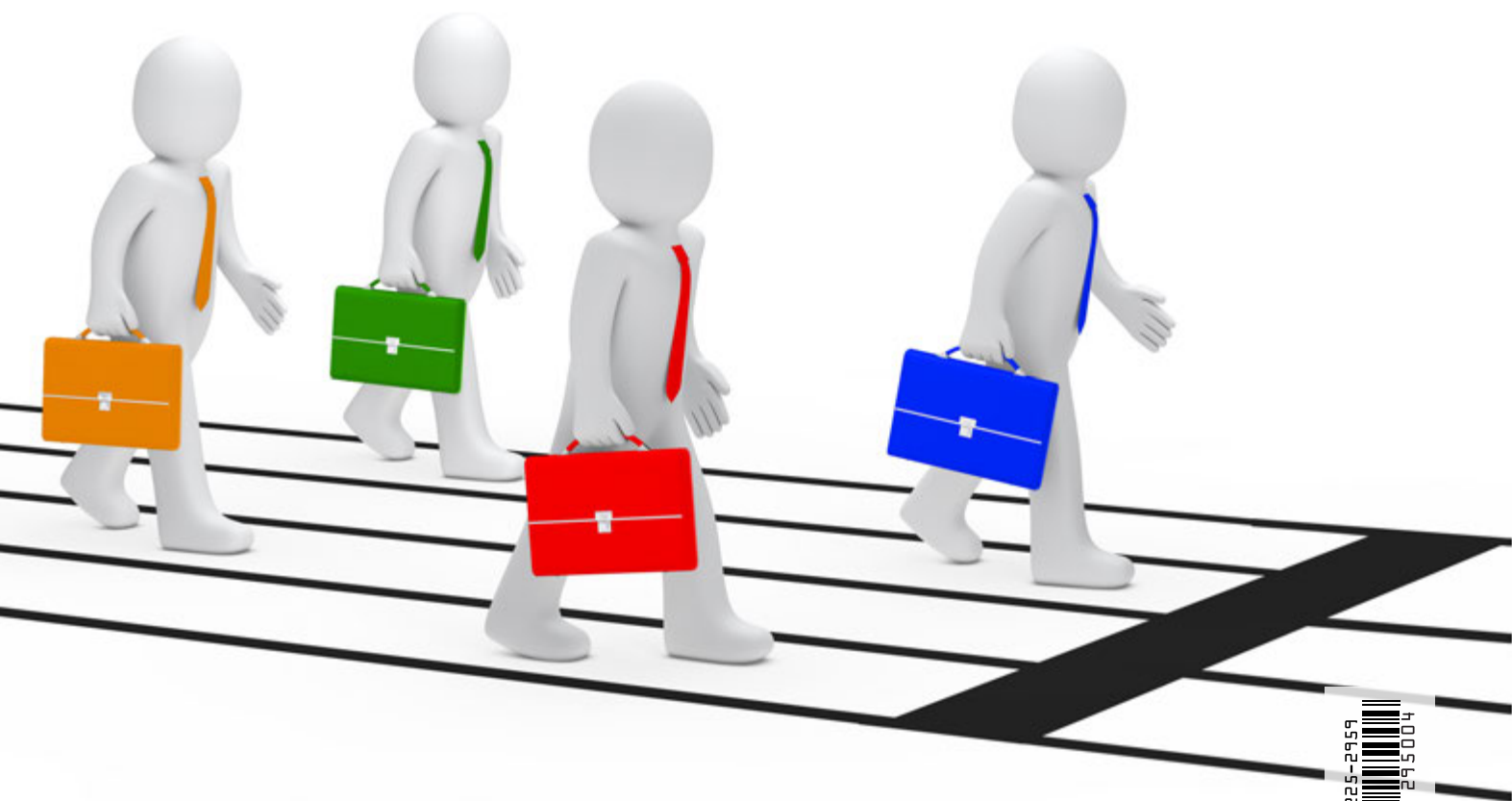




Bankieri

Publication
No. 27
April 2018

ALBANIAN ASSOCIATION OF BANKS
SHOQATA SHQIPTARE E BANKAVE



ISSN 2225-2959
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CONSOLIDATION AND BANKING COMPETITION

AAB Financial Education Forum

Empowering Financial Inclusion through Financial Education



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No.27, April 2018

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Printed by:  Gent-grafik

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

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bëhen hap
pas hapi.**

Përfitoni **këste të ulëta mujore**, falë **normës fikse të interesit për 1, 2 ose 3 vite** dhe **normës preferenciale** për pjesën e mbetur të kredisë.



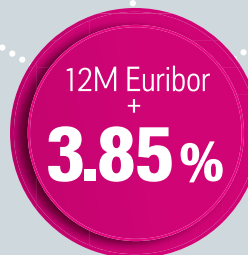
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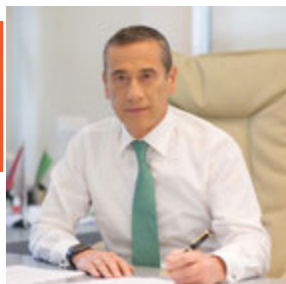
PAS PERIUDHËS FIKSE

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ALPHA BANK



SILVIO PEDRAZZI The AAB Chairman

The system will be still engaged in improving the quality of its assets, while many efforts should be put in place, in order to help borrowers at enhancing their ability to access credit. Nonetheless, I strongly believe the toughest challenges are coming from other “megatrends”, already having big impacts on the industry.

You are elected the AAB Chairman. What is your very first message for the banking industry in Albania?

First of all, I would like to thank all banks' CEOs for the unanimous decision to support my candidacy for such important Chairmanship. I consequently feel a strong sense of responsibility and accountability in serving the Association, by being aware of the pivotal role played by AAB in Albania. In this light, I would like to reaffirm my will to advocate the interests of the whole banking industry no matter the size, the country of origin, as well as the market position of any single bank.

What would be your top priorities as the AAB Chairman?

As always, we should focus both on short and medium-long term priorities. Thinking about the most urgent issues, I believe the following should be my priorities in the near future:

- To promote with all stakeholders the integrity and the high standards of the Albanian banking system; too frequently the system is under totally unjustified attacks from different “groups of interests”, very often spreading to the public fake and not grounded information;
- To closely cooperate with institutions, especially with regulators, in the fields of “Rule of Law”, fight against informality, as well as enhanced transparency;
- To further increase investments of banks in internal “human capital”, providing professional training and further opportunities to all our people; AAB should make sure bank's employees and managers are always the frontrunners of innovation and ready to embrace the incoming challenges.

What would be the biggest challenge, the Albanian banking sector is going to be faced with, in the near and distant future?

A number of big challenges are in front of us, a part of them coming from the domestic market and a part from the external scenario.

Locally, no doubts the system will be still engaged in improving the quality of its assets (even if the NPL's reduction stock and ratios has shown a remarkable decreasing trend) while many efforts should be put in place, in order to help borrowers at enhancing their ability to access credit. Nonetheless, I strongly believe the toughest challenges are coming from other “megatrends”, already having big impacts on the industry. Among them, for sure, banks must be ready to face enormous costs of implementing many regulations, referred to Compliance and Risk Management matters; in addition the “Digital Revolution”, especially in the Retail Business, requires new business models and strategies. All the triggered costs will put under pressure business' profitability and sustainability. Finally, I'd like to send a message to the Albanian citizens: please, consider the banking industry as a pillar of your country, as a shield against bad practices, as an engine of development, as well as the best defender of your savings. A special thanks to the AAB personnel and Mr. Spiro Brumbulli AAB Secretary General, for their daily efforts and devotion.

Banking competition

Not a matter of numbers

The number of banks in a country's financial market doesn't really matter, in terms of competition within the banking sector, as a big number of banks does not necessarily mean higher competition, or the other way around, a lower competition is not necessarily associated with a lower number of banks.



Prof. Asoc. Dr. Elvin MEKA¹
Editor in Chief

The year 2017 marks the commencement of a consolidation process across the Albanian banking sector, as Veneto Banca was taken over by Intesa Sanpaolo Bank in Italy and logically in Albania, and ABI Bank purchased the whole share package of NBG Bank Albania. And these deals are projected to be followed up by other attempts and deals, aiming at spurring further the consolidation across the sector, given the signals flashing from time to time within business corridors. This is an important, and in the same time, a special process for the Albanian clients, banking market and the regulator, itself, as everyone was accustomed, during the last 20 years, with a growing number of banks, at least until 2007, when the number of

banks reached 16. From now and on, the Albanian banking environment has made a big leap, as it has already entered the mature state, where mergers and acquisitions are conducted as a normal business deal, and not forced by major events and problems, related to the country's



Banking competition is not a matter of numbers, instead it is a matter of how good, or bad the banking service is for the customers; how added value the latter get per unit of cost; how economies of scale allow bigger banks to offer more services at lower prices; how stable the national financial system is; how big is the banks' market power to squeeze higher payments from customers while cutting services, how effective the regulatory measures by relevant authorities are, to discourage improper anti-competition behavior, etc.



banking sector, or the economy. This is a very positive step, which shows that the Albanian banking sector is stable and capable to digest such a particular operation, which is difficult, complex and not easily manageable.

The implications and challenges are manifold, not only in an individual level, but also in a business, regulating and banking activity level.

Typically, the most "feared" implication for consumers in this regard is, that a smaller number of bigger commercial banks, arising in a post M&A banking sector, could erode competition among banks. It is crystal clear that, a competitive banking environment is beneficial for all, just because of its pressure on prices: particularly, it pushes down lending rates for borrowers and raises deposit rates for lenders, thus boosting both savings and investments, hence private sector development, capital accumulation, individual welfare and economic development. However, the number of banks in a country's financial market doesn't really matter, in terms of competition within the banking sector, as a big number of banks does not necessarily mean higher competition, or the other way around, a lower competition is not necessarily associated with a lower number of banks. One of the most prominent example is Canada, where the banking system is practically composed by a relatively small number of banks, with a high degree of competition among them. In a few words, banking competition is not a matter of numbers, instead it is a matter of how good, or bad the

¹Administrator, "LUARASI" University College.

banking service is for the customers; how added value the latter get per unit of cost; how economies of scale allow bigger banks to offer more services at lower prices; how stable the national financial system is; how big is the banks' market power to squeeze higher payments from customers while cutting services, how effective the regulatory measures by relevant authorities are, to discourage improper anti-competition behavior, etc.

Surely, the Albanian banking sector will see the number of systemic banks increasing, which calls for a more supervision and complex endeavor from Bank of Albania, as a regulator, and on the other side, the Competition Authority will need to be more watchful about bank business practices and the use of market power by banks.

In terms of banking activity, as the international experience show, the bank consolidation will unavoidably lead to more risk taking by the remaining banks, given their capital size, assets, complex risk management mechanisms, big loan portfolio and sizeable manpower. This could be double edged sword for the Albanian banks as they have already walked out of the issue of large bad loans portfolios, but in the same time they need to undertake additional risks, as part of their role to promote and finance the country's economic growth and, also, to remain profitable for their shareholders.

On the other hand, such consolidation could be key in encouraging banks in Albania to consider offering additional financial services, related to asset management, investment banking, securities finance, thus contributing to financial deepening, as they will be big enough to commit themselves to such added value activities, along with the fact that such services will help them diversify the activity



and conduct a more effective risk management. Furthermore, this will be a "must" for them, as they will need to ponder the imminent sectoral and inter-sectoral competition, coming from potential newcomers, be they commercial banks or other



Such consolidation could be key in encouraging banks in Albania to consider offering additional financial services, related to asset management, investment banking, securities finance, thus contributing to financial deepening, as they will be big enough to commit themselves to such added value activities. Furthermore, this will be a "must" for them, as they will need to ponder the sectoral and inter-sectoral competition, coming from potential newcomers.



non-bank financial institutions, and FinTechs, especially in payment services and start up financing. Even big retailers could pose a surprise "threat" to the banking industry! In fact, Accenture has predicted that

traditional banks will lose 20 percent of their business to retailers by 2020. So, a more consolidated banking sector will allow for more firepower by banks to weather all shocks coming from all directions and from the ever – changing environment and consumer approach. Furthermore, bigger banks will be better positioned in investing considerable amounts in cybersecurity, cutting edge technology, etc., aiming at offering the best solutions for existing and new generations.

Definitely, the consolidation process in the Albanian banking industry will bring important benefits for the Albanian banking system and the economy, in terms of effectiveness, diversification and credit expansion. It will mean more market power, more services for their clients, a more effective and professional work force, more access to finance for everyone and an improved efficiency of financial intermediation, while maintaining the stability of the financial system.

However, banks, in their daily activity, must always keep an eye on the famous saying of Mr. Semon Knudsen, ex-CEO of Ford Motors that: *"In business, the competition will bite you if you keep running; if you stand still, they will swallow you!"*

abi

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Banking system consolidation and market's positive expectations

Despite the number of banks and their network, which can be considered quantitatively enough, the market needs new products and services, especially for specialized banks.



Edvin LIBOHOVA¹

Secretary General
ALBANIAN INSURERS ASSOCIATION

Our two-tier banking system is relatively young, compared to European countries, including countries of the region, too. The reason is quite simple: it was created when Albania opened to Europe and changed its political and economic system. Precisely, the adoption of two basic laws in April 1992: "On the Bank of Albania" and "On the banking system in Albania", marks the first major step towards creating a modern banking system in Albania.

The 25-year history of the banking system has gone through some development periods, as a reflection of its country's economic development despite the fact that

banks have always been one step ahead of economic development and remain the country's most developed financial institutions.

The first phase of the banking market development is marked by the introduction of foreign capital market, initially in the form of joint ventures (joint venture with the state) and then, as a 100% private venture, just banks' representative, or foreign financial groups.

The introduction of foreign capital created the premises for a complete privatization of state-owned banks (a process accomplished in the late 1990s and early 2000s). Banks' privatization marked an important step for the country's economy and the banking system itself, as it enabled the introduction of new banking services, expansion of branch network, in all areas where the economy was developing, and increased competition among market operators. Meanwhile, along with this process we experienced the establishment of private banks with domestic capital, as the highest stage of maturity and corporate form of business organization.

Over a period of nearly 10 years, the banking market continued to grow rapidly and incessantly, thus being the main supporter and financing powerhouse of

the economy, while coping, successfully, with the effects of the global crisis of 2008-2010. During this period, we saw the introduction of new operators in the market, through the process of buying existing banks, while the number of banks in this period in the system remains unchanged (16).

Consolidation - what is happening to the banking system now?

After several stages of development since its inception, the year 2017 marks the moment when the banking system is organically



Generally, a quarter-century-old history of our banking system can be considered a success story, as year after year the system has been improving and strengthening. Bank of Albania has always been very careful, in the capacity of sector's supervisor, which is reflected in the sector's positive performance and mitigation of extraordinary events. The current system consolidation is exactly following such policy and this process will make banks more solid and will further enhance their security.



¹ Ex - Chief Executive Officer of Popular Bank
Ex- Chairman of the Albanian Association of Banks, AAB.

seeking for consolidation. This process, which started last year, is expected to continue for a period of 2-3 years, scoring a very important step in the banking market development. The main events here are takeovers of small banks from largest ones, banks' expansion through acquisition of other operators in the market, the transfer of active banks to active investment groups, etc.

What consolidation could bring to the system itself and the remaining banks in the market?

Consolidation, as a major process in the life of banks, is accompanied by a variety of phenomena and movements on banks, and the banking system itself.

Firstly, banks that grow and consolidate undergo a restructuring that includes branch network, organizational structures and human resources, operating systems of bank operations, relationships with shareholders, clients, third parties, etc. Surely, these processes are "headache" for banks, but on the other hand, they positively affect a re-dimensioning of the bank's status under current market conditions.

Secondly, the market itself undergoes structural changes in the network (we have branch closures and re-positioning for existing branches).

Thirdly, we have staff layoffs, a process that affects the redistribution of bank-experienced financial market capacities (re-positioning in other banks, microfinance market, insurance market, etc.)

Impact on product diversity and product quality

In the general viewpoint, the largest beneficiaries of

consolidation are bank customers. All in all, consolidation brings a number of advantages to the clientele, where the most important one could be mentioned:

- Strengthening interbank competition, which is translated into better and more competitive terms and conditions for interest rates (for deposits and loans), service commissions, product diversity and terms on which they are offered to clients, etc.

- Increasing the presence of banks in areas still unbanked. It is a well-known fact that the stronger and more consolidated the bank is, the greater the tendency and the opportunity to stretch out and to be present in as many business spaces as possible.

- Increasing lending capacity as a whole and towards a particular client. It is clear that the bank expansion through consolidation is accompanied by, among others, growth of capital, which is the primary element for increasing its lending capacity.

Consolidation and banks' security

Generally, a quarter-century-old history of our banking system can be considered a success story, as year after year the system has been improving and strengthening. Bank of Albania has always been very careful, in the capacity of sector's supervisor, which is reflected in the sector's positive performance and mitigation of extraordinary events. The current system consolidation is exactly following such policy and this process will make banks more solid and will further enhance their security.

Will consolidation affect banking innovation?

It seems more than normal

that banks, under the new terms of consolidation, will require new paths to penetrate the market, under competitive pressure, and the best form to accomplish such an objective is surely innovative products. Bringing in the market the most recent banking alternatives is the biggest challenge that the banking market will face today and during the years to come. This phenomenon will further expand banks' relationship with clientele, thus significantly reducing service costs, facilitating further procedures and bureaucracies in the decision-making process, finally contributing to the strengthening of banks' social profile.

Consolidation and space for new market operators

In a well-regulated and consolidated market, it is easily understandable that new entries as bank operators becomes quite difficult. A question arises normally: are we in Albania today in a situation where foreign banking operators are incapable of finding themselves in this market?

I would answer this question with another question: is our banking system fully mature and consolidated? Of course not! Despite the number of banks and their network, which can be considered quantitatively enough, the market needs new products and services, especially for specialized banks. We are all aware that the market is lacking investment banks, agricultural, mortgage banks, non-branch banking, etc. Therefore, it is quite clear and certainly that there will always be enough space for banking operators, offering the latest banking alternative for the market.

Bank consolidation era now!

In this situation, when the banking system is being cleansed from problem loans, the consolidation process is expected to have a positive impact on increasing competitiveness, as banks, both small and large ones, will be put under pressure to increase their efficiency. The consolidated banks will tend to be more cautious in lending. Increasing the efficiency of the system means providing even better services to the public.



Ornella LIPERI

Journalist

The banking sector has been recently entering in a consolidation phase, with sales, acquisitions, mergers, which seem to have just begun. This is happening for several reasons:

- First, following the restructuring of Greek banking sector, which is reducing its assets outside Greece, following the debt crisis and in line with ECB's recommendations. Three Greek-owned banks operate in Albania, which account for about 14% of total banking assets.

- Secondly, the other smaller and larger banks, after years of stagnation, seem to have no further interest in the Albanian market and have decided to go on sale.

- On the other hand, some

banks have an interest to expand into the domestic market, and they plan to do so not only through organic growth, but also through the purchase of other banking subsidiaries.

This year, the banking sector will shrink from 16 to 14 banks, as two deals are already completed. On December 5th, 2017, the 100% stake of Veneto Bank's stakeholder went in favor of the partner, Intesa Sanpaolo Bank, according to evidences in the statement from the National Business Center. Veneto's acquisition by Intesa Sanpaolo Bank came after the merger of mother banks in Italy, as part of a restructuring plan of Veneto Bank, which was in a problematic situation in the neighboring country. In Albania, by the end of the third quarter, according to the statistics of the Albanian Banking Association, Intesa Sanpaolo Bank possesses 11% of sector's assets and Veneto Bank just 1.8%. After the merger, Intesa Sanpaolo Bank is expected to jump again to the country's third largest bank, with 11.8% of total assets, after BKT and Raiffeisen Bank.

Earlier this year, following a lengthy negotiation process and some postponements, National Bank of Greece (NBG) announced the sale of its subsidiary in Albania to the American Bank for Investments (ABI), by entering in a final deal on the sale of all its shares (100%) at its

subsidiary NBG Bank – Albania to the American Bank for Investments. This transaction is being implemented in the frame of NBG Restructuring Plan, and in accordance with its commitments to the EC Directorate-General for Competition. By the end of third quarter, ABI Bank owned 2.9% of total sector assets and NBG around 2.8%.

This year, like 2017, is expected to bring many developments in the banking sector. Under the Greek restructuring plan, Tirana Bank, a subsidiary of Piraeus Banking Group, is also on sale. Bids for this bank have already begun, including those from private groups, that have no activity in the financial sector, so far. Tirana Bank owns 5.4% of sector's assets.

International Commercial Bank is also on sale, but its weight in the system is very small, about 0.7%. Purchase and sale transactions are not coming to an end here, as big banks are also on sale, should they be able to find buyers, although unfortunately the interest of large international banking groups for the Albanian market has been at lows, during recent years.

Impact on the system

For several years, the banking system is stuck by a low growth, affected by the high level of non-performing loans, which reached up to 25% of total loans in mid-2013. In recent years, asset growth has been

minimal, the number of branches has been shrinking and employees, as well. Capital adequacy ratio was kept at around 16%, as performance indicators, Return on Assets and Equity decreased to 0.74% and 7.15% in 2016, to improve at 1.54% and 15.71% in 2017, respectively. System's financial results are highly volatile, depending on the provisions' expenses. A positive fact is the decline of non-performing loans rate at 13.2%, at the end of 2017, the lowest level in eight years.

In this situation, when the banking system is being cleansed from problem loans, the consolidation process is expected to have a positive impact on increasing competitiveness, as banks, both small and large ones, will be put under pressure to increase their efficiency. The consolidated banks will tend to be more cautious in lending. Increasing the efficiency of the system means providing even

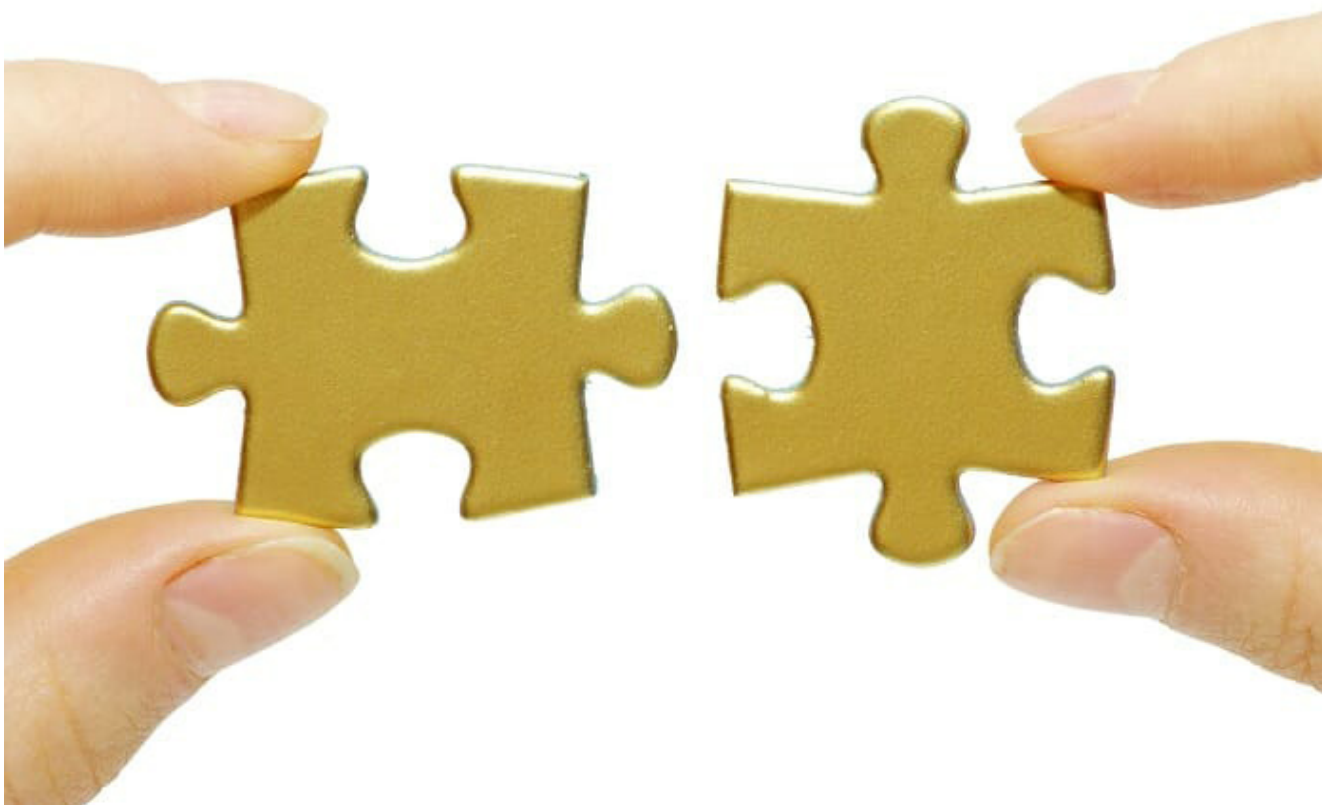
better services to the public.

The impact is expected to be seen also in relation to employees. The purchasing bank will tend to keep those branches that are more efficient and shut down those that duplicate each other, whereas head offices will merge together. In this line, perhaps a part of target bank employees will be laid off. By September 2017, according to the Albanian Association of Banks' statistics, NBG Bank and Veneto Banka had 304 and 130 employees, respectively; NBG Bank had 26 branches and Veneto Bank 15 ones.

IMF required prudence

Another new development is the interest of large Albanian business groups to enter the Albanian banking market, as part of expanding and diversifying strategy for their investment portfolio. Two business groups showed interest in the sale of NBG Bank, while their commitment

continued with offers for International Commercial Bank and Tirana Bank. Such trend is not seen with a positive eye from the International Monetary Fund, which has called for careful attention in this process. IMF, in its official statements, praised the ongoing efforts of the authorities to strengthen financial oversight, by focusing on the fastest growing banks and systemic banks. Meanwhile, the IMF has underlined the need for continued vigilance and improvement of the means of preparation to cope with any crisis, especially in the light of increased sector's interconnectivity. "To mitigate risks to banking stability, BoA should ensure that new bank license candidates meet appropriate fit and proper criteria, possess adequate banking experience, and avoid conflicts of interest", the IMF said, in a signal sent directly to businesses intending to enter the banking sector.



Payment service perspective and the Albanian market approach

Banks need to strategically turn their attention to alternatives that are already available in the market, by foreseeing the tendency, by approving and considering such innovations' market as a partner rather than a competitor. The use of other alternatives, such as: mobile services, online services, etc., brings an added value to the approach to financial services of population of any age, by educating it financially, especially younger generation, who potentially and ultimately, will also affect other banking services.



Najada XHAXHA

Head of Back-Office Service,
TIRANA BANK

Head of AAB Payment Systems Committee

The financial services market is in a process of consecutive changes, determined by the impact of developments in banking industry, technology, but especially from the reaction towards consumer demand. Despite the level of security or insecurity in general, arising from geopolitical conditions, macroeconomic strategies, regulators, or competition, we are confident that technology has a profound effect on how all services, including banks, are distributed to our customers.

During recent years, service providers have increased the pace with which they interact with

customers. The bank's challenge in such reality is how they will continue to grow, taking into account the traditional patterns of doing business, especially in the area of payment services. The essence of the traditional banking business model, i.e. money circulating and safe-keeping, lending, or investing, will stay and improve throughout their daily activity. However, realities such as "blockchain" or "artificial intelligence" will radically affect how customers will perceive and behave



Through PSD2, banks will be required to give third-party payment providers direct access to their customers' accounts, through APIs, enabling them to perform upon their choice and with low-cost opportunities. This is a "bad news" for banks, which will see their revenues shrinking from these services, but it is good news for business, which will benefit in time and commissions, while being offered different choices.

towards requirements for (financial) services. Thus, given the impact of these technological transformations, banks need to pay attention and focus on their development strategies in

order to anticipate, adapt and develop further, without wasting time. If we compare it with developments in other consumer industries, it is easily understandable how quickly they get involved with and fit their requirements. Today, banking business has focused on developing service models for their clients, where - when - as they wish, by adding value to them, through the tremendous experience, the banking system possesses. A few years ago, the talk was all about the potential threat posed by Fintechs and startups in the financial industry. Today, it's much more of a collaborative relationship.

"Building for the Future" to "Meeting New Requirements" were the main topics at the Sibos Annual Conference, held by SWIFT, in October 2017, with the broad participation of the Banking Industry, Technology and other stakeholders of the field. Today, the banking industry is aware of its challenges and opportunities. Cyber threat is a reality and will continue to be, the compliance activity and the fight against money laundering will continue to improve, regulatory requirements, especially in terms of technological development, will pile up; on the other hand, innovations are affecting the change in customer expectations, as well as boosting competition. For this reason, banks need to be vigilant and prepared to face such challenges, but also to



identify and exploit opportunities.

In this new reality, opening the banking activity towards interface applications (APIs) and information sharing technology is a very demanding choice, whereas system flexibility and interaction is a smart solution. A question arises in this regard: Are existing standards at the right level to support banks in competing with a digital world? ISO 20022 and PSD2 (Payment Services Directive) standards are the main drivers of developments in the field of payments. The adoption of new standards in constructing payment system infrastructure will create an appropriate environment for the system's modernization and development for the new generation. New consumer requirements for a fast, transparent, low cost, full-fledged informed payment services, enable banks to focus on finding the right alternatives to meet this expectation. Initiatives, such as: "SWIFT gpi", "ISO 20022 Harmonization Charter", "Real Time Payments Group", "Instant Payments", offer an opportunity for cooperation, exchange of information and harmonization of services in the market. Whereas PSD2, through APIs, is predicted to be the prime provider of financial services in the near future, to make APIs open and interactive, it requires serious collaboration efforts.

The banking system in Albania is part of these innovations and fundamental changes, brought by digitalization and technology development. Naturally, banks have, in their strategic focus, investments in developments, applications, or even improvements to their systems, or internal applications as they are active in market demands to contribute to an improved infrastructure. Today, in Albania we have an established local payment infrastructure for payments in local

currency, based on SWIFT RTGS platform - for high value payments (AIPS), with a supplementary payment application (AECH), titles' settlement and registration in AFISaR system, etc. Surely, such infrastructure is based on the latest applied standards, guidelines, or international rules that banks implement and improve, within their systems, by providing a professional, fast, safe and cost-effective service in the market. For international payment service, banks in Albania operate through correspondents, who enable this service for foreign currency payments. This service scheme is also performed for domestic payments in foreign currency.

Also, in the Albanian market, for several years, the payment service includes also other institutions, generally called "non-bank financial institutions", or companies that provide applications/network services. Surely, these institutions are a reality in our market, which should be considered by the banking system. They have established their customer network, which performs payment services, and not only. Through PSD2, banks will be required to give third-party payment providers direct access to their customers' accounts, through APIs, enabling them to perform upon their choice and with low-cost opportunities. This is a "bad news" for banks, which will see their revenues shrinking from these services, but it is good news for business, which will benefit in time and commissions, while being offered different choices.

Is the Albanian banking system ready for these changes? If this platform is not yet ready to be implemented, due to the conditions to be met, banks which are probably not yet worried about losing their clientele, should naturally consider such impact on their strategies,

as this process will be "next door". At the third meeting of National Payments Committee, held by Bank of Albania, as well as in line with a World Bank's study on the financial system in Albania, several objectives were recommended, which could be considered as challenges of the banking system and non-bank financial institutions in Albania. They can also present system development projects for the near future. The sooner it is comprehended by market players, the more we will contribute, professionally, to build a modern, inclusive and open infrastructure, thinking of all active generations. In other words, banks need to strategically turn their attention to alternatives that are already available in the market, by foreseeing the tendency, by approving and considering such innovations' market as a partner rather than a competitor. The use of other alternatives, such as: mobile services, online services, etc., brings an added value to the approach to financial services of population of any age, by educating it financially, especially younger generation, who potentially and ultimately, will also affect other banking services.

In the field of developing applications for various services, banks may continue to design with their internal sources, or could collaborate with providers of these applications; so there are a number of options to be followed. However, banks need to carefully analyze and think strategically in the selection of how they will behave to these changes, which will continue to occur in the future.

I think that it is a duty of active market factors to consider providing alternatives for customers/clients as well as creating opportunities for an open and modern system. This is an opportunity that should not be lost for banks, before it's too late!!!

American Bank of Investments announces the signing of the agreement with National Bank of Greece for the acquisition of NBG Bank Albania

On February 2, 2018 American Bank of Investments announced that it has reached an agreement with National Bank of Greece for the acquisition of NBG Bank Albania.

NBG Bank Albania started to operate in the country in 1996 and is renowned for its innovative retail products. The Bank has a substantial deposit base and a network of branches in all major cities in Albania.

The expansion of American Bank of Investments through this planned acquisition demonstrates the confidence in the prospects

for growth of the Albanian banking sector and the Albanian economy by one of the largest US investors in Albania and the region.

During the past two years, American Bank of Investments has become a success story in the banking system, by reporting a very strong performance and growth in deposits, profitability, liquidity, and capital adequacy. In particular, it is worth highlighting the Bank's record improvement of its loan portfolio quality, as a result of the integrity, dedication and professionalism of

all employees of American Bank of Investments, as well as, synergies from its close cooperation with Transitz Finance, the largest and most experienced company in bad debt acquisition and collection in Albania.

American Bank of Investments is especially appreciative of the dedication and experience of NBG Bank Albania's staff and it is fully committed to a high quality of service to all its customers.

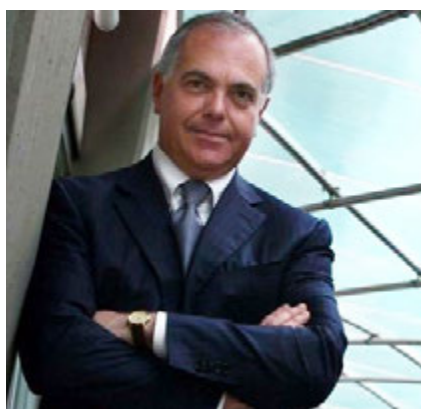
The completion of the transaction is subject to customary approvals from relevant regulatory authorities.



BANKING SYSTEM

Italy: a sound banking sector for a recovering economy

The economic recovery is gaining strength, so a further progress in the Italian banking sector can be pursued with more perseverance. The progressive removal of the already reduced risk factors of Italian banks will facilitate this process, bringing them to center their main target that is to revitalize profitability.



Pierfrancesco GAGGI

Head of International Relations
ITALIAN ASSOCIATION OF BANKS (ABI)

The expansion of the Italian economy keeps in steady state and confidence is returning to the levels recorded before the recession.

Fiscal efforts and measures, implemented from the beginning of the crisis, place Italy among the top best countries in Europe, in terms of consolidation of public finances: i) deficit is consistently below 3% of GDP; ii) Italy has high primary surplus and a long experience of high debt management; iii) Italy ranks among the lowest risky countries, about long-term sustainability of public finance. Many important steps to reinforce growth in Italy have been taken, bringing to a considerable positive change of Italian business environment.

Firstly, several fiscal incentives have been introduced: i) property tax

on main dwellings has been abolished, providing an important tax relief to 80% of Italian population; ii) cuts have been introduced on property tax for agricultural and industrial activities; and iii) corporate tax rate has been reduced, starting from 2017. Remaining in the fiscal area, among new measures to boost investment and productivity: i) businesses investing in capital goods are entitled to deduct an amount equal to 140% of the original cost of equipment (depreciation tax benefit); ii) to favour mergers, especially among SMEs, the time frame for the amortization of goodwill has been cut by half; iii) fiscal incentives to enhance labour productivity have been introduced.

Secondly, many levers to boost firms' competitiveness have been conceived in five areas, such as: i) work: tax exemption on productivity-linked wage and welfare services, agreed at firm abroad; iii) risk capital: full tax exemption for qualified long-term investment; iv) debt capital: extended fiscal level; ii) human capital: 90% tax exemption for professors and researchers returning to Italy, after holding academic roles benefit for investment in capital goods, new funds allocated to the guarantee fund for SMEs; and v) investments: extension of the 140% tax benefit for businesses investing in capital goods and new 250% tax benefit for businesses investing in high-tech capital goods.

Thirdly, improvements in business environment have been done in various areas, from the administrative one, with

simplified, speeded up and digitalized procedures, to civil area, providing accelerated bankruptcy proceedings to the banking sector, introducing a series of systemic reforms, aimed at facilitating the consolidation of the sector, and the labour market.

Finally, as for the State aids to the banking sector during 2008 – 2014, in Italy the fiscal impact, related to banking sector support, remained extremely low, even after recent intervention.

In this picture of the Italian macroeconomic and fiscal situation, the aspects marking Italian banking sector's soundness are as follows:

Specific features of commercial banks. They present high loan-to-asset ratio, a low level of Level 3 assets-to-capital (the incidence of illiquid assets on bank capital is over 40% lower than the average level recorded in Germany, France and UK) and low financial leverage (measured by assets-to-equity ratio – the smaller the degree of a bank's financial leverage, the greater its reliance on its own capital to finance its activities);

Loans granted to the economy growing on an annual basis by +1,9%. Italian banks play a central role in financing the real economy, where SMEs are of outstanding importance, accounting for 80% of persons employed in the business economy, a greater share than in other large EU countries;

Credit risk falling to pre-crisis level. The recovery of the economy is helping and, looking forward, credit

risk is expected to further reduce at all firm size;

NPLs: a serious but manageable issue. NPL ratio is expected to speedily return to manageable value and the share of NPLs to total loans declined. Italian banks are facing a delicate transition from a business model of traditional credit intermediation to a more diversified model, with lower exposure to credit risk and reduced capital absorption. Clear signs of improvement in credit quality became evident in 2016, when the new NPL rate fell to 2,3%, back to pre-crisis levels, and the stock of NPLs started to decrease. Moreover, some banks are in the process of selling or securitizing large amounts of bad loans. New bad loans as a percentage of total loans to non-financial companies is continuing to decrease in 2018;

Customer funding remains a strength for Italian banks, which recorded robust growth in deposits in recent years. Traditionally, Italian savers have developed a strong preference for safe investments, such as: deposits, while in recent years the share of other financial assets, such as: mutual funds and insurance products, has increased;

High prudential capitalization levels. Italian banks do not present any capitalization problem, also due to relevant amount of private capital injections: at the end of December 2016, Common Equity Ratio (CET1) amounted to 11,5% of risk-weighted assets. The CET1 ratio has increased by nearly 5 percentage points, since the end of 2007; for significant institutions it has almost doubled. Italian banks raised EUR 69 billion of additional capital from 2007. Also, smaller banks (less significant institutions) are at least as well capitalised as significant banks. Furthermore, Italian banks are among the best capitalized banks in Europe, net of weighting methodologies;

Bank profitability is improving. Thanks to the economic recovery,

insolvency rates in Italy come close to pre-crisis averages; for profitability to improve further, an increase in revenues needs to go hand in hand with substantial efficiency gains. We can distinguish drivers of low banks' profitability in cyclical and structural factors. The first category is composed of economic-linked factors, such as: low interest rates, low demand (in terms of business volume), financial markets volatility, cost of funding, loan loss provisions; those in the second category are digital revolution, regulatory evolution (covering extraordinary costs, capital increase with an impact on ROE, uncertainty, etc.) Italian banks' efforts to recover profitability are significant. They continue to reorganize their branch networks and distribution channels,



NPL ratio is expected to speedily return to manageable value and the share of NPLs to total loans declined. Italian banks are facing a delicate transition from a business model of traditional credit intermediation to a more diversified model, with lower exposure to credit risk and reduced capital absorption.



with a view to improving efficiency. After the crisis, the number of branches at Italian banks has reduced, from 2008, by nearly 18% to around 29.000; and bank employees by 44.000 units to 290.000, over the same period.

Banks restructuring going-on. Cost-cutting and consolidation proceeds: i) cooperative banks (known as "popolari") with more than EUR 8 billion in assets have changed their governance structure and became joint stock companies by December 31st, 2016; ii) over 360 small local mutual lenders (known as Banche di Credito

Cooperativo - BCC) will have to adhere into centralized institutions, with more than EUR 1 billion in equity (under the new rules, BCCs must be member of a cooperative banking group, to obtain or keep their authorization to operate as banks); iii) Ministry of Finance and the Association of Italian savings banks and foundations signed a MoU agreement, forbidding foundations to invest more than 33% of their equity in any single asset class.

Even if these reforms are paving the way for consolidation, the sector is already less fragmented than often claimed: at the end of March 2017, the banking sector is comprised of 580 banks, including 314 cooperative banks – which are expected to converge quickly into just two, or three groups, as a consequence of recent domestic reform in the sector of cooperative banks – 85 branches of foreign banks, 64 banks owned by banking group holdings, 58 banking groups holdings and 59 independent banks (banks not owned by banking group holdings). All in all, excluding foreign banks, at end-2017 the Italian banking sector comprises, de facto, less than 120 banks (58 bank holdings, 59 standalone banks, and two or three cooperative bank groups). Market appreciation of Italian banks progresses are confirmed by the increasing presence of foreign institutional investors in banks' capital (higher than in the rest of major European banks).

The economic recovery is gaining strength, so a further progress in the Italian banking sector can be pursued with more perseverance. The progressive removal of the already reduced risk factors of Italian banks will facilitate this process, bringing them to center their main target that is to revitalize profitability. The conditions are now suitable for Italian banks to address the challenges of the new contexts they operate, by continuing to provide a full support to the economic recovery.

GDPR impact on Albanian financial institutions

The globalization and digitalization of the economy have erased not only geographical borders, but those of services, as well. In this context, financial institutions in Albania are more and more in contact with EU citizens, to whom they propose services, or with whom they enter into a contractual relationship, for the performance of which, they must process EU citizens personal data. The rights and obligations of EU data subjects are object of the GDPR.



Enida SENA

Legal Manager
PRICEWATERHOUSECOOPERS ALBANIA

The General Data Protection Regulation – GDPR is the EU regulation, applicable from 25 May 2018, whose scope is to provide a unique and equal processing of EU citizens' personal data, which will be performed on the basis of a business relationship. In a general view, the main innovation of the GDPR is its extended jurisdiction. Specifically, all public or private entities, independently on their location, are obliged to apply the GDPR, for maintaining or processing personal data of EU citizens.

Because of GDPR coming

into force, in our country, for the performance of a relationship, for personal data processing the following standards will be applied:

(i) For non-EU citizens, will be applied the obligations of the Law No.9887/2008 "On Personal Data Protection" as amended, and

(ii) For the EU citizens will be applied the GDPR, as well.

Financial institutions, will process a wide range of personal data, of which, most of them are confidential, which implies a higher risk of breach of data subject rights. In addition, in spite of the fact that Albania is not an EU member and the current legislation is not updated according to GDPR, in case of a breach, the financial institutions will be on the focus not only of the Albanian regulatory agency (Information and Data Protection Commissioner), but also in the focus of EU regulatory agencies, as well, where the financial institution has an EU presence. Specifically, although the authority of EU regulatory agency will be indirect, the risk of fining the financial institution, which group is located in an EU country is very high. The fine can amount up to 20 million euro or up to 4% of the financial institution global turnover (whichever is higher). Therefore, the impact in the

international financial institution having a presence in the EU shall be very big, as a consequence of a fine of 4% of its global turnover from France to Singapore! On the other hand, the Albanian financial institution, will suffer consequences



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¹ Including as well European Economic Area countries: Iceland, Lichtenstein, Norway and Switzerland.

² Including thereby the processing of personal data, when rendering services or goods to EU citizens, or monitoring of the behaviour of an EU citizen.

in its reputation and image, including blocking EU citizens from access in its webpage.

Every contractual relationship between an individual or an entity and financial institutions, entitles the later to process a certain range of personal data of those individuals, as required for the performance of a contract. In other words, in case the financial institution will process personal data of an EU citizen, based on a leasing agreement, the personal data cannot be used for the reason of delivering marketing newsletters from the institution to the client, unless the financial institution has obtained a clear consent form from the individual for that scope. The delivery of marketing information requires the legitimate interest of the client, which in such case will meet the legitimate interest of the financial institution to increase its profits.

At the conclusion of an agreement, it is a lawful right of the individual to ask for a cancellation of all its personal data from records of

the financial institution, and GDPR obliges the financial institution to cancel those data within 72 hours of request's receipt. Nevertheless, in any case, it will be assessed whether this GDPR obligation is in contradiction to other internal legislation applicable to entities. Precisely, because of being based on the anti-money laundering law, financial institutions are obliged to maintain personal data for a 5-year term from the date of contract termination, they cannot delete such data, in spite of the fact that GDPR provides contrary to the internal law. In this case, due to the right for the transparency of the process, the latter, will inform the individual on legal conditions, based on which those data will be retained.

The procedure of adaption of work processes, the information flow within the financial institution and the policies for data protection & management, is not only complex, but multidisciplinary as well, and it is based on appropriate methodology. The methodology

application will initiate with a mapping of the current situation, quality of information flow, and secrecy adapted safety measures. On these bases will be projected updates and improvements by compiling new rules, amending or improving existing contracts and structuring the data flow, in order to secure secrecy of the process, in addition to providing the relevant notifications to the regulatory authority. For the scope of risk mitigation from breaches to the EU citizens' rights, and in order to be ready for the consequences due to GDPR application, it is required an immediate action, in order that on 25 May, Albanian financial institutions will be fully compliant with GDPR.

GDPR compliance is a continuous process, which is an added value to Albanian financial institutions, whereas will make these institutions competitive in a wider market, in a reality where the digitalization of the economic systems, information security and cyber security are designed and build on GDPR basis.



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Decoding PSD2: An opportunity or a threat?

Regardless its legal applicability in each country, PSD2 is a framework that changes the way banks operate and offer their services and the way consumers evaluate their relation with their banks, following usability and tech trends. It is therefore clear that banks will no longer compete against other banks, but to all organizations, offering financial services.



Taulant PIERO

Business Development Manager
MELLON ALBANIA

PsD2: A Game-Changing Directive For Retail Banking

Paying bills straight from your bank account through Facebook? This is what PSD2 will bring in. PSD2 is an EU directive that puts in place a set of new rules for payment services, aiming at making international payments within the EU as easy, efficient and secure as payments within a single country.

In a nutshell, PSD2: (i) Aims to Secure e-Payments & expand the financial services ecosystem; (ii) Covers payment service providers; (iii) Demands strong customer authentication; (iv) Opens bank data to 3rd Parties, through APIs. Considering the evolving

technologies in the payments landscape, the directive seeks to open up the payment market to new players, leading to greater competition among banks, FinTechs and other actors. Added to this, the aim of PSD2 is to foster innovation by introducing new types of services for the consumers and fix the gaps in the existing legislation, in order to enhance customer protection and increase transparency. PSD2 covers a number of payment services including:

- Enabling cash deposits and withdrawals,
- Execution of credit transfers, standing orders, direct debits,
- Payments through cards or similar devices,
- Issuing of payment instruments (examples cards, wallets) and/or acquiring payment transactions,
- Money remittances,
- Payment initiation services,
- Account information services.

Regardless its legal applicability in each country, PSD2 is a framework that changes the way banks operate and offer their services and the way consumers evaluate their relation with their banks, following usability and tech trends. It is therefore clear that banks will no longer compete against other banks, but to all organizations, offering financial services.

From Banks To Banking

Back to 1990, Bill Gates had wisely stated that although banking is necessary, banks are not. The new directive opens up the EU payment market to companies offering payment services, based on access to information about the payment account, particularly:

- Account Information Service Providers (AISPs), which allow a payment service user to have an overview of their financial situation at any time, allowing users to better manage their personal finances. Moven is such an example.
- Payment Initiation Service Providers (PISPs), which allow consumers to pay via simple credit transfer for their online purchases, while providing merchants with the assurance that the payment has been initiated so that goods can be released or services provided without delay. Sofort is such an example.

According to a recent study published by PwC, 68 percent of bankers worry that the new directive will lead to less control over their clients, whilst at the same time, feel uncertain how to respond to the challenges it brings. As a consequence, they are following a "wait-and-see" strategy, in comparison with third-

party providers and FinTechs that are already embracing the possibilities of open banking, aimed at winning a predominant position in the emerging payments arena.

The Consumer Trust

With the consumer becoming more and more digital, all of the existing and emerging providers do not have any other option, but to quickly and effectively adjust their strategies, accordingly. The increased competition might eventually result in tech-savvy consumers turning to a mix of service providers, instead of a single bank for all their financial needs. The consumers are asking for instant, more personalized and more convenient experience. And if they don't receive what they expect from their financial provider(s), they will easily switch to competition, just like with every other purchase they're making. However, we also need to bear in mind that security consumers are equally concerned about the security of their information, and, depending on their profile (age, technology adaption, etc.), most of them would rather feel safer with a "traditional" bank, compared to a FinTech.

An Opportunity or a Threat?

It could be a serious threat for banks that decide to take no action regardless the existence of local regulation to comply - somebody else, either a local or a global player, will do it. So, it's not a matter of "if" but a matter of "when". On the other hand, PSD2 is an opportunity to transform and differentiate for banks that choose to leverage the PSD2 framework and implement innovative services for their customers staying in front of the FinTechs, and, most

importantly, protecting their most valuable asset, the end-customers.

To Comply or to Compete?

Open banking will definitely revolutionize the payments value chain. In order for the "traditional" banks to be competitive in this new era driven by PSD2, they shall focus their digital strategy



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on transforming a simple financial transaction into a means for engaging personalized customer relationships. As there is no universal answer on how to strategically address all these challenges, banks must develop modular solutions, that use APIs, to connect data, products, and services, drawn not only from across the financial services sector, but also from other sectors. In doing so, they will capture customer insight and transform

it into ever more compelling solutions.

Banks can act as aggregators and offer "Account Information Services" to their customers and provide Personal Financial Management services. Banks must see collaboration with Fintechs as an opportunity to use APIs to integrate them into their banking platforms, in order to offer new services based on data analytics. As access to account information for payment services is opened up, banks also can extend their reach in Retail Payments by extending their services as PISPs. Implementing a flexible IT architecture which will enable the provision of services beyond access to account information is crucial for the transition. Instead of being pure play payment processors, banks can move up the value chain by offering online Payment Initiation services straight from their web or mobile channels.

The key takeaway: As Klaus Schwab (Founder and Executive Chairman World Economic Forum) puts it "In the new world, it is not the big fish which eats the small fish, it's the fast fish which eats the slow fish".

About MELLON:

Mellon has built expert know-how and support services to provide its customers with a range of technologically advanced solutions, addressing all physical and electronic channels of institutions with strong consumer business. Our aim is to introduce competitive solutions and services with fast time-to-market, facilitating the development of electronic transaction channels while increasing operational flexibility & efficiency.

Bank loan efficiency in relation to economic growth structure

In countries with high standards of bank loan efficiency, loans' structure and size are in proportion to the dynamics of sectors of the economy that they finance; problem, or bad loans are modest, due to the fact that banks carefully follow the "temperature" and the trajectory of the performance of such branches (sectors), follow closely government's economic and fiscal policies, analyze the most likely scenarios of developments in these sectors, without forgetting here the regional and international economic and financial conjuncture.



Prof. Dr. Adrian CIVICI

President
EUROPEAN UNIVERSITY OF TIRANA,
EUT-UET

Albania, as the result of financial markets' weak development and the lack of alternative sources of financing to the economy, belongs to the group of countries where over 95% of lending activity to various sectors of economy, comes from the banking sector. Along with public investments and FDIs, the banking sector bears the most weight in financing of the economy, by being one of the most direct influencer on economic growth indicator in Albania.

From a theoretical point of view, it is normal to approximate the evolution of credit demand with GDP evolution. Both flows, a priori, must be linked to each other: the

economic growth generate funding needs (investments, consumption), improves the solvency of economic agents, and consequently increases credit demand. However, there are many cases when this "rule" appears to be quite distorted, along with numerous studies, conducted on such topic, which have shown "substantial deviations, as the result of the impact of economic and financial crises and business development cycles".

From this point of view, it is important to analyze the correlation level between evolution and bank lending growth, or its problems, in relation to the performance and development of key sectors of the economy, in order not only to identify the bank lending' contribution, but above all, to understand the efficiency of bank lending in financing the economic activities and its respective issues, in relation to development strategies of particular sectors, government's fiscal policies, business climate, etc.

The main purpose for studying such correlation between financing and development is to assess the performance level of bank lending, over the last two decades, its compliance with main trends in the development of various branches, contributing to economic growth, and the "sensing", or loan quality,

in view of expansion potential, or contraction of these branches and sectors.

According to economists of "credit channel" school, "banking institutions are constantly faced with problems of information asymmetry, loan and risk departments do not sufficiently know the borrower's financial and economic situation and the basic features of projects, or business plans, required to be funded; banks tend to be protected against non-performing loans, by limiting and tightening the lending amount and conditions."

In countries with high standards of bank loan efficiency, loans' structure and size are in proportion to the dynamics of sectors of the economy that they finance; problem, or bad loans are modest, due to the fact that banks carefully follow the "temperature" and the trajectory of the performance of such branches (sectors), follow closely government's economic and fiscal policies, analyze the most likely scenarios of developments in these sectors, without forgetting here the regional and international economic and financial conjuncture. However, such a quality "behavior" cannot be found in Albania, too. In general, there are obvious "deviations" like "shrinking sectors - growing lending",

“problematic activities and sectors - rising bank loans”, “emerging and trendy sectors - stagnating, or falling loans”, “ambiguous sectoral strategy development and problematic business climate - growing loans”, etc. It seems that the banking sector should be more cautious in assessing development trends, borrowers’ quality, government’s economic and fiscal policies, regional and international conjunctures, the performance of parallel financing flows, and so on.

By analyzing bank lending performance indicators and the economic growth (in percentage) for the last two decades, there is a discrepancy between growth trend and the size of bank lending. During the 2002-2008 period, when the Albanian economy was in a very positive economic growth trend, approaching 8% in 2008, bank lending seems to have trailing this

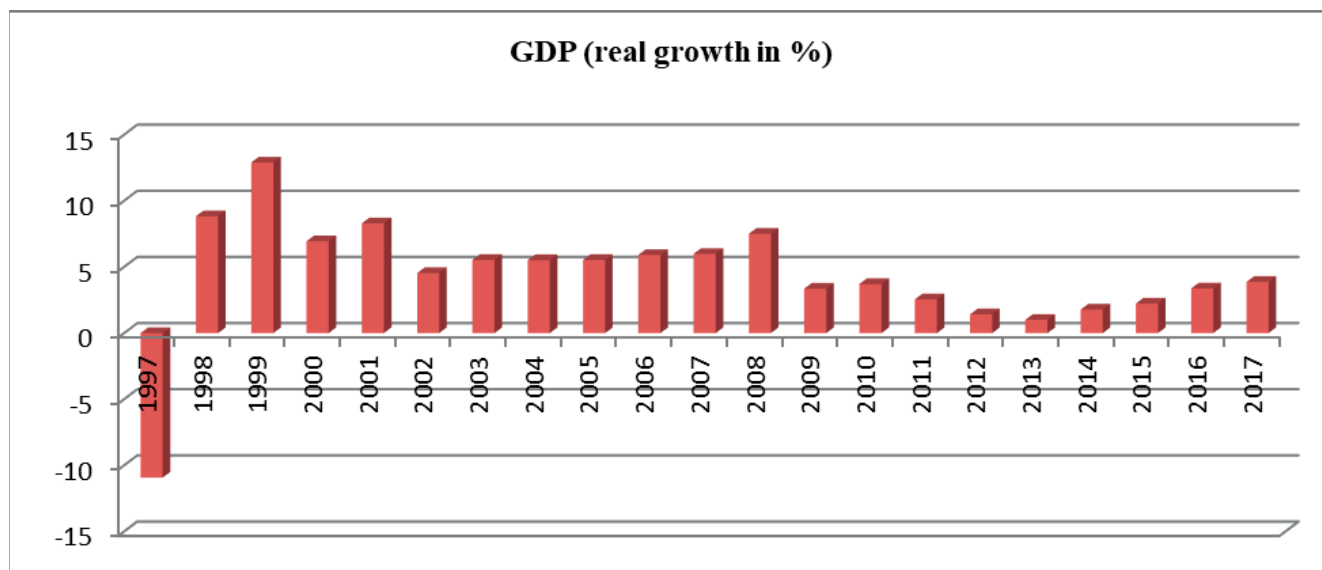
while bank lending has continued to grow rapidly.

During this period, a significant increase of non-performing loans in some of the most problematic sectors of economy and services in Albania is also evidenced. The economic activity slowdown and ALL depreciation against foreign currencies in the 2009-2013 period, was reflected in the increasing of non-performing loans, as a whole. The underestimation of business risk and financial risk associated with exchange rate fluctuations, as well as the high exposure of these segments to bank loans, has resulted in a proportionally faster increase in non-performing loans.

The non-performing loans ratio culminated in 2014, respectively 26% for FX loans, 28% for loans to businesses, and 41% for loans to the construction sector. Also, given the economic growth performance

evolution, as it is shown at the two graphs below.

The study of correlation between the weight and contribution of main branches and sectors in the economic growth (expressed as contribution in % to GDP creation), i.e. their dynamics and size in relation to GDP and the structure and dynamics of bank lending in these last two decades, also witnesses for some discrepancies. The correlation between the performance of services’ sector and loan; volume granted to this sector, seems to be better coordinated, while the non-performing loans’ rate in services’ sector is low, which shows that banks have assessed and followed the dynamics and issues of this sector, fairly and closely. When it comes to construction and industry sectors, although their weight has been declining and

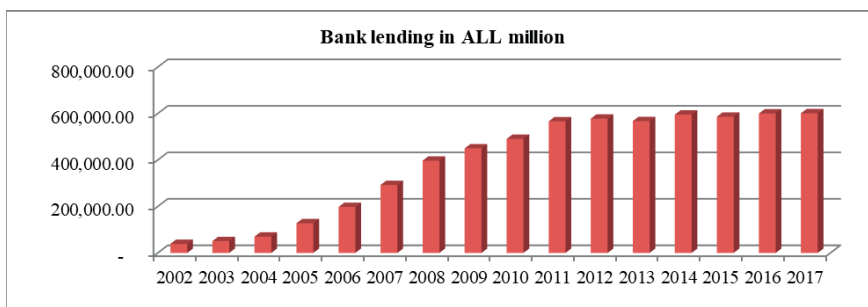


Source: INSTAT 2018

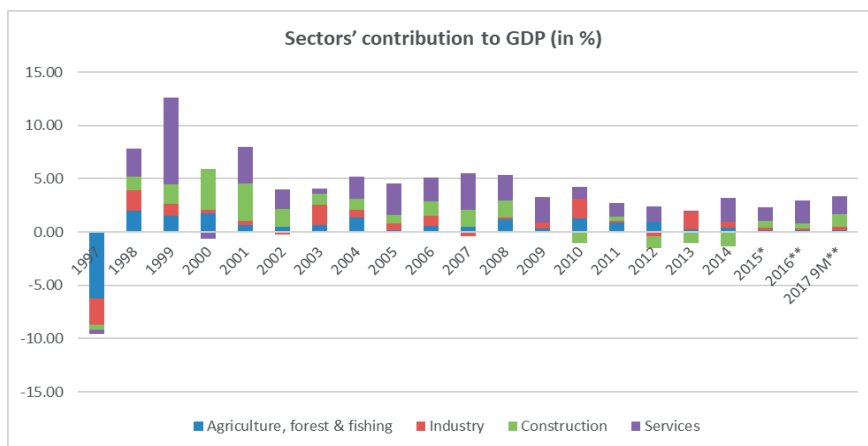
trend, especially during the 2002-2007 period. The same logic seems to be confirmed for two other periods, precisely the 2009-2013 period, when the economic growth declines from 8% to 0.9% in 2013,

of 2013 - 2017, which results in a steady growth trend, the bank lending, despite the positive trend of decreasing non-performing loans, appears to be stagnating, in relation to economic growth

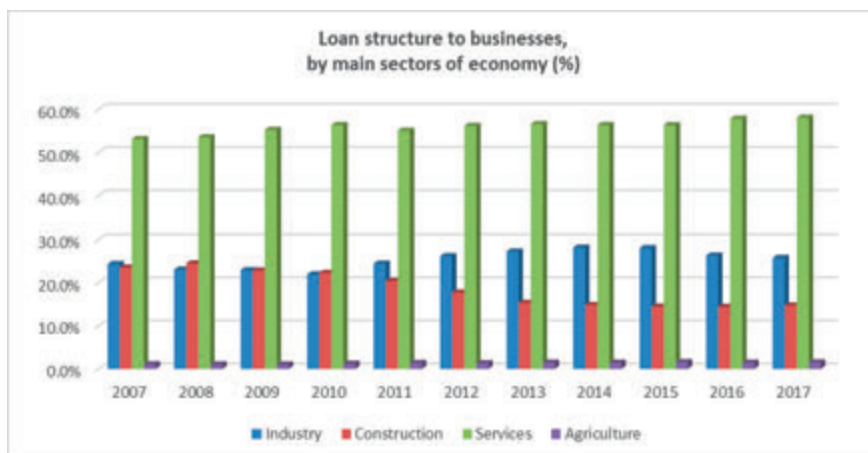
shrinking, coupled with a number of added-risk factors, the bank lending has been increasing, or has remained constant. Particularly, the construction sector results in a high percentage of non-performing



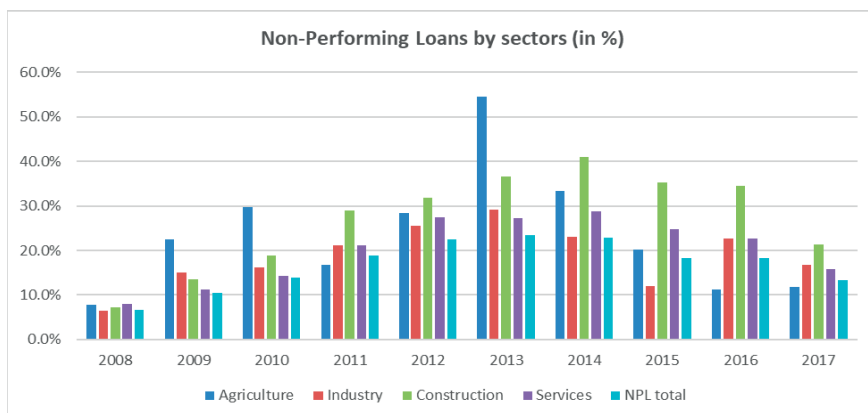
Source: Bank of Albania, 2018



Source: INSTAT, 2018



Source: Bank of Albania, 2018



Source: Bank of Albania, 2018

loans, by remaining problematic for the banking sector.

The study of correlation between the weight and contribution of main branches and sectors in the economic growth (expressed as contribution in % to GDP creation), i.e. their dynamics and size in relation to GDP and the structure and dynamics of bank lending in these last two decades, also witnesses for some discrepancies. The correlation between the performance of services' sector and loan; volume granted to this sector, seems to be better coordinated, while the non-performing loans' rate in services' sector is low, which shows that banks have assessed and followed the dynamics and issues of this sector, fairly and closely. When it comes to construction and industry sectors, although their weight has been declining and shrinking, coupled with a number of added-risk factors, the bank lending has been increasing, or has remained constant. Particularly, the construction sector results in a high percentage of non-performing loans, by remaining problematic for the banking sector.

Loan distribution by sectors of the economy shows that in 2017, banks responded better to the "pulse" of economic growth and GDP growth structure, by increasing funding in the trade, hotels and restaurants sectors and decreasing funding of services' sector. As regard the other sectors, outstanding loan has remained largely unchanged. Hence, and improvement of growth rates in the construction and trade sectors is noted, whereas the loan portfolio for the industry sector continues to shrink. The agriculture and services' sectors have been increasing. Such developments are generally in line with the contribution of each sector to the added value in the economy.

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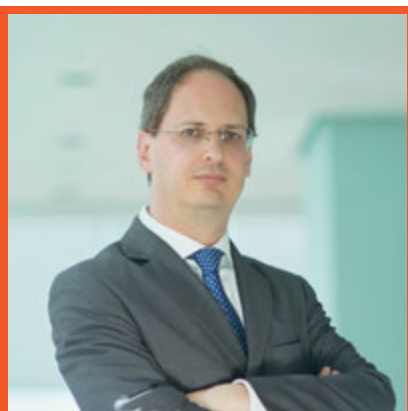
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SPECIAL

Global Finance Announces Its 25th Annual Best Bank Awards

Societe Generale Albania named The Best Bank in Albania for 2018

Global Finance magazine has announced its 25th annual awards for the World's Best Banks, with winners chosen in nearly 150 countries across Africa, Asia-Pacific, Central & Eastern Europe, Latin America, the Middle East, North America and Western Europe, and named The Best Bank in Albania for 2018.



Frederic BLANC

General Manager
SOCIETE GENERALE ALBANIA

General Manager of Societe Generale Albania, proudly accepts this prestigious Award and extends his warmest gratitude to all actors responsible for this esteemed accomplishment:

It is with great pride that we receive the "The Best Bank in Albania for 2018" Award by Global Finance. I am honored to receive on behalf of Societe Generale Albania this first time ever Award, in recognition of excellence that our bank has demonstrated continuously over the past years. These last few years have been successful for Societe Generale Albania and only recently, we ranked as the customers' first choice for Trade Finance in Albania, and as a consequence, for our bank to be top in the market for TF

volumes. Constantly, SGAL has exhibited remarkable financial performance, meaningful technological innovation, improvement and optimization of branch networks, and has managed to progress in the quality of loan portfolio. I am extremely thankful to see that the hard work and everyday commitment of each and every one of our staff members, clients' and partners' trust, and Group's support have not gone unnoticed.

We take great pride in this evaluation and feel encouraged to maintain and augment the high standard of customer service and first-rate performance. We are proud of the quality of service we deliver to the people who we support and we are grateful to have been recognized for our standard across our services. Nothing can be more accomplishing than receiving an Award for the work and efforts!

"The Best Bank in Albania for 2018" Award emboldens us to keep up the virtuous determination and to strive to take our eminence of service and performance one step further. I wish to take this opportunity to once again publicly thank our clients, partners, and each one of our staff, who made this great honorific accomplishment possible.

According to Global Finance, the winners of this year's awards are those banks that attended carefully to their customers' needs in difficult markets and accomplished better results, while laying the foundations for future success. All selections were

made by the editors of Global Finance after extensive consultations with corporate financial executives, bankers and banking consultants, and analysts throughout the world. In selecting these top banks, Global Finance considered factors that range from the quantitative objective to the informed subjective. In addition, a poll of Global Finance's corporate readership was conducted, in order to increase the accuracy and reliability of results. Banks were invited to submit entries supporting their selection.

Objective criteria considered included: growth in assets, profitability, geographic reach, strategic relationships, new business development and innovation in products. Subjective criteria included the opinions of equity analysts, credit rating analysts, banking consultants and others involved in the industry. (Global Finance, 2018)

"At a time of unprecedented change in the financial services industry, Global Finance's annual Best Bank Awards continue to deliver a consistent evaluation of financial industry performance, whether in developing products to meet emerging financing needs or designing digital platforms that speed and enhance services," said Joseph D. Giarraputo, publisher and editorial director of Global Finance.

"The winners are world-class leaders, responding adeptly to shifting political winds, new technologies and changing market conditions."

CORPORATE SOCIAL RESPONSIBILITY



GOAL 1

In the framework of corporate social responsibility approach and public engagement, the bank cooperated with "Fundjavë Ndryshe" Foundation and through the institutional involvement and with many contributions from its employees, it offered a new residential environment for a dignified living, for Buçi family in Paskuqan.

GOAL 4

On the occasion of Money Week, an open lecture with topic: "I Think about Tomorrow", was organized, where Mrs. Gentiana Duka, Head of Section for Personal and Consumer Loans, Alpha Bank Albania, delivered the presentation: "Soft loans for students".



GOAL 3

The bank supported "Together against Breast Cancer" campaign, conducted by YWCA organization in Albania, on 20 March 2018 at the Historic Museum, where some activities against breast cancer were organized, on the occasion of YWCA Albania's tenth anniversary.

GOAL 4

In the frame of Week of Money, the bank supported the "Best Video" Contest, by offering prizes for the first three places earned by high school students, who conveyed, in an original way, the topic: "Money matters, matter!"

GOAL 8

The bank participated, for the third

consecutive year, at Work & Study Fair, as an institution that closely follows every training, specialization and qualification opportunities.

GOAL 11

American Bank for Investments, through its branch staff, attended the festivities of Summer Day, along with residents of Elbasan city, and many visitors from different parts of Albania.

GOAL 17

- Platinum Sponsor of the General Assembly of the American Chamber of Commerce "AMCHAM", held on 21 March.
- The bank was a supporting and financial partner of the meeting organized by the Office of the Commissioner for Information Right and Protection of Personal Data, on 12 March 2018, on the occasion of institution's 10th anniversary.

ART, SPORT, KULTURE

- ABI BANK supported:
- "An angel at eleventh store" comedy,
 - "Virtuosos", talent show, as the general sponsor,
 - GAQI PIANO DUO "Four hands, One Piano" recital concert.



GOAL 3

The bank preferred to be close to citizens who choose to be treated at the University Dental Clinic in Tirana. Improving staff working conditions, by donating computers for their premises, improves the service quality that patients of this clinic will receive.

Together with its staff, and in



cooperation with Albanian Red Cross, the bank stayed close to persons in need for blood.

GOAL 8

In the framework of cooperation with Vlora Sea Port, aiming at increasing social responsibility and in order to improve the community quality service, the bank funded clothes production for port employees.

GOAL 10

Banka Kombëtare Tregtare supported the Daily Centre for children with special abilities at Skrapar Municipality, where 15 children of both genders are treated, with school supplies and clothes for children.



GOAL 9

- The bank supported the Health Center of Specialties No.3, by covering costs for reconstruction of the facilities of this center.
- The bank donated office equipment to improve physical conditions of the following institutions: General Directorate of Prisons, a special health institution for prisoners, Police Station of Mallakstra, Shkodra Regional Education Directorate and Shkodra Regional Hospital.
- Donated electronic devices for Tirana Prefecture.
- Donated some 45 Plum Trees to Kamza Municipality, thus contributing to a growing green zone and providing more pleasant environment for the inhabitants in that area.

GOAL 17

The bank supported the Order of Pharmacists of Albania (UFSH), in

organizing its 5th Pharmaceutical Conference. Under the slogan: "Together for Pharmaceuticals", the conference aimed at a wider information and discussion on pharmaceutical developments in Albania.



Based upon the collaboration with green recycling, ICB, during the first quarter of 2018, received the annual report of 2017, which shows positive impact on the environment as follows:

By recycling 616 kg of waste paper and cardboard, ICB avoided CO2 emission for about 0,8 ton. This is equivalent to:

- 11.4 trees saved, or
- 22,5 cubic meters of water, or
- 2,525.6 kilowatt of energy saved, or
- 5,5 barrels of oil, or
- 16.8 Tons Of air pollutants avoided, or
- 2.0 cubic meters of saved landfill space.



GOAL 3

On the World Day Against Cancer, on February 4, the bank joined the global movement under the call: "We Can, I Can!", and an awareness message was distributed to all its employees.

GOAL 4

• The bank supported financially and with its ICT experts, the "EESTech Challenge Tirana" Project of EESTech LC Tirana, in the field of "Big Data Analysis". The project,



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launched 6 months ago, was put into practice through a Hackathon, a real-time competition on 15-17 March 2018, and was attended by students from Tirana universities, focused on the fields of Information Engineering and Computer Science.

- Supported the Regional Innovation Camp, which was held on 9 February in Gjirokastra, by Junior Achievement of Albania.

- On the occasion of International Day of Native Language, the bank shared a social awareness message with colleagues and followers on 21 February 2018.

- "Internal Audit in the Albanian Banking Sector" was the topic of the open lecture, delivered at UET by Ms. Ediola Bicaku, Director of Internal Audit Department, on 16 March, in the frame of Money Week.

- Following the cooperation with UET, senior executives of Intesa Sanpaolo Albania Bank, attended the meeting organized by this university, in the framework of "250+" project, on evaluating the progress of Scientific and Professional Master programs.

- The Bank supported "in kind" with promotional materials, the Student Conference held on 28 March at Hotel Plaza premises, with the topic: "Economic Globalization and Youth Challenges", organized by Metropolitan University and Faculty of Economics of University of Tirana.

GOAL 5

On the International Women's Day, Intesa Sanpaolo Bank - Albania undertook an internal and external awareness campaign to support the Sustainable Development Goals.

GOAL 6

A special awareness message was shared with followers on social networks on the occasion of International Water Day, pointing to its daily significance, challenges

to reduce the number of floods, droughts and water pollution, using the opportunities the nature offers. Today 2.1 billion people in the world live without access to potable water at home.

GOAL 8

- In the framework of activities that Intesa Sanpaolo Group organizes for all employees, its staff attended the international running marathon, held in Poreč (Croatia), on 24 and 25 March 2018. Four employees of Intesa Sanpaolo - Albania attended this marathon, which included running for: Half-Marathon (21km); Fun Run (14km); Family Run (7km).

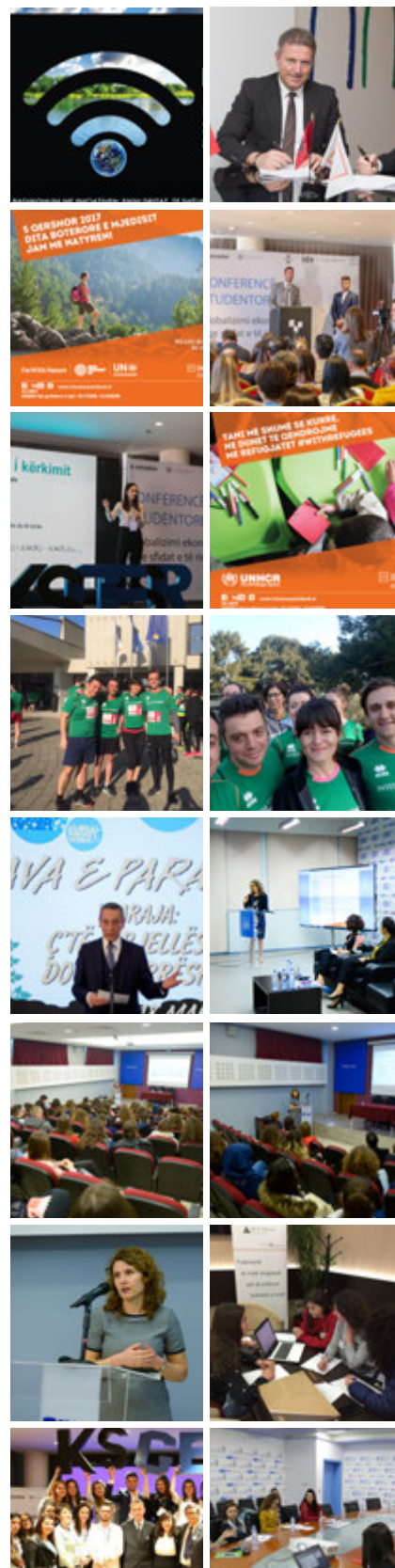
- EBRD expands its cooperation and increases its support for Intesa Sanpaolo Bank - Albania through its Risk Sharing Scheme. The agreement, signed in February at London's EBRD headquarters, in the framework of Third Western Balkans Investment Summit, includes an increase of its current risk-sharing scheme from EUR 10 million to EUR 50 million and for a duration of cooperation with three more years.

GOAL 10

An awareness card was prepared for all bank employees, highlighting parts of Code of Ethics and Human Resources Policies, which strictly forbid any kind of discrimination. This message was also accompanied by a competition (by UNAIDS), called "Do You Discriminate?"

GOAL 11

The Albanian Deposit Insurance Agency signed the contract with agent banks, selected as winners in the procedure carried out in the framework of implementing the regulation: "On Compensation of Insured Deposits", approved by the Governor's Ordinance No.3762, dated 18.07.2016. Intesa Sanpaolo



Bank Albania sh.a. has also been selected out of this procedure.

GOAL13

Intesa Sanpaolo Bank - Albania became part of the Earth Hour Global Initiative, to turn off the lights for one hour on 24 March, from 20:30 - 21:30! Under the world-wide slogan #connect2earth, it turned off the Head Office and the Advertising board lights, for 1 hour.

GOAL 15

An awareness message was distributed through bank's official websites and social networks, to raise awareness of the importance of forests in the economy, energy, outdoor and air quality and above all in quality of life.



GOAL 5

#CELEBRATEHER CAMPAIGN

Gender inequality is present worldwide, depriving women and girls of their basic rights and opportunities. In this framework, Fibank, in collaboration with "Mother and Child Hospital Foundation" has started a long-term initiative, in the form of an awareness campaign called #celebrateHer among Albanian youth and young adults to end violence against women and girls, especially during their pregnancy period.

During January 2018, Fibank developed an awareness video message to distribute all over Social Media channels, in support of "Mother and Child Hospital Foundation" initiative called #celebrateHer. The campaign was framed as a campaign for call

to justice and more specifically address injustices faced by women and girls through positive messages rather than focusing on the negative effects of violence.

This video message would soon precede the call for a public event at Scanderbeg Square, namely a Flash Mob with the theme: "The Waltz of Love #celebrateHer" consisting of both men and women dancing at the main square! The main purpose behind such event was:

- To respond to the rejection of violence through music and dance rather than protest,
- To raise the level of solidarity from ordinary people to join this awareness campaign,
- To offer encouragement to existing violence victims,
- To present women and men as agents of change, and not the former as powerless victims, or the latter as all-powerful tyrants.

This awareness campaign is an ongoing project and will continue through different activities, throughout year 2018.



GOAL 4

As part of activities organized in the frame of Global Money Week, the bank organized the visit of 30 high school students in Tirana to Tirana e Re Agency, where they were acquainted with bank's and electronic banking services offered in the 24/7 Area and the advantages they provide for the client. Along with that, they showed interest also about the innovations that ProCredit has brought to the market recently: FlexSave and FlexCard services.





GOAL 3

Each year, Raiffeisen Bank supports activities organized by "Down Syndrome Albania" on "World Syndrome Down" Day. This year's project, marking this day and increasing awareness for this syndrome, were 21 portraits brought with wonderful pictures by children with this syndrome.

GOAL 11

Raiffeisen Bank contributed with stools produced by MuseumQuartier in Vienna, which were installed at Skanderbeg square.

GOAL 4

In the framework of Money Week, Raiffeisen Bank supported the contest for projects prepared by students of 6th grade of the 9-year schools on "Money matters, matter!", by awarding five prizes for the best projects.

GOAL 15

Raiffeisen Invest supported Tirana Municipality's initiative for forestation of Tirana and the planting of 100,000 trees in Tirana, until 21 March, the World Forest Day. In this occasion, a ceremony was organized, where Raiffeisen Invest and Raiffeisen Bank staff joined this initiative in a symbolic trees' planting. Raiffeisen Invest's contribution to this project is with more than 1,300 trees. The support for such project, shows once again the commitment to increase the quality of life and improve the environment in which we live. Likewise, Durrës Prefecture was supported in planting various areas with trees.



GOAL 4

In the frame of Week of Money, the bank supported the contest on Best Essay on the topic: "Does the use of Euro constitute a risk in trade transactions in Albania?" by awarding the 3 prizes.



GOAL 4

The European Youth Parliament was organized in Albania, for the second year, and this year, Tirana Bank was the main supporter of its realization, in support of young people from all high schools in Albania, who participated "Tirana 2018" conference, held on 16 - 17 February. This event marked about 90 participants, out of which 30 were trainers for young people, organizers, photographers, and the international jury. The EYP, or the European Youth Parliament, is a non-profit organization, established as a platform in 40 countries, with the main goal of rapprochement with the European Union, but above all, fostering citizenship, understanding, equality and cooperation through political debate.

In the framework of the Money Week, an open lecture course was organized with the title: "Think for Tomorrow", where Mrs. Najada Xhaxha, Head of Payment Department at Tirana Bank and Head of AAB Payments System Committee, delivered the presentation: "Financial Culture on Personal Income".



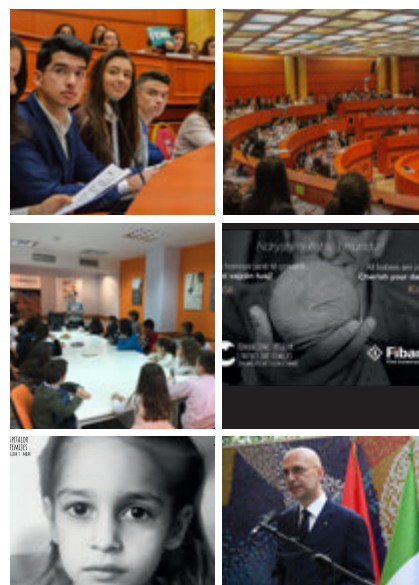
GOAL 4

• On 13 March 2018, Union Bank welcomed bank staff's children of school age, at the premises of Bank's Main Branch, as part of the event: "Small Bankers in Union Bank". This educational activity was organized in the framework of the Money Week and ended with the distribution of symbolic gifts from the bank, including the Union Bank savings home, thus conveying the important message that saving and managing money is a responsibility of everyone.

• In the occasion of 7th March, Union Bank, upon the initiative of its Branch in Kukës, donated 40 computers to Kukës Education Department, which will be distributed to all district's schools.

GOAL 3

Union Bank supported Kukës City Hospital, by financing the purchase of some equipment for hospital pediatricians and reception benches for the common facilities of the hospital complex.



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MONEY WEEK IN ALBANIA

The Money Week is a global money celebration, whose purpose is to raise awareness among the young generation to become responsible future citizens, capable to make well-informed financial decisions.

On March 12 -18, 2018 the Money Week was launched in Albania, under the motto "Money matters, matter!" The activities were organized in cooperation with Bank of Albania (BoA), and with the support from the Ministry of Education, Sports and Youth, the Albanian Deposit Insurance Agency (DIA), Junior Achievement (JA), National Youth Service (NES), schools, public and non-public universities, etc., with the participation of about 5,000 children and young people, representatives of about 55 secondary schools, 14 high schools, 8 universities, in 14 cities.

Activities organized:

Monday, March 12, 2018

The launching ceremony, on the occasion of the Money Week, was held at the Bank of Albania's premises, where Mr. Gent Sejko, Bank of Albania's Governor, and Mr. Silvio Pedrazzi, Chairman of the Albanian Association of Banks, in their welcome speech highlighted, among others, the mission of Money Week and the importance of financial culture for the general public, particularly for young generations.

Following the opening & welcome addresses, the ceremony continued with the award of the three contests, announced one month ago by BoA and AAB. Governor Sejko and the Mr. Pedrazzi, AAB Chairman, together with other CEOs of commercial banks, which sponsored the awards of the contest winners, handed over the prizes and took photos with winning students.

1. Contest for students of 6th grade of primary schools, introducing projects on "Money matters, matter!", supported by Raiffeisen Bank Albania.
2. Contest "Best Video" for high school students on the topic "Money matters, matter!", supported by ABI Bank.
3. Contest on Best Essay on the topic: "Does the use of Euro constitute a risk in trade transactions in Albania?", supported by Societe Generale Albania Bank.

Tuesday, March 13, 2018

Visit at BoA Museum and open lecture, dedicated to 6th grade students of "Jeronim De Rada" 9-year school, on the topic "Money matters, matter!".

Children and young people 5000

representatives of about secondary schools 55

universities in 14 cities 8

high schools 14



MONEY WEEK IN ALBANIA

Visit to a branch of commercial bank

ProCredit Bank organized a visit for the students of a high school to one of its branches. Students were specifically introduced to innovative banking services provided at 24/7 Zones and were informed on the advantages of automating banking services to its customers.

Union Bank welcomed its staff's children at school age, with the aim to provide the younger generation with basic banking and savings principles. During the activity, schoolchildren visited Union Bank headquarters, where they were introduced to the basic procedures and the principal products and services of the bank.

Open lecture at "Epoka" University, Tirana delivered by Ms. Olta Manjani, Chief Specialist with Monetary Policy Department at Bank of Albania, on "Monetary System and the role of the Bank of Albania in preserving it" and Mrs. Suela Totokoçi, Treasury Department Head, Intesa Sanpaolo Albania Bank, on: "The role of banks in communicating monetary policy - use of the domestic currency".

Open lecture at Bank of Albania on: "The Importance of Financial Culture for Young Entrepreneurs and for Personal Welfare". The lecture, addressed to the audience of young students and entrepreneurs, was delivered by Mr. Dritan Mezini, General Director of DM Consulting and Duapunë.com portal, aiming at raising awareness on the importance of financial culture, as part of their overall education and considering it as a key to entrepreneurial success.

Thursday, March 15, 2018

Junior Achievement organized a version of World Trade Game, at the premises of Protik center conference room, with the participation of 30 students (17-18 years old) from Tirana.

Open lecture, in cooperation with the National Youth Service on the topic: "Think for Tomorrow", by Ms. Najada Xhaxha, Head of Payment Department at Tirana Bank and Head of AAB Payments System Committee, with the topic: "Financial Culture on Personal Income" and Mrs. Gentiana Duka, Head of Section for Personal and Consumer Loans, Alpha Bank Albania, on the topic: "Soft loans for students". The event was held at the premises of the Regional Youth Center of Tirana with the participation of high school students.



MONEY WEEK IN ALBANIA

Visit to BoA Museum and lectures for primary school students of "Servete Maçi" 9-year elementary school on the topic: "Money matters, matter!"

Friday, March 16, 2018

Open lecture at "Aleksandër Xhuvani" University, Elbasan from Ms. Juna Bozdo, Head of Systemic Risk Assessment, Financial Stability Department, Bank of Albania, on "Financial Stability, the Role of the Bank of Albania in the Preservation and De-Euroization Package"; Ms. Artiola Agalliu, Manager of Risk Management Department at Union Bank, on the topic: "The Role of the Bank and Financial Stability"; and Ms. Marilda Shkurti from the Albanian Deposit Insurance Agency (DIA) on: "Financial Stability, the role of deposit insurance schemes in maintaining financial stability".

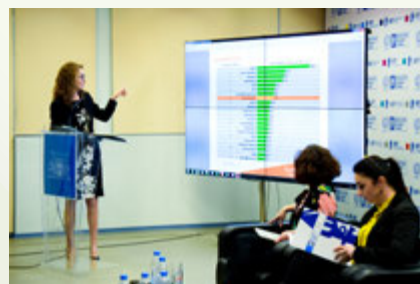
Open Lecture at "Aleksandër Moisiu University" in Durrës, by Ms. Ela Golemi, Member of the Supervisory Council of the Bank of Albania and Vice Dean of the Economics and Business Faculty at "Aleksandër Moisiu University", Durrës, on: "The importance of using our national currency contributing to the country's sustainable economic development" and Ms. Joarda Mema, Head of Products and Segments Development Unit at Credins Bank, on: "Retail Banking Activity: Loan Deposits in Domestic Currency".

European Money Quiz

AAB becomes part of the European competition, which is organized for the very first time in 2018, aiming to enhance the financial culture for children aged 13 to 15 years old.

Open lecture at the premises of UET by Ms. Ediola Biçaku, Head of Internal Audit Department at Intesa Sanpaolo Bank Albania, on "Internal Audit in the Banking Sector and Future Challenges".

Open lecture at Protik Innovation Center, for high school students in Tirana and students from various universities country wide, by Linda Shomo, CEO & founder of EasyPay, on "Electronic Money and Payments in 2020". In addition to this open, interactive lecture, the activity continued with a short quiz, aiming to test young people's financial knowledge.



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Viti I	Viti II	Viti III
2%	3.3%	4%



AAB ACTIVITIES

Meeting on electronic payments

The Albanian Association of Banks in the frame of the latest initiatives and projects in the payment market and the promotion of electronic payments use, organized a meeting with banks' representative and MADFOOATCOM, a company focusing on electronic payments. The meeting was organized on January 23, upon the interest shown by the company for the Albanian market and was attended also by Bank of Albania and utility company's representatives.



Financial Education_ Open Forum on Albanian banking system

On 8 January 2018, Mr. Spiro Brumbulli, AAB Secretary General, was invited at EPOKA University in an open lecture. This event was organized by the club students YEN Club (Young Economics Network) and Mr. Brumbulli was a guest speaker. He was invited to talk about the banking sector, the achievements and challenges and the sector contribution to the economy and society.

At the end, Mr. Brumbulli responded to student questions, which focused particularly on the concerns about the banking and financial sector.



Farewell & welcoming cocktail

AAB hosted a farewell and welcoming reception, in honor of Mr. Periklis Drougkas, who stepped down as Chief Executive Officer of Alpha Bank and AAB Chairman, and Mr. Pierlouigi Caferri who left the position as Chief Executive Officer of Veneto Banka and welcomed Mr. Georgios Papanastasiou, as the new Chief Executive Officer of Alpha Bank, Albania.



Roundtable on the Italian and Albanian Banking Sectors

On 20 February, AAB hosted a roundtable on the Italian and Albanian banking sector. It brought together Bank of Albania's representatives, chief executive officers and high-level managers from several banks, Italian Ambassador to Tirana, as well as representatives of the Albanian and Italian Association of Banks (ABI), to discuss about the current situation, perspectives and challenges of the banking industry. The event was opened by Mr. Silvio Pedrazzi, AAB Chairman, who welcomed the participants and presented an overview of the banking system in Albania, focusing in particular on the structure of Albanian banking system and recent economic and financial trends. He welcomed the opportunity to deepen the engagement with the Italian counterparts and to take advantage of their experience as an EU country.

Mr. Guido Rosa, the deputy Chairman of ABI and Mr. Pierfrancesco Gaggi, Head of International Relations (ABI) thanked the organizers for the reception and for the organization of the visit of the Italian delegation in Albania.

On a regulatory standpoint, Mr. Deniz Deralla, Head of Supervisory Department at Bank of Albania, introduced the latest developments in the regulatory framework and relevant measures for foreign intermediaries. At the end of the meeting, the parties agreed to continue to strengthen the partnership and cooperation on issues of common interest.

At the end of the meeting, the parties agreed to continue to strengthen the partnership and cooperation on issues of common interest.



Mastering Digital Transformation & PSD2

On March 01, 2018, AAB, in cooperation with Mellon Group, organized a workshop to discuss about digital transformation and the Second Payment Services Directive (PSD2). The activity was attended by representatives of Bank of Albania, AAB member banks and banks in Kosovo. Some of topics covered in the workshop by the experts of some companies, such as: Mellon Group, Gemalto, Euronovate and Crowdpolicy, included: strong customer authentication & dynamic linking, ID verification & hybrid customer on-boarding, Know Your Customer and become an e ID provider, E-Signatures for paperless branches, open banking API – the minimum PSD2 mandate.



AAB cooperates with ASD in organizing a debate for students of economic faculties

In the frame of financial education, the Albanian Association of Banks, in cooperation with Albanian Deposit Insurance Agency (DIA) organized the debate: "Do deposits insurance schemes impact the stability of the country's banking and financial system?" This competition was attended by students of Faculties of Economics from EPOKA University, Aleksandër Moisiu University of Durrës and LUARASI University, who debated about pros and cons of deposit insurance. The debate was planned according "Karl Popper" format and the rules it contains, which encourage debates between two teams, by means of arguments, aimed at promoting and improving critical thinking, public communication, and work group. At the end, the event organizers awarded the best team, which represented Aleksandër Moisiu University of Durrës.



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TRAININGS

AAB organizes trainings

February - March 2018

IFRS and Tax Training on 14-16 February

The training was organized in cooperation with KPMG Albania and was attended by 15 participants of member banks. The program covered the general reporting and tax requirements, which are considered as most relevant to the commercial entities in their capacity as banking customers and targets of the banks' Credit Officers, aiming to enhance the credit officers' reading and interpretation of the financial information provided by entities in Albania.

IT auditing for non-IT auditors on 22-23 February

The training was organized in cooperation with AIIA and was attended by 18 participants of member banks. The training was an interactive panel of shared experiences of the participants from both the areas (business functions and IT audit). Besides the theory, participants contributed themselves by interactive participation and working together in a case study where all kind of IT (audit) related issues come together.

Fraud: Advance Guard, recognizing and detecting fraudsters, March 21-22

This course introduced participants to the benefits of adopting a system which assists in preventing, detecting, quantifying and responding to fraud threats. Attendees discovered skills and techniques which will prove valuable in the mitigation of risk from external sources. The course was organized in collaboration with AIIA and attended by 15 participants from banks and non-banks financial institutions.



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