffering greatly from the lockdown. In the services sector much work continued digitally, but industries (as well as some services) relying on physical presence were radically confronted with immediate cuts in production capacity and demand. The crisis also had a significant impact on the emerging countries, such as those in the Eastern and Balkan regions

of the continent.

For now, the number one priority must be the safety of citizens, followed by the minimization of the economic damage. As the health crisis comes under greater control and countries slowly restart their economies in varying degrees,



During the crisis, banks represented by the EBF have been at the center of efforts to keep the impact of the crisis to a minimum. Banks' close relationship with their clients provided a solid foundation for the European strategy to ensure business continuity and minimize the fallout.



the focus will shift to starting the recovery across Europe. As the consequences create a "new normal", the coming year requires strong leadership and cooperation to mitigate the economic crisis and start a strong and sustainable recovery in our continent.

Experiences from all over Europe show the value of strong dialogue and close cooperation. Private and public sectors, SMEs, consumers, bank, and different stakeholders must be in a close dialogue. Given the global influence, the EU has

in regulation and policy making, being a member of the European Banking Federation (EBF) network provides an important source of information on the measures taken or coordinated, at the EU level, and the best practices across Europe. The EBF takes a strong leadership role, both in terms of crisis management and recovery. In addition to its 32 full members, the EBF maintains strong links with the EBF Associate Member community, including the Albanian Association of Banks, AAB. Moreover, many of the biggest European banks have significant economic presence in this important growth region.

First priority has been the management of the crisis. This disruption caused by the pandemic was so sudden and wide-reaching that many businesses and entrepreneurs simply could not stay afloat alone. Governments and supervisors across Europe, including in Albania, have taken decisive actions to mitigate the potential economic impact of this crisis, in cooperation with banks as the main providers of finance.

Multilateral Development Banks, including those with a clear European focus, such as the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), have been keen partners with the local banking sector, both in - and outside the EU. The EBRD has disbursed more than EUR 1 billion up until now, with a current

portfolio of EUR 756 million, 51 of which have been destined to Financial Institutions (mainly for agribusiness credit lines).

Albanian supervisors have declared their commitment to safeguarding the health of the Albanian banking system, with a number of measures. The Bank of Albania recently extended its loan payment holiday with another three months and gave banks more time to restructure loan portfolios this year. Other non-EU countries, such as: Serbia, Montenegro, Bosnia and Herzegovina, North Macedonia and Azerbaijan, have shown similar collaborative stances, using public-private action to prevent economies from suffering the worst.

During the crisis, banks represented by the EBF have been at the center of efforts to keep the impact of the crisis to a minimum. Banks' close relationship with their clients provided a solid foundation for the European strategy to ensure business continuity and minimize the fallout. Banks have put in place measures to protect the safety of clients, employees and to keep the economy going. Moreover, by working constructively with the prudential regulators early on, banks increased their flexibility to lend to the economy in distress. In addition, the decision to forego bonuses for high earners and the decision to suspend dividends, all contributed to increasing the flow of liquidity into the economy. The decision on dividends alone has made more than EUR 300 billion of credit available to European citizens and businesses.

The ultimate goal of these efforts was to channel public financing and to providing new credit lines to cover liquidity needs and increase amounts of working capital. While the latest figures from the ECB will not yet give us

a full picture of the acute phase of the crisis, early figures, including data from non-EU countries, show that the public and private schemes have mostly functioned as intended, and that banks have supported the economies through hard times. According to the ECB's most recent bank lending survey, lending to businesses in the Euro zone rose 6.6% in April of 2020, compared to a year earlier, the fastest pace since the fallout from the financial crisis, more than ten years ago. Loan provisions in March 2020 increased by around EUR 120 billion flow, the highest monthly level on record. The ECB has estimated a lending capacity of EUR 1.5 trillion as a result of the combined measures.

The second phase will be the recovery. Here, both the funding available and how it will be used are important. Putting companies, especially the small ones, back on their feet and ensuring their competitiveness and future resilience will require improving access to finance and diversifying funding sources to fund innovation. As economies re-open, business owners will need to re-connect with their customers and re-establish supply chains. The speed will vary, depending on the measures in place. Particularly the companies operating in the hospitality and tourism sectors are victims of the pandemic. Concerns about unemployment and even insolvency are very real and present in many countries.

The EIB Group will provide EUR1.7 billion to support the social and economic recovery of the Western Balkans from the Covid-19 pandemic. This is part of the EUR3.3 billion financial support package for the region, announced on April 29th by the European Commission and follows the Team Europe efforts to support the Western Balkans.

Access to finance, while critical, is not the only goal here. The EBF fully supports the twin priorities identified by the European Commission - digital transformation of the economy and the transition towards a sustainable, inclusive and resilient economy. It is now, during the recovery phase, with a higher reliance on digital infrastructures and less pressure on the environment, that we better see the true value of these strategic priorities. To adapt and thrive in the world beyond the crisis, European governments, companies and financiers alike will need to invest in activities that generate long-lasting value for society - be it public health, employment preservation, crisis prevention, or environmental priorities. It is an opportunity to create stronger synergies between public and private financing.

Europe's leadership in both areas is important, and the EBF is doing its part, with its leadership in supporting SMEs' and other companies' digitalization and sustainable finance. The EBF's close cooperation with SMEs is also an important avenue for recovery. More than ever, European banks stand ready to help companies and clients survive the effects of the pandemic.

Europe's public institutions, together with global partners, such as the IMF and World Bank, will be instrumental in achieving these goals in the coming years. Above all, it is a time for the European Union and its stakeholders and partners to shine. If recovery is to be strong sustainable, Europe needs to draw upon the strength of the European market, further integration within the EU, and promote best practices to all of its trade partners as a way of integrating the broader European market.

COVID 19 – The Open Up

The experience gained, after the financial crisis of 2008, has made the banking sector more careful, more prepared and more complete, although the situation we are going through is unprecedented and there is no similar experience from the past, to make the crisis overcome easier.



Dr. Spiro BRUMBULLI

Secretary General
ALBANIAN ASSOCIATION OF BANKS, AAB

While the lockdown, due to coronavirus, became effective through the implementation of stringent measures, by establishing control over infected cases and protecting the rest of the population from infection, another risk was identified – the economic situation. Calculations for recession, unemployment, threats of food shortages, budget imbalances, inability to make a living, etc., took shape, as challenges on the tables of policymakers. At the microeconomic level, declining revenues, lack of liquidity and deteriorating solvency will test the financial viability of businesses and households. At the macroeconomic level, increasing public and private debt will test the sustainability of the country's

economic balances.

International institutions have made clear that Albania will be among the countries in the region that will experience the deepest recession, from -5% to -9%. The most negative effects will come from tourism, declining remittances, cooperation with neighboring countries (Italy and Greece affected, accordingly), and the behavior of young foreign investors remains to be seen.

The government, following the measures taken in March, took decisions about two financial packages for supporting all small business and employees, who had lost their jobs, due to COVID-19, by way of paying them the "war salary" for three months and with a single payment of ALL 40,000. The Normative Act No. 18, made some changes related to the prepayment terms of profit tax installments and the simplified profit tax for certain categories of taxpayers, along with postponing respective installments for 2021, with exception of banks, telecommunications, sale of pharmaceutical products and food, fruit and vegetable products, which will carry on with payments, normally. The government, through other normative acts, decided to postpone leasing obligations for two months (April - May), both for individuals and for natural/legal persons, with revenues up to ALL 14 million. The first state guarantee, known

as the salary guarantee, became effective for an amount of ALL 11 billion, for all those companies that were affected by COVID-19, which could borrow for salaries of laid-off employees, where the loan interest would be paid by the Government. By May 31st, the number of approved businesses reached over 400, for an approved amount of over ALL 5 billion.

With DCM no.387, dated May 13th, the Council of Ministers approved the state guarantee about necessary funding for the recovery of trading activity. An amount of ALL 15 billion has been set as a guarantee for commercial banks, where the Government guarantees 60% of loan principal. This guarantee will be given to any company affected by the Government's restrictive decisions, related to COVID-19, for working capital, or for investments, with a maximum of 5 years of maturity.

Bank of Albania, as the monetary policy authority, has taken a number of measures to deal with pandemics from coronavirus, such as:

- lowering the key interest rate to 0.5%, historically the lowest level;
- liquidity injection. It changed the form of the auction for the weekly liquidity injection, from a very limited auction to a fixed-price auction. Commercial banks may use unlimited liquidity window from the Bank of Albania,

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investo në optimizëm

at the cost of the key interest rate set by it, which is currently at the level of 0.5%.

- suspension of the dividend distribution by banks (profit carried from previous periods, profit realized in 2019, as well as the profit that will be realized during the first half of 2020), until the end of June 2020.

- relieved treatment (by weighting with 0%) of bank exposures to Albanian government debt securities in foreign currency, for those securities that will be issued during 2020, valid until the maturity of these securities.

- temporary commissions' waiver applied by banks for ALL loan transfers, in non-paper form by their clients, as well as fees for participants in AIPS and AECH payment systems, operated by the Bank of Albania, starting from April 10th, 2020.

Although the first quarter of the year showed a steady growth trend of the banking sector for lending, deposits, profit, capital adequacy and a halt of NPL, the enforced closure for businesses and individuals, due to COVID-19 pandemics and lending relief measures, the impact that the real sector has suffered will certainly not go unnoticed, neither in the financial market, nor in the banking sector's activity indicators. The experience gained, after the financial crisis of 2008, has made the banking sector more careful, more prepared and more complete, although the situation we are going through is unprecedented and there is no similar experience from the past, to make the crisis overcome easier. The world is facing a challenge that we are all moving forward with careful steps and taking advantage of every positive experience, wherever it is proven.

There is no pre-prepared recovery plan for this type of situation, and this is the first lesson from lockdown and what we are facing now in the open up process.

Although the deadline for postponing three loan installments payments expired at the end of May (the number of beneficiary borrowers reached over 23 thousand, for an approved amount of ALL 244 billion), the recovery of businesses and family members is impossible to happen during June. The banking industry demanded a longer holiday period for loan repayment and for non-calculation



Despite being a small country, online orders and online services will be part of our lifestyle. This is a moment that needs to be better exploited for benefits in the future. Investments in technology should aim at clear and necessary objectives.



of respective bank provisions, due to restructuring, or arrears during this period of postponement - proposals that were approved by the Bank of Albania, in end of May. The effect of such measure is to directly increase liquidity for borrowing households and businesses. The three-month loan repayment holiday (March-May), increased the disposable liquidity for borrowers at over ALL 9 billion.

Investments made by the banking industry in providing online services, customers' familiarization with computer or smartphone operations, not only helped many services to go seamless, but also expanded

the range of services through other electronic platforms: e-Albania. A positive aspect of the lockdown may be considered the familiarization of customers with online electronic services, without the need of physical presence at points of sale, or service. On the other hand, such lockdown suggests that the range of electronic service should be expanded. The opportunity of making online payments for any public service, but also e-commerce ones, must be accelerated and consolidated. Despite being a small country, online orders and online services will be part of our lifestyle. This is a moment that needs to be better exploited for benefits in the future. Investments in technology should aim at clear and necessary objectives.

What is missing after the open up of the economy, following the lockdown due to COVID-19, is the experience for the new lending situation. The situation after the quarterly lockdown of many businesses no longer resembles the February's one. Any analysis based on the past becomes invalid. The analysis should be oriented towards the future and the more we go into the future, the more uncertain the predictions are. So, a new model of analysis needs to be developed, as new risks appear over the horizon. The way they will be accommodated in relevant analyzes, how the predictability rate will be increased, how clear and decisive the macroeconomic policies of medium-term development are, how the connection with other economies will be - all these are part of the challenge to be faced with. The open up process requires a new preparation for a "new normal" towards a new way and lifestyle!

Banks in front of COVID-19

BANKIERI:

1. What is the progress of loan applications and approved cases (business or retail segment, products: personal, mortgage, working capital, for investment, etc.)
2. What issues accompanied the loan re-scheduling process?
3. Do you think that the loan repayment holiday will impact the bank's annual financial result?
4. Are there new loan applications during this period, and of what kind of loans?
5. Given that this is the first time a state guarantee for business support is applied in Albania, how would you deem such measure?
6. What is your recommendation for having a better use of such instrument? Can it be used in the future, after the "lockdown"?



ALPHA BANK ALBANIA
Nikolaos Lamprakakis
 Member of Executive Board for
 Wholesale Banking Business

applications, 80% of individual clients and 91% of business clients have benefited for their payments so far, while we still have cases that are being processed.

2 The process has faced difficulties, related to the client, who had to prove that s/he was affected by anti-COVID-19 measures, to benefit from loan repayment holiday scheme, according to the moratorium and country's legal & regulatory framework. However, the process has proceeded normally and with confidence, both from bank and from borrowers. Also, I am confident that even for the remaining period, until end-August 2020, the process will bring benefits to all parties.

3 It is too early to talk about long-term consequences. For individuals and other borrowers, loan installments postponement has enabled them to breathe (in economic way) properly. Postponing loan installments makes the banking system the biggest contributor to weathering the crisis, by feeding the economy and families with much-needed liquidity, during this period. Of

course, this will have consequences on banks' performance indicators and financial positions, but it should be noted that the crisis, as it will have consequences, may also create opportunities to the benefit of business community, including banks.

4 Individual borrowers have continued to apply for new loans, albeit at a lower rate than in previous months. Businesses have been more skeptical due to the uncertainty they have about the time horizon of the crisis and the post-crisis period. We noted a large use of existing credit limits (overdrafts), as well as of their available cash in the Bank. Also, these borrowers showed interest in benefiting from government-guaranteed lending schemes, in order to pay salaries to employees and for working capital and investment needs, with a repayment period of up to 5 years.

5 The first state-guaranteed lending scheme for salaries was a very good scheme, which was being applied in several other countries, as well. Now, with recent improvements where

interest is 100% subsidized by the state, such scheme is very attractive and very useful for businesses, which pay attention to the long-term relationship with employees and keep the talented ones at work.

As for the second scheme, where the state guarantees 60% of the loan, for working capital and investments (where the loan cannot be more than ALL 300 million), I am of the opinion, which goes in line with that of business, that both existing and new customers will apply and use it considerably, as it will provide to the affected by the crisis companies guaranteed liquidity for a relatively long period (up to 5 years).

6 I think the government succeeded to present the two instruments to the business within a short period of time, by avoiding any negative effects from not announcing them at the same time. This caused the business skepticism of applying under the first scheme, to be short lived. At the same time, the eligibility criteria for qualifying for the first scheme, should have been more precise.

State-guaranteed lending schemes are known worldwide, but in many countries have replaced them with direct government subsidies, or with development programs with low and very low impact form central or local governments.



ABI BANK

Gresa Panajoti

Advisor to CEO for Risk Issues

1&2 Following the announcement of the state of natural disaster, the American Bank of Investments, according to the regulatory guidelines for such situation, has acted swiftly and taken special care of customers' claims, affected by the pandemic. The applications that have been handled and processed have come from all segments of the bank's portfolio: individuals and businesses.

4 Along with managing applications for loan repayments holiday, ABI Bank has welcomed and normally handled applications for new loans, both from individuals and businesses. Applications have been of different types, but I would especially single out those with investment feature.

5 Immediately after announcing the opportunity of financing salaries through a sovereign guarantee, ABI Bank took all measures to respond to customer applications. A dedicated team with financial analysts, risk specialists and bank lawyers were set up, immediately, which addressed the priority applications for "Payroll Loans, backed by sovereign guarantee". The applications processed during

this period have come from both existing loan clients and operational customers, who had channeled the payroll payments of their employees, through the bank, until February 2020. Applications have originated from various sectors of the economy, affected by the current situation and Government decisions, as well as clients of different sizes (small, medium, or large business).

Subsequently, ABI Bank is preparing to be included in the Second Sovereign Guarantee Loan Scheme, with the aim of recovering businesses, directly or indirectly affected by the situation created by Covid-19. Like the experience with the first Payroll Loan with Sovereign Guarantee, our expectation is that customers and banks will show cooperation and understanding, in preparing and submitting the required information, according to the bank's lending standards.



CREDINS BANK

Florian Popi

Head of Large Business Credit Risk Department

1 We have suspended the loan repayments, or interests on credit lines/overdrafts, for the period 13 March - 31 May 2020, for all

borrowers in financial difficulties, upon application and approval based on terms of each borrower, and within the agreed deadlines between parties. Applications have been in high numbers, where the Individuals segment could be mentioned, with about 1,050 borrowers, with an approval rate of 81%, and with 84.1% approval rate, in terms of monetary value. Meanwhile, for the Business segment there are 1,212 borrowers, with an approval rate of 85.89%, and with 91.77% approval rate, in terms of monetary value. Products for loan repayment postponement have been mainly for loans with monthly repayment plans, from Business segment and mortgage loans, from Individuals segment, but also products for working capital, such as: overdrafts and credit lines for Business segment, with quarterly repayment plans, for the period in concern.

2 Some of the issues for loan repayment holiday are the uncertainty of business performance during 2020 and financial costs, both for Individuals and Business segments. In addition to financial costs, which Credins Bank is trying to minimize for borrowers, another issue is the high uncertainty in predicting the financial performance, especially for businesses, in the short-term horizon.

3&4 Credins Bank has adapted its approach, by offering new products designed for such situation and in its strategy will continue with financing for working capital and investments, for all segments. Also, this strategy, combined with the facilities that will derive from the temporary suspension of regulations on risk management by the Bank of Albania, as well as the provision of banking products with sovereign guarantee backing, fully provide a positive

impact on the bank's financial statements, for the year 2020.

5&6 Loan products, covered by the sovereign guarantee are viewed as positive by businesses, and the bank recommends that they should continue to be used, even after the Covid-19 pandemic has passed. These products would be very favorable, if the actual opportunity could be offered for strategic sectors of the Albanian economy (such as: tourism, processing industry, agriculture, etc.), but also for certain businesses categories that have provided, or are expected to provide positive impact on both country's economy and also on socio-economic environment and culture.

INTESA SANPAOLO BANK ALBANIA



Ervin Xhomo
Head of Corporate & SME Division

Loan moratorium was a mandatory and unavoidable measure, which was swiftly taken by the Albanian government, in agreement with the Bank of Albania, and welcomed by the Albanian and foreign enterprises.

To date, 50% of Corporate & SME clientele has applied and benefited from the moratorium, thus taking the time needed to analyze the situation and effects in the respective enterprises and to negotiate carefully with the bank to resume loan repayment and re-schedule the payment plan.

Loan demand is currently focused on meeting the needs for employees' payroll, or working capital, which are being met and relied on packages implemented with the support of government guarantees, as well as on a specific fund of EUR 50 million, approved in March by Board of Directors of Intesa Sanpaolo Bank - Albania, with very favorable conditions. In the current situation, there is a decrease, as expected, in the loan demand for new investments, as companies generally postpone unnecessary investment plans.

I appreciate the positive experience created by the application of the salary package backed with sovereign guarantee and the cooperation of the banking sector with the Ministry of Finance and Economy; this made possible to gradually implement the agreements and increase the flow of loan applications and disbursements. We anticipate that the fund distributed to Intesa Sanpaolo Bank - Albania will be used within June. Meanwhile, applications for the second package have already begun.



Klodiana KEÇI (PIQANI)

Head of Retail Division

1 The bank offered its support and the opportunity to apply for a moratorium for all its clients. More than 99% of all moratorium application of individuals and business clients were approved and reserved in the system, within a very short time. Speaking of numbers, mortgage loans predominate in the total number of loans for individuals, approved for the moratorium, while in terms of volume mortgage loans account for more than 85% of the volume for loans approved for moratorium. In terms of business exposure, the moratorium has been applied equally to both investment and working capital financing, which represents almost 60% of the loan total portfolio.

2 By being aware of the severity of such situation, the inability to predict deadlines, when the pandemic crisis would end, and its obvious consequences on the repayment capacity of both families and businesses, the Intesa Sanpaolo Bank - Albania initially took the decision for a moratorium extension. The whole process has been addressed and is being handled in spite of all other restrictive measures that we had to implement, in terms of health

safety of our staff and customers and the observance of proper protocols, established by relevant regulators and authorities.

3 Intesa Sanpaolo Bank Albania has a solid financial situation and all reports demonstrate that we have full capacity to fulfill our role and give our contribution to the Albanian economy, to overcome such a situation.

4 Due to the pandemic situation, consumer behavior is affected and will be definitely changed. Consumers will have a more careful approach to their needs and the spending budget; also, s/he will be more saving-oriented, in order to recover what they have lost during this dramatic period, as well as be prepared to weather difficult times. It remains normal and predictable that, starting from now, the demand for new loans, especially for individuals and consumer loans, will be at the lowest historical level we have ever had, as many individuals have suffered losses, or declines in income and, in a way, the level of uncertainty has increased between them.

5 So far, the total number of small businesses that have applied is about 38, with a total amount of EUR 1.2 million. The bank has implemented a balanced approach to this process, by stimulating and approving all those companies that can be supported through funding, and avoiding loan overload of other companies, which may be more harmful by the instrument than benefiting from it.

6 In order for such schemes to play their role completely and effectively, they must be directed towards individuals and companies at no cost, so that private companies do not hesitate to use them and fear

how and whether they will be able to repay it. The perimeter of companies that are eligible to receive funding must be determined, by taking into account the entire supply chain and the economic circle, in order to facilitate and accommodate all sectors of the economy.



OTP BANK ALBANIA

1 The implementation of the Moratorium was done immediately, helping all customers by halting the payment of loan installments, but since the process is complex and requires a lot of intervention, even manual one, it will take time to be called as completed. It is very important for us that customers are served, do not suffer any effects from the bank's working process and are well-informed, step by step.

2 Customer applications are diverse, as their financial situations are, their ability to plan, and the exact expression of the need, they actually have. The loan repayment holiday was applied, by consulting each subject and individual and not an all-inclusive automatic solution, one-size-fits-all. This has called for a lot

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of human energy and time to achieve, but it is also one of the working principles of OTP Albania Bank - a unique and individual experience for customers - to provide personalized and most convenient solutions for the customer.

3 The moratorium has and will definitely have a financial impact, as in many other industries. However, the OTP Albania Bank management and staff is committed to being by the side of customers, businesses and individuals, to overcome this period of pandemic with as few consequences as possible. Amid the dilemma: "cost versus quality", we have chosen quality in favor of customer service, but also customer and staff safety.

During the events like this we are going through, which falls into the category of crises, the ability is to know how to manage all activities, where the life and health of people remains fundamental, by making no difference: employees, clients, friends and partners. Immediately after that, the commitment is to manage the effects that the crisis causes and the smaller the negative effects for everyone, the more successful the victory is considered. The well-being of employees and customers is directly related to the well-being of our bank.

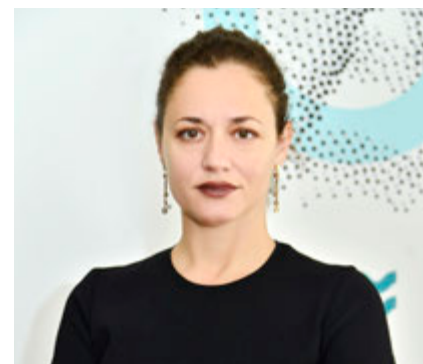
We believe that any additional costs, lost profits, or human endeavor is a worthwhile investment for the country and will return positively in the future, for the bank and every individual in our society.

4 Lending is not what it used to be before March and that was expected. Lending activity goes on and in recent days the demand has increased significantly. Meanwhile, we can say that the sovereign guarantee has been one of the credit typologies also driven by the government's offer and

movement to help businesses, but also banks, indirectly.

5 The sovereign guarantee for securing loan payments was signed on April 10th, 2020. There are about 36 entities that have applied, with a total of ALL 587 million and 4,500 employees of various segments, from corporations to very small businesses. Currently, we are in the phase of its rapid implementation. From our experience, coordinating many actors is difficult, but all banks and Ministries showed the will to cooperate, and we note with satisfaction that common understanding was found quickly. This is very important to note, as the efficiency of coordination in case of many actors, directly affects the performance of business and the efficient injection of the required liquidity. Under crisis situations, time is a determining factor to get through, and it determines the amount of the effect caused. Together we managed to act efficiently, within an admirable time. We think that sovereign guarantee is a necessary mechanism, helping to halt the in function of economic deterioration and a concrete financial maneuver.

6 We strongly recommend repeating such an experience, but always for specific situations and sectors, because we believe that the market and competition are the best instruments and the banking market in Albania is really a competitive and quality one.



RAIFFEISEN BANK ALBANIA

Evis ÇELIKU

Head of Retail Risk Division

1 Loan payment holiday applications have come from both sectors: business and individuals, as well. Their biggest flow was scored over the first two months, and now its declining. Raiffeisen Bank applied the full support approach to all customers who have applied to our bank, as well as a more specific treatment for all those customers who have experienced repayment difficulties, even before the pandemic. Given the loan portfolio characteristics of the retail segment at Raiffesien Bank, the vast majority of applications (about 98% of total) came from Individuals. When it comes to loan products, we have an equal distribution of volumes between secured and uninsured loans; regarding the number of applications, the trend is inclined more towards uninsured loans, where personal loans account for 75% of the total.

2 Loan repayment holiday process is a process that normally requires individual commitment between the bank and the client. The high number of applications received during this moratorium period, the bank's responsibility to respond to

customers within 3 days from the application date, and quite limited movements during this period, due to pandemic restrictions, required maximum commitment from our staff, but all this would have been very difficult to cope without the help of digital platforms, the Raiffeisen ON application and the bank's website, by keeping the main focus on the health of our staff and customers, as well as on increasing efficiency, in response to such specific situation. During this period, some misunderstood concepts by the specific situation, were clarified, such as: the perception of the moratorium as a total forgiveness/cancellation of loan obligations by the bank, for the period in concern, or the automatic application of moratorium process for all clients during the such period, by not applying or showing up at the bank, which led to arrears, for a part of clients, during this period.

3 The moratorium itself has been accompanied by facilitating and supportive decisions in favor of commercial banks, thus eliminating the effects that such delays would, during normal situations, impact financial statements and risk parameters, not only by the Bank of Albania, but also by the European Banking Authority. However, we cannot say that these measures alone would fully guarantee immunity, as such impact is also directly related to further developments in the country's economic situation, how business recovery will carry on and how they will operate under a new reality, or format. On the other hand, Raiffeisen Bank, through its established structures, has taken all measures to avoid, or mitigate a crisis situation in the future.

4&5 We remain fully supportive to businesses and individuals, by assessing the risk of the situation

objectively and accordingly, especially that of industries most affected by the pandemic. Supporting programs with sovereign guarantee funds were and are very important tools for loan financing during this period. Since Raiffeisen Bank also operates online, in addition to physical branches, it has enabled getting and processing new borrowing applications. Certainly, there have got new loan applications during this period, although numbers are much lower, compared to the period before Covid-19. Their trend has been increasing since May, while a number of applications have been made upon the sovereign guarantee fund and we are ready to welcome and handle our clients' applications.



TIRANA BANK

Glenda Kurti

*Head of Corporate Division and
Member of Executive Committee*

Commercial banks have adapted their strategy, priorities and annual budget rapidly in several directions, as the result of COVID-19 and recent developments in the country, as well as based on Government and Central Bank decisions. Currently, the key focus has been put on:

1. Measures taken about loan rep-

ayment holiday, for busin-esses that were faced with financial difficulties;

2. Funding for salaries, through sovereign guarantees.

Tirana Bank has:

1. approved and is providing funding for salaries in businesses, covered by the sovereign guarantee, immediately after the agreement between them and the Ministry of Finance and Economy;
2. approved most of businesses' application for loan repayment holiday, immediately after guidelines provided by the Bank of Albania;
3. continued its lending activity, by supporting the economy and households, certainly through a more prudent approach;
4. offered specific financing products, with favorable terms and conditions, addressed to employees in the field of medicine and public order, who are struggling incessantly with the situation.

The sovereign guarantee financing instrument is a financing alternative that is deemed as improving the liquidity situation in businesses and meet their financial needs, during this period. If we refer to the first ten days, after the agreement was signed, there is a growing interest from businesses, which want to become part of such financing alternative. Banks have a 10-day deadline, from the moment of application and submission of documentation, until the moment of funds' disbursement, which means that the processing time available is relatively limited, given the number of customers who may be entitled to such funding.

Tirana Bank is in constant communication with Ministry of Finance and & Economy and relevant institutions, by being very careful that the criteria for qualifying customers for this financing are the

same as those set by the Ministry. The Guarantee Fund, set for Tirana Bank, is ALL 600,000,000, while the monthly salary fund of business clients, paid through our bank, exceeds this amount. Therefore, I would affirm that this guarantee fund will be used within the specified timeframe.

Clients who have applied for this funding belong mainly to the category of small and medium enterprises, operating in the field of trade, services and production, contract manufacturing, tourism, but there is interest from big businesses as well, whose activity has been significantly affected during recent weeks.



UNION BANK

Loreta Gogaj

Business Department Manager - SME

1 During these months, the objective and priority for Union Bank's staff, was to advise and serve customers, to enable the continuity of various banking transactions and operations. Informing and orienting customers towards digital platforms, communication via telephone, e-mail, or even directly, were very important, both for transparency

reasons and for informing customers how to proceed with their claims to the bank. Over 1,000 clients (individuals and businesses) have applied for loan repayment holiday, or loan restructuring, during this short period of time.

2 The main issues have been: closure of businesses, inability to move, or the deterioration in commercial activity, due to the lack of customers, or suppliers and this has been reflected in almost every sector. The biggest challenge for this process was to clarify the misunderstandings created by customers, about the forgiveness of loans versus explaining a possible loan installment holiday, and a new payment plan that the client would have. Processing a large number of applications against an individual meaning for each of them, accompanied by an explanation of the client's contractual change, posed a challenge for the bank and its staff. The postponements have continued during the last month, as there have been clients who have applied "wait-and-see" model, to better study the situation and then make a decision, depending on the progress of businesses, or the forecast for the situation in development.

3 Union Bank is prepared to analyze and cope with such situation. The experience gained, while handling problems caused by the earthquake, taught us to carefully analyze every credit exposure and customer need.

4 Despite the situation in place, there have been businesses that have continued investments started earlier, or wanted to renew the inventory, in accordance with the season. It is logical that the demand has been moderate, compared to other years, where the sovereign guarantee has got a special attention

during this period.

5&6 Under such situations, the provision of a sovereign guarantee, which aims to preserve employment and business recovery are more than welcome, both by banks and businesses. Preferential conditions and interest refunds are a major incentive to repay loans. This process takes time, so these schemes need a longer time span, allowing businesses to understand and apply for them. I would suggest that such guarantee schemes should not be one-off schemes, but they must carry on with more favorable terms for banks, to suit the typology and profile of customers they have, depending on the risk they assess. This would make banks more active and focus on targeted customers, according to their strategies.



INTERVIEW

AFSA – A new management for actual and incoming challenges

Modernization, further consolidation, increased reliability, and the implementation of higher oversight standards are among the challenges I consider to be qualitatively better addressed. Given the nature of a developing country like Albania, the Authority has a significant role to play, in promoting and developing supervised markets, and I believe that this is a role that needs to be emphasized.



Ervin METE

General Executive Director
ALBANIAN FINANCIAL SUPERVISION
AUTHORITY (AFSA)

You have just been appointed as AFSA General Executive Director. Regarding your experience and commitment with financial institutions, how do you assess the challenge of heading and managing such an important regulatory authority of the Albanian financial system?

The Albanian Financial Supervision Authority (AFSA) is an institution that has undergone a constant consolidation, in its role as regulator and supervisor of non-bank financial markets, especially after the legal changes effected in 2014, which strengthened its institutional independence. As one of the two key supervisors of the country's financial markets, managing the Authority is

both a privilege and a responsibility. Modernization, further consolidation, increased reliability, and the implementation of higher oversight standards are among the challenges I consider to be qualitatively better addressed. Additionally, given the nature of a developing country like Albania, the Authority has a significant role to play, in promoting and developing supervised markets, and I believe that this is a role that needs to be emphasized.

Furthermore, the post-Covid-19 situation, depending on the extent of effects it will have on the economy and beyond, will set significant challenges for regulatory authorities. Although, during the first phase, it seems that markets under surveillance weathered the consequences relatively well, it is still too early to predict the full impact and the reshape that may be required, in terms of regulatory interventions. However, the pandemic situation highlighted some essential needs, such as market development and diversification, to better cope with shocks, especially in the insurance market, and the need for radical technological developments and digitalization.

What are AFSA priorities for the near future, regarding the development of the financial market in Albania?

The development of markets under supervision remains the

main objective. The insurance market, which accounts for 1.4% of GDP only, has a great potential for further expansion and development. compulsory insurance products make the most of this market. In the most developed countries, a sizeable share of such market revenues comes from voluntary insurance products and we have a lot of room for development, in this regard. Market expansion is also needed, in terms of diversification, to make the insurance industry more resilient to possible shocks.

The investment fund market is also one of the most important markets under the Authority's supervision, with a share of 3.9% of GDP. Currently, the size of investment funds' net asset value is comparable to the countries in the region. However, compared to the countries in the region, the number of market players, i.e. management companies, is still small.

The voluntary pension fund market still makes a very limited share, compared to GDP, where net assets to GDP are about 0.1%. The Authority has proposed, even for this market, some changes regarding the existing law. However, given the market infrastructure in EU countries, it will be necessary to re-dimension the development strategy for this market, especially in terms of professional pension plans (IORP).

Capital market development, which is the market that creates opportunities for investment

funds and pension funds to invest their funds, remains a priority. In Albania, the capital market is in its infancy and the Authority, but also the market, must view this fact as positive. The financial crisis of 2008 revealed many problems, related to the behavior of brokerage companies, market abuse, or listed companies's transparency. That is why the EU has come up with some new directives, such as the second Markets in Financial Instruments Directive (MIFID 2), and subsequently, the Market Abuse Regulation (MAR). Transparency is quite essential in the capital market. In this regard, I think it is possible to develop such market properly, learning from positive and negative experiences of other countries.

Another priority is digitalization, both in terms of real-time reporting of entities under supervision and in terms of inter-institutional communication. In addition to the Authority as a regulator and entities under supervision, digitalization serves the citizens, by reducing costs and bureaucracies, for obtaining services. Digitalization is essential for reporting, inspection and e-services.

Protecting insured persons and investors, and increasing their confidence in supervised markets, through strengthening the regulatory role and ensuring effective risk-based supervision, remains a priority for the Authority, too. This, even in the context of increasing financial knowledge, to guarantee better protection for investors and insured persons.

Recently, some very important acts have been adopted, related to the development and further deepening of the Albanian financial market (the laws on capital market, collective investment schemes and financial markets based on blockchain

technology). Your opinion about such developments and what will be the expected impact of such new legal developments?

Drafting and adoption the laws "On Capital Markets" and "On Collective Investment Schemes" was a necessity, as both laws significantly improve the legal framework, adapting it according to the dynamics of these markets' development. These two laws aim to promote further development, increase transparency and ensure the integrity of these markets. The laws were drafted with the assistance of the World Bank, funded by SECO, and the best EU directives and practices have been considered. I have been personally involved in finalizing the drafting and adoption of these laws, and I believe that they create a solid platform for further development of these markets.

The law "On capital markets" reinforces legal framework, by establishing strong criteria for transparency for all actors in these markets.

The Law on Collective Investment Schemes creates space for new types of investment funds, both in terms of structure (feeder or umbrella funds), as well as by nature (alternative funds, offered to professional clients, etc.).

The Law "On Financial Markets Based on Blockchain Technology" regulates the infrastructure, upon which the blockchain technology works, the conditions for licensing, the activity of operators and stock exchanges, as well as their supervision. Also, it regulates the conditions for the issuance and trading of digital tokens and virtual currencies, as well as the authorization by competent authorities.

Under the new laws, the Authority is empowered to conduct administrative investigations, based

on best international practices. The adopted laws, which will be followed by the drafting of a series of relevant bylaws and regulations, will further strengthen the supervisory framework of the Authority, as well as modernize and further develop the capital market in Albania.

Regarding the role of AFSA within the Albanian financial system, what must change, or be developed, in order to ensure a further development and deepening of this market?

Non-bank financial markets have developed at a relatively slow pace, thus remaining limited, both in relation to the banking market and the markets of the region. The process of supervision and regulation has been developing in parallel with markets' development.

Markets' development will lead to an increase in the types of entities under AFSA supervision, as well as to a greater diversity, regarding investment forms by such entities. This will require capacity building and the implementation of contemporary supervisory methods, by focusing on risk-based oversight, with the aim of increasing the credibility of regulators and financial institutions.

On the other hand, recent developments, in the field of FinTechs, have led to the emergence of a number of new products and services, which significantly increase efficiency and shorten transactions' time, which should be in the focus and attention. These technological developments dictate the need for ongoing professional qualification of Authority employees, as well as the need to adapt to the evolution of FinTechs through modernization in supervision and regulation.

Banking of the future: challenges, vision and strategies

If, in the near future, banking products will be less and less standardized and stencil, and more and more adapted to the needs of customers, so the banking agencies, or their "branches" must evolve, according to this trend.



Prof. Dr. Adrian CIVICI

RECTOR

MEDITERRANEAN UNIVERSITY OF ALBANIA

The "positive" side of the Covid-19 pandemic crisis is related to the fact that this severe and devastating blow also served as a test of fundamental resistance to "the new post-coronavirus reality and the necessary transformations that many economic and financial sectors must undergo, in order to be competitive and performing, under the new conditions in the future." Banks are no exception to this rule.

Currently, the banking sector is in a process of radical transformation. More precisely: in a radical digital transformation, started years ago, but that new realities require it to be faster and more oriented towards ambiguities, risks and new challenges. Artificial intelligence and digital transformation seem to be the "battle horse" for banking in the future, during the next decade. Already, everyone is convinced that

banks will be among the sectors and pioneering activities of Revolution 4.0.

"Classic" banking will continue to shrink, when facing digital space, activities and opportunities, new financial technologies and artificial intelligence. The information is becoming more transparent, the world more interconnected and more global, many banking processes and services are becoming independent, both in time and space. Thanks to technology, customers seek and use banking services on 24/7 basis. Online banks, now dubbed as "banks



"Classic" banking will continue to shrink, when facing digital space, activities and opportunities, new financial technologies and artificial intelligence.



of the future", are developing at a dizzying pace. It is estimated that currently over 50% of customers prefer to perform their banking services online, versus historical and traditional banking. The Internet and smartphones are helping tremendously in this new trend of neo-banks, which is soon expected to become an everyday reality.

As a result of changes in customer behavior and demands, new competitors of the traditional banking sector, a series of questions

are being raised for the banking sector, the answers to which must be "translated" quickly into new strategies and vision for banks of the future: what new services and qualities should banks demonstrate and offer? What will be the customer needs, in the next 5 or 10 years? What should the "architecture" and image of the banks of the future be like? How will, the right balance, be found between digital technology (artificial intelligence, robotics, machine learning, etc.) and human interaction?

The answers to these questions need to be sought and found, first within clients, then in the technological developments and the new situations prevailing in the financial and banking markets. Actually, the biggest enemy for banks is the so-called "Kodak syndrome", the lack of will and vision to change the business model, the damage from the "fear of necessary radical change". Traditional banking activity needs to be transformed into an inter-sectoral business model. "Pure" banking services are no longer enough. Profitability, efficiency and diversification should be the new objectives for every bank.

Especially during this new post-Covid-19 period, "digital transformation" is the key word for any change in various sectors of the economy, or services of all kinds. The banking sector is concerned with "increasing the predictive capacity of needs", "improving services",

"diversifying supply and banking products", "getting new customers through digital channels", "adapting to business and investment cycles", "rapid adaptation to financial flows", etc.

Notwithstanding digital transformation, which has put the customer and the diversification of banking products as its main objective, one of the biggest challenges for banks of the future seems to be the "revolution in their internal functioning", mainly focused on the flow of information and data management.

Experts for the banking sector and the radical transformations expected in this sector estimate that "the expected radical changes in the internal functioning of banks of the future should be considered as the most strategic part of their transformation." The dematerialization of banking service supply, in response to the evolution of customer demand, was the right response to this vortex of rapid changes in the banking sector. However, this digitalization created a new "wealth" for banks: a significant amount of valuable and necessary data and information, to further improve customer service and internal efficiency of banks' operations.

Meanwhile, beyond the "customer approach", this new situation greatly affected the internal processes of bank's operation. Artificial intelligence led to a drastic increase in the level and number of automated processes within banks. According to a McKinsey study, 85% of back office processes are already automated. In the coming years, this figure is expected to be over 90%. The biggest challenge for banks, now, in the coming months or years, will be to "recruit specialized and competent employees in information technology and

artificial intelligence", or a rapid re-qualification of a large part of the existing staff in this field.

This new development in the challenges and strategies of banks of the future will force them to transform into "entities, or organizations of a technological nature", leaning more towards recruitment of specialists with a profile in informatics & technology, than those with a narrow financial or banking profile. Even their visions and managerial strategies are expected to change rapidly. According to the Boston Consulting Group, "radical digital transformation of banks must go hand in hand with the transformation of digital skills and competencies of their staff and must be supported by an equally adequate managerial vision." Only in this way can banks enter the safe and efficient path of the future of the banking sector.

One of the key challenges for banks of the future is undoubtedly the adoption of the "open banking" system, which opens great prospects for increasing clientele, new entries of actors in the banking sector, simplifying many banking processes and practices, super personalized financial services, etc., personalized coupons for shopping in preferred stores and supermarkets, facilities for online shopping, quick and easy access to the loan system, personalized advice for customers, etc. All these services can be performed "easily" in the everyday life, thanks to "open banking".

Beyond the anglicization of such notion, the idea is quite simple: this development is a great opportunity offered to various businesses to connect securely with banking services and customers. For customers or consumers, "open banking" opens up extraordinary very simple payment prospects,

through mobile phones, or tablets. Now, such a practice, still in the early stages of its massive development, is laying the groundwork for a new concept and practice, called "invisible finance" or "non-bank banking services." The largest European, American, Asian banks, etc., are reacting rapidly to this phenomenon, through partnership, or the creation of their "open banking" platforms, moving towards the creation of large online financial supermarkets, according to established models from Amazon, or Alibaba.

A new vision and challenge lie ahead of the "conception and operation of banking agencies." If, in the near future, banking products will be less and less standardized and stencil, and more and more adapted to the needs of customers, so the banking agencies, or their "branches" must evolve, according to this trend. The time of traditional agencies with counters, behind glass or iron nets, with customers in line and bank employees communicating with every customer, is coming to an end. The "tomorrow's" banking agencies will be quite different, depending on the evolution of digitalization and customer requirements. They will look more like "a studio, or a full-fledged reception lounge, with digital screens, smartphones, computers, etc., through which customers perform actions, or receive proper services. They will no longer be conceived as a banking agency "covering a certain urban or rural area", but will begin to specialize according to clientele segments: student services agency, business services, investment and development projects, for the purchase of specific products, etc.

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Automatic Exchange of Information

What does it mean for Albanian and the Albanian banks

The purpose of financial information reporting is to identify different types of investment income, including interest, dividends and similar types of income, and to identify situations where the taxpayer seeks to conceal income, on which taxes have been avoided.



Enkelejda TOT0

Senior Specialist, Compliance Programs and Controls
Compliance, AML and FCM Division
RAIFFEISEN BANK ALBANIA

The rapid globalization of the international economy has been accompanied by an inevitable expansion of international movement of capital, goods, services and individuals. This process has been accompanied by increased investment, outside the countries of residence, and consequently with the management of these investments, through financial institutions in host countries. This includes, also, keeping the capital in "offshore" countries, as one of the consequences of bypassing tax obligations in their countries of origin, i.e. tax evasion. This is a major problem for all jurisdictions, around the world. As all countries have a common interest in

maintaining the integrity of their tax systems and combating tax evasion, there is a need for cooperation between tax administrations to exchange information on financial accounts, for individuals and businesses, according to certain rules, as defined in the form of a common reporting standard.

In February 2014, G20 Finance Ministers and Central Bank Governors adopted the Com-mon



Through this legislation and process, Albania holds an additional and very effective tool, in the fight against tax evasion, while the banking system is a powerful mediator in this process, which primarily enjoys a strong reputation, related to integrity in performing financial activity, in the market.

Reporting Standard (CRS) for Automatic Exchange of Tax Information. The aim was to promote and implement policies for international economic and financial stability.

Albania has joined the Multilateral Competent Authority Agreement ("MCAA") for the exchange of information, by signing it in October 2014 and through the approval with DCM No.178 dated

09.03.2016, has agreed to exchange automatically the financial account information in 2020, under the Law No.4/2020. The first reporting by banks in Albania will be on July 31st, 2020 and in the following years it will be effective at the end of May of each year.

What are the obligations for Albanian banks in this regard?

Pursuant to Law No.4/2020, the Albanian banks must report annually to the General Tax Directorate the information on reporting financial accounts, for individuals and businesses, as follows:

For individuals: generalities, jurisdiction of residence, account or value balance, total amount of gross interest generated during the year, and other individual data, according to the template.

For businesses: Company data, name, jurisdiction/s of residence, TIN(s), account number and status, total amount of gross interest generated during the year, by type of account (custody, or deposit), as well as data on the individual, as the last beneficial owner/controlling person of a passive NFE, or Investment Fund, based in a non-participating country/jurisdiction, according to the relevant template.

To implement such reporting requirement, banks have the obligation to identify customers tax residence, as well as the TIN (number), according to the tax residence. An individual, or



business, may have one or more tax residences, and consequently one or more TINs (tax identification numbers). So, banks must fulfil two key obligations for the automatic exchange of financial account information: Identification of reporting persons (individuals and businesses) and their respective reporting.

In order to carry out the identification and reporting process, the bank must carry out some preparatory processes and take action, in accordance with the regulatory framework. The identification of clients' tax residence is done through the self-declaration template of clients. Banks have the obligation to inform their customers about the obligation to self-declare their tax residence, as well as collecting these templates (forms) within a certain period, according to the applicable regulatory framework. Currently, under current conditions, the process of reporting financial accounts to the General Tax Directorate is really a challenge for the banking system.

What are the obligations for Albania and the Albanian authorities in this regard?

Albania has signed the Multilateral Competent Authority Agreement for Automatic Exchange of Financial Accounting Information. This agreement was approved by DCM No.178, dated 9.3.2016 and provides that the exchange of information can be carried out on a bilateral basis, by competent authorities. According to the agreement, Albania should start implementing automatic exchange of information by end-2018, but this deadline was postponed for 2020, in order to have time to create the legal basis and infrastructure needed for its implementation.

To implement this obligation, a system must be put in place, which will exchange confidential data between local tax administrations and the countries of the declared tax residence. Also, a regulatory basis is needed for procedures about proper vigilance, information reporting by financial institutions to the Tax Directorate, as well as measures to ensure the effective implementation of the law.

What is the purpose of such legislation and what are the benefits for banking sector and Albania itself?

The main purpose of such legislation is to avoid tax evasion. The purpose of financial information reporting is to identify different types of investment income, including interest, dividends and similar types of income, and to identify situations where the taxpayer seeks to conceal income, on which taxes have been avoided (eg: seeking information on account balances).

In addition to reporting, the legislation aims to limit the attempts from taxpayers to avoid reporting, through the use of intermediary legal entities, or such structures. So, banks and financial reporting institutions will have to carry out a proper and expanded vigilance process.

So, through this legislation and process, Albania holds an additional and very effective tool, in the fight against tax evasion, while the banking system is a powerful mediator in this process, which primarily enjoys a strong reputation, related to integrity in performing financial activity, in the market.



BANKING SYSTEM

ICT – a key element of success in overcoming the Covid-19 pandemic situation

The banking sector could be considered as an influential promoter of digital evolution, contributing to the increase of the public trust in the digital era.



Alketa LAMÇE

Head of ICT Division
INTESA SANPAOLO BANK ALBANIA

The Covid-19 pandemic lockdown created an unprecedented emergency situation in Albania and worldwide. The government, central bank, financial institutions and local businesses had to immediately focus their best efforts on the urgent response and crisis management, trying to build viable and worthy solutions to address the emergency first, and the long-lasting impact of crisis afterwards.

During this critical period, internet and technology usage became more crucial and its use have increased dramatically. Public and private entities used their best technological innovation know-how

and capabilities to quickly adapt in the new environment, ensuring business and operations continuity, with minimum impact on the service quality.

Despite the existing BCM (Business Continuity Management) & DR (Disaster Recovery) policies and processes in place, the total lockdown disaster scenarios had not been fully tested in the past. Scenarios, like staff and building unavailability, where typically designed and tested considering the best standard requirements, such as: identification of critical staff and processes, identification of a dedicated building, from which critical staff were meant to continue their operations, in case of disaster. Additionally, natural disaster with such a long duration were not thoroughly detailed in bank's DR and BC plans.

The response to these challenges and the success of this abrupt adaptation, had a strong dependence on technological capability, digitalization and information security maturity level within each organization. Such critical period of time mandated an extensive usage of digital channels, remote access technologies and other tools and systems, such as: collaboration tools and workflow management systems.

The activation of "Work-From-

Home" approach, through efficient and secured communication technologies and devices, followed by relevant and compliant "Collaboration Tools", became imperative for various organizations and represented the first immediate measure, in response to the lockdown restrictions and pandemic containment. For instance, "Smart Working" technologies, implemented and used on voluntary basis in Intesa Sanpaolo Bank Albania since 2019, proved and offered flexible solutions during the lockdown period. Technologies, such as: "Virtual Desktop" and "Skype for Business" guaranteed a fully operative virtual workforce, as an optimal response to the restrictions in building access and staff physical presence.

Out-Of-Office hours' activities, such as: monitoring and ensuring 24/7 ICT services, execution of the End-Of-Day procedures, provision of call center and other customer support services, represented another challenge that was successfully overcome with the support of various remote technologies.

The extensive use of digital channels throughout this period, was another confirmation that previous investments on this area sustained the fast remodeling of electronic services to enlarge the customer

reach. Also, digitalization helped on the disruptions' level minimization, retaining the quality of service within accepted levels. Applying a mixed approach, using physical and virtual workforce, required not only efficient monitoring tools, but also represented the evident need to review and optimize banking processes and accelerate the achievement of a full level of digitalization.

Due to service time restrictions, set by the government regarding the on-premises services, technologies like queue management and call center systems, provided a great contribution on the management and control of the large customers' flow. The introduction of online surveys for employees guaranteed compliance with the protocols set by Authorities. Moreover, the use of technological tools helped respecting the physical distancing, ensured the social distance minimization and also helped in monitoring health and wellbeing of staff and customers.

Another challenge faced by the banking sector and their ICT structures, was the necessity to cope with the immediate economic impact of the crisis to existing and potential customers of the bank. Regulatory requirements for the introduction of new processes and products, such as: loan moratorium application, financial instruments covered by sovereign guarantee and "war salary" timely execution, were successfully implemented during this period, through automation and digitalization of different processes. Adaptation of existing applications and processes, designed to serve and be in place, even after the pandemic situation, contributed to guarantee a proper and structured response to the high customer demand. These requirements were duly delivered, satisfying at the

same time the elevated attention of the public, Government and the Central Bank. The Covid-19 pandemic economic crisis and its effects have impacted working and business environment worldwide. However, this unprecedented situation, the challenges faced and the way that they were overcome, played its role in determining the irreplaceable role of Information Technology. It pinpointed the role of resilient and streamlined processes and the areas of immediate need for investments and improvements.



The last miles of "Digitalization Journey" can be accelerated under the proper attention and sponsorship. The necessity to adopt law amendments that would improve the existing legal framework and facilitate the digital transformation was highlighted, due to the increased awareness of the main key players, including governmental institutions and public entities.



This experience demonstrated that the last miles of "Digitalization Journey" can be accelerated under the proper attention and sponsorship. The necessity to adopt law amendments that would improve the existing legal framework and facilitate the digital transformation was highlighted, due to the increased awareness of the main key players, including governmental institutions and public entities.

However, despite the existence

of relevant technologies, legal framework and the current achievements in the digital transformation, there are still issues that require immediate attention and solution. The most important one is the accurate empowerment of the remote usage of "digital signature". Albanian legislation covering digital services (e.g. remote process of signing the banking contracts through digital signature) exists, but it is not exhaustive in terms of well-defined legal technicalities. In addition, the absence of secondary legislation, regulatory framework and the total lack of judicial practice, leaves room for uncertainties and different legal interpretations.

Open Banking Technological Ecosystem is becoming the target banks' operating model that would bust the digital transformation in the country. In addition to the businesses and Central Bank, banks' ICT Systems need to interact with Government technological environment (e.g. e-Albania), aiming to automatically retrieve the necessary customer information. Therefore, necessary technological and legal improvements on this aspect, would support banks to provide a fully digital experience to their customers.

The timely resolution of these important gaps will highly contribute to achieve a fully digital business and operating environment in Albania. Consequently, the banking sector could be considered as an influential promoter of digital evolution, contributing to the increase of the public trust in the digital era. The design of a smart "New Normal", will provide advantages and new opportunities to the banks and business, toward a fast recovery and a brighter future.

Internal Audit Challenges, during Covid-19 crisis

It is a great opportunity for Internal Audit role and function to be stronger and professional, to really add value to managements by protecting and improving our organizations by being healthy businesses with new controls and risks frameworks, but in the same time flexible and effective.



Dorida STAMBOLLA¹

Head of Internal Audit
RAIFFEISEN BANK ALBANIA

The coronavirus pandemic is causing not only a public health crisis but bringing with it a great economic and financial shock with enormous challenges. Gross domestic product (GDP) is expected to significantly impact the worldwide economies. The magnitude of the contraction in each country will depend on how successful that country is, in limiting contagion and preventing second or further waves of this virus/es, the duration of the measures implemented to limit social contact to home-office continuity and the effectiveness of the actions taken to support the

economy.

The remaining uncertainty on the severity of the crisis, the length of recession and the speed of recovery will make it difficult to assess the potential impact of the crisis on the banking sector. Nevertheless, the focus will now be on the re-opening of the economies, businesses, and banks (with new present risks of health



Working in the office or in a remote environment does no longer differentiate, as the meeting point with our customers/colleagues/auditees, is the online platform, as the new way of working and providing advice & recommendations to make better processes with efficient controls.

and safety, compliance, legal, security, technology, operations, and fraud etc.)

In contrast with other previous crises (2008/2009), banks entered the health crisis with strong capital and liquidity and managed the

pressure on operational capacities, by activating their business contingency plans. Nevertheless, it's obvious that crisis is expected to affect asset quality and, consequently, profitability of banks going forward by growing non-performing loan (NPL) volumes.

Steps to transition toward "a new normal", guided by health principles and economic considerations will be from now on, the focus of bank's managements. The path from post-lockdown to "business as usual", via lessons learned, will lead to new ideas and opportunities.

The same applies to the Internal Audit role. Hence, it's important how to mitigate risks on a new designed control environment, educate stakeholders on changes of processes, procedures, platforms, being more pro-active, involved, and trusted advisor to our managements. The 3-lines of defense will need to further improve cross-functional communication and collaboration, since risks and controls have now changed and adapted to the new situation. Based on our experience, internal audit did not have to move to the 1st or/and 2nd line of defense, that would jeopardize its independence.

Now it is time to transform and digitalize our Internal Audit function. We all work distantly

¹ Chairwoman of Internal Audit Committee on the Albanian Association of Banks (AAB).
Board member to the Institute of Internal Auditors profession in Albania (AIIA).

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and remotely, but we should stay connected, since tools and technology are widely available, move forward by understanding changes within organizations, reviewing and adapting our risk assessments and plans, be agile by prioritizing our audits and our own processes, use data analyses on our daily work (robotic analyses, business intelligence), explore new skills of our employees and identify talents on our teams, use launched on-line trainings, transform our technology, help our organization and clients through all these new challenges.

With the “new normal” – distant/remote auditing, we need to ensure, if there are audits that have fixed deadlines set by regulators, for which we need to keep going on, as long as no additional information on postponements/new final deadlines from regulators, are communicated. There might be audits in areas which are crucial and very busy on business and operations activities, for which postponements and reshuffling of the audit plan might be the best solution. Therefore, new risk assessments need to be used. Based on experience, a solution can be audits, applied in a different mode, such as: reduced and focused

scope, reshuffling timelines, etc. Yet, this is dependent from the organizational structure, audit division, as well as the auditees’ units. Therefore, we need a case-by-case approach and prioritize, by being more flexible, in contrast with our traditional approach and plan. Now we could utilize the use of “remote audits”, not only during preparation and drafting phases, but also on the “on-site period” with online interviews and verification, audit documentation checks and samples, etc. Working in the office, or in a remote environment does no longer differentiate, as the meeting point with our customers/colleagues/auditees, is the online platform, as the new way of working and providing advice & recommendations to make better processes with efficient controls.

May is the International (global) month of awareness about the profession of the Internal Audit within the Organization. As such, several events are organized worldwide, accordingly. We are a considerable community of internal auditors, also here in Albania, both in the private and public sector. On-line meetings, webinars, sharing experiences etc., have been organized by AAB, AIIA, universities etc., with the main

aim to stay connected, adequately manage such situation and promote Internal Audit profession.

According to the Definition of Internal Auditing in the IIA’s International Professional Practices Framework (IPPF), ... “internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes”.

These are extraordinary times which requires extraordinary leadership and professionalism. It is a great opportunity for Internal Audit role and function to be stronger and professional, to really add value to managements by protecting and improving our organizations by being healthy businesses with new controls and risks frameworks, but in the same time flexible and effective.

As Socrates says... “the only thing I know is that I know nothing... and that your controls are abominable” or Voltaire says... “if Internal Audit do not exist, it would be necessary to invent it”!



Beyond Covid -19: New opportunities for the Albanian FinTech-sector

In addition to the banking sector, which is one of the most important actors in cooperation with EasyPay, in recent months there has been a significant increase in interaction with other institutions, aimed at digitalizing services and expanding their clientele, which favor and mainly use mobile phone channels to effect financial transactions.



Jonida KËLLEZI

Head of Marketing Department
EASYPAY

The situation created, quite suddenly, by the global pandemic at the beginning of 2020, but also by the fact that the Albanian population has low access to financial services, made the Parliamentary Commission for Economy and Finance to approve, on April 30th, 2020, the draft law "On payment services", which harmonizes the Albanian legislation with the EU directives and embraces the developments of financial technology.

To regenerate the economy and sectors most affected by this crisis in Albania, payment operators play, undoubtedly, an extremely important role. Over the past few months, they have come as a valuable supporter for the Albanian businesses, especially

SMEs, by offering them various choices, in payment methods, as well as by increasing the financial involvement of local population.

The challenge of confrontation: Albanian FinTech against Covid-19

Now the time has come for online payment market, even by phone use. Global well-known FinTech companies, like: Paypal, Amazon Pay, Apple Pay, Alipay and Google Pay, have provided facilities in making payments and financial services, especially in this period, thus reducing costs and bureaucracies, and on the other hand, providing convenience, ease of use, speed, and above all, security by carrying out transactions from home. Comparatively, the same is expected from the new Law "On Payment Services", in our country. It will be a decent regulator, especially for FinTech companies; a promoter of innovative competition in the financial and online sector; it will guarantee the protection of customer data, through the implementation of security measures, such as: multifactorial verification, as well.

For 10 years in a row, EasyPay has been providing convenience to Albanian consumers and businesses, in making utility payments, such as: payment of energy and water bills, taxes, mobile phone recharge, fixed telephone, internet and IPTV payments, microcredit installment

payments, as well as ticket payments for various events. Particularly, in March 2020 the number of transactions through EasyPay platform doubled, while the number of new customers tripled.

If we look positively beyond the Covid-19 crisis, we can dare say that consumers will most likely return to the FinTech sector, for three main reasons: lower costs, ease of use and faster real-time service!

"FinTech or die"

The model that EasyPay offers to increase financial inclusion and cooperation with different sectors of the economy in the country, is: Focus on digital services: payments made through digital channels and smartphones (in real time); simple integration (ready-to-use API); a wide network of agents and stores (especially for deposit and withdrawals); automated processes and low costs. This model helps the challenge that Bank of Albania, in cooperation with other state institutions and the World Bank, aims to achieve by 2022. Specifically, two are the strategic objectives already set: 1) Achieving the coefficient of 10 payments with non-physical cash per capita (from the current 4.3), and 2) reaching a bank account/e-money ratio, in the amount of 70% (from the current 40%).

In addition to the banking sector, which is one of the most important

actors in cooperation with EasyPay, in recent months there has been a significant increase in interaction with other institutions, aimed at digitalizing services and expanding their clientele, which according to McKinsey Global Institute the new generation (the end of GenX and Millennium) favor and mainly use mobile phone channels to effect financial transactions.

Specifically, in 2020 additional collaborations with microcredit institutions were added on the EasyPay platform, such as: NOA and IUTE Credit, who appreciated the importance of digitalizing their services and benefited from EasyPay's wide distribution network (agents) (especially for remote areas from city centers). Furthermore, during the first months of 2020, EasyPay expanded its service portfolio, by entering the insurance market. Licensed by the AFSA as an agent for some of the largest companies in the industry, EasyPay began this journey with Sigal Uniqa Group Austria. The success of such collaborations lies in optimizing the consumer experience. By putting ourselves in the shoes of the consumer, the EasyPay team devised and created digital services and products that meet the financial needs of the market.

Post Covid innovations

The main issue, during the first quarter of the year, for any company in the market, was the management of the unknown! The situation created by the global pandemic of Covid-19 and the drastic lockdown measures, undertaken by all governments in the world, affected market developments. However, this situation brought new opportunities for FinTech businesses, collaborations with new sectors and the creation of

new products/services.

Specifically, during the lockdown period, remittances became a difficult mission. In many countries, agents/service points for money transfers worked with restrictions, by creating long queues, and at the same time, operating hours were shortened. May years of experience in the remittance market, with global partner like RIA Money Transfer, offered EasyPay the opportunity to develop this service through technology: instant payment transfer via mobile and agents. Such service, which is expected to go live in late summer, will help individuals and businesses, particularly located in remote areas from bank offices, ATMs and payment operators, to reimburse a customer for a canceled service, paying someone for groceries, sending money to children, or parents, etc.

Although that should have happened some time ago, it took this pandemic situation for the Albanian businesses to integrate technology into their strategies. This year

experience showed that in the Balkans, and especially in Albania, where the FinTech ecosystem still needs to be consolidated, state institutions must play a more active and instrumental role, in order to achieve wider cooperation between the consumer, young financial actors, banking system, as well as SME businesses. Technology is here to enable "easy-to-understand and accessible services by anyone, which reduces user costs and barriers to access." By improving access and ease of financial services for individuals and businesses, including small and medium-sized businesses, technology promotes economic development.

EasyPay will be loyal to strategic objectives of the future and will continue to simplify the financial interaction between consumer and business, through online products and services, thus achieving the financial inclusion of the whole society on the one hand, and the creation of a new group of customers, on the other hand!





JEMI PRANE TEJE KUDO

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Trainings – challenges and opportunities during pandemics

Our goal remains to organize virtual classes, similar to face-to-face classes: they need to be engaging, interactive, and productive.



Junida Tafaj

Operations specialist
ALBANIAN ASSOCIATION OF BANKS, AAB

The pandemic has completely changed our way of working and, at the same time, the management of learning and development, within the organization. An urgent need arose for adaptation to a new reality. Although it may seem somewhat inappropriate to write about training, at a time when the economic consequences of pandemics are being discussed, it should not be forgotten that the issue of a continuing education and development are still essential.

But how could we guarantee continuity when everything stopped working? It was crystal clear from the start: providing distance learning required more than just Skype meetings, or video recordings; you can't replace face-to-face learning with the online version, so simply! You cannot do the same things, simply by using a different method. We already had to change the way we perceived the construction of knowledge.

Following the halt of planned activities, we had to review the previous calendar and assess whether the needs had changed, so far. At the same time, trainers had to review the methodology, versus the results and whether they still worked for the new reality. Being aware that interaction with participants required preparatory work and not just ordinary communication, we began planning preliminary sessions to support participants individually, or in small groups, to practice or confirm understanding of the technologies that would be used for online trainings.

AAB has been cooperating with local and international partners for years, to contribute for capacity building of the financial sector. In addition to the situation, AAB managed to announce the first online trainings, at the end of April 2020. We decided to arrange groups in manageable sizes; virtual classes are very challenging when in large numbers. We advised experts to start with presentations, to introduce the convenience of technology to participants, and also to plan discussions and early interactions, to test the connection, as a way to build engagement during further sessions.

Our goal remains to organize virtual classes, similar to face-to-face classes: they need to be engaging, interactive, and productive.

While the reopening, or removal of lockdown measures, gave hope for the resumption of activities in the country, the "temporary" travel restrictions, which have closed the skies of Europe, are still in force and it seems that they will remain in force for an unpredictable time. The logistical difficulties and limited availability of international

experts make it impossible to resume normal physical training, until September.

However, thanks to the cooperation with international partners: ATTF and House of Trainings (Luxembourg), as well as with the financial support of the Government of Luxembourg, we launched the "Distance Training Calendar", thus creating new ways of learning to enable continuity of the transfer of knowledge by international experts, despite current difficulties. Courses are divided into two main categories: virtual and e-learning, where all applicants from the banking sector will become part of international classes, professionally organized by the ATTF team.

Also, for the first time in cooperation with AIEx, we organized online training, in the Albanian language with Albanian experts, on a professional learning platform, called AIEx LMS. Technically, AIEx LMS enables trainers to move between tasks and feedback simultaneously, by sharing and supervising them. Participants immediately get their grades back.

Face-to-face training, led by a trainer, remains the preferred method, as human interaction is important. At a time when many organizations are not abandoning the conventional way, traditional face-to-face learning is combined with e-learning methods, so that participants reach their full potential. Basically, the goal is to promote real change, by engaging staff.

We already have all the models, elements and tools to provide online learning opportunities; we just have to start working hard to use them efficiently.

SOCIAL DEVELOPMENT GOALS



ABI Bank:

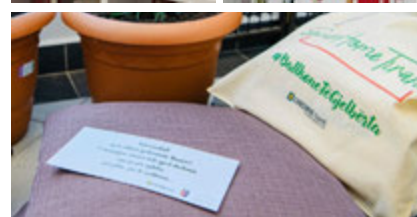
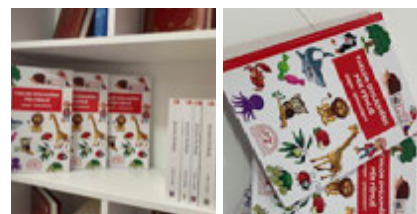
- On April 24th, donated three respiratory devices for intensive care, which will support the health system to increase its capacity to cope with the situation created by COVID-19.
- Supported Durrës Regional Hospital with protective materials and clothing for hospital personnel.
- During April – May, following the requests from the Albanian Red Cross, Kamza Municipality and the Association for Integration of Pensioners of Albania, it donated over 600 food packages to Albanian families in need and lonely pensioners in conditions of extreme poverty in Tirana, Vora, Kamza and Paskuqan.
- Supported, for the second consecutive year, the Podcast series: "Wonderful Albanians", a collaboration between ABI Bank and Rudina Xhunga, which reveals success stories of Albanians at home and abroad.

the framework of COVID-19 Prevention Awareness Campaign.

- Supported Diaspora Publishing Center for publishing the Albanian-Ukrainian Dictionary, which has been published and distributed to children of the Albanian diaspora, up to 6 years in Ukraine, in order to promote the Albanian language for children of the diaspora in Ukraine, as well as 14 classic fairy tales, adapted in Albanian and Ukrainian, for 5-8 year old. These tales have been published in 7 different books and have been distributed in the Albanian diaspora.



- Credins Bank joined the Red Cross, Tirana branch, by donating some food packages to families in need, during the pandemic period.
- Supported the Healthcare Operator, by donating several computers to improve working and infrastructure conditions of the institution.
- Supported the "Green Balconies" project, in cooperation with "People and Ideas" organization and Tirana Municipality, an initiative to increase the construction of green spaces on the balconies of the capital and to turn balconies into a pleasant space for every family and a relaxing work corner.
- Joined the initiative of Kruja Municipality to increase green areas in the city.
- Supported the Albanian Embassy in North Macedonia, by purchasing 4 publications of "Testimonial from the



Banka Kombëtare Tregtare:

- Donated equipment to improve IT infrastructure, aiming at promoting technological innovation in institutions: Rrogozhina Regional Education Directorate, Liq-enas Municipality and Peqin Penitentiary Institution.
- Supported the Albania-Turkey Chamber of Commerce and Industry (ATTSO), in

Presidential Cabinet", demonstrating support for art, as an important sector to increase the impact of art and culture in society.

- Supported the realization of "VIZart" event, an exhibition that brings together the works of 50 Albanian maestros, belonging to different generations, from Kodra, Jukniu, Kilica, Dhrami, Shoshi, Lulani, Keraj, Madhi, Mele, Leka, e many well-known artists, including Mr. Helidon Haliti, the organizer of this exhibition.
- Supported the "Green Business Competition", in collaboration with Partners Albania, which promotes innovation, by utilizing local resources, promoting economic development, increasing employment, and building a greener region. "Rinora Handmade" as one of the winners of this competition, was supported to expand the business with new products.



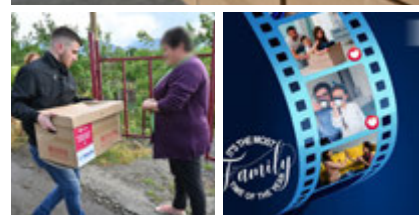
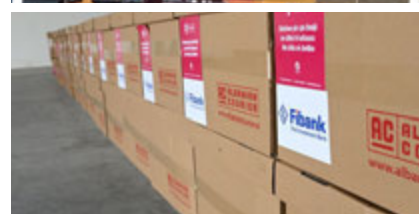
- During the announcement of lockdown from the government due to Covid-19 global pandemic, Fibank Albania launched game a social media #fotofamiljaregazmore until April. The goal of this game was to invite people to bring images of their families during this period and at the same time be part of a winning competition. This initiative served as a means of encouragement and support and was well received by Fibank fans.

- While on lockdown, where many Fibank colleagues were in continuous availability to ensure branch functionality, Fibank took all the necessary safety measures in accordance with government guidelines to protect the lives of its most important resources, Fibank staff and its customers.

- Fibank launched products to better serve customers' needs during the pandemic situation such as:

- Pensions at home - collaborating with the Albanian Postal Service to send pension funds to the pensioners' homes so that they can minimize branch exposure.
- Express issuance of contactless debit/credit cards - enabling customers to minimize contact with daily cash usage.
- Special current accounts - for all affected employees receiving aid from the government relief package.
- These products enabled customers to minimize contact with daily cash usage and have immediate access to their bank account funds.

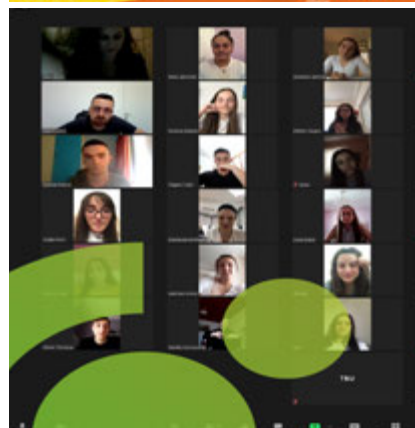
- Fibank Albania joined the Down Syndrome Albania humanitarian campaign #Bashkepertendihmuar, to help with food and hygiene packages for 60 families in need in the region of Mat covering villages of German, Suat, Komsj, Burgajet, Derjan, Shulbater and inside the town of Burrel, as a means to alleviate the pandemic effects.



- On International Book and Copyright Day, on April 23rd, the bank sent an awareness card to employees with the slogan: Books are a window to see the World!
- World Day for Safety and Health at Work was promoted on April 28th.
- The bank came up with the "Share your Smart Story" initiative, which invited all colleagues of the group, who worked from home, to share their personal experiences, during the quarantine period.
- On May 1st, Intesa Sanpaolo Bank Albania conveyed a special thankful message to its employees, especially to all those who did not stop working any time.
- During the pandemic days, when each movement was highly limited, the group organized a guide set, called Digital Coach, which serves as a very good instructor on how to organize a working day at distance, without losing attention to health care, while maintaining fragile work-life balances.
- Promoted International Family Day, on May 15th.
- On International Technology and Information Day, May 17th, it provided a range of online services, as well as the continuation of work and school from home around the world.
- Promoted World Day for Cultural Diversity, Dialogue and Development, on May 21st.
- Promoted International Biodiversity Day, on May 22nd.
- Welcomed at all its branches

in Albania all citizens, who have the right to benefit from financial assistance, and offers the following package, aiming to offer its support in this difficult period:

- Free Opening/Closing current accounts,
- No minimum balance required in opening a current account,
- Free Digital Banking Platform,
- Current Account and VISA INSPIRE Debit Card, without monthly maintenance fees.
- Promotes International Children's Day, on June 1st.
- Promotes International Environment Day, on June 5th.
- Shared through its official Facebook website various examples of online scams and how they can be prevented, by drawing public attention about the importance of online security.
- Promoted World Ocean Day, on June 8th.
- On World Blood Donor Day, June 14th, a group of bank employees and two of their wives donated blood for thalassemia children, at the premises of a private laboratory, made available by Dr. Natale Capodicasa.
- Promoted World Refugee Day, on June 20th





The bank supported two annual competitions, organized by Tirana Business University (TBU):

- **Tomorrow's Entrepreneurs, Edition 10** - where participants presented, individually or in teams, business ideas elaborated in simplified business plan forms;
- **Lawyers for Tomorrow, Edition 6** - in which individuals, or teams, delivered subpoenas and defenses /rebuttals for a legal causes/issues.

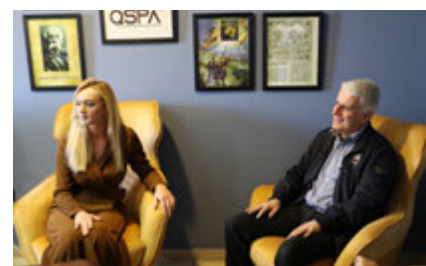
OTP Bank Albania supported financially one of the first prizes, awarded to participants in this activity, and became an active part of juries that assessed the quality and creativity of the idea presentation.



Raiffeisen Bank:

- Planted 250 trees on Kombinat – Vaqarr road axis, by supporting Tirana Municipality's project to increase green spaces in the capital.
- In cooperation with the Free Thought Forum, some 4 actions were taken to clean Spille, Tale, Zvërnec and the Lalëz Bay beaches. A special contribution, as every year, was given by bank's staff.
- Donated some protective equipment such as: masks, special clothing and goggles, to Durrës Regional Hospital, thus supporting medical staff of this hospital.

- Paid special attention to elderly people living alone, or through economic hardship, by donating 350 food packages.
- Provided computer equipment for the offices of Center for Studies and Publications for Arbëresh, which focuses on studies and publications for Arbëresh community.
- On the occasion of National Day of Orphans, May 20th, the bank supported the puppet show: "Nightingale and Rose" for children of "Zyber Hallulli" Orphanage, Tirana. This show was held in several orphanages and social centers, throughout Albania.
- Supported the National Theater during the artistic calendar of the year, the online performances of the project: "The show must go on", as well as the artistic production dedicated to young people: "TK RIN ART ON".
- Supported the Puppet Theater's artistic calendar, by entertaining and educating younger generations through art.



TIRANA BANK

- In cooperation with Kamza Municipality, distributed food packages for 100 most families in need, in the Kamza area.
- Provided equipment and interior furniture for Piskova Health Center, Përmet.
- Supported and showed solidarity with the Bank of Albania normative act to evaluate every customer, who has been directly affected by

AAB ACTIVITIES

the pandemic and thus being unable to make timely loan installment repayments.

Also, the war salary brought to Tirana Bank branches a large flow of customers to open their accounts. Branches responded professionally to each application, respecting all hygiene measures.

- On April 15th, it signed with the Ministry of Finance and Economy the Agreement on State Guarantee, which will be used to cover the financing of salary fund that businesses will receive at Tirana Bank.
- Offered to all business and retail customers the use of Winbank platform, with preferential terms, as a very secure platform, during the time of pandemic. All customers can transfer funds from her/his account to one account in another bank, without commission.
- The situation at hand put in the spotlight the "War Heroes" category, by designing a preferential package of products and services, with preferential terms and services with zero commissions. The package of heroes included: unsecured consumer loan, overdraft, Payroll Package, 25 Monthly Deposit, Debit Card, Credit Card, or services such as: direct debiting and payment order.

AAB activities in regard to Covid-19

In the frame of global precautions for the COVID-19 Coronavirus, the banking sector was among the first to impose security (health) measures, aiming at protecting the health of clients and employees, despite the cost related to them.

On March 17th, following the Decision of BoA's Supervisory Council, the joint order of Prime Minister and BoA's Governor, authorizes a three-month loan payment holiday for businesses and individuals, who are faced with difficulties, as the result of COVID-19 situation. The measures on rescheduling loan instalments entered into force on March 13th, 2020 and will be in force till May 31st, 2020. AAB coordinates the data collection process.

Some banks have pushed and promoted the use of digital channels, in addition to this three-month loan payment holiday measure, by waiving online service commissions (home and/or mobile banking), as well as cash withdrawals at other banks' ATMs.

AAB cooperated with the Ministry of Finance and Economy, regarding the Sovereign Guarantee instrument for the companies affected by the financial impact of the pandemic.

On May, the Albanian Association of Banks, the Bank of Albania as the supervisory authority, with respect to the analyses and considerations of proposals presented by banks, as well as based on the best experiences of other countries and the guidelines, issued by the European Banking Authority (EBA), has adopted some amendments to the rules on credit risk management by banks, mainly through:

- Temporary suspension of the implementation of the obligation derived by the requirements on credit risk management for loan classification and provisioning to all categories of customers, for an additional period, from June 1st, to August 31st, 2020, due to the financial difficulties and solvency deterioration of borrowers affected by the situation;

- Temporary suspension of the creation of reserve funds for real estates obtained versus the loan payment, until December 2020;

- A mitigating provision on restructured loans, according to which banks are enabled to restructure current loan agreements, in order to find adequate solutions, without deteriorating the status of the borrowers;

- Extending by 1 year the entry into force of tighter requirements for the classification and provisioning of restructured loans, until January 2022. This measure enables banks to use in 2021 the same criteria for the classification and provision of restructured loans as those before the pandemic; and

- Extending by 1 year the effects of the Regulation "On out-of-court treatment of distressed borrowers", until January 2022. These relieving measures will provide banks with more time to find the most appropriate solution for joint distressed borrowers.

Meanwhile, borrowers whose solvency is neither affected nor damaged by this situation should normally continue to pay their liabilities to banks.



The AAB Chairman, Mr. Silvio Pedrazzi attends the meeting: “Bank – Business relationships: Common economic challenges in face of global Covid-19 pandemic”

On May 13th, 2020, the Bank of Albania organized a forum with the banking system and business community representatives. In his speech at this meeting, Mr. Silvio Pedrazzi, AAB Chairman of and CEO of Intesa Sanpaolo Bank Albania, emphasized the responsibility, professionalism and commitment of the banking sector in this extraordinary situation, ensuring the full range of financial services, in response to the needs of the community. He highlighted some of challenges the banking sector in

facing in the new reality, supporting borrowers in need, without compromising lending criteria and maintaining the soundness of the



balance sheets.

Power breakfast with AFSA General Executive Director

Mr. Silvio Pedrazzi, AAB Chairman of and the General Executive Director of Intesa Sanpaolo Bank Albania, accompanied by several CEOs of commercial banks, held a power breakfast with Mr. Ervin Mete, CEO of Albanian Financial Supervisory Authority (AFSA) and other representatives of the institution. During the meeting, various legislative matters, as the

new laws: “On Collective Investment Schemes” and “On Capital Markets in Albania” adopted recently by the Parliament, were discussed. AFSA and AAB representatives showed the willingness to cooperate and organize joint activities to ensure financial education for all financial market participants.

Workshop with General Tax Directorate

A workshop on Automatic Exchange of Financial Account Information took place on June 25th. Following concerns raised by several banks, AAB and GTD organized the online meeting focused mainly on IT issues.

Workshop with Bank of Albania

On June 19th, AAB, in collaboration with Resolution Department of Bank of Albania and upon the request from banks, organized an online workshop, related to the draft regulation: “On the minimum requirement for regulatory capital and eligible liabilities”.

TRAININGS

AAB organizes trainings April - June 2020

Credit risk and cash flow analysis, organized by AAB and ATTF Luxembourg on May 13 – 14th & May 20-21st 2020.

Time management and productivity, organized by AAB and Lincoln Center on May 14 – 15th.

Positive aspects of the out-of-court dispute resolution for resolving Insolvency - Building Awareness of the Business Community, organized on May 14th, by IFC in cooperation with AAB and with the support of Swiss Embassy.

Sales skills and management. On June 2-3rd & 9-10th, AAB, in collaboration with AIEA, organized for the first time the on-line training in Albanian language in the LMS platform.

Toward the new Reality- Leadership Resiliency. organized on June 23-24th, in cooperation with AIEA.

Creating a Culture of Employee Engagement. an online workshop was organized, on June 26th, with Dr. Larissa Winter and supported by the AAB, DIHA and AIEA.

On May 7th, AAB launched the **House of Trainings – ATTF Distance Learning Calendar**, and facilitated the banking system employees’ participation in relevant virtual trainings and e-Learning courses are, thanks to the financial support of the Luxembourg Government.

