

BANKING PERIODIC

OVERVIEW OF THE FINANCIAL
SECTOR IN KOSOVO

INCOME STATEMENT OF THE BANKING INDUSTRY IN KOSOVO

BANKING PERIODIC



SHOQATA E BANKAVE TË KOSOVËS
KOSOVO BANKING ASSOCIATION

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DATE OF PUBLICATION,
July 20, 2015

BANKING PERIODIC IS SUPPORTED BY
THE EUROPEAN FUND FOR SOUTHEAST
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INCOME STATEMENT OF THE BANKING INDUSTRY IN KOSOVO

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REVENUES OF THE BANKING INDUSTRY IN KOSOVO



The banking industry in Kosovo has continued to mark a continuous growth in its main indicators, which has led this sector to be more reliable and more secure in its performance. In this context, the banking industry revenues continued to have positive values both increasing and in relation to the expenses of this industry. This implies that the banking industry has been profitable in an ongoing basis, which is necessary for any business to perform in a stable basis, leading deposits of Kosovo's citizens to be safer.

REVENUE OF THE BANKING INDUSTRY								Million Euro
Period	Interest income				Non-interest income		Income from revaluations	Total
	Loans	Bank placements	Securities	Other	Fees and commissions	Other operating income	-	-
2010	169.6	2.7	3.1	0.4	37.5	3.9	-	217.2
2011	186.3	4.1	4.2	0.5	41.7	3.3	-	240.1
2012	194.9	2.0	3.0	0.6	44.2	2.4	-	247.0
2013	192.5	1.4	2.3	2.0	45.6	3.9	1.2	249.0
2014	189.5	1.1	2.9	2.5	44.5	3.3	0.5	244.2

Tab. 1 | Source: CBK – Income statement of other depository corporations

As presented in Table 1, it can be seen that the banking industry had roughly the same revenues throughout the years with a slight increase from year to year, with the exception of last year when revenues were 4.8 million Euros less or about 1.9% lower income compared to 2013.

As seen, this reduction of 4.8 million Euros resulted from a decreased interest income on loans disbursed, in which the banking industry has collected 3 million Euros or 1.55% less interest income on loans, as well as 1.1 million Euros or 2.4% less income generated from fees and commissions. This proves that over the past year (2014), the banking industry has managed to significantly reduce interest rates on loans issued, since the total value of loans issued increased during the last year, and also has reduced fees and commissions that apply to customers for services and products offered. The reduction of fees and commissions is mainly due to the use of electronic services and products for which the banking industry has made significant investments; in which case it has aimed at stimulating an increased use of these electronic service instruments through lower prices, in order to decrease the use of cash. Statistics show that the strategy used by the banks has been successful.

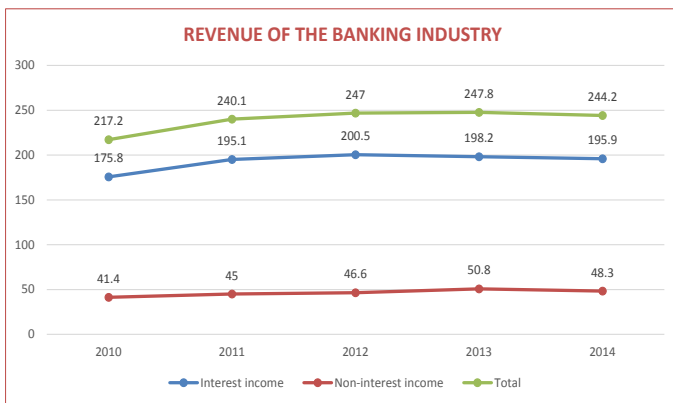


Fig. 1 | Source: CBK – Income statement of other depository corporations

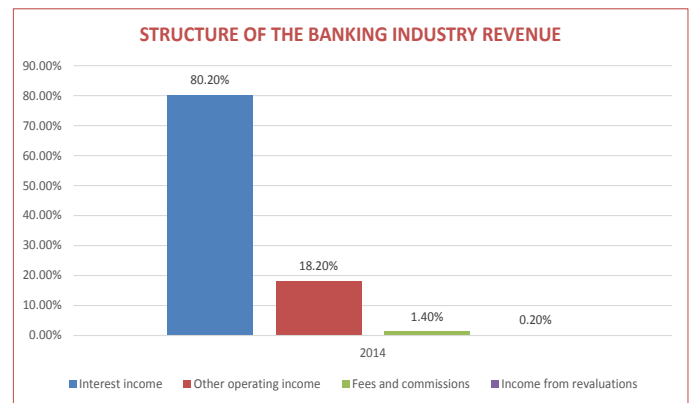


Fig. 2 | Source: CBK – Income statement of other depository corporations

As shown in Figures 1 and 2, the main portion of the banking industry revenues consist of interest income which include interest income from loans, placements with banks, securities and others. The group’s main income of the banking industry also includes non-interest income, namely fee and commission income.

Hence, banking industry main activity remains lending, reflected in the income statement of this industry.

The banking industry performance continued to be approximately the same even in 2015, in which case interest income from loans and income from fees and commissions marked a slight decrease. This can be seen in Table 2 shown below.

REVENUE OF THE BANKING INDUSTRY								Million Euro
Period	Interest income				Non-interest income		Income from revaluations	Total
	Loans	Bank placements	Securities	Other	Fees and commissions	Other operating income	-	-
May 2014	77.7	0.6	1.0	1.3	18.6	1.2	0.2	100.6
May 2015	76.2	0.3	1.7	0.1	18.5	4.6	0.8	102.2

Tab. 2 | Source: CBK – Income statement of other depository corporations

For comparison purposes of the banking industry revenue of this year (2015), data as of May 2014 was obtained. Of the total revenue until May 2015, it is obvious that there is 1.6 million Euros or 1.59% more income compared to the same period of last year.

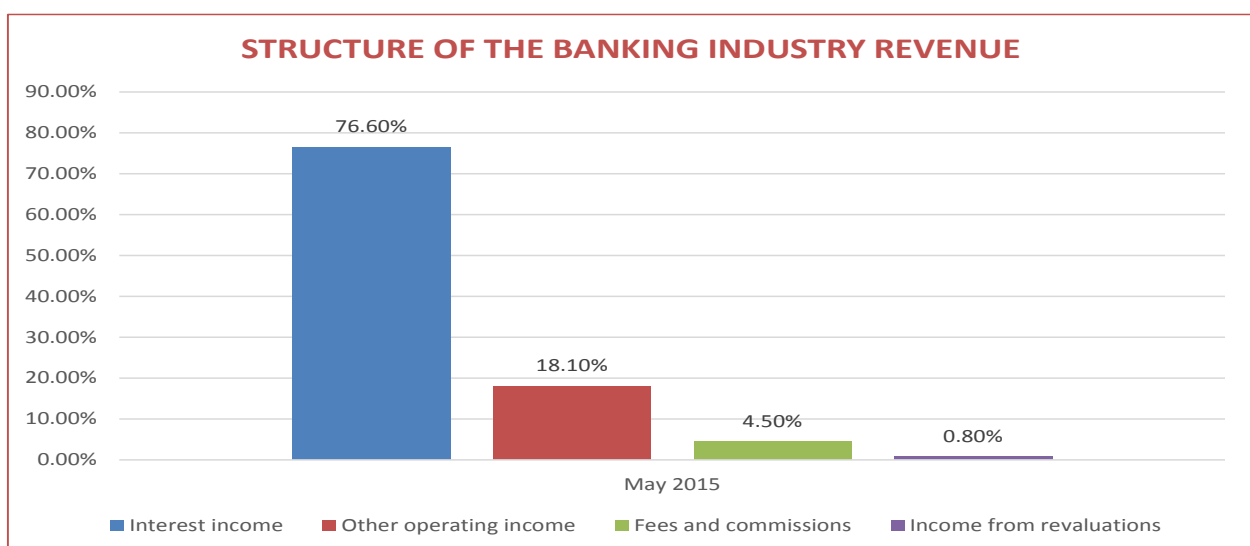


Fig. 3 | Source: CBK – Income statement of other depository corporations

As shown in Figure 3, there is a shift in the income structure of the banking industry during the year 2015 in relation to the structure of income at the end of 2014, since in the framework of income, the percentage of interest income of industry to total revenue has declined from 80.2% to 76.6%, income from fees and commissions from 18.2% to 18.1%, while other operating income increased from 1.4% to 4.5%.

BANKING INDUSTRY EXPENSES

In the past two years, the expenses of the banking industry had declined considerably, which has made the gap between income and expense to increase, leading to a higher industry profit, although it can be seen that the income had recorded a slight decrease in 2014 compared to 2013.

BANKING INDUSTRY EXPENSES											Million Euro
Period	Interest expense			Non-interest expense		General and administrative expenses			Loss from revaluation	Tax provision	Total
	Deposits	Borrowing	Other	Fees and commission	Loan loss provision	Personnel expenses	General expenses	Other non-int expenses			
2010	49.4	4.8	1.1	7.7	28.3	37.8	37.6	12.6	1.2	4.3	184.8
2011	51.3	5.6	1.5	8.5	34.8	40.7	33.5	22.9	1.2	4.2	204.1
2012	57.6	3.2	2.3	8.7	50.3	42.3	35.5	24.5	0.7	3.3	228.6
2013	58.0	2.6	3.2	9.4	46.1	42.3	35.6	22.5	-	3.2	223.0
2014	36.4	3.1	4.5	11.1	20.5	42.4	34.8	24.5	-	6.8	184.2

Tab. 3 | Source: CBK – Income statement of other depository corporations



At the end of 2014 banking industry expenses have declined by 38.8 million Euros or 17.4% compared to the end of 2013. Most of this reduction is due to the reduction of loan loss provisions for 25.6 million Euros or to 55.5%. Reducing the amount of provisioning for loan losses shows that the quality of the loan portfolio has improved significantly, allowing banks to have less expenses in this category. The banking industry has also made reductions of the interest expense; respectively reduce the interest paid on deposits for 21.6 million Euros or 37.2%.

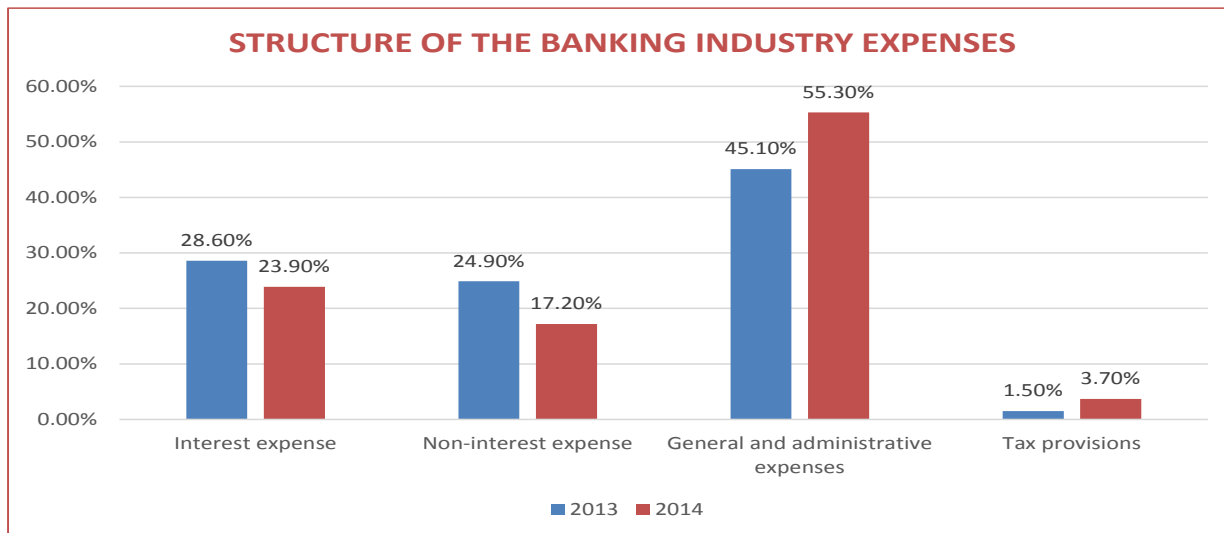


Fig. 4 | Source: CBK – Income statement of other depository corporations

Within the total expenditure of the banking industry, according to Figure 4, most consists of general and administrative expenses, followed by interest expense, non-interest expenses, followed by others.

The change in the cost structure of the banking industry from 2013 to 2014 can also be seen in Figure 4, where the non-interest expenses decreased by 7.7% (including loan loss provision) and interest expenses by 4.7%.

The trend of reducing banking industry expenses has continued in 2015, respectively until May, if compared to the same period of 2014.

BANKING INDUSTRY EXPENSES										Million Euro	
Period	Interest expenses			Non-industry expenses		General and administrative expenses			Loss from revaluation	Provision For taxes	Total
	Deposits	Borrowing	Other	Fees and commission	Loan loss provision	Personnel expense	General expenses	Non-interest expense			
Maj 2014	19.0	1.1	1.9	4.8	11.7	17.2	14.2	8.7	-	2.5	81.2
Maj 2015	7.7	1.8	0.6	4.6	2.9	17.1	13.4	10.1	-	3.6	61.9

Tab. 4 | Source: CBK – Income statement of other depository corporations

Based on table 4, it is clear that the total expenses of the banking industry for the first five months of 2015 compared to 2014 decreased by 19.3 million Euros or 23.7%. Even during 2015, the substantial reduction of banking industry expenses for loan loss provisions has continued, in which case the provisioning has decreased by 8.8 million Euros or 75.2%. The interest expense on deposits was also reduced by 11.3 million Euros or 59.4%. This shows that the banking industry continues to show great maturity in maintaining and further improving the quality of its loan portfolio causing reduced provisioning expenses.

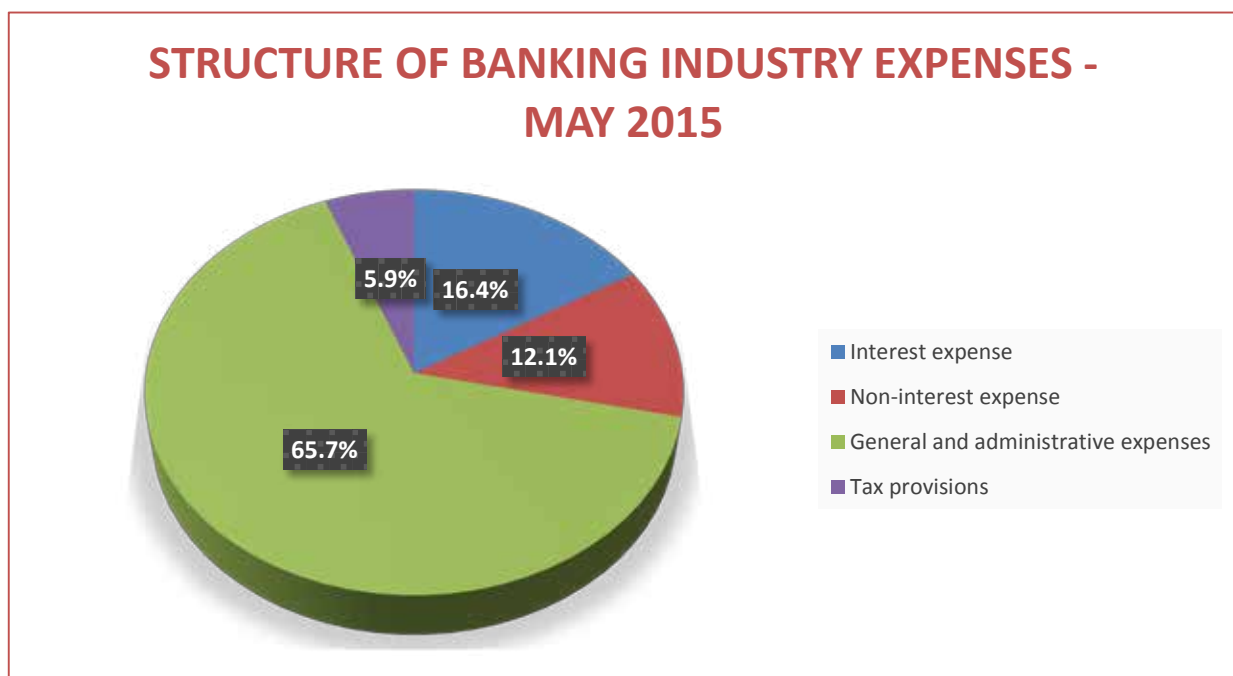


Fig. 5 | Source: CBK – Income statement of other depository corporations

The structure of the banking industry's total expenditure has continued to change during 2015 compared to previous years, in which case Figure 5 shows that general expenses have increased their participation to 65.7%, while interest expense has decreased to 16.4% and non-interest expenses to 12.1%.

NET OPERATING INCOME OF THE BANKING INDUSTRY



Although revenue had no major change in the past four years, banking industry expense reduction, particularly in the past two years, made the banking industry have a greater profit realized at the end of 2014.

NET OPERATING INCOME OF THE BANKING INDUSTRY			
Million Euro			
Period	Revenue	Expenses	Net profit
	A	B	A-B=C
2010	217.2	184.8	32.4
2011	240.1	204.1	36.0
2012	247.0	228.6	18.5
2013	249.0	223.0	26.0
2014	244.2	184.2	60.1

Tab. 5 | Source: CBK – Income statement of other depository corporations

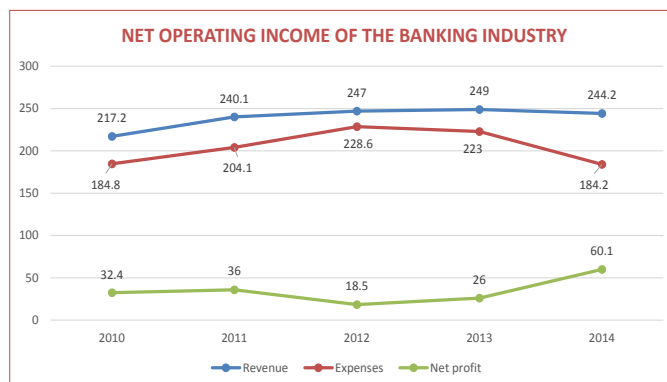


Fig. 6 | Source: CBK – Income statement of other depository corporations

As seen from Table 5 and Figure 6, at the end of 2014 the banking industry has marked an increased net profit compared to 2013 for 34.1 million Euros or an increased profit for 131.1%, while it can be seen that expenses had a declining trend over the last two years.

The similar trend of decreasing expenditures and increasing net profit has continued in 2015, while revenues were approximately the same. Table 6 below shows this trend.

NET OPERATING INCOME OF THE BANKING INDUSTRY			
Million Euro			
Period	Revenue	Expenses	Net profit
	A	B	A-B=C
May 2014	100.6	81.2	19.4
May 2015	102.2	63.0	39.2

Tab. 6 | Source: CBK – Income statement of other depository corporations

If the net profit for the month of May 2015 is compared to the same period in 2014, it can be seen that profit increased by 19.8 million Euros or 102%.

Based on the data obtained for comparison for the years 2010-2014 and considering the following data from the 2015 income statement, during this period the banking industry has achieved a significant reduction of interest income on loans, providing the

citizens of Kosovo with lower interest rates on loans, while simultaneously managing that for business needs and profit purposes to keep a steady level of income. It has also been able to manage its credit portfolio more successfully, reducing provisioning costs and making the industry realize the highest net profit in the last year, thus guaranteeing reliability to citizens for the sustainability and financial stability as well as offering a greater security for their deposits. This sustainability and financial stability is crucial for the economic development of the country, since this sector credits the economy.

REFERENCES

Central Bank of the Republic of Kosovo, Income statement of other depository corporations, July 2015, <http://bqk-kos.org/?id=55>;

PART II

BANKING INDUSTRY NEWS THAT MARKED THE MONTH OF JUNE

CBK LICENSES THE TURKISH BANK ZIRAAT



Ziraat Bank has reportedly obtained the operating license for its branch in Prishtina by the Central Bank of Kosovo (CBK). The statement published in Ziraat Bank's Public Information Platform stresses that the bank has received permission from the Central Bank of Kosovo to operate with the branch in Prishtina. (Telegrafi, June 2, 2015)

FROM OVER 213 THOUSAND OLD COURT CASES, 10,500 BELONG TO THE BANKING SECTOR



The process initiated last year to facilitate the resolution of disputes between banks and their customers or vice versa, has not been working. The Judicial Council has appointed a number of new judges, but the overall solution to these cases is not expected to happen this year, reports KTV. Enver Peci said that with the addition of new judges and solving cases of higher values, the large number of cases of this sector would be reduced to some extent, but will not be completed. On the other hand, bank representatives are expecting the institutions to take this problem more seriously this year, transmits Koha.net. From over 213 thousand old cases, 10,500 belong to the banking sector. (Koha.net, Kohavision, June 3, 2015).

7.9% AVERAGE INTEREST RATE ON LOANS



The interest rate on loans, but also deposits, has decreased significantly during the first quarter of this year, compared to the same period last year. Based on the latest data of the Central Bank of Kosovo (CBK) it is shown that at the end of March, the interest rate on loans was 8.9 percent, while in the same period last year the average interest rate was 11.2 percent. During this period, the interest rate on deposits has significantly decreased from 1.7 percent at the end of March 2014 to 0.7 percent at the end of March this year. CBK's last report stated that the decline could have been affected by banking competition pressure and the reduction of the cost of financing banking activities. Nonetheless, the interest rates on loans for enterprises as well as households mark a steady decline, according to the CBK. While the interest rate by the end of 2014 was 9.2 percent, the rate in April was 8.3 percent, while 7.9 percent in May. However, this rate is estimated to be still high according to economic experts. (Zeri, June 10, Telegrafi June 27, 2015).

MODERN BANKING SERVICES AND TECHNOLOGICAL INNOVATION EMPOWER AND PROVIDE INDEPENDENCE TO BANK CLIENTS (WRITTEN BY E. BIBOLLI, JUNE 18, 2015)



We live in the XXI century, the century of technological progress and innovation. It's a fact that today, technological developments have given another dimension to the way we live, how we are informed, how we communicate and how we perceive reality. For generations, today it is difficult to imagine everyday life and professional work without a host of electronic devices. In this context, as in every other field, the worldwide financial systems have been subject to technological advances and have rapidly adopted the most modern technologies in the field of communication and providing services to clients. The banking system in Kosovo is no exception to this trend. It can be said with confidence that in recent years this system has adopted modern technologies, comparable to those of Western European countries with admirable intensity and speed. (Koha Ditore, 18 June 2015).

BANK DEPOSITS GROW



CBK has announced that deposits in the banking sector amounted to 2.57 billion Euros in March 2015, marking an increase of 5.9 percent; however, there was an increase of 7.1 percent in 2014. "The main factor that may have contributed to the slowing growth of deposits may be precipitous decline in the interest rates on deposits that are

characterizing the banking sector. The slowing growth of deposits might have also been impacted by the growth of emigration from Kosovo in the first months of 2015. The structure of deposits in the banking sector continues to be dominated by household deposits, which account for 74 percent of total deposits", has been stated in the report of the Central Bank of the Republic of Kosovo for the quarterly assessment of the economy. According to CBK, the second-largest item in the structure is enterprise deposits with a share of 20.3 percent of total deposits. (Bota Sot, Zeri, 12 June 2015).

CREDIT GUARANTEE FUND FOR 6 YEARS, 20 THOUSAND EMPLOYEES



After the approval for establishing the Credit Guarantee Fund for Kosovo during the Government meeting, the Minister of Ministry of Trade and Industry, Hykmete Bajrami, in press conference stated that the Fund will improve the business environment. Bajrami also said that the Fund will decrease barriers for obtaining credit created over the years, and within six years of loans being generated there is an opportunity for creating 20 thousand new jobs. According to her, this fund will provide 50 percent collateral discount, hoping to be reflected in the banking institutions, which after the reduction of risk by 50 percent will lower the interest rates. The fund will initially cover 50 percent of the collateral, which would automatically reduce the risk by 50 percent for the banks and we believe the banking, non-banking and microfinance institutions will reflect the reduction of this risk by 50 percent and of course lower the interest rates, "said Bajrami." This fund of about 20 million Euros in initial capital is estimated that within the first six years would increase the possibility of issuing new loans of about 360 million Euros and it is expected that these 360 million new loans can create up to 20 thousand new jobs", said Bajrami. (Telegrafi, 18 June 2015).

KOSOVO IS EXPECTED TO HAVE GROWTH OF 3.5 PERCENT



According to estimates of the Central Bank of Kosovo (CBK), Kosovo's economy for this year is expected to reach 3.5 percent. The acceleration of economic growth is expected to be generated by domestic demand and investment. As of the first quarter of this year, it had a public debt of 622.1 million Euros. Based on the latest publication of the CBK in the quarterly assessment of the economy, public investments have decreased by 20.2 percent as of March 2015, while foreign direct investment (FDI) have increased by 103.8 percent. (Zeri, June 18, 2015).

FINANCIAL LITERACY CAMPAIGN FOR CLIENTS WAS LAUNCHED



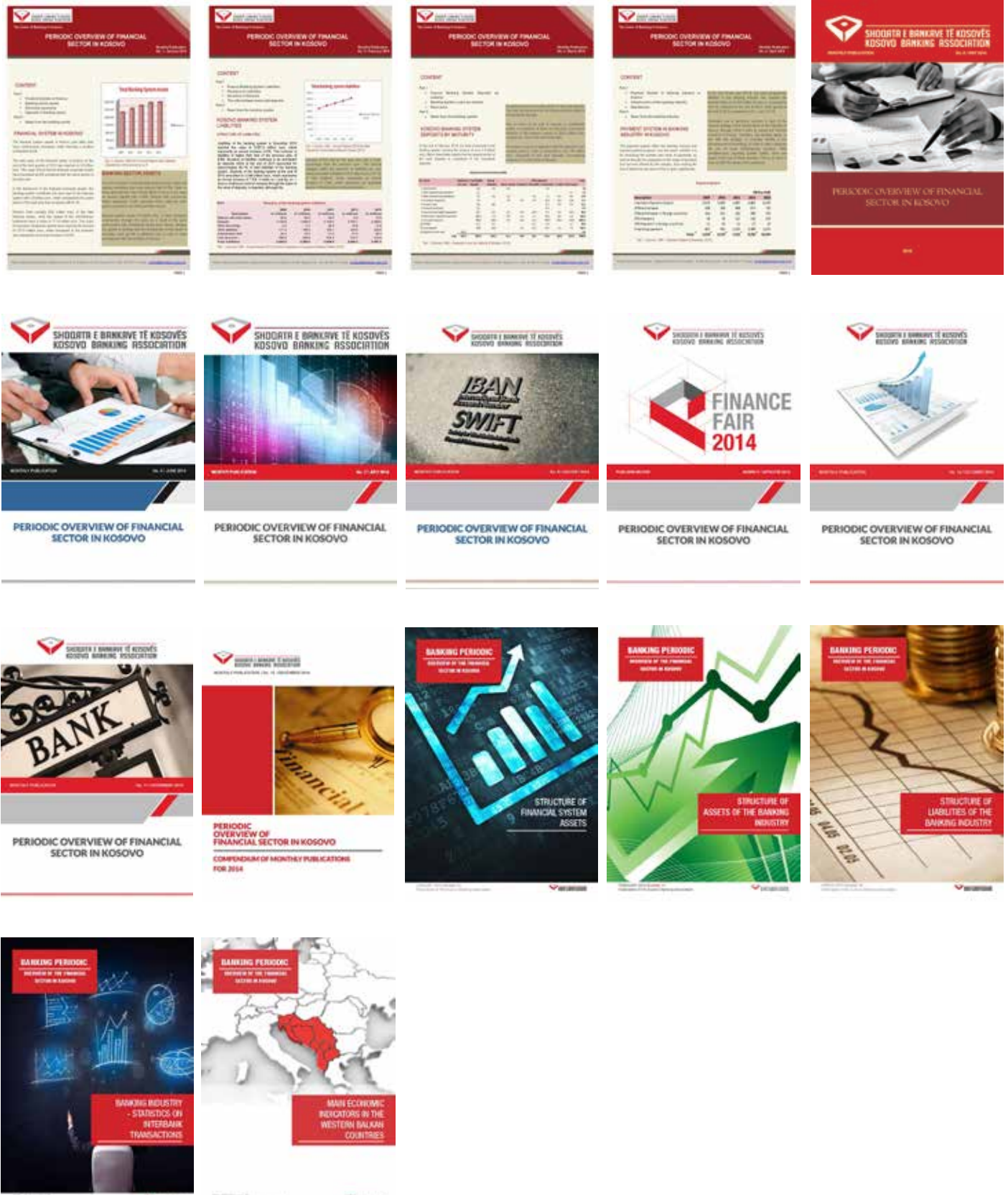
The campaign for financial literacy realized within the Project for Financial Literacy of banking clients has been launched. In the framework of this project, videos raising awareness in the field of e-banking, smart borrowing and product characteristics were published. These videos are intended to increase the financial literacy of clients making them proactive customers who are well informed about personal finances, understand the characteristics of banking products and thus make smart borrowing.

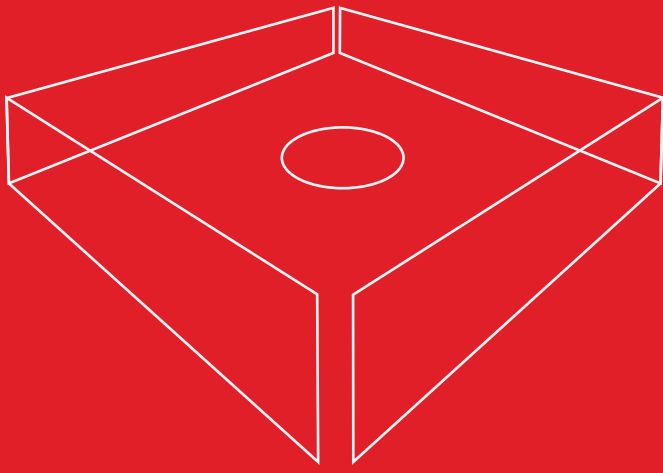
In connection with the launch of this campaign, the executive director of the Kosovo Banking Association Mr. Petrit Balijsa said "within its financial literacy strategy, KBA has supported the project financially; while IFC, a World Bank member has cooperated with KBA in implementing the Project for Financial Literacy, in order to improve the actual level of the financial literacy of the population, specifically targeting existing and potential banking clients in Kosovo". In order for customers to have a broader understanding of personal finances, besides the awareness campaign, the project for Banking Clients Financial Literacy predicts free training provided to bank customers in the following areas: personal finance management, smart borrowing and savings.

This project has been supported by commercial banks in the country, the Ministry of Trade and Industry, MasterCard and Visa. (Bota press, KosovaLive 360, InfoDirekt, News Agency Economica, Express, Blic, Lajmi.net, June 24, 2015).

PUBLICATIONS OF THE KOSOVO BANKING ASSOCIATION

“Banking Periodic” is a monthly publication of the Kosovo Banking Association starting with its first publication in January of 2014. Monthly publications are comprised of data and general overview of the financial system in Kosovo. Each monthly publications will address specific issues of the financial system where the main focus is on the banking sector in Kosovo.
www.bankassos-kos.com.





Training Center for Banking

TRAININGS PLANNED FOR 2015:

Assets and Liability Management | 19 – 21 January

Basic Banking Products | 26 – 28 January

Train the Trainers –Project for Customer Education
23 -24 February

Train the Counsels – Project for Customer Education
25 -27 February

Project Management | 16 -18 March

Advanced Negotiations tactics | 29 -31 March

EFCB certification

Improving Service, Communication and Sales | May

Internal Audit and Control | 18 -20 May

Managing Technological Risks

Serving clients on social media

Business documentary –Letters of credit and guarantees

Project Financing



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