



# Bankieri

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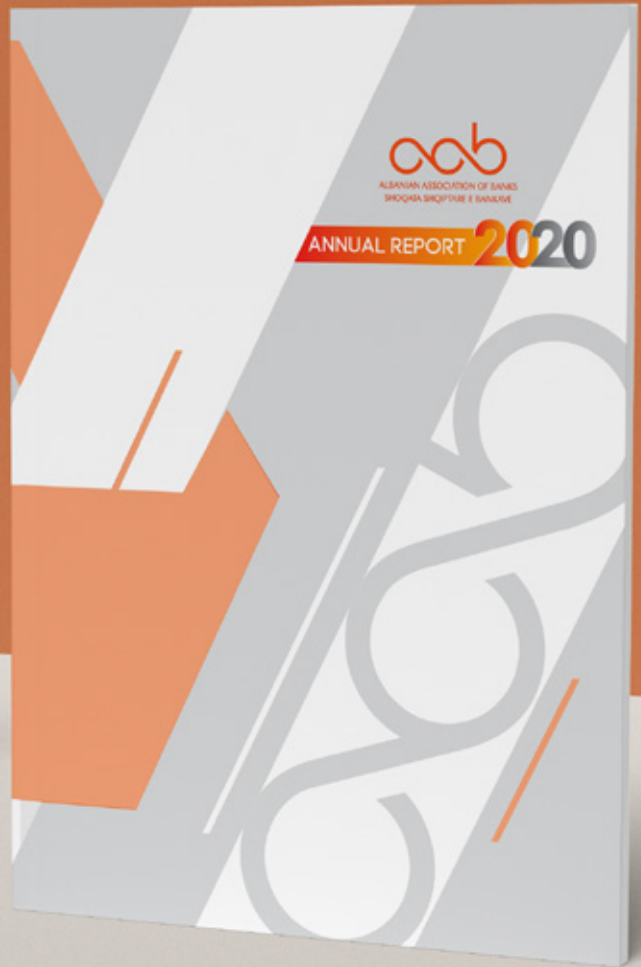
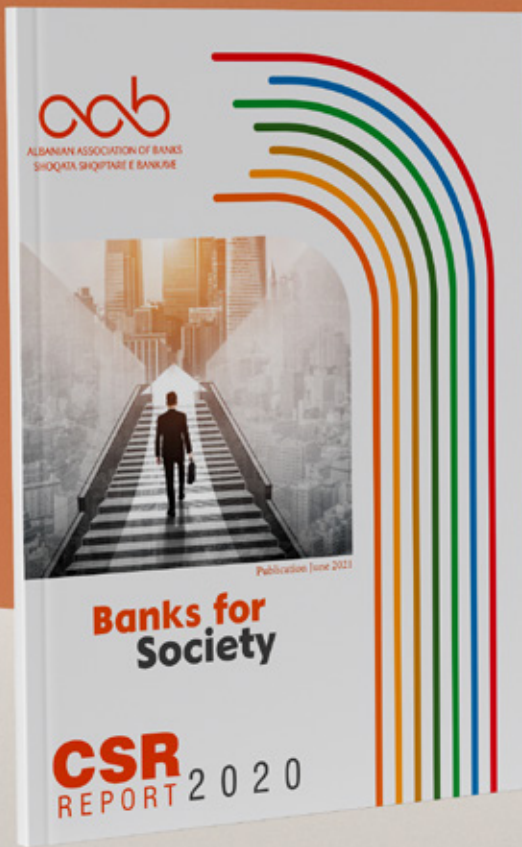


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## **BANKS' CAPITALIZATION** a complex challenge



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### Bankieri

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# Banks' Capitalization – A complex challenge

*This is a challenge to raise Albanian banking to a new level of activity, but also to finally channel the Albanian market and financial system on the path of its further deepening.*



**Prof. Asoc. Dr. Elvin MEKA<sup>1</sup>**  
Editor-in-Chief

After the outbreak of global economic and financial crisis of 2008, it was for the banking industry, more than any other industry or sector of the economy, that would experience and face the wrath of shockwaves of the crisis itself, along with the whole arsenal of measures, taken by regulatory authorities, throughout the world.

As the effects of crisis faded away and were technically absorbed, thanks to energetic and urgent government and regulatory interventions, beyond banks' own measures, it would be for the same stakeholder (government and regulatory authorities), which would continue to their commitment of reviewing and enacting new, stringent measures and standards, in order to minimize, or curb the possibility that such events could cause profound effects on the economy

and financial system, in the event of any bank failure. Specifically, these packages of rules and standards, carved in the Basel III in 2009 and Basel IV in 2017, served the basic purpose of making banking not only a safer activity, but also less crisis-generating in the future, which thanks to and the extreme interconnection of economies and financial systems at the global level, can plunge the world, its economy, and its financial system into abysses with depths still unknown to all of us.

Such standards and measures have significantly improved not only the health of banking in general, but also its respective reputation and image. On the other hand, while these standards and measures showed their effectiveness during the COVID-19 pandemic, where the entire global banking system, including the Albanian one, successfully weathered the sudden shocks caused by the health crisis and socio-economic ones, they were and continue to be associated with an increased cost of conducting banking activity, mainly in terms of increased capital adequacy requirements, especially for systemic banks, and in compliance with the resolution rules for banks, which are currently part of banking regulatory basis in Albania.

In the context of the Albanian banking sector, actually the increased capital requirements have been met mainly through the traditional way of injecting

equity capital and a bit through the issuance of subordinated debt (also in the form of bonds' (private) offering). Whereas reducing exposures, as an alternative to ensure compliance with capital adequacy requirements is out of question, and also, as new capital injection is becoming more expensive, systemic banks over the coming years, up to 2027, will have to face and handle the issuance of a relatively substantial amount, in the form of bonds with public offering. Such capitalization poses a complex challenge for them, not only in terms of their confrontation with the Albanian capital market, but also with the identification and attraction of institutional investors to buy this package of securities. Currently, the Albanian financial system provides the basic infrastructure for trading and registration of these securities (ALSE and ALREG are already functioning institutions in the market), and also some potential local institutional investors are present in the market. In the end, this is a challenge not only for banks and their activity, but also for regulatory authorities (Bank of Albania and the Albanian Financial Supervision Authority), as well as all participants in the Albanian financial market. This is a challenge to raise Albanian banking to a new level of activity, but also to finally channel the Albanian market and financial system on the path of its further deepening!

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# Capital Adequacy Framework

## A major challenge for banks in Albania

*The interim period, which has been made available to implement some of the regulatory requirements, may be the most appropriate moment for regulatory authorities to review from a broader perspective the potential impact of the measures taken, in order to avoid undesired incentives, which could harm the banking sector and the economy.*



**Elona BOLLANO**

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BANKA KOMBËTARE TREGTARE



The capital adequacy framework in Albania is generally based on international standards. This makes the risk assessment and qualitative requirements for capital coverage for banks in the country, similar to banks operating outside Albania.



**Orjola BAKU**

Head of Risk Management Department,  
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The capital adequacy framework consists of a broad set of regulatory standards, which aim to set out the rules, banks must follow in relation to capital requirements, as well as to define the supervision approach, applied by supervisory authorities. These regulatory standards aim to improve the banking sector's ability to absorb shocks from financial and economic factors, improve governance and risk management, and provide transparency and information to the public.

In the frame of the continuous banking sector's development, globalization and the presence of banks that have their activity extended in many countries, the existence and implementation

of harmonized and unified standards is a necessary requirement. Unified standards ensure transparency and equal treatment among institutions and serve as a basis for building a similar approach to risks, which may also lead to an overall reduction in the degree of risk.

In Albania, the capital adequacy framework is built upon the Basel Framework and the regulatory package of Directive 2013/36/EU of the European Parliament and of the Council (CRD IV). The Basel Framework was developed by the Basel Committee, on Banking Supervision purposes. This framework serves as a standard set of rules for central banks, or supervisory authorities, in the process of

building the internal regulatory framework. The supervisory authority of each country has the opportunity to modify this standard, or adapt it to their regulatory framework, without affecting the substance of the standards. The main purpose of the framework is to strengthen the resilience of the international banking sector, by encouraging banks to improve their governance and risk management practices.

The Basel framework dates back in July 1988, with the Basel Capital Accord, or as it is otherwise known as Basel I, which, in light of financial and economic developments, has been modified, over the years, into Basel II, Basel III and Basel IV. Each

revision of the capital framework has led to a clearer division and identification of risks, which should be covered by capital, including the added requirements on interest rate and liquidity risk.

In Albania, the Basel framework started to be integrated into the regulatory framework by the Bank of Albania in 1999, with the regulatory framework on capital adequacy ratio and regulatory capital. Basel I was used in a simplified and modified form, for drafting the regulatory framework, by taking into account the level of development of the country's banking sector. The minimum capital adequacy ratio was set at 12.0%, compared to 8.0% as a floor level, defined by the law "On Banks in the Republic of Albania", and as a reference level set by Basel framework and the European Directive. This higher level of capital adequacy ratio in our country may have considered a more prudent approach and a higher level of risk aversion by supervisory authority (Bank of Albania).

In 2013, the Bank of Albania published the first redesigned version of capital adequacy regulation, in line with Pillar I of Basel II. The redesigned capital adequacy framework introduced some innovations, related to banks' capital requirements, thus making a better link between the level of risk and respective capital coverage. Despite the application of a more advanced methodology and additional sources of risks, for which capital was required, even in the revised regulation the minimum

capital adequacy ratio remained at 12.0%.

Subsequently, in 2017, the Bank of Albania required the implementation of Internal Capital Adequacy Assessment Process (ICAAP), based on Pillar II of the Basel Framework. Pillar II, or supervisory review process, aims to ensure that the bank has a sufficient level of capital to cover various risks that arise in the course of business, as well as to promote the development of a better risk management practice. This process requires the bank's management to determine the target capital ratio, which should reflect the bank's risk profile. Also, the bank's management has the responsibility to maintain the proper level of capital above the minimum level, in order to cover risks. During the performance of the Internal Capital Adequacy Assessment Process (ICAAP), the main risk factors are analyzed, including those risks not included in Pillar I, such as: interest rate risk and liquidity risk. Through this process, regulators aim to take immediate measures to curb risks at an early stage or to increase capital, if deficiencies are identified<sup>1</sup>.

The financial crisis of 2007-2008 showed that guidelines at the microprudential level may not have been sufficient to manage systemic risks. In these circumstances, the Basel Committee determined an additional requirement to be maintained, such as the capital conservation buffer for systemically important banks, to reduce the proba-

bility of default. The capital conservation buffer will be 2.5% of the bank's risk weighted exposures and it will be fulfilled only with core equity tier one. The Committee has also instructed on maintaining the countercyclical capital buffer of 2.5% of risk weighted exposures to address the risks that may arise from rapid lending growth in a country.

In 2019, the Bank of Albania, in the capacity of financial stability authority, approved the macroprudential capital buffers, such as: capital conservation buffer at 2.5%; countercyclical capital buffer at 2.5%; capital buffer for systemically important banks (SIST), which applies to systemically important banks (BARS), at 3%; and capital buffer for systemic risk (STRUK) at 3%<sup>2</sup>. The macroprudential capital buffers should be met with common equity tier one capital and being expressed as a percentage of risk-weighted exposures. The set of macroprudential buffers represents the combined macroprudential capital buffer. If the macroprudential buffers are fully counted<sup>3</sup>, as defined by the regulatory framework, they can reach up to 9.5% of the capital for systemically important banks.

Preventing banks from failing, the so-called "too big to fail", in 2016 was approved the Law "On recovery and resolution of banks in the Republic of Albania". According to this Law, a new unit was created at the Bank of Albania: "Resolution Department", which, among other tasks, has the responsibility to

<sup>1</sup> Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework - Comprehensive Version.

<sup>2</sup> For BARS banks, combined SIST and STRUK must not exceed 4%.

<sup>3</sup> Macroprudential buffers have commenced to be implemented gradually, since 2020, and they will be fully effective from the year 2024.



determine for each bank in Albania, the minimum requirement for regulatory capital instruments and eligible liabilities. In December 2020, the Supervisory Council of the Bank of Albania adopted the regulation: "On the minimum requirement for regulatory capital instruments and eligible liabilities", which enters into force in October 2021. One of key requirements of this regulation is that each bank is required to have its instruments of regulatory capital and eligible liabilities, to the extent which enables it to absorb losses and restore capital adequacy ratio, ensuring the continuity of activities for which the bank is licensed, in accordance to the Law on Banks, in a resolution scenario.

In this view, one of the main objectives of resolution is to promote "the bail-in" of banks. The demand for MREL plays an essential role in achieving this objective, because meeting the MREL requirement ensures that banks have sufficient eligible liabilities, to enable them making an effective bail-in. Such liabilities should be possibly long-term liabilities, in the form of subordinated debt, to enable the bank bail-in. In the absence of these eligible liabilities the MREL requirement should be met through capital increase (according to the regulation, the first to be met is the MREL requirement followed by the macroprudential buffers, afterwards). This requirement should be proportionally fulfilled, over a certain period.

In such a situation, being able to meet the MREL requirement, banks will be required to choose among certain strategies, such as: a) increasing eligible liabilities, which will increase the liquidity of banks. On the other hand, banks in Albania in general, and systemic banks in particular, are characterized by a high level of liquidity, being obliged to invest even with negative rates, in the absence of a secondary market for financial instruments; b) increase capital - investors need to inject more capital; c) reduce financial assets, which absorb more capital - for example, reducing the portfolio of unsecured loans, which affects more the household sector. All these capital requirements aim to increase the sustainability of the banking sector.

In order to manage the use of debt in financing the bank's assets, another regulation was enacted, in 2020: "On the ratio of financial leverage in banks". Financial leverage is calculated as the ratio of the bank's first tier capital to the bank's total exposure. For this indicator, although the calculation methodology is based on international standards, such as the regulation (EU) 2019/876 of the European Parliament and of the Council and Basel III, the minimum rate set in Albania is 5.75%, proportionally higher than the minimum rate of 3%, set by EU standards referred above.

The sum of all capital requirements presented above - the minimum capital requirement

(12%), the capital requirement for Pillar II and the additional macroprudential requirements, - turns out to vary from 20.5 to 24.5%, depending on the systemic importance system and the balance sheet structure of the bank<sup>4</sup>. In December 2020, the average capital adequacy ratio for the banking sector was 18.3%. To achieve an average capital adequacy ratio of 22.5%, according to regulatory requirements, banks will need to activate about ALL 37.5 billion (or about EUR 305 million) in capital<sup>5</sup> or reduce their assets by ALL 166.6 billion (or about EUR 1.4 billion).

At a first glance, it may seem that higher capital requirements will ensure that banks are more secure, as risks are better covered with capital. On the other hand, capital is a costly source of financing and increasing the demand for this source of financing would significantly increase the bank's costs. Increased costs will be transferred or covered by high-risk activities in the bank. This chain-reaction effect would lead to an increase of the probability for bank's default, which opposes the original purpose of capital increase requirement.

To better assess the impact of capital on the degree of risk in banks, various literature and empirical evidence in this area can be observed. There are some studies that confirm the view that capital requirements encourage prudent behavior, as they reduce incentives to put capital at risk, but, nevertheless, these requirements also have a

<sup>4</sup> Such calculations suppose a 3 per cent ratio to cover all capital requirements for Pillar II.

<sup>5</sup> This does not consider the secondary effect of capital increase in bank assets.

<sup>6</sup> Franchise value is the present value of future profits, a company expects to gain, supposing it is a going concern.



negative effect, as they damage the value of the bank franchise<sup>6</sup>, encouraging the latter to undertake moral-hazard actions (Hellmann, Murdock, Stiglitz 2000). It has been empirically proven, by controlling the banks' behavior in some countries, that increased capital requirements can stimulate the bank appetite for risk (Lundtofte & Nielsen 2014 and Rahman, Ahmad, Abdullah 2012).

According to Ghosh 2014, banks, in general, increase capital to react to risk and not the other way around. One of the mechanisms that works in practice, according to Lundtofte & Nielsen 2014, which is evidenced in US banks for the period 2002 - 2014, is that when the bank's capital is not set by regulations, investment decisions are made based on risk indicators, such as: cash flows volatility, the expected loss from the risk of default, as well as the rate of return adjusted for the level of risk (Sharpe ratio). However, when the bank's capital is set by regulators, regulatory cost becomes one of the most important factors influencing decision-making, such as replacing the analysis of risk indicators, volatility and risk - adjusted return rate. If the regulator sets even tighter rules, banks may reduce or increase their risk exposure,

depending on the regulatory cost-benefit rate.

Diamond and Rajan 2020, have considered the impact of capital requirements from another perspective. According to them, the bank's capital is costly not only by linking it to the traditional costs of issuing new capital, but also by linking it to the ongoing cost of reducing liquidity and the degree of lending to the economy. The optimal capital structure in a bank should be determined by balancing 3 effects: capital increase can increase the cost, which is absorbed by the bank, it increases protection from shocks, and changes the amount of funds that can be used by borrowers. The optimal initial capital structure for a bank depends on the degree of competition in the banking sector, the nature of the borrowers and the capital that shareholders can generate.

In general, as presented above, it can be said that the extended capital requirement framework in Albania is generally based on international standards. This makes the risk assessment and the qualitative requirements for capital coverage for banks in the country, similar to banks operating outside Albania. Meanwhile, it may be seen that, quantitative regulatory capital requirements in Albania are significantly higher than

those defined by international standards. Just to bring in mind, the minimum capital requirement in Albania is 12% versus the 8% ratio, defined by international standards; the leverage ratio in Albania is 5.75% from a 3% ratio by international standards. The total capital requirement may reach up to 24.5%, which would put banks in front of two choices: to increase capital or reduce activity. As presented above, empirical evidence from different countries over different periods of time shows that capital requirements serve to increase the security of banks. However, if these requirements are too high, they can create undesired incentives for banks. These include incentives, such as: investing in high-risk activities, which would increase the likelihood of a bank failure, or slowing down lending and liquidity, which would have direct consequences for the country's economy. The interim period, which has been made available to implement some of the regulatory requirements, may be the most appropriate moment for regulatory authorities to review from a broader perspective the potential impact of the measures taken, in order to avoid undesired incentives, which could harm the banking sector and the economy.

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# Capital markets as an alternative source enabling banks to meet the regulatory requirements for capital

*The possible activation of the banking sector in the capital markets, through the issuance of bonds with public offering, is a suitable moment, as all the preconditions and the complete infrastructure for the functioning of capital markets have already been created in the country.*



**FLORA MUSTA**

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The use of the potential of capital markets by banks, for the purpose of meeting regulatory requirements, provides a good example to be followed by the Albanian businesses to make private issuers aware of the advantages of a possible listing on the stock exchange and for their orientation towards other financing alternatives.



**PATRIS POSHNJARI**

Head of Sector,  
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AUTHORITY



The interaction of the banking sector with capital markets is clearly reflected in the role of banks as investment services provider, including securities custody services, as well as their presence as institutional investors in securities, or as issuers of privately placed bonds. This interaction reinforces the fact that these two important pillars of the Albanian financial system should not be considered as competing with each other, but as complementary to each other, for the benefit of a developed financial system with a direct positive impact on the economy.

Consolidated institutions, such as banks, are essential for the proper functioning of capital markets and, conversely, efficient capital markets are essential for the well-capitalization of banks, enabling lending to the economy without additional risk to the banking system's stability. Consequently, since 2011, with the launch of the first private offering bonds issuings, banks became key actors in the vitalization of the capital market, through their role as issuers of private offering bonds, providing new financial instruments to the capital market. Thus, the private offering/

placement bond market, which has grown significantly since its kick off, together with the Albanian Government securities market, constitutes the most active segment of the capital markets in Albania. Currently, the portfolio of bonds with private offering is ALL 8.56 billion. There are 7 issuers in the market, out of which, 4 are banks. Particularly, one of the banks has a long history of issuing bonds, through private placement and has successfully concluded 19 issues. For the issuance of private offering bonds, the issuer prepares the prospectus, which is registered by the

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Albanian Financial Supervision Authority, in accordance with the requirements of the new Law no. 62/2020 "On capital markets".

The upward trend of the private offerings in bond market shows that there is a potential on the supply side for issuing corporate securities through public offering and their trading through the stock exchange, while supplying the capital market with financial instruments.

The tendency for potential increase in the supply of debt securities, through the issuance of bonds through private placement or public offering, is expected to be influenced by the minimum requirements for regulatory capital instruments and eligible liabilities (MREL), defined in the BRRD II directive. Pursuant to this directive, in accordance to the Law No.133/2016, dated 22.12.2016 "On recovery and resolution of banks, in the Republic of Albania", Bank of Albania, in the capacity of the Resolution Authority, has adopted the regulation: "On the minimum requirements for regulatory capital instruments and eligible liabilities". To meet these requirements, capital markets would provide banks with sufficient resources to absorb losses and to recapitalize solving the "Too Big to Fail" problem, as identified in the banking system worldwide, after the financial crisis of 2008.

Pursuant to the regulatory requirements, it is necessary for banks to calibrate the MREL, which is determined, based on their specific characteristics, such as: size, business model, financing model or their risk profile. In the framework of regulatory capital requirements, some banks have contributed to the

creation of new financial instruments in the Albanian capital market, like: subordinated bonds and convertible bonds, where the latter entitle the bondholder to become a shareholder of the bank, in accordance with the method of converting bonds into shares.

The possible activation of the banking sector in the capital markets, through the issuance of bonds with public offering, is a suitable moment, as all the pre-conditions and the complete infrastructure for the functioning of capital markets have already been created in the country. All necessary financial intermediaries are already present in the market. The creation of a regulated market through the licensing of the Albanian Stock Exchange – ALSE, in 2017, and fully operational in 2018, has created the premises for the implementation of public offering issues through the stock exchange, as well as for the trading of these securities in it.

Also, through the licensing by the Bank of Albania and the Financial Supervision Authority of the "Albanian Securities Register - ALREG", as an institution that takes over the competencies of a Central Securities Depository for the clearing and settlement of corporate securities, the necessary infrastructure has been created for the functioning of the country's capital market. With the admission of ALREG, in March 202, as an indirect participant in the AIPS system of the Bank of Albania, the non-trading infrastructure has become fully functional. In addition to these developments, it is worth mentioning the improvement of legal framework, as a result of

the adoption of two new laws, in the field of capital market: Law No.62/2020 "On Capital Markets" and Law No.56/2020 "On Collective Investment Enterprises". These laws have been drafted in accordance with the directives of the European Union and aim to best respond to the development of these markets, their integrity and the investor protection, as well as to increase his confidence in market mechanisms.

Currently, AFSA is also working to complete the regulatory framework with the assistance of World Bank's expertise. Listing and trading of securities issued with public offering on the stock exchange is accompanied by the publication of the full prospectus, which is approved by the AFSA, in accordance with the requirements of the new law on capital markets.

Pursuant to Article 44 of the BRRD Directive, as well as Article 11 of the BoA's Regulation: "On the minimum requirement for regulatory capital instruments and accepted liabilities", banks, in case of issuance, must document the suitability test, according to the provisions of the law on capital markets. On the basis of this test, the complex instrument (subordinated bond, convertible bond, etc.) must be suitable for the non-professional client, as a condition for the recognition of instruments owned by non-professional clients, for the purposes of the minimum requirement for regulatory capital instruments and accepted obligations. In this regard, AFSA, based on article 64 and 65 of the law: "On Capital Markets", has approved regulation No.197, dated 29.12.2020: "On the assessment of customer suitability", which also applies to



issuers of debt, or capital securities.

The possibility of a potential issuance by banks through a public offering is also supported by the fact that the banking sector is one of the most developed and well-regulated sectors, consequently able to meet the listing criteria, according to applicable legislation and stock exchange rules. Investor confidence in financial markets and institutions is closely related to his confidence in the quality of financial reporting. In this regard, entities of public interest, including listed companies and banks, are subject to a financial reporting obligation in accordance with International Financial Reporting Standards (IFRS), as required by the law on capital markets. Under these conditions, banks are able to meet the requirements for transparency and financial reporting.

In addition to the conditions already created in the capital

markets for the promotion and support of supply through public offering issues, it is also important to assess the market capacity to absorb the issuance of subordinated debt that is expected to be issued, pursuant to MREL requirements. In this regard, it is necessary to diversify and expand the investor base, through the presence of institutional investors or individuals (domestic or foreign) to stimulate market demand, with the aim of matching supply and demand. Based on previous experiences of underwriting such securities, issued through private placement by banks, it is judged that there is sufficient liquidity to absorb new issues.

Based upon the experience of countries in the region, where the absorption from the market of instruments issued by banks has been made by international investors, we could mention here the case of Croatia, where recently the European Bank for

Reconstruction and Development (EBRD) invested about EUR 9 million in purchasing bonds issued by a local Croatian bank for MREL requirements purposes and listed on the Zagreb Stock Exchange.

The use of the potential of capital markets by banks, for the purpose of meeting regulatory requirements, provides a good example to be followed by the Albanian businesses to make private issuers aware of the advantages of a possible listing on the stock exchange and for their orientation towards other financing alternatives.

Due to the importance of capital markets and the untapped potential of this market in the country's economy, AFSA has set as a priority its proactive role in the development of capital markets in Albania. To this end, AFSA is cooperating with market actors in the reforming of capital markets, as well as with institutions with a key role in the development of this market.



# Financial instruments and their role in post-Covid-19 economic development

*Implementing and using financial instruments requires specific knowledge, in the field of finance, as well as managerial skills; the presence of the banking sector as an intermediary, consultant and strategic partner is essential in this regard.*



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The earthquake and the crisis caused by COVID-19 pandemic may be considered as a new opportunity for the economy, to address the problems carried over from the past and to reorient the economic development towards a more sustainable model, by encouraging structural reforms and investment in innovation and infrastructure, as an essential tool to face the challenges ahead. The crisis has highlighted the need for strategic investments, especially in digitalization, infrastructure, agriculture, tourism and medical equipment. Another important element for coping with the cur-

rent crisis is the continuation of institutional, political and expansionary monetary reforms, especially supporting small and medium-sized businesses and some other key sectors, in economic and social development.

The financial sector has an instrumental role to play in overcoming the situation created by COVID-19, which should act as a transmission chain of governments' fiscal and economic policies, providing support for the real economy through private investment, strengthening the security network for businesses and families, through insurance policies and encouraging and promoting the digitalization of actions with customers, where despite efforts in this regard, the digitalization of processes and products is still insufficient. It is worth mentioning the companies such as: Apple, Facebook and Google, which are changing the methods of doing and providing banking and insurance services. If banks want to withstand the market, they must accelerate the process of adapting, delivering and replacing manual processes with digital ones, as soon as possible.

It is also worth mentioning the use of private savings to support and finance businesses and the public sector. Despite



Although the technological development has progressed at a very fast pace, and we are increasingly oriented towards digitalization, taxation still continues to be based (and is currently implemented) on tangible goods and assets. Reviewing and identifying new forms of taxation, mainly for companies operating in the field of digital services, should occupy an important place in the supporting policies, the government should provide.



the fact that our banking system is stable and very liquid, the excess liquidity is an opportunity cost for banks, it is a missing profit. Meanwhile, liquidity is lacking for individuals who lost their jobs and for those businesses that have minimized, or suspended economic activity, due to the pandemic. This liquidity must be channeled to finance economic development through financial instruments, or various forms of cooperation. Alternative financial instruments and investments are the best options for banks to invest

excess liquidity. Implementing and using financial instruments requires specific knowledge, in the field of finance, as well as managerial skills; the presence of the banking sector as an intermediary, consultant and strategic partner is essential in this regard. Despite the transformation in the banking sector and positive performance of the financial results that banks have experienced during these years, a weak financial culture still prevails in Albania.

The presence of the Albanian Stock Exchange – ALSE, has produced a positive impact on the promotion and development of financial culture, but it should be followed, as soon as possible, by the listing and trading of corporate bonds and shares, or other instruments, for it to affect a facilitating absorption of capital for many businesses, but also as an investment opportunity for all investors, as well as promoting the formalization of the economy.

In a phase of economic contraction, such as the one experienced not only by our country, but also from the world economy, it is vital to make every effort to prevent further transfer of effects of the pandemic to the real economy, by creating further negative impacts on families, businesses and governments. For financial planning purposes, following this difficult period that the economy is going through, financial instruments must be defined and issued in such a way that their lifespan and quantity should be adjusted according to market and companies' characteristics and needs. Referring to the

characteristics of our country and the risk level, different instruments could be implemented, according to the following typologies:

- Medium term financing with government guarantees. The effects of the crisis caused by the pandemic and the accompanying costs are expected to materialize by the end-2021, and for many families and businesses the financial situation and opportunities to overcome the crisis, in the short term, is not quite promising. In order to promote lending and to ensure business and economic cycle continuity, it is necessary to provide guarantees, to minimize the risk and interest rate for financing. Also, guarantees for Leasing and Factoring can be offered at the same time, although the latter is in the initial stages of implementation in Albania, but it presents a high potential for our market.
- Regional funding, to support small and medium-sized businesses through various fiscal incentives, or grants to promote productive recovery. Such funding may contribute to the re-launch of tourism. The same goes for real estate investments, which aim to improve urban and underdeveloped areas.
- Combining forms of grant funding.
- Subsidizing mortgage loans for the primary residence, taking into account the demographic characteristics and potential of our country.
- Financing Start-ups and Venture Capital, through direct participation in share capital,

as one of the most efficient forms of financing for businesses that require capital to start a business, or to develop it.

- Investing in infrastructure, such as: highways, railways and airports, which is a direct form of economic support, and is essential for the economy, as it would facilitate public spending and increase competition among firms.

The participation of the banking sector in these investments would be a priority for all stakeholders. These are investments that require a high level of capital and would be efficient within a transparent and meritocratic procurement system, because on the contrary, the costs and negative consequences on the economy would be significant. The development of alternative investments would also promote the increase of remittances from Albanians working outside Albania. Although the technological development has progressed at a very fast pace, and we are increasingly oriented towards digitalization, taxation still continues to be based (and is currently implemented) on tangible goods and assets. Reviewing and identifying new forms of taxation, mainly for companies operating in the field of digital services, should occupy an important place in the supporting policies, the government should provide. This is the opportunity given to us to restart the economy, to be oriented towards new business models, which will be translated into sustainable economic and social development of the country.

## INTERVIEW

## "...Banking industry should be heard with the same force, as the industry it represents."

It is an imperative that all banks walk together, following the approach that we are in the market to add value and set a good example for all other economic industries in the country.



**Bledar SHELLA**  
Chairman,  
Association of Banks,  
AAB

**First of all, congratulations on being elected as the new Chairman of the Albanian Association of Banks, AAB. What is the first message you would like to convey to the banking sector in Albania?**

Thank you, first, for the congratulations!

Throughout my years as a banker, I have observed the positive transformation of banking

industry, by noting with satisfaction the improvement of the banking mentality that has occurred from year to year. As a bank employee in leading positions, since my early professional life, I have contributed for the bank to truly serve as a partner with all parties involved, be they clients, institutions, employees, etc.

It is an imperative that all banks walk together, following the approach that we are in the market to add value and set a good example for all other economic industries in the country. But, achieving this target at the levels we aspire, bolstering the name of the Albanian Association of Banks and the dominance of its role, as a unifier of all banks in the country, comes first as a priority. Only by being coordinated as an industry, through the activities and representation of the Albanian Association of Banks, we will be able to make an impact on the decision-making process of other institutions, which create major effects in the banking sector and in the lives of citizens – customers of banks.

**What will be your priorities as the AAB Chairman?**

In my position as the AAB Chairman of the Albanian Association of Banks (AAB), I assure that I will pay attention to the revitalization of all AAB technical committees. Following a certain passive period during the pandemic, it is necessary for all of us to support the return to full normality of all supporting functions of AAB activity. The roles of the committees and the pro-activity of respective members should be strengthened; all technical committees must be improved, both in terms of mission they carry and the roles and tasks of each chairperson and their members. The annual agendas of all committees should support the AAB situation and its mission and should constantly add value, over time.

On the other hand, banks themselves need to be more connected and more cooperative with each other, for example: in indirect issues, such as: providing global services



in the market (always keeping in mind the customer who is often divided between banks). Here I would bring the examples of POS service, cash movements and its insurance, PSD2, transfers, etc. These activities require considerable investment and would be better seen and considered at the sector level, rather than at individual level (bank). In this regard, and always striving for the common good, I deem as appropriate for banks to position themselves as partners with each other, not as competitors. We must recognize that healthy competition is encouraged in every industry, as it fosters continuous development and investment and, in the end, all parties win, especially our customers. But when it comes to activities as per above cited, where synergy would only bring positive results to all banks, why not cooperate between banks and thus reduce potential risks, costs and losses?

Banks must work together to further deepen digitalization, and in this regard, AAB must play a crucial role.

Another important point is the further increase of AAB's voice, in relations with other institutions and organizations, both state and private. The banking industry is the most important industry in the country and its voice should be heard with the same force, as the industry it represents.

### **Given the current situation, in your opinion, what will be the biggest challenges the banking sector in Albania will face, in the near and distant future?**

The banking sector, as a whole, is healthy and it is improving year after year, both in terms of performance indicators and in terms of technological investments. The banking system has already a healthy loan portfolio, ample liquidity, and a high capital adequacy ratio. The pandemic itself reconfirmed, once again, the resilience of the banking sector, as well as its speed to adapt.

In my view, the challenges that the Albanian banking market will face, not too far from today, are related to technological and innovative adaptation, as well as the education of the clientele base. Also, banks need to review their business model and adapt, in the context of digitalization and market entry of Fintechs, mainly in the field of payments.

Another challenge is the completion of regulatory framework, which is impacted by the approximation with the EU legislation. Such regulatory framework is quite engaging and will require significant resources from banks.

Optimization of processes, reducing operating time and historicizing all customer activity with the bank will improve the bank's performance towards customers. The more time available for innovative products, services and solutions, the more value will

be added to the market, for banks and customers. So far, I have mentioned banks and clients, but also preparing the workforce that will make this wave of change possible, is just as crucial to success. It is for our employees who bring projects to life, who train each other and gradually educate clients. Our employees need to be provided with new knowledge that time dictate.

### **How do you deem the role of AAB in the future?**

The AAB's position in the future, in my view, should and will be instrumental in advancing the entire banking sector, as well as in increasing and improving relations with legislative, law enforcement and regulatory institutions in the country. Equally important is the role of AAB in its relationship with media and the overall promotion of the banking sector. Our country suffers from modest financial literacy and lack of information about the functions of banks in the market, as well as the shallow financial culture, as a whole. It is our mission, as AAB, to spread knowledge, to strengthen the individual and that will, definitely, strengthen the whole community. This will only be possible if we are all together, sharing the same guiding principles and values. AAB, banks and the parties involved need to trust and support each other.

# Credins Bank enters Kosovo banking market

*The vision of Credins Bank is to be part of a regional banking network, which operates on commercial principles of performance and sustainability, while it is known as a bank that offers quality banking service and this will be an innovation in the Kosovo market, as well as in any market that the bank will strategically decide to be present.*



**Selman LAMAJ**

Chief Executive Officer  
CREDINS BANK, KOSOVO



The competitive advantages and expertise, we have created for a quality service to customers, product portfolio, technological systems, staff recruitment and promotion, will be also applied in Kosovo, to offer the best in this market.



ther branch openings in other cities will follow.

The pandemic was certainly a impeding phenomenon in our processes for opening our bank in Kosovo, but we got full support from the Central Bank of Kosovo (CBK), which guided us, quite professionally, in every step during the whole process to obtain the license, as a new bank in the Kosovo market. This important decision-making, although in the most difficult conditions of the pandemic, did not stop us from moving forward with our plans and projects, for further expansion and to be present in the Albanian territories, close to every client. Credins Bank – Kosovo is wholly – owned by Credins Bank – Albania, which is offering its expertise and professionalism, ac-

cumulated over the years, in the Kosovo market.

The medium-term strategy of Credins Bank – Kosovo, for the next three years, aims to strengthen its position as a bank, relying upon several main pillars, such as: a) innovative and personalized banking services, adapted to customer behavior, b) investment in human resources, c) increasing productivity in its branches, d) optimization of processes, through the implementation of innovative systems.

**How are the opportunities for expanding the activity in the Kosovo's financial market assessed and what are the main challenges Credins Bank is, and will be facing in the future?**

Prior to the pandemic, the Republic of Kosovo continued to experience economic growth, since 2000. Kosovo is one of the few countries in Europe with positive economic growth, which shows a substantial development potential in the banking system. The banking sector in Kosovo is one of the key pillars of the country's economic development, proving stability and sustainability over the years, as well as financing businesses and households, continuously.

Throughout the pandemic period, the challenge, as in any country in the world, remained

**Why an expansion in the Kosovo market, especially during a complex situation like that of the COVID-19 pandemic?**

After 18 successful years in the Albanian market, Credins Bank, has opened its doors in Kosovo. A new bank is now present in Kosovo's banking sector. Credins Bank – Kosovo has launched its banking activity by end – 2020, despite a difficult pandemic period, with its first branches in Prishtina and Ferizaj, two branches with modern investments, full of convenience to offer customers a quality banking service. Further expansion, with branch openings in Prizren, Pejë, Gjakovë, and new branches in Prishtina, is planned in the short-term, whereas fur-

the economic recovery, the return to normality of many sectors of the economy, which were negatively affected by the pandemic, the return of confidence in individuals to increase consumption and investment. Supporting the economy, by way of providing financing products, both for individuals and businesses, is part of the strategy of Credins Bank – Kosovo, thus being helpful and instrumental in the economy's recovery.

The challenges of operating in the Kosovo financial market have changed now. The new post-pandemic normal may require additional measures and a reset of previously planned business strategy, which will be further evaluated. However, today we are better organized, within the banking experience of Credins Bank – Albania, to face the effects caused by the pandemic, as well as keeping in mind our strategic development plans of Credins Bank – Kosovo.

### **What do you think will differentiate Credins Bank from other banks in Kosovo?**

The vision of Credins Bank – Kosovo is to provide a quality banking service and apply innovative banking products, or infrastructure. Our business strategy is focused on supporting individuals, micro and medium businesses, which are even more affected by the pandemic. Based on our banking expertise from Credins Bank – Albania, we have created specific product packages for certain groups of customers, tailored according to their needs, while also applying an attractive

pricing policy. All strategies followed by Credins Bank – Albania so far, will be applied to implement all digital products and services in Credins Bank – Kosovo, including the strategy in innovation.

The mission of Credins Bank – Kosovo is to provide quality customer service and build business with excellent, active and valued people who improve their standard of living. Credins Bank – Kosovo will be an integrated bank, focused on innovation. By creating an effective sales strategy, the bank will offer competitive products and services, as well as create attractive marketing campaigns. To fulfill its mission, Credins Bank – Kosovo will operate on the basis of several strategic objectives, which are the main pillars of its activity, such as: building a motivational work culture, implementing flexible procedures for efficient customer service, providing a complete package of banking products and services, the introduction of innovative services, as well as a personalized consulting and hospitality service, from every staff and in every branch of the bank.

The competitive advantages and expertise, we have created for a quality service to customers, product portfolio, technological systems, staff recruitment and promotion, will be also applied in Kosovo, to offer the best in this market. Credins Bank – Kosovo will be an active participant in the economic and social development of Kosovo, by supporting the investment plans of domestic, or foreign businesses. Above all, through the expansion of branch network in Kosovo, we

will create spaces for employment and development of new talents, by building a corporate culture that promotes their career and potential, thus building a strong team with talented people.

Finally, Credins Bank – Kosovo will build a corporate culture the support the community, by backing projects related to education, environment, fight against poverty, etc., as we believe that by developing together, we can be successful. Also, the activity growth and good banking practices will get the support of Credins Bank – Albania, ensuring that the new bank in Kosovo be fully adapting to the market.

### **Will Kosovo be the last station in the region for Credins Bank, or just the first one? Does the bank have a regional business expansion strategy?**

We do believe that the first scenario holds. We have also studied other countries in the region, such as: North Macedonia, but Kosovo would definitely be the first, which we finalized successfully. In the future, even expansion in Western countries is not ruled out. The vision of Credins Bank is to be part of a regional banking network, which operates on commercial principles of performance and sustainability, while it is known as a bank that offers quality banking service and this will be an innovation in the Kosovo market, as well as in any market that the bank will strategically decide to be present.

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# The Covid-19 crisis: Banking supervision in the face of extreme uncertainty

The question currently is not if the NPL ratios of banks will increase, but by how much they will increase.



## Gonzalo GASOS

Senior Director of Prudential Policy & Supervision  
EUROPEAN BANKING FEDERATION

**D**uring the COVID-19 crisis, two themes were particularly striking, of which one gave rise to the other: complexity and uncertainty. With the coronavirus, governments across the world were dealing with a situation that kept evolving continuously, and Europe was no exception. Complexity led to uncertainty. New insights about the virus were gained, different strategies against the virus were tested, and even now concerns persist with new virus variants. The complexity and uncertainty of the situation has also swept into the area of



The particularity of the COVID-19 crisis is that missed payments by the borrowers, or forbearance measures, are not necessarily an indicator of a failing business.



financial services, where many of the key debates are held, considering COVID-19. Regarding credit risk, the focus has quickly shifted to the non-performing loans (NPLs) that are presumed to follow the COVID-19 crisis. The COVID-19 outbreak has demonstrated the value of adapting quickly to changing circumstances, also in the area of banking supervision.

## Crisis management during the crisis

Looking at the situation of the banking sector and the impact of COVID-19 on credit risk, the primary objective, as identified by public and private stakeholders, was to support the economy and to avert an



## Lukas BORNEMANN

Policy Adviser, Prudential Policy & Supervision  
EUROPEAN BANKING FEDERATION

economic crisis. This explains the numerous initiatives by national governments who provided public guarantees to struggling businesses, but also in the banking community, where regulators and the industry had called for measures to moderate the impact of COVID-19 and to make sure that businesses and households do not slip into insolvency, as victims of a calamity. Against this background the EBF recommended<sup>1</sup> to EU stakeholders to introduce moratoria for borrowers under distress, due to COVID-19. Those moratoria, which al-

<sup>1</sup> EBF Press Release, 11 March 2020: EBF letter calls for European measures to face Covid-19 outbreak,

lowed to grant payment holidays to households and businesses without a deterioration to their prudential status, were shortly afterwards enacted by the EBA, in the form of Guidelines<sup>2</sup>, and applied only to loans granted from the outbreak of COVID-19. As the crisis unfolded, the original 3-month period for moratoria applications was extended, firstly until September 2020 and, finally until March 2021. In addition to moratoria, other prudential measures helped banks and their clients get through 2020<sup>3</sup>, including the activation of prudential filters in the IFRS 9 accounting framework, the anticipation of supporting factors and Pillar 2 composition envisaged in CRR2, as well as other items to reduce the procyclicality, which could have constrained the provision of credit to the economy.

### What is next: bringing clarity to complexity

The latest economic forecast from the European Commission indicates an economic rebound for the Euro Area, in the second half of 2021<sup>4</sup>. As economic activity may come back to normal, there will be, however, some unknowns that still need to be accounted for. An outstanding one is the amount of NPLs that need to be resolved, after the crisis has passed. In 2020, the ECB estimated that there could be about EUR 1.4 trillion of NPLs, as a consequence of the COVID crisis. The truth is, how-

ever, that the big wave of NPLs has not yet materialized. As the ECB has stated in their Financial Stability Review from May 2021, the economy has proven more resilient than expected, but the recovery remains fragile<sup>5</sup>. The focus of the coming months therefore will be on the loans that might soon turn to NPLs. Even though NPLs have not yet increased on a large scale, there are already signs for increasing asset deterioration in loans that have moved from Stage 1 to Stage 2<sup>6</sup>, a warning sign and a bellwether for future NPLs. The question currently is not if the NPL ratios of banks will increase, but by how much they will increase. This already leads to the next challenge, which will be for banks to identify businesses that might be viable and engage with them on debt restructuring. Nonetheless, as it stands, the EU legislation forces banks to consider those borrowers as unlikely-to-pay due to forbearance.

Because of the COVID-19 crisis, which is not an ordinary shock to the economy, it will be important to ensure that businesses, which end up in the NPL classification, are in fact proper NPLs. It is of utmost importance to avoid classifying viable businesses as NPLs, with all the negative consequences this would entail. The particularity of the COVID-19 crisis is that missed payments by the borrowers, or forbearance measures, are not necessarily an indicator of a failing business.

The regulation requires banks to apply those criteria to identify NPLs. When in normal times those would have justified an NPL classification, it can also nowadays affect businesses, which would in principle be viable. During COVID-19, however, there was a forced shutdown of economic activity. The economy was, for a large part, put on "pause". **A loss in income, in this context, does not necessarily indicate that the business is unviable.** Given enough time and flexibility, a number of businesses should be able to generate profits to pay back their debts. This is crucial, because an NPL classification makes it much more difficult to obtain funding for the business in question and eventually lead to a default. Additionally, loan loss provisions and increase in capital requirements have the potential to restrict lending to the economy. Both factors could amplify the economic shock of the COVID-19 crisis.

### Solutions: Preparing for the unknown

For the NPLs that remain and that are proper NPLs, the challenge is to find the right strategy to resolve them. In December 2020, the European Commission has presented its new NPL Action Plan<sup>7</sup>, which serves to address those issues. The focus of the European Commission's NPL action plan is to strengthen the secondary markets for NPLs. Three measures are par-

<sup>2</sup> EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis.

<sup>3</sup> Regulation (EU) 2020/873 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic.

<sup>4</sup> European Commission, Spring 2021 Economic Forecast.

<sup>5</sup> European Central Bank, Financial Stability Review, May 2021.

<sup>6</sup> European Central Bank, Financial Stability Review, May 2021.

<sup>7</sup> Action plan: Tackling non-performing loans (NPLs) in the aftermath of the COVID-19 pandemic.

ticularly interesting from a prudential point of view: 1) lowering regulatory barriers to NPL secondary markets, 2) supporting NPL securitizations, 3) promoting the use of asset management companies (AMCs).

The proposals in the NPL action plan also reflect to some extent the strategies that banks have at their disposal to resolve NPLs. To reduce NPLs banks can rely on the following tools: 1) internal workout processes/restructuring, 2) direct sales of NPL portfolios, 3) securitization, 4) trading platforms, 5) AMCs. Apart from the natural internal workout, all other strategies would be supported by the objectives European Commission proposals. Removing the regulatory barriers to

sales and purchases of NPLs, in this context, could address an inconsistency in the framework, which prevents banks from accounting for specific credit adjustments like write-downs that were not done by themselves. This is an additional barrier for banking institutions involved in NPL purchases, which needs to be overcome. NPL securitizations are a useful tool for the disposal of NPLs and therefore the European Commission initiative is well timed. Considering that in the past years, support schemes like the Italian GACS or the Greek Hercules have been highly important for the NPL markets, further regulatory support may establish NPL securitizations as a viable tool, in the absence of those

schemes. A first step has been made with the publication of the Capital Markets Recovery Package, but further work needs to be done to improve risk sensitivity and to account for unlikely-to-pay exposures, which are not yet covered by the securitization rules. The initiative on the topic of AMCs is commendable, but generally private sector solutions should be preferred for efficiency reasons. Overall, the European Commission Action Plan would expand the toolbox to tackle the soon-to-come pile of NPLs. However, it should not be forgotten that next to the size of that upcoming NPL pile, what matters most is its composition, and with the prospects of business continuity for viable borrowers in mind.



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## EXPERTS'S FORUM

# Superteams: “Putting AI in the group”

*For AI to thrive, it is necessary for all the market actors, to closely cooperate with each other. Only then we can state that there is a favorable climate at place which enables the embracing of this sophisticated technology, that will assure business' sustainability.*



## Roden PAJAJ

Director of Human Resources  
DELOITTE CE SOUTH  
And for Human Capital Advisory Services,  
DELOITTE ALBANIA & KOSOVO

The Deloitte survey on Human Capital trends in Albania for 2020, indicates the use of Artificial Intelligence (AI) as one of the main trends, in transforming teams into “super-teams”. One of the COVID-19 pandemic impacts was the blurring of boundaries between work and life, for employees working in remote, while front-line employees appeared to be more overloaded. This is another driver for organizations to address these developments, while reimagining the ways to support and empower the workforce through technology. Luckily, this urgent need coincides with the ever-expanding

AI usage, mainly in the developed countries, in the improvement of overall work processes. Precisely, this trend includes various alternatives, offered by AI, not only in the overall work processes, but in its integration in everyday work, in workforce management and employee’s wellbeing.

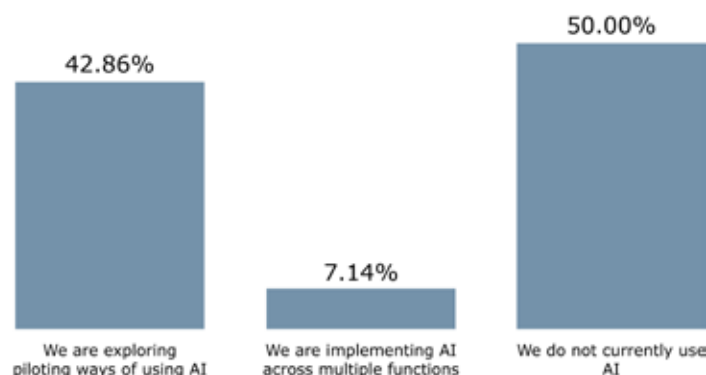
This technology offers conversational chatbots and digital assistance, which create an employee experience that exceeds what humans are capable of<sup>1</sup>. These tools fundamentally transform workplace interactions, automate administrative tasks, identify preferred behaviors, and provide specific data that contribute to the improvement of business decision-making.

### Importance – Willingness Gap

Around 63% of the participants in this study, admit that “Super-teams: Putting Artificial Intelligence in the group” is important or very important for company’s success, however only 27% of them admit that they are ready to embrace this trend.

Despite of AI adoption in many markets, Albania seems to be far from its integration. Yet, given that 63% of the participants consider it as crucial to their organization’s success, one could deem it a hopeful development. However, on the other hand, only 27% admit that organizations are prepared for its implementation into

### Please select the best description of your organization’s current use of AI: (Q38)



<sup>1</sup> “Deloitte’s State of AI in the Enterprise”, 3<sup>rd</sup> Edition [The state of artificial intelligence in business | Deloitte Insights](#)

<sup>2</sup> Deloitte Albania, Report on Human Capital Trends, 2020, “Social entrepreneurship in action: Paradox as a form of development” <https://www2.deloitte.com/al/sq/pages/human-capital/solutions/trendet-e-kapitalit-njerezor-2020.html>

business processes in the next 2 to 3 years, reportingly the lowest level of readiness, compared to other trends of 2020<sup>2</sup>.

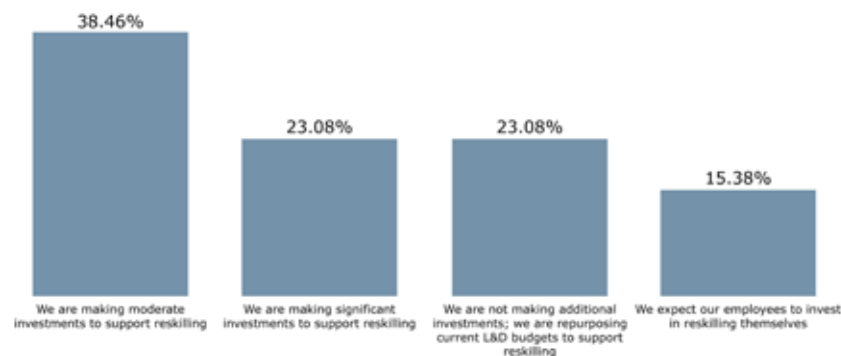
In overall, all our research questions related to AI, received a relatively small number of responses, compared to other sections. This might be an outcome of organizations' low level of readiness for the implementation of AI, or even a limited understanding on the practical implementation of this technology. Half of the respondents, state that they do not currently use AI, while the rest are exploring various ways of using it.

The wide implementation of AI calls for an economy, which functions in synergy, and which is driven by the burning necessity for its implementation. It would require a coordinated work of all actors in the market, including public and private institutions, as well as considerable investments in research and development. Under the circumstances that the Albanian market shall be, unavoidably, confronted with the integration of AI in the near future, the data show that Albanian organizations are taking the first steps towards the upskilling of their workforce.

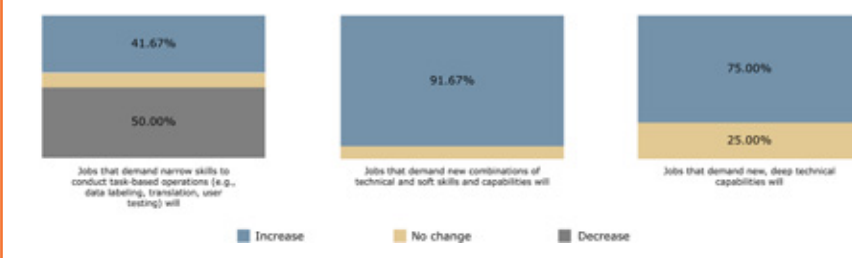
Approximately 38% of survey participants stated that they were moderately investing in upskilling their employees, while less than one quarter, were considerably investing in this direction (23%). The same number of participants confirmed that they were adjusting allocated budgets for learning and development, for the same purpose. Although at the earlier stage, this tends to be a promising development, towards the upcoming market challenges.

On the other hand, it is still

#### Which of the following describes your organization's investment in learning and development (L&D) to support your AI strategy? (Q44)



#### How might jobs change in your organization as a result of AI? (Q42)



premature, in case of Albania, to assess the impact that AI might have on unemployment, as an outcome of the replacement of humans in different work processes. This is a hot discussion topic though, in the developed countries.

Obviously, the number of jobs requiring combined skills will change, as putting AI at work, implies an increasing need for typical human skills, such as: critical-thinking, problem-solving, creativity, cooperation, and human interaction.

As a conclusion, it is necessary to state that organizations operating in Albania will face many challenges, in the near future. Some approaches for addressing these challenges would be:

a) Considering AI adoption, not just for ameliorating services

and customer care, but also for improving the way work gets done, and specifically for improving teamwork.

b) A sustainable increase of investing in upskilling and reskilling of the workforce, in managing knowledge and expertise within the organization, and employee retention.

c) Cooperation with a partnership spirit to create an ecosystem, that facilitates the sharing of experiences, knowledge, and talents between organizations

For AI to thrive, it is necessary for all the market actors, to closely cooperate with each other. Only then we can state that there is a favorable climate at place which enables the embracing of this sophisticated technology, that will assure business' sustainability.

# Digitalization and the Hybrid Post: Transforming the non-bank financial and postal service

*Launching the "e-Posta" online payment application by the Albanian Post or the e-Wallet service, which can be created in any post office in the country, should not be seen as simply another alternative in the banking market, but as an opportunity and emerging moment, to educate and change consumer behavior for those market segments, previously inaccessible by the Albanian banking and financial sector.*



**Gjergji HAMITI**  
Head of Marketing Department  
ALBANIAN POST INC.

The technological revolution, which started several decades ago, no longer has a final goal; instead, it has become an evolutionary process of transformation for the entire ecosystem of innovators. On the other hand, the pandemic simply increased the momentum of this process, thus causing that even countries with a more traditional culture and conservative consumer behavior toward the status quo of market demand, to be easy at opening up to the digital processes. There are just these epochal changes that have influenced the progress of humanity and the further development of everyday activity, including

the way of life, communication and why not the way of doing business. As a result, such developments in the global economy and global markets have undoubtedly influenced visions and strategies of local corporations for the future.

In our country, the most classic case of such challenge is that of the largest and oldest Albanian corporation of non-bank financial and postal services: ALBANIAN POST Inc. During the pandemic, this corporation restored the attention of citizens, businesses and institutions to its strategic importance, at a critical moment for the country. Through its reach and distribution capacity its postmen, in a span of only 3-4 months, managed to distribute about 1.5 million pensions at home. This service continues to be offered today for 160 thousand pensioners, against a cost-based service fee. However, whatever the strength of territorial extension, its logistical capacities and the role of the Albanian Post for the domestic consumer may be, this is not enough, if you aim at keeping the "lion's share" in the market, during this era of evolution. The vision for the launch of "e-Posta" application for electronic payments, "Posta Retail Outlet" trading platform and the recently introduced Hybrid Post technology, has made this 109-year-old



The vision for the launch of "e-Posta" application for electronic payments, "Posta Retail Outlet" trading platform and the recently introduced Hybrid Post technology, has made this 109-year-old company to be renewed, thus responding to the offer to the developing market, but at the same time maintaining the foundations of its continuity.



company to be renewed, thus responding to the offer to the developing market, but at the same time maintaining the foundations of its continuity.

But how easy can it be for a so-called traditional corporation to make such a recent adaptation to this partly traditional market? According to the Findex Global Survey, less than 7% of Albanians report that they have used the internet to buy a product through this platform, during 2019. However, although we do not have a precise figure for the year we left behind, it is thought that during 2020 and 2021, this percentage has increased significantly for the very

# KREDI HIPOTEKORE



- Normë interesi nga 1.9% në EUR
- Nuk kërkohet Sigurim Jete



**Fibank**  
First Investment Bank



reason that the pandemic brought to everyone's attention the importance of the digitalization processes, online payments and transactions, as well as further advances in e-commerce trading and purchases.

It put an end to the dilemma of traditional Albanian companies about changing the way they position themselves towards the market and the consumer. In the face of the economic and health crisis, such as COVID-19, also influenced by the restrictions of economic activities and the ban on international postal services, the Albanian Post, without any hesitation, captured the moment, by focusing mostly on the domestic postal market, and encouraged investment in its vision to consolidate its digital and e-commerce infrastructure.

Investments in the Gateway platform allow third parties (which are mainly financial institutions and banks) to securely connect to the Albanian Post system. Through 533 post offices throughout the country, banking services are given the opportunity to penetrate even in the most remote areas of Albania, where commercial banks, or microfinance institutions could not have previously been present.

Today you can make cash-to-cash domestic and foreign transfers, with the lowest commissions in the market, apply for a micro-loan, make a fund disbursement, or collect loan installments in Lek, or euro, for commercial banks, according to the agreements of Albanian Post with these financial institutions, even in the country's most peripheral post office. On the other hand, the provision of electronic money license by the Bank of Albania paves the way for this institution to expand the offer to the customer, through an even wider package of bank-

ing services, such as; creating an e-Wallet portfolio for each customer.

Launching the "e-Posta" online payment application by the Albanian Post to help individuals/business customers making utility payments (water, electricity, taxes, customs and fines) via bank card, or the e-Wallet service, which can be created in any post office in the country, should not be seen as simply another alternative in the banking market, but as an opportunity and emerging moment, to educate and change consumer behavior for those market segments, previously inaccessible by the Albanian banking and financial sector. This application aids citizens and businesses to make real-time payments, without transfer commission, for some utility services, or with the lowest commissions on the market, for some others. At the same time, it tracks postal objects in real time, thus offering not only financial service, but also postal ones.

Today, a citizen who, until yesterday was queuing with the electricity booklet in hand at a post office, wasting time and even risking being infected by the coronavirus, has now the opportunity to execute such service with just one click, through the mobile application that may be downloaded for free on the AppStore platform, or Google Play, from any smartphone. The Albanian Post built "Posta Retail Outlet" the e-commerce platform of online shop, thus completing the entire cycle of online commerce infrastructure, which also help businesses with the newly completed customs warehouse, a large stock space for those companies that seek necessary facilities to minimize time and cost of distributing their products, in the domestic and regional market.

Finally, the implementation of the Hybrid Mail concept is another innovative aspect, which is an electronic postal service that combines simple mail with electronic mail, by raising the service to the market to another level. The material needs only to be sent to the post office, where the recipient has the address, in Albania or abroad, via e-mail (e-mail), then it is processed by the machine and converted into a postal object. One of the favorite aspects that such high-tech service offers to the business is that of issuing invoices, thus saving precious time and money. Once the data is sent via e-mail, the invoice data is edited, printed and enveloped, and then delivered to the final destination. This high-tech machine has a printing capacity of 140 thousand invoices in 24 hours. In other words, the Hybrid Post unites the seller and the buyer, the business and the consumer, the state and the citizen physically and digitally, by transforming the communication between them into a contemporary standard.

The phrase: "The future belongs to e-commerce" is no longer a futuristic notion; it is already a reality on the global arena stage. Meanwhile, the pandemic accelerated this reality, showing that the consumer, even the most traditional one, manages to adapt quickly and even at impressive rates. So today, the challenge of any small business, or giant corporation, cannot be kept hostage of bureaucracies, or the conventional mentality. It must courageously embrace the innovative mission, even in the most difficult moments. Only the vision to adapt to this developing market will be able to take us to quiet waters, otherwise we will be left behind as a relic swallowed up under the ocean of history.

# Cryptocurrency Markets and Monetary Policy

Governments are competing with cryptocurrency markets; they will need to create their own CBCD to keep its monopoly over the money supply.



**Prof. Dr. Agim KUKELI**

Bank & Finance Department,  
"EPOKA" UNIVERSITY

omists set themselves too easy to use less a task even tempestuous seasons they can only tell us that when the storm is long past the ocean is flat". Keynes comforts us to tap into the questions of how the crypto market will influence the monetary policy and what its future will look like. Looking at "coin desk" website we find information on the cryptocurrency market. Data from this website show that most of the market share is covered by only two cryptocurrencies. Bit-



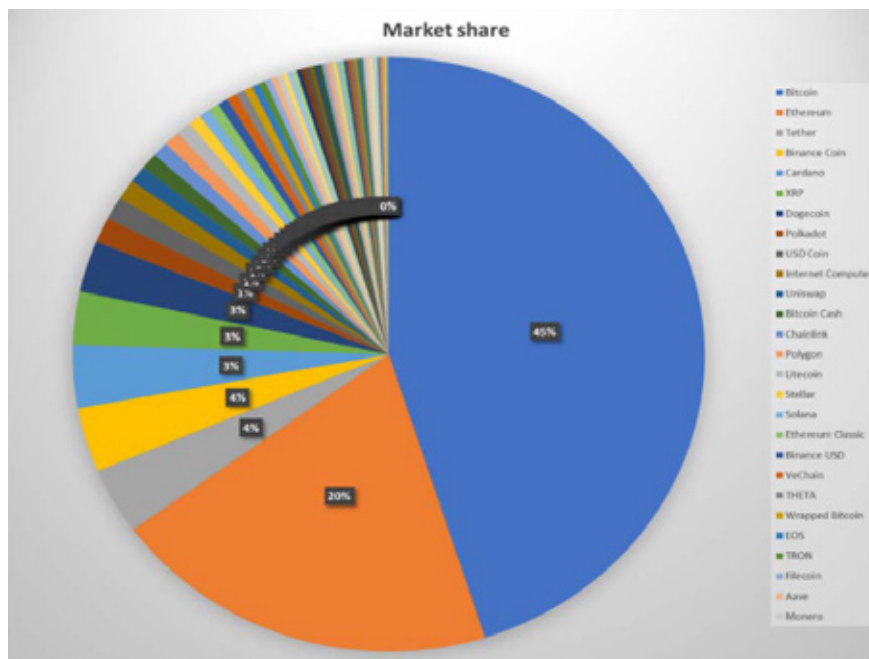
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The question about the effect that cryptocurrencies would have on conventional monetary policy is not an easy task to address. Dealing with conventional monetary policy and the effects cryptocurrency would have on it, means answering the question of the effect cryptocurrencies and their respective markets would have on the amount of money supply, along with decisions that households and firms will make on cash-holding versus buying financial instruments (debt or equity, money market or capital market instruments), decisions other agents will make about borrowing, and the fiscal policy, at large.

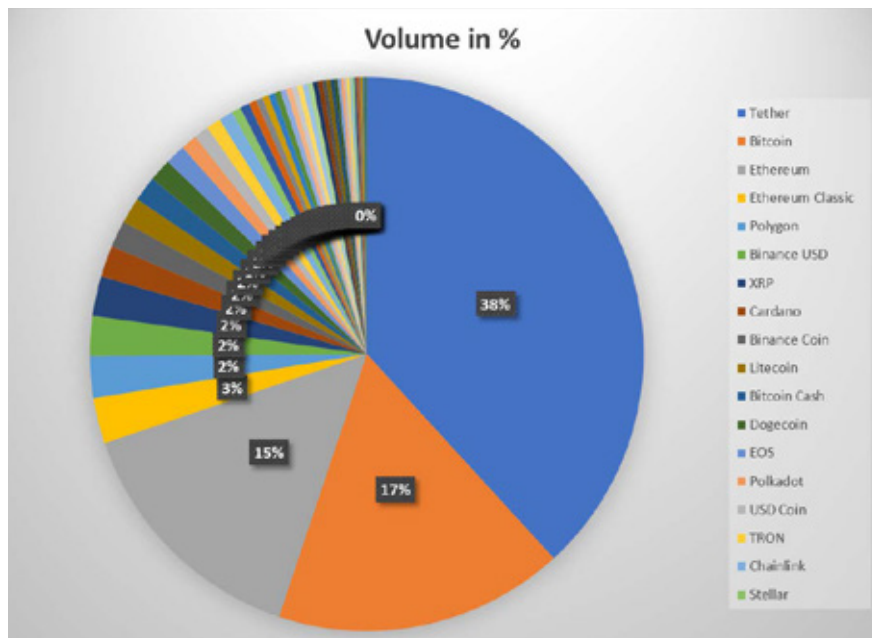
John Maynard Keynes has stated (not joking!) that: "In the long run we are all dead. Econ-

Figure 1. Cryptocurrency Markets by Market Share



CoinDesk, 2021 and authors' calculations

Figure 2. Cryptocurrency Markets by Volume



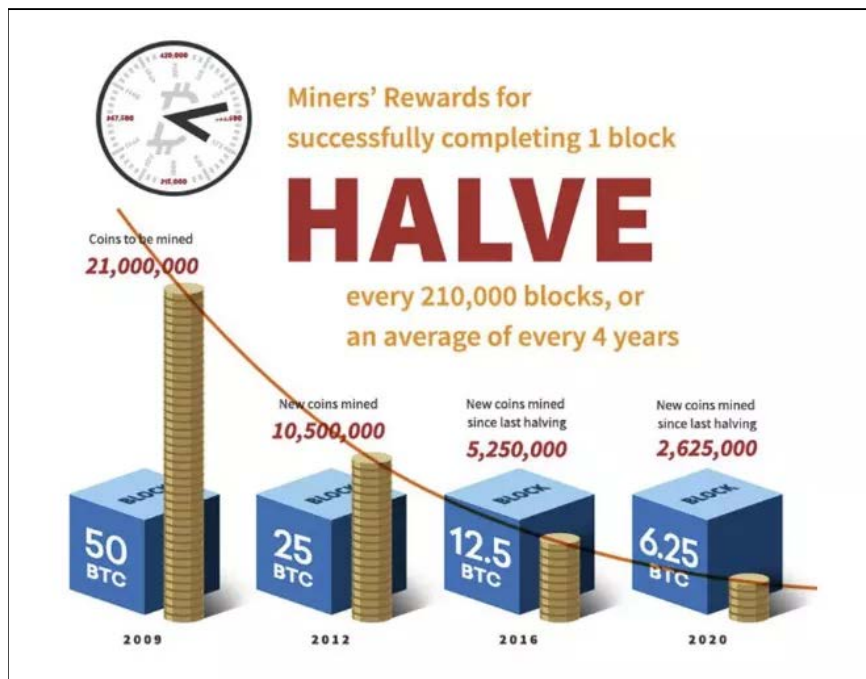
CoinDesk, 2021 and authors' calculations

coin covers almost half of it, followed by Ethereum.

If we look at the market share by capitalization, we see that the frontline is picked up by Tether, followed by Bitcoin, and then by Ethereum. This information does reveal that the major players in the crypto market are few, even though there are thousands of cryptocurrencies (not to mention digital currencies), traded daily.

We are focusing on cryptocurrencies, only. How do cryptocurrencies fit in with the money supply and the monetary policy? How is that going to change the financial market and money supply landscape? The emergence of cryptocurrency in the market reminds us about the vicious circle versus virtual cycles. If history repeats itself then we will see that government regulations of cryptocurrency and cryptocurrency market will lead to more innovations in other directions. For example, during the pre-free banking era in the United States, when everybody that could get hold of a printing machine would print its own dollars, government regulations followed. Once government started regulating them (banks), some of the banks were able to be chartered by States. Then we have wildcat banking following the regulations. Another layer of regulations culminated with establishment of the Federal Reserve System. Then Great Recession happens. Right after that, we have further regulations. Down on the road in 80's and then again, we have saving and loan associations going bankrupt and having trouble. All in all, whenever regulation aims at having control over the monetary policy then the central bank keeps pushing for more regulations. All the regulation is done

Figure 3. Miners Reward



(Investopedia, 2021, <https://www.investopedia.com/terms/b/bitcoin-mining.asp>)

with a stated purpose to guarantee the public that the money they use, hold, borrow, or invest is safe. What the un-stated purpose could be (perhaps has been) is to guarantee Central Bank the legal monopoly power over the issue of money and the right to exercise monetary policy.

Conventional monetary policy players, like households, firms, savers, borrowers, government, and government agencies will be almost the same. In addition, we will have to factor in that the above-mentioned agents will be using cryptocurrency as a means of conducting payments, and some as a mean of diversifying their investment portfolio. There is also "new player", - the miners. They are perceived, by a layman, as the ones that drive the use of cryptocurrency. While that might be true, they are working hard to make their "hashing" business profitable. They use the energy (here comes in the environmental concerns) and computers to time-stamp transaction as a part of blockchain payment platform. The reward they get is slicing every time. Picture below illustrates the rate of reward declining exponentially. The reward that miners receive for their work has decreased, as finding "nonces" (numbers used only once) becomes more difficult. All the agents, households, retirees, those looking forward to retirement and firms make daily decisions about saving, investment, and consumption choices.

On the question of cryptocurrency and central bank we went back to Hayek (1974). He was not in favor (and to some degree we concur with him) of centralizing and monopolizing money and ultimately the payment system. Hayek would say that no central

bank money would work better for the economy, including even ensuring the price stability. There are studies that have looked at pre-Great Depression and pre-central bank (Federal Reserve Bank) era and after it. There is no concluding evidence that the Federal Reserve has done any better job than the market itself prior to nationalizing the currency. We believe that ingenuity of entrepreneurs would supersede any device (be it a tool or an institution; or be it an algorithm: - blockchain, smart contracts, or other inventions) that will come ahead in the future.

All these cries for government regulation will temporarily withhold inventions. Think for example the banks invention of checks; one the greatest inventions of bankers. It came out of regulations to control the use of cash by state-chartered banks (USA). The government tried controlling banks, and it wanted all the banks to be chartered by OCC (Office of Comptroller of Currency). In order to achieve it, government placed a heavy tax on the use of money for banks not chartered by OCC. Then, state banks said we do not want to pay taxes on money. We are not circulating money. We are circulating paper checks. We would expect these inventions are going to happen following the government attempts to impose more regulations.

What would be the monetary policy in the future? We would think how it should be (that is purely judgmental - normative economics) and how it will be (predictive economics)? On the normative side, we believe (following Hayek's line of thinking and history lessons on monetary policy) that there should be

no inflation targeting, no regulation, no central bank. This would work, and it is perfectly in line with the crypto currency. On the predictive side, being more realistic given the fact that today's economies do have central banks, banking systems, payment systems, and a decentralized disruptor (blockchain and cryptocurrencies), none of the above judgmental events, are going to happen.

The central banks and governments will fight to retain monopoly, over the money supply, and in the competing with cryptocurrency market they are trying to create digital currency. We have heard Bank of England's Governor calling for how bubbliest the cryptocurrency market is and how dangerous it is for people to invest in this or to deal with cryptocurrency. The Central Bank of China is creating its own digital Yuan. There are 80 % of world's Central Banks planning of issuing CBCD (Central Bank Digital Currency). That means that for governments to compete with these cryptocurrency markets, they will need to create their own CBCD to keep its monopoly over the money supply. We believe that monetary policy (of the Central Banks) and cryptocurrency (of miners) or any other forms of currencies will coexist. Based on the research that the others have done it looks like the use of digital currency might be disciplining the monetary policy conducted by central banks.



# The engine of financial inclusion needs the oil of financial literacy to move the economy forward

A troubled relationship with money as a society comes at a cost – at an individual, household and country level.

GERMAN SPARKASSENSTIFTUNG  
FOR INTERNATIONAL COOPERATION

**A**round 40% of Albanians have bank accounts today, which can be considered low in comparison to the OECD average and especially with neighboring countries in the Western Balkans. Moreover, making use of the accounts to pay electronically is extremely low, with about only 4%<sup>1</sup>. How is that possible? In theory, Albanians have access to bank accounts and related services. What is the reason for not using them? And those who hold an account - how many of them use these effectively, or financial instruments?

The answer is defined by society's relationship with money, which begins with financial literacy. Until there is widespread understanding of how to manage money smartly, at an individual level, aspirations to develop the economy will remain difficult to fulfill. While the lack of understanding money gets worse outside socio-economically privileged circles, even educated Albanians – members of the professional classes – are also equal-



Better usage of financial products will lower overall risk in the financial sector. Lowered risk will increase trust, higher trust will reduce friction and lower friction will increase transactions.



ly at their wit's end about their finances. Just ask about the rate of interest they pay on their credit card outstanding.

Part of the reason for this is cultural – the norm of never asking a person about their salary translates to a culture of silence around money, silence around struggles with money and un-easiness, associated with earnings, borrowing sub-optimally used.

Left with outdated advice shaped by personal experiences, Albanians pick up money management behaviors mostly handed down by their parents, who often somewhat neglect to give women any guidance at all. Only 20% of women in Albania are self-em-

ployed, and about 80% of these women-owned enterprises in Albania can be considered micro or small businesses with comparatively small turnover, whereas the majority of medium and large companies, 80,4%, are owned by men<sup>2</sup>. If small businesses are the engine of growth, taking a country to economic prosperity, then the engine is stuttering considerably. The only lubricant is a broader understanding of economic concepts.

All of this has resulted in a financial services ecosystem, which is oriented towards reducing risk through cumbersome processes, multiple hoops to jump through and an experience that ends up excluding people unintentionally, rather than promoting responsible financial behaviors and creating pathways for inclusion, starting from a bank account. The truth is that a troubled relationship with money as a society comes at a cost – at an individual, household and country level.

Digging a bit deeper into that topic, there are actually several major areas that see an impact from financial literacy programs<sup>3</sup>:

- Greater likelihood to plan for retirement and more retirement

<sup>1</sup> World Bank 2017; Developments in the Albanian Retail Payments Market.

<sup>2</sup> INSTAT Albania, 2019.

<sup>3</sup> Bruegel Policy Contribution, May 2018.

accumulation and a better asset diversification. In general, low financially literate individuals are less likely to plan for retirement, thus very often generating financial strains after reaching the pension age.

- Higher awareness, in terms of borrowing decisions. Research shows that individuals with lower financial literacy tend to borrow at higher rates.
- Better allocation of lifetime resources. In times of crisis, households with low levels of financial literacy are more likely to sell their assets (i.e. real estate, stocks, car) at a loss, when there is a short-term need for liquidity. This behavior impacts significantly the long-term possibilities for accumulation of assets/savings.
- Increased planning and savings by women and low-income individuals. Financial education programs that specifically target women and low-income individuals result in participants' immediately taking action to increase savings and increase retirement age. Moreover, these activities are comparatively inexpensive and effective.
- Increased saving and planning behavior among children and young adults. Financial sophistication, encouraged by economic education when young, has a strong positive impact on financial literacy, i.e. economic education is a strong predictor of higher financial literacy. It was shown that pupils and students that were exposed to economic and financial education displayed significant improvement, in terms of budgeting, negotiating prices and payment methods. Takehome exercises, involving calculating

household budgets and comparing interest rates even had a positive effect on the parents' financial behavior.

Acknowledging these findings, where does this lead to in Albania?

Speaking from German Sparkassenstiftung's (DISK) experience in financial literacy projects all over the world, some general outlines would be<sup>4</sup>:

- Start financial education early at school, as this leads to significant improvement in individuals' budgeting behavior. Therefore, it should be included into school curriculums, but with a huge focus on the quality of the programs (including teachers' training).
- "One-size fits all" programs probably will not work, they need to be tailored to the needs of specific communities (young people, women, low-income groups, families).
- Financial education is a life-long learning process. Provide financial education before different financial "events" happen (i.e. entering into a mortgage contract, investing into different types of retirement funds). These kind of counselling services have proved to be successful tools.
- Private-sector involvement is crucial, as financial institutions are the forefront of financial education. It is, however, challenging as negative experiences with financial institutions will make the task of the "educators" more difficult.
- More is not necessarily better, as information and education overload can discourage individuals from making financial decisions. It is therefore important to adopt a consumer's perspective what they need and how they can pro-

cess the information.

- Evaluate financial literacy and behavior. Since financial literacy has both educational and behavioral aspects, it is crucial to understand the effect of education programs on the financial behavior of individuals. Taking part at standardized, large-scale surveys like the OECD surveys will render relevant and important insights.

In terms of financial literacy and financial inclusion, Albania certainly still has a long way to go. Nevertheless, progress has been made in the last years: The activities of the Bank of Albania, the Albanian Financial Supervision Authority, the Albanian Banking Association and ANFE (Albanian Network for Financial Education) have been a great first step into the right direction, as well as those taken by various banks and institutions to enhance Albanians' knowledge on financial matters. Additionally, the new law on payment systems brings the possibility to banks, fintechs and start ups to build innovative products, using digital infrastructure. Last not least, Bank of Albania and Albanian Financial Supervision Authority are now leading the process of creating a National Strategy for Financial Inclusion and Education, which should comprise several of the elements described above.

A possible result? Better usage of financial products will lower overall risk in the financial sector. Lowered risk will increase trust, higher trust will reduce friction and lower friction will increase transactions. Figuratively speaking: As the flywheel starts spinning, the entire economy moves forward, taking along every individual in the country with it.

<sup>4</sup> Compare [www.sparkassenstiftung.de](http://www.sparkassenstiftung.de), various project reports.

## SOCIAL DEVELOPMENT GOALS

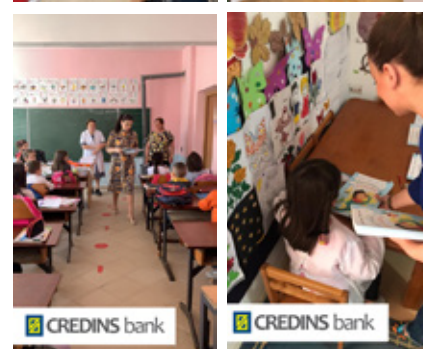
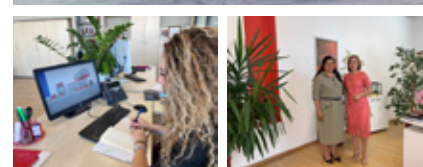
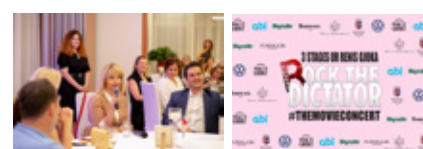
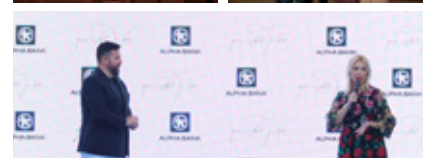


- On 1 June, the bank joined the Red Cross - Tirana Branch and donated food packages to 70 families in need and organized a festive event for their children, where gifts were distributed.
- Supported a publication of the booklet and CD: "You must know", a collection of traditional Albanian songs by Gëzim Myshketa, an internationally renowned baritone.
- During the donation auction #DonorCircles2021, organized by Partners Albania for Change and Development, the bank offered support for the cause "Study Corner", presented by the organization "At the Bridge" and will also provide study corners for children of families in difficulty in the area of Tufina.

tion: "Donor Circles 2021", it offered support for two of the initiatives presented: The first initiative will aim to improve the living of 126 children of "Lanabregas" community in Tirana, by providing a playground.

The second initiative will provide a study corner and necessary school equipmen in the apartments of 15 families in economic difficulties with 3-5 children, in the area of Tufina, in Tirana,

- Supported Shkodra Jazz and Swing, on 29-30 May.
- Supported the TV concert: "Rock the Dictator", by Renis Gjoka.



- Supported Vlora Education Directorate, in improving the working conditions at this institution.
- Attended the Virtual Job and Skills Fair 2021. BKT, as a regular supporter of these organizations, offers employment opportunities and internships for those all interested persons.



- Became part of the campaign "Building the Future", undertaken by the Albanian Global Foundation during the month of June. The initiative will provide support to 6 NGOs, focusing on programs for children and youth in Albania. The bank provided support to "Mirësia" Foundation, in providing optical glasses for some orphans in the cities of: Tirana, Durrës, Elbasan, Shkodra, Korça, Saranda.
- During the live donation auc-



- Following the "Food Bank" initiative, food aids were distributed to 90 families in need, in the cities of: Berat, Vora and Lezha.
- Supported the Albanian Red



Cross with voluntary blood donation, as well as for social projects to help orphaned children and the elderly in need.

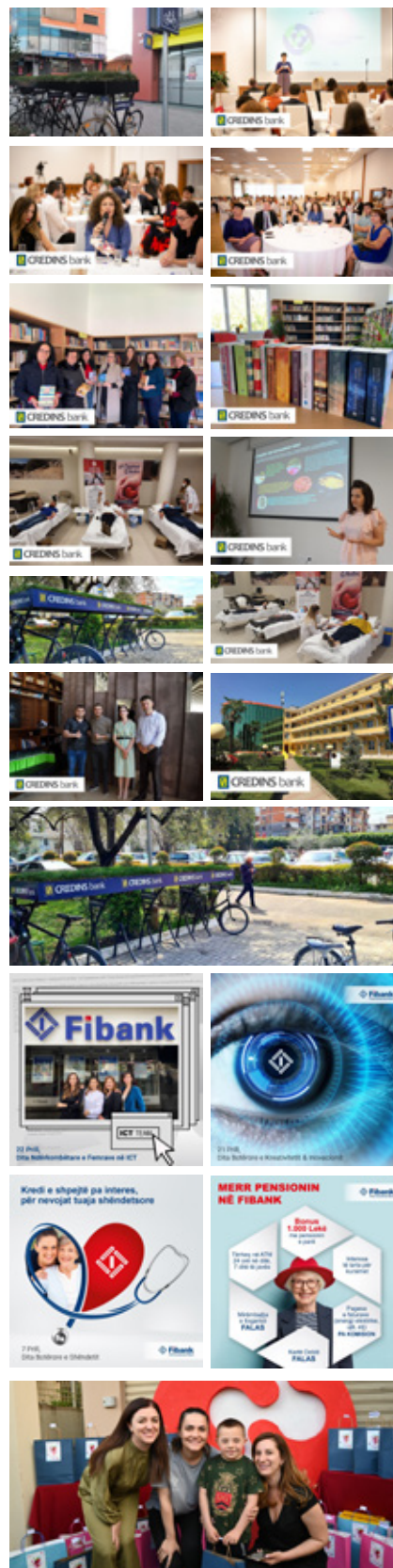
- On the occasion of 1 June, it donated the book: "Tales of Pitilusha" in kindergartens, schools in Burrel, Pogradec and Fushë-Krujë.
- Donated books for "Vexhi Buharaja" library in Berat.
- Donated equipments to improve working conditions for several institutions, such as: Red Cross, Berat Branch; Gjirokastra Local Health Care Unit; Fier Regional Directorate of Pre-University Education; "Shefqet Ndroqi" Hospital.
- Supported Tirana Municipality, by providing scholarships for 370 pupils, aged 12-18, coming from low-income families, as an opportunity for these talented children who have a passion for art and technology, to attend the programs of offered at TUMO, the most modern center in Tirana.
- Continued the project for setting up bicycle stations near each branch, not only in Tirana, but also in other cities where the bank is present.
- Supported "Green Business Competition", in cooperation with Partners Albania for Change and Development.
- Supported the International Conference: "Shaping the future: Digital Economy and recent technology trends", organized by the Canadian Institute of Technology.
- Attended the event: "Donor Circles 2021", by supporting the presented initiative: Con-

struction of a playground in "Lanabregas" community, which will serve more than 100 children in the area.

- Supported the paragliding activity: Albania Open "Edition 22" organized by Albanian Aeronautics.



- In April, Fibank launched a package of bank services dedicated to pensioners who like to receive their pension through the bank. Fibank is issuing a bonus to all new coming pensioners that will also benefit a bank account connected to a free debit card, high interest rates for their savings, commission free utility payments for an account maintenance free of charge.
- On the occasion of World Health Day, Fibank Albania launched a loan product specifically for health-related purposes.
- The United Nations appointed April 21 as the World Creativity and Innovation Day to raise awareness of the role of creativity and innovation in all aspects of human development.
- Fibank Albania enabled a simple and fast Mobile application, improved its E-banking platform, introduced new high-tech ATMs that offer 24/7 withdraw and deposit options, launched its 3D se-





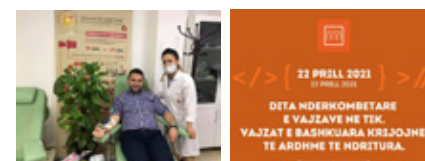
curity function for all cards, as well as system upgrades to provide the best digital solution for all.

- Through International Girls in ICT Day, we work with partners to build awareness about the gender digital divide, support technology education and skills training. Fibank is proud to invest in a team such as: Ejona, Anila, Vaje & Elona.
- Fibank sponsored the 1st of June event celebration including gifts for children and their families to Down Syndrome Albania who also celebrated its 7th year of dedicated service to our community.



- On World Autism Awareness Day, April 2nd, the ISBA Headquarters was lighted up in blue for raising awareness on Autism. The Bank invited all colleagues to take a photo (or selfie) wearing a blue color t-shirt or jumper while working from home or after the working hours as a sign of solidarity and post the photos in your social media profiles. An internal postcard was prepared and shared also in social networks.
- On World Health Day, April 7, and on International Mother Earth Day, 22nd of April, ISBA raised awareness of the public through postcards.

- In the webinar organized on 15 April by United Nations Albania and Global Compact on "Implementation of Global Objectives by Local Businesses" was present Ms. Arla Kraja, Representative for CSR and Internal Communication of Intesa Sanpaolo Bank Albania, who presented how the Bank implements its internal policies in support of SDGs.
- April 22nd, marks the International Day of Girls that work in Information and Communication Technology! Through a short video, the bank presented the women employees that work on this Division! In ISBA 45% of the ICT Division is made of women!
- On World Day for Safety and Health at Work, April 28nd, ISBA has prepared a short video emphasizing the importance of Health and Safety at work.
- International day of families, May 15th! & International Day of Living together in Peace, May 16th, ISBA promoted these days internally and in social networks.
- On May 21nd ISBA organized the first initiative for the year of voluntary blood donation.
- 31st of May marks the World no Tobacco Day! On this day ISBA shared a video to the employees for raising awareness on the damages that tobacco causes.
- Intesa Sanpaolo Bank Albania joined the ISBD activities regarding The World Environment Day (June 5th 2021)! From 1st till 7th of June, the colleagues re-



ceived some interesting information and postcards regarding World Environment Day! They were also invited to join the campaign on June 5th, in the Bank's Official Social Pages (Like and Share)!

- Launched a very unique initiative on Financial Education on A2CNN tv station and on all Bank social networks: "Financial Education for All".
- Intesa Sanpaolo Bank Albania and the Mediterranean University of Albania (UMSH) signed on June 22, 2021, a cooperation agreement, which enables the students to complete the internship at Intesa Sanpaolo Bank Albania as well as the provision of open lectures of the bank managers.
- ISBA joined the ISBD initiative organizing pilates online sessions for the employees.



- The bank supported the visit of the 6-grade pupils "Edit Durham" public school, in Korça Archaeological Museum.
- Following the activities held at Korça Archaeological Museum, other activities were organized with the participation of the bank's staff, who spent a Saturday together and visited this museum. The history study is appreciated by ProCre-

dit International Banking Group (based in Frankfurt, Germany). An important part of trainings, ProCredit bank staff does, is addressing topics on history and culture.

- Representatives of ProCredit bank gave an open lecture for students of "Kristaq Rama" Non-Public School, in Tirana. Books about early European civilization were also donated.



- For the 9th consecutive year it was the main sponsor of Albanian ICT Awards, a national-wide competition.
- In the framework of the World Environment Day, the bank staff, in cooperation with the Albanian Volunteer Corps, cleaned the Zvërnec beach and pine park. During this year, some activities were organized on public beaches, in the area of Fshati Rinia, Durrës and Velipoja beach. Thanks to such voluntary actions, more than 4 km of coastline was cleaned, where over 150 bags of waste were moved.
- Supported 5 trainings by the WIT Albania Center. During the project: "Financial Education in the Digital Age" about 200 students of "Eqrem Çabej", "Bajram Curri" and "Gjon Buzuku" schools in the capital, were



trained.

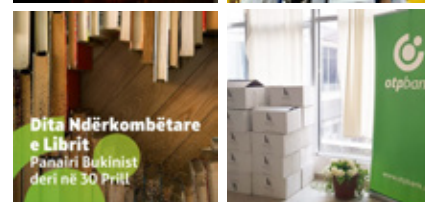
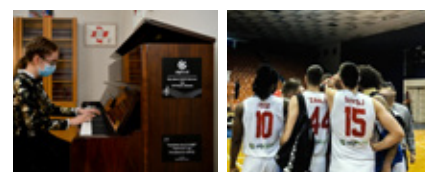
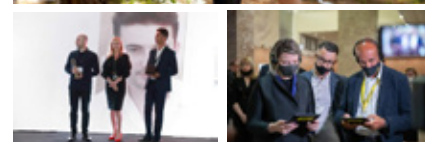
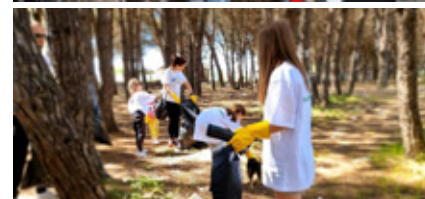
- On 18 May, the International Museums Day, the National Historical Museum launched the audio-guide application, with the support of Raiffeisen. The ceremony organized on this occasion was attended by Mr. Christian Canacaris, CEO, Mrs. Elva Margariti, Minister of Culture and Mr. Dorian Koci, Director of the National Historical Museum.
- Raiffeisen Bank attended the 8th Career Fair of EPOKA University.
- Supported the event: "Window of Hope" and TK-RIN-ART festival of Tirana High Schools, from 24 – 26 May. As part of "Education over and through culture" Program, the National Theater staged 18 young talented people and, in this edition, four winners were announced.
- In May, internationally known as the month of promotion of the Internal Audit profession, the Internal Audit Division (IA) at Raiffeisen Bank, carried out a series of activities, such as:
  - Attending the European Championship of Internal Auditors.
  - Producing two spots/videos, where parents of IA staff explain to their children in simple words, the role and profession of internal auditors within an organization.
  - Writing an article: "Myths of IA role and functions".
  - Attended 2 Podcasts with selected topics, within the local community of in-

ternal auditors, both for GDPR and the 3 Lines of Defense.

- Making photos with groups, as well as organizing a party with the staff.



- Supported the art, through "Donate culture" program from "Arts" foundation, by donating a piano for "Jeronim de Rada" 9-year school.
- The bank responded to the request for assistance of "Albania" Association in Vlora, by distributing food packages to these families.
- On the occasion of opening the touristic season and promoting it in the city of Pogradec, the bank attended the one-day fair, organized in the city.
- The Albanian producers and artisans are a key factor in the country's economic growth and job creation. The bank supported the National Olive Oil Day, on 19 June, in the city of Vlora.
- Supported Albania Social Club for producing a promotional video for Albania.
- Aiming at supporting all readers, OTP Bank decided to make its contribution to the online promotion of the book.
- Sponsored "Partizani" basketball club for men.





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Kredi për shtëpi me norma interesi tepër konkurruese në LEK/EUR  
dhe këste mujore sipas aftësisë tënde paguese.  
ZERO komision\* për shlyerje të pjesshme ose  
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 **INTESA SANPAOLO BANK**  
Albania

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\*Nuk ka komision për parapagime të pjesshme ose të plota për kredisë për shtëpi vetëm në monedhën LEK. Për kushtet e plota të kredisë për shtëpi vizito faqen tonë zyrtare ose degën më të afërt.



## TIRANA BANK

- In cooperation with the Albanian Red Cross, it contributed with a donation of 104 boxes with various food items. Under the motto: "Small gestures with great love", representatives from the bank staff were present every Friday in May at the Red Cross canteen.
- Tirana Bank, following the initiative of Mr. Samir Mane, President of Balfin Group, decided to donate EUR 1.2 million to help families most affected by the earthquake of 2019. Rama family, from Spiteni, Lezha, returned to live in a safe shelter, just like 10 other families who have received apartments from Balfin Group. Mr. Dritan Mustafa, CEO of Tirana Bank, and Mr. Stefan Çipa, General Director of National Housing Authority, were present in Lezha to hand over the apartment.
- Under the motto: "Here for life", it continued the tradition of blood donation this year.



- Following the process of vaccination of the population against COVID-19, Union Bank donated a refrigerator to Durrës Local Health Care Unit, which will serve for vaccines storage and maintenance.
- Following the support for families in need, which has become a tradition during the month of Ramadan, the bank distributed 350 boxes of food to Muslim families in Albania, mainly in Shkodra, Malësi e Madhe, Puka, Elbasan, Librazhd, Kukës and Dibër.
- Donated some equipment for Shkodra Regional Hospital.
- In cooperation with AL Bukhary University in Malaysia, scholarships were offered to children from families in need.
- Concluded a financial support agreement for the son of Hero Arian Sala, who sacrificed himself to save the lives of his colleagues, after a fire broke out in the warehouse of a shopping center in Tirana.



## UNIONBANK

- On 2 June, under the motto: "Donate blood, save lives", Union Bank staff responded the call

### Tirana Bank announced issuance of Euro 5 million corporate bonds offering

Tirana Bank announced the issuance of Euro 5 million long-term corporate bonds. The underlying bonds have a 7-year term and carry a fixed interest rate of 3.30% per annum, payable semi-annually. The funds raised from the issuance of the bonds will enhance the supplementary capital of the Bank, in accordance with the applicable laws and the approvals from the regulatory authorities.

The bond represents one of the largest single issuance of such debt in the local marketplace that was fully subscribed by retail and high net-worth customers. There was greater subscription demand than the initial bond offering.

## AAB ACTIVITIES & TRAININGS

### AAB Assembly meeting & elections

The meeting of the AAB Assembly was held on 15 April, 2021. Based on the agenda and in line with the AAB Statute, the Association elected its Supervisory Board, composed of five members:

**Mr. Bledar Shella**  
CEO of OTP Bank Albania;

**Mr. Seyhan Pencabliligil**  
CEO of Banka Kombëtare Tregtare (BKT);

**Mr. Maltin Korkuti**  
CEO of Credins Bank;

**Mr. Dritan Mustafa**  
CEO of Tirana Bank;

**Mr. Bozhidar Todorov**  
CEO of FIBank Albania.

**Mr. Bledar Shella** was elected Chairman of the Supervisory Board and **Mr. Seyhan Pencabliligil** was elected Deputy Chairman.

### Training on Bankruptcy

On 14 - 15 April, AAB collaborated with IFC and arranged the participation of bank lawyers in the online training: "Application of mediation to resolve issues of bankruptcy in Albania". The participants were awarded with certificates.

### The AAB Secretary General Participated in the 51st Meeting of EBF Associate members.

AAB attended the 51st meeting of Associate Members of the European Banking Federation, which was held on 17 May 2021, via a video link based in Brussels. Introductory remarks and proposal for the effectiveness of these

meetings was made by Mr. Spiro Brumbulli, AAB Secretary General.

### Meeting of the AAB Supervisory Board Members with BoA's Governor Mr. Gent Sejko

On 29 June 2021, the members of AAB Supervisory Board, chaired by Mr. Bledar Shella, AAB Chairman and Mr. Spiro Brumbulli, AAB Secretary General, held a meeting with Mr. Gent Sejko, Bank of Albania's Governor. Mrs. Luljeta Minxhozi, BoA's First Deputy Governor, Mrs. Natasha Ahmetaj, BoA's Second Deputy Governor, and other executives of the Bank of Albania attended the meeting. It took place in the frame of the ongoing dialogue between the Bank of Albania and the banking sector, regarding the issues related to the activity and role of banks in the economy.



### On Common Reporting Standards (CRS)

On 16 April, AAB organized a meeting with banks and GTD representatives, focused on the annual/periodic reporting, as per CRS. Some 31 technical representatives attended the meeting. As a follow-up, the aggregated issues

of banks were officially addressed to the GTD.

### AAB organized the farewell ceremony for Mr. Silvio Pedrazzi

On 16 June 2021, AAB organized the farewell ceremony for Mr. Silvio Pedrazzi, on the occasion of the completion of his mission as CEO of Intesa Sanpaolo Bank Albania.



### The central register of bank accounts

The AAB Executive Office has been intensively engaged in discussions with the General Directorate of Taxation, GDT, and presented the main issues of banks regarding the data reporting to the Central Register of Banks' Account.

On 10 May, AAB sent a letter to the Minister of Justice and to GTD, through which it presented the concerns of banks. On 17 and 22 June, AAB organized two online meetings, attended by banks, GTD and AKSHI representatives. The second meeting was also attended by Ms. Delina Ibrahimaj, GTD General Director.

### On Fiscalization process

The AAB Executive Office continued the official communication with the General Tax Directorate about the fiscalization process, regarding banks concerns and queries on the project.

On 28 May an on-line meeting with GTD representatives was held, focused on the main technical issues

of banks, regarding the implementation of fiscalization project. In the meeting, over 70 representatives of banks participated.

On 3 June, the AAB Executive Office, through a letter sent to the Ministry of Finance and Economy, and GTD copied, asked for postponement of the deadline, as the fiscalization for cashless transactions between taxpayers (B2B), starts on 1 July 2021. Otherwise, a test period for the procedures, without the penalties foreseen by legal framework, should be taken into consideration.

Two technical on-line meetings were organized, respectively on 3 and 10 May, with banks, GTD

and the National Agency for Information Society (AKSHI) representatives, to discuss about the main technical issues of banks, regarding the implementation of fiscalization procedures. These meetings were attended 91 and 82 representatives of banks and GTD, respectively.

#### **AAB Technical Committee**

According to the new AAB Statute prescriptions, the new 7 technical committees were set up. More information about their composition can be found on AAB website: [www.aab.al](http://www.aab.al).

#### **International Internal Audit Awareness Month**

During the meeting of May, the

AAB Audit Committee members celebrated the International Internal Audit Awareness Month.



#### **Vaccination of banking sector employees begins**

The process of vaccination against COVID-19 for banking sector employees, started on 28 June, under the coordination of the Albanian Association of Banks, AAB, in cooperation with the Human Resources departments of all member banks.

## FINANCIAL EDUCATION

### **The European Money Quiz's Final**

On 21 April, 13-15-year-old students from secondary schools across Europe had their financial literacy challenged in the European Money Quiz's Final, an online competition hosted by the European Banking Federation that finalized this year's quiz season. Albania was represented by the finalists of the national competition.



### **Albanian Network for Financial Education (ANFE) holds its 11<sup>th</sup> meeting**

ANFE held its 11<sup>th</sup> meeting on 21.05.2021, which was orga-

nized and chaired by the Albanian Microfinance Association. Participants in this virtual meeting discussed a number of interesting topics about the financial market, which embrace the contribution of ANFE, in terms of raising awareness of financial education and improving its level, in all segments of the population.

#### **Open lecture**

On 4 June, the AAB, represented by Admir Mlika, Head of Credit Risk Department at Banka Kombëtare Tregtare (BKT), organized an open lecture: "On Credit Risk Management in the Covid-19 Pandemic Situation", with the participation of students from the University "Aleksandër Moisiu", Durrës, Faculty of Business, Master of Science program.

## TRAININGS ORGANIZED DURING APRIL - JUNE 2021

- ✓ Pragmatic Agile Leadership Training and CPAL Certification, in collaboration with Agisolve, 6-8 April.
- ✓ Building and Promoting Organization Culture, in the face of a Remote and Changing Workforce during the Pandemic, in collaboration with Lincoln Center, 27 - 28 April 2021.
- ✓ Cybersecurity in Digital Era, in collaboration with AIIA, 5 - 6 May.
- ✓ Business Analysis (BA) Intro Course, in collaboration with AIEx, 2,3 and 4 June.
- ✓ AAB in collaboration with ATTF/ House of Trainings Luxembourg, offered the following trainings:
  - ✓ Risk Management in Banking, 13 - 16 April & 22 - 23 April 2021.
  - ✓ Introduction to Digital Finance, 7 May.
  - ✓ Data mining- business oriented methods for exploring data, 19 & 21 May.
  - ✓ Train the Trainers Workshop, 1,2,4, 8 and 9 June.

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ALBANIAN ASSOCIATION OF BANKS  
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