THE KOSOVO BANKER

The development of the banking industry in Kosovo and further challenges

Developing a housing finance market in Kosovo

Bank security forum unites banks of Albania and Kosovo in Prizren

Banks and Laws

Law enforcement remains a vital issue for financial institutions in Kosovo. Kosovo is still listed as 136 out of a total 189 countries in terms of contract enforcement and this denies to the banking industry the key instrument upon which the financial system works, namely the implementation of the contract signed with the client. The judicial system in Kosovo continues to have over 10,000 cases of unfinished financial system.

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SHOQATA E BANKAVE TË KOSOVËS
KOSOVO BANKING ASSOCIATION

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SHOQATA E BANKAVE TË KOSOVËS
KOSOVO BANKING ASSOCIATION

The Kosovo Banking Association (KBA) is the voice of the banking industry in Kosovo. KBA cooperates with the Government, the Central Bank of the Republic of Kosovo, the media and public opinion to support a sound banking industry which promotes long-term economic development for Kosovo. KBA facilitates cooperation between the banks by offering a single platform for joint lobbying and to discuss new initiatives; identifies and influences the legal and regulatory initiatives; coordinates joint activities for banks and promotes banking activities to the general audience. The KBA Training Center operates within KBA and it offers trainings in banking and finance.

"The Kosovo Banker" is a publication of the Kosovo Banking Association. The magazine is published twice a year with the aim to properly inform the public on the banking industry in Kosovo. Kosovo Banking Association; St "Bajram Kelmendi", No.15, Pristina; 10000. Republic of Kosovo; +381 38 246 171; www.bankassoc-kos.com; contact@bankassoc-kos.com;

THE KOSOVO BANKER

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EDITORIAL

PETRIT BALIJA, PhD
EXECUTIVE DIRECTOR
KOSOVO BANKING ASSOCIATION

Dear Readers,

It is my pleasure to present to you the fifth edition of the magazine 'The Kosovo Banker '. This magazine has become an integral part of the Kosovo Banking Association comprehensive information efforts for citizens of Kosovo with regard to the financial sector. This is also reflected on the enthusiasm of the regular readers of this magazine who eagerly await each edition.

In this number, new developments in the financial sector of the Republic of Kosovo have been included with particular emphasis on the impact of legal infrastructure on the banking system and you can also get informed about various financial topics which contribute towards financial education which is very important to the development of our society.

Despite the challenges that are evident in the financial sector of Kosovo, the banking industry in Kosovo is developing in a very dynamic way where we achieved to have 10 licensed banking institutions in Kosovo within a very short period of time. The main role of banks in Kosovo is the financing of important sectors of Kosovo's economy and households, hence banks have a special importance in the process of meeting social and economic needs of the country. In this regard, banking institutions in Kosovo have injected more than 1.8 billion Euros in various forms of credit and have become the guardian of over 2.4 billion Euros in deposits. This represents a high level of cooperation between the banking institutions and citizens and businesses of Kosovo and a high level of confidence of the Kosovo citizens on Kosovo's banking system.

The main theme of the magazine 'Banks and Laws' suggests that law enforcement is vital for banking institutions. Unfortunately, Kosovo is still listed in the 136th place out of a total of 189 countries in terms of contract enforcement (Doing Business report of the World

Bank, 2014). This denies the banking industry the full use of the main instrument upon which the financial system works, namely the implementation of the signed contracts with the client. The judicial system continues to have over 10,000 unfinished financial system cases that can be translated to around half a billion Euros that are not utilized by our economy. There are other challenges in the economy of Kosovo such as Kosovo's trade deficit, which remains an undeniable challenge which seems to have stagnated with very little improvement. This presents a serious macroeconomic challenge which can be improved only through a national strategy for economic development and support of strategic sectors including the support for financial institutions in order to operate in a market with lower risk.

In this context, this edition of the magazine identifies many barriers that impede a sustainable development of banking institutions as well as businesses and domestic households. Therefore, working together to coordinate efforts of banking institutions, other state institutions but also the citizens of Kosovo, still remains a priority in order to improve the business environment. This would enable banks to develop a sustainable industry and at the same time expand their activities by creating new jobs and enabling citizens to finance their goals and objectives for a better life.

Sincerely,

Petrit Balija

The development of the banking industry in Kosovo and further challenges

The importance that the banking sector has in the development and stability of any economy was confirmed once again by the last global crisis. It was the very developments in the banking sector that spread swiftly in the other sectors of the financial system, as such causing a financial crisis, which then turned into a general economic crisis. The impact of the global crisis in Kosovo was considerably limited, which is attributed to the sound bases upon which the banking sector in Kosovo was built.

BEDRI HAMZA
GOVERNOR
CENTRAL BANK OF REPUBLIC OF KOSOVO

Kosovo found itself in a different situation, not inheriting any facet of the past financial system, as opposed to other countries of the region, which had to follow a difficult and long transitional process of their banking system from a centralized economic system to a market economy. On the one hand, this posed a considerable disadvantage because everything around the functionality of the banking and financial sector in general had to start from the beginning, which proved to be a challenging process. On the other hand, this also had its advantage because since its inception, it was made possible that the system be based on market economy principles and avoid problems that other countries faced. In this context, Kosovo decided for a banking sector based on private property and open its doors to foreign banks, which, except for capital, brought to Kosovo their modern practices of banking entrepreneurship, facilitating a fast convergence of the banking industry of Kosovo towards that of countries with longer experience in this field.

The development of the banking sector in Kosovo throughout these 15 years has been rightfully considered a “success story”. Throughout this period, the banking sector served as an important source of financing for the economy of the country. The latest statistics show that the overall lending amount of the banking sector has reached 1.84 billion Euro which is approximately 35 percent of the gross domestic product. Throughout this period, banks have quickly expanded the banking infrastructure in the entire territory of Kosovo, facilitating the access of individuals and businesses to banking services. Today, except for urban areas, citizens have access to banking branches in some of the biggest rural areas. The physical banking infrastructure, such as ATMs, POS terminals etc., has also expanded quite fast.

The fast expansion of the physical infrastructure, together with the expansion of the array of products and the decline of the interest rate margins demonstrate the key segments in which the competition of the banking sector in

Kosovo developed. Interest rates on loans, regardless of the fact that they are still considered to be very high, have experienced a continuous decline over the past years. In April 2014, the average interest rate on loans was 10.7 percent, compared to interest rates of 14 percent of not so long ago.

Despite being the newest banking sector throughout the region, the banking sector of Kosovo has a unique distinguishing characteristic, which is the high level of stability that has characterized it from the beginning of its operations and that continues even now. This sector has consistently enjoyed a satisfactory liquidity position, a good quality of the loan portfolio and a high level of capitalization. Kosovo is the only country in the region with a rate of nonperforming loans below 10 percent (8.6 percent in March 2014), while the capital adequacy indicator has consistently remained at about 17 percent (17.4 percent in March 2014). This made it possible that even during the global crisis, when many countries' banking sector had become a serious threat or even a burden to the public finances and the economy in general, in Kosovo the sector was able to provide important contributions to the macroeconomic stability.

Despite being the newest banking sector throughout the region, the banking sector of Kosovo has a unique distinguishing characteristic, which is the high level of stability that has characterized it from the beginning of its operations and that continues even now.

The Central Bank also had an important role in the development of the banking sector and its stability; it developed a regulatory framework based on contemporary practices and also adequately implemented this regulatory framework, ensuring that the behavior of banks is consistent with the principles of sound banking. Special attention was paid to the licensing policy based on sound principles of licensing, which represents one of the most important prerequisites for the development and stability of the banking sector. In this context, one of the important activities of the Central Bank is the ongoing promotion of the financial and economic environment to new investors, thus aiming at promoting healthy competition in the banking system. Also, special attention was paid to the development of the banking infrastructure, including payment systems, credit registry, as well as other schemes which have facilitated banking entrepreneurship.

With all the achievements so far, it is expected that the banking sector in Kosovo will face further challenges in the advancement of its role in supporting the economic development of Kosovo. Despite the continued growth of lending, the ratio between loans and gross domestic product in Kosovo continues to be low compared to other countries, suggesting that there is scope for further expansion of financial intermediation. Lending to date has been mainly concentrated in the retail sector, but a more rapid expansion of lending to other sectors, such as agriculture and industry, that are sectors of great importance for accelerating economic development, is necessary. The expansion of lending to these sectors undoubtedly depends also on the development of these sectors, but a very important precondition for their development is precisely financing. In this context, banks should feel responsible for increasing the support to less developed sectors of the economy, which will affect the growth of the market for the banks and will improve the general environment in which they operate. In this respect, among others, banks can make an important contribution through various educational activities and training, helping prepare these sectors to meet the criteria required by banks for credit.

In recent years, lending by the banking sector has been characterized by a continuous slowdown in the growth rate, while deposits have continued to grow with a fairly stable trend. This shows that we are dealing with the withdrawal of liquidity from the economy, which could affect the overall slowdown of economic activities. Therefore, banks should carefully reflect on these developments, taking measures to ensure sustainable credit to the domestic economy and increased demand.

Sustainable crediting of the economy undoubtedly requires more favorable terms for borrowers, through which demand for credit is stimulated and overall economic activity is incited. Therefore, despite the decline in interest rates, the further reduction thereof remains a challenge. Knowing that most bank costs consist of operating expenses, the reduction of interest rates necessitates increasing the operational efficiency of banks. Increasing the efficiency of banks now is a far easier process, given that banks have achieved a satisfactory level of consolidation of infrastructure and professionalism of their staff.

However, increasing operational efficiency of banks is a complex process and, except for factors under the control of banks, it is also affected by other external factors. For example, the considerable inefficiency of the judicial system in Kosovo is directly reflected in the efficiency of the banking sector. In this case, it is worth mentioning our intensive engagement in promoting reform in the judicial system, encouraging the creation of separate rooms for handling cases related to banks. Other important factors that affect the level of interest rates on loans are also factors related to businesses, such as weaknesses in the quality of financial reporting and their business capacity to make adequate business planning. All these factors represent additional costs to banks to make an adequate assessment of loan applications. Moreover, given that banking is a sensitive business and banks must take into account all factors that may affect their stability, it is understood that the above-mentioned problems affect the rise of the perceived risk by banks, which is then reflected in the level of interest rates.

To conclude, I would like to emphasize the important role of the banking sector for the development and stability of the country's economy since the beginning of its operations and the favorable development prospects of this sector. However, as I said above, it is expected that this sector will face further challenges in its future development, which must be addressed jointly by all actors in the domestic economy. Central Bank of the Republic of Kosovo is committed to ensuring financial stability, but also to encouraging and supporting the further development of this sector. Given the importance of the banking sector to citizens and the economy in general, the Central Bank of the Republic of Kosovo will continue to handle with high priority, the regular communication with the public either through the media or through the publication of statistical and other analytical reports.

What awaits the banking industry in the coming years?

Interview with Mr. Robert Wright

KBA: What is your opinion about the overall development of the banking industry in Kosovo during the past 10 years? Are you satisfied with the dynamic of this development?

Mr.Wright: I think the Kosovo banking industry can be very proud of its development over the last 10 years and all of our key performance indicators compare very favourably with all other banking sectors in the region. The number of foreign banks in the market and the recent entry of 2 new banks also shows that the market is very attractive. With loans and deposits at record levels I believe we can also say that customer satisfaction is also very good. We have come a long way in 10 years and the Kosovo banking industry now offers products and services in line with any other European country.

KBA: What are the main challenges facing the banking industry in Kosovo?

Mr.Wright: Our business is basically about managing risk and as always, that is the biggest challenge to the industry. Risk can come in many forms and it is not just about credit risk. There are also operational risks, liquidity risks, and market risks. I think we can safely say that liquidity risks are minimal at the moment but there is still the challenge of managing the excess liquidity that is currently in the banks. However, the biggest risk challenge is definitely credit risk as this has so many influences, some within our control in Kosovo and some beyond our control externally such as macroeconomic changes in the parent countries of the foreign banks or the effect of geopolitical crises as in Ukraine and Russia.

In addition to risk management I think the Kosovo banking industry also faces challenges in areas such as the efficiency and reliability of the legal system, the need to improve the financial literacy of bank customers and the development of housing finance to create a home owning population across the country.

Z. ROBERT WRIGHT

CHAIRMAN OF THE BOARD OF DIRECTORS FOR THE KBA

EXECUTIVE DIRECTOR AT RAIFFEISEN BANK KOSOVO

KBA: What do you think about the development of the banking industry in Kosovo in comparison to the region?

Mr.Wright: As I said earlier, Kosovo compares very favourably with the region on many KPIs. I also think Kosovo has caught up with the region in areas such as electronic banking usage and the reduction of cash transactions as the country's young demographic profile has been perfect for the early and enthusiastic adoption of non branch banking.

I also think there are 3 key factors that enable us to produce impressive KPIs and compare very favourably with the region and they are our lack of exposure to risky foreign currency lending, our high volume of low cost liquidity, and our profitability. These are 3 criteria that underpin any successful banking industry.

KBA: What are the main opportunities for the banking industry in Kosovo going forward?

Mr.Wright: Housing finance is definitely a big opportunity. Today's young and professional salaried generations want to own their own property and enjoy all the benefits and "feel good" factors associated with the ownership of an appreciating asset. The property also provides collateral for other risk free, and therefore low rate borrowing. Housing finance will also provide much needed cash flow in the construction industry and it's supply chain as well as generating business for all the suppliers of household items that property buyers purchase once they move in.

I also think there are still significant opportunities for the banks in areas such as electronic and digital banking. In addition to providing convenient 24 hour banking for all our customers, these banking services also reduce our operating costs and have a positive effect on our pricing of loans and deposits.

Other significant opportunities for the banking industry can also be maximized in the future if we see developments in areas such as new industries with clear regional competitive advantages, all private sector employees having their salaries paid in to the banks, and primary and secondary banking legislation in line with EU best practice.

KBA: How do you see the current demand and supply for loans in Kosovo?

Mr.Wright: The loan and deposit portfolio volumes in the Kosovo banking sector are at all time highs and there is certainly no problem with the supply of funds for loans. There is excess liquidity in the market and this is immediately available for lending. The demand for loans varies by individuals and business sectors and is influenced by a number of factors such as seasonality, macro economic conditions, political events such as the recent elections, and more subjective and irrational factors such as optimism and sentiment.

I would like to this opportunity to destroy the myth and misconception that the banks turn the supply tap on and off regularly and dramatically. I can assure you that the supply of loans is constantly there, it is the demand that is much more variable.

KBA: How would you reply to the criticism addressed to the banking sector for having the highest interest rates in the region?

Mr.Wright: I do not deny that the loan rates are relatively high compared to the region but the average interest rate quoted covers a wide range of factors and influences that do not make a country by country comparison as simple as it may first appear. This issue needs a whole interview of it's own so I will not go into the details now. However, I can say that the average loan rate in Kosovo continues to decrease and in April 2014 was 10.4%. For the average to be 10.4% means there must be interest rates available in the market as low as 7 or 8%.

I have said many times that the customers have a significant influence on the interest rate that they are offered, particularly business customers. The interest rates are largely determined by the risk that the banks are taking. If a business customer has a good business plan with clear sustainable competitive advantages supported by audited accounts and good collateral then the interest rate could be as low as 8 or 9%. If none of these factors are in place then the rate could be 14 or 15%.

One further point to consider is that the banking sector's loan portfolio is at an all time high suggesting that customers are reasonably happy with the rates and our research has shown that rate is by no means the only factor taken into consideration when choosing a bank. Reputation, service and relationship management are other key factors.

KBA: Is the Kosovo banking market affected by the ECB and the rate cuts in any way?

Mr.Wright: No is the simple answer. We are relatively immune from this, for example we have a very small volume of loans or deposits linked to a margin over EURIBOR.

KBA: Do you think that the business community in Kosovo is experiencing difficulties and does this pose any threats for the banking industry?

Mr.Wright: This a very broad question and difficulties vary by industry and region. Where difficulties do exist then they do of course create a threat for the banking sector. As I mentioned earlier our business is primarily about managing risk and being in a position to anticipate difficulties, identify the early warning signs and take pre-emptive risk mitigating activity to minimize the effect. This is why it is very important for the banks to have very good working relationships with their customers with a good and effective exchange of knowledge and advice.

KBA: Does informality have any negative effects on the banking industry?

Mr.Wright: Yes it does. Informality increases the lending risks for banks and is often the cause of a delinquent loan.

However I think the effect of informality is even greater for the businesses. Increasingly the banking sector is reluctant to lend to the informal sector so this prevents businesses from borrowing and developing their business or they are forced to use unlicensed lenders with all the costs and difficulties associated with this. The real or perceived benefits of operating informally are more than offset by the inability to maximize the opportunities that come from a vibrant, transparent and dynamic relationship with a bank.

KBA: Do you think that Kosovo institutions have done enough to recognize and reward the contribution that international banks have made in terms of foreign investments?

Mr.Wright: I think our contribution to the well being and development of the Kosovo economy over the last decade is sometimes under valued and not fully appreciated. In addition to the billions of euros we have injected into the Kosovo economy we have also had a very positive effect along the whole supply chain of many business sectors, creating employment, wealth and prosperity across the country.

I also think we receive unfair criticism at times about our perceived obsession with our bottom line profitability. For example several banks have loss making branches and ATMs in rural areas of Kosovo, but these are maintained for social welfare reasons to enable remote communities to have access to banking facilities. The banking sector also makes major financial and resource contributions for the sponsorship and support of many projects, events and initiatives in areas such as health, education, sport and social welfare. We all fully appreciate and actively demonstrate that we must give something back to the business and individual communities that contribute to our success.

KBA: What are some of your recommendations for the Kosovo institutions in order to improve doing business in Kosovo?

Mr.Wright: I have the following top 5 recommendations:

- Improve transparency with regulatory and code of conduct developments in areas such as the need for audited annual accounts, no tolerance of tax evasion and employees with salaries paid into the banks.
- Create an entrepreneurial business environment that encourages creativity and innovation and where new products and services can be developed. .
- Regulate and limit saturated industries where there are already too many players and the only advantage they have is a lower price. It is not sustainable.
- Improve the regulatory environment for the resolution of delinquent loans and other business related legal issues.
- Wherever possible adopt EU best practice primary and secondary regulations and do not create localized legislation that causes delays, ambiguity and confusion to the detriment of businesses and the Kosovo economy.

Debt is one person's liability, but another person's asset. (Paul Krugman)

Interest rates in Kosovo, Is there room for cuts, and by how much?

Part two

EDON XHARRA

CORPORATE RISK ANALYST

RAIFFEISEN BANK KOSOVO

In the previous article I argued that the reasons for the high interest rates are not the usual commercial criticism that lately have been addressed especially to banks, but such situations still prevail due to the fragile economic situation, and the legal and social situation in place, for which the responsibility falls mainly to the Government of Kosovo as a primary role. However, in this article I will argue whether there is still space for banks to decrease their interest rates even in the current circumstances. Although so far we have often heard random numbers without any logical numeric support, let me argue how small this room is, and how specifically they can cut them.

When we talk about interest rates on loans, a simplified model shows that:

Interest rates on loans or interest income = Interest expenses (deposits and borrowings) + Risk (Provision or loss from bad loans) + Operating Expenses (Salaries and other expenses) + Net Profit.

So, if the banks give up on their profits, they still have to pay its depositors, must calculate losses from bad loans (provision), and must pay employees and other expenses. However, considering that banks have other revenue streams (primarily from fees and commissions), we use the same model, but only on the left side of the equation we consider the bank's total revenues. After conversion into numbers, this model will appear as follows:

220.5 million Euro in total revenues for the year = 54.4 million Euro interest expense (deposits and borrowings) + 34 million Euro provisions or loss from bad loans + 97.8 million Euro operating expenses + profit 34.4 million Euro.

So, with an average effective interest rate of 14.2% in the last 5 years (including all costs), the banking system in Kosovo has had an interest income of 178.2 million Euro, where after we add the other income in the amount of 42.4 million Euro, the total amounts to 220.5 million Euro. From this income, 186 million Euros were all paid expenses, of which 54.4 million Euros were spent mainly to pay depositors, 34 million Euros were spent in losses from bad loans and provisions, and 97.8 million Euros were spent on wages and other operating expenses, which resulted in a profit of 34.4 million Euros.

Now while we have the figures available, we can analyze the maximum point in which the banking system may reduce the interest rates without going into loss, which in economics is called the critical point of profitability or the break-even point. If revenues from 14.2% interest have been 178 million Euro (14.2% * 25.1 billion Euro average loans in the market), then a decrease of 2.7 percentage points, or a decrease in the interest rate to 11.5% would be the lowest interest rate where the banking system would operate without profit or loss (see the sensitivity analysis table below). In such a scenario, interest income would be 144 million Euros, where as we add the other income of 42 million Euro, it would result in total revenues of 186 million Euros. Recalling that the banking system costs were 186 million Euros, this means that with the 11.5% effective interest rate, the banking system will operate without profit.

This proves that the statements of some analysts (unfortunately also including many economists) that interest rates should be lowered to 6%, 8% or 10% are wrong and arbitrary. With 6% interest rate, the banking system would operate with a loss of 68 million Euros, with 8% it would lose 43 million Euros, and with 10% it would lose 18 million Euros. Such a situation would only force banks to shut their doors and lay off 3,700 employees, further burdening the Kosovar economy.

How to lower interest rates?

Operating expenses – Above we documented that these are the highest costs of all variables in the equation, and their reduction is very important to create opportunities for lowering interest rates. Greater weight in their decline would be the change of fiscal policies by the Government of Kosovo, mainly through government spending concentration on projects that will significantly affect the growth of economy, unlike the actual costs primarily directed to infrastructure that do not generate sustainable economic growth. Economic growth in Kosovo would affect the credit growth in the country, which in turn will create economies of scale and decrease fixed operating expenses by creating opportunities for lowering interest rates.

Interest expenses – These are the second highest expenses in the equation. Given that Kosovo does not have its own currency and cannot print money, and considering that Kosovo is not a member of the European Central Bank to have access to cheaper sources of financing, the issue is more a matter of free market economics since the banks aim to maximally reduce their interest expenses to increase their profits.

High level of provisions - These are the third highest expense in the equation. Only in 2012, additional provisions amounted to 16 million Euro, which is worrisome since interest income increased by only 5 million Euros and if such a trend continues, the banking system will experience an increase in interest rates rather than a decrease. These expenses can be reduced by improving court performances, which would create room for lowering interest rates on loans.

Profit – As documented above, of the 14.2% interest income and other fees that banks collect from their customers, around 34 million Euros are collected here. Although such a value might seems high for any individual to consider, for a banking system that has invested 311 million Euro in capital, this amount is normal.

In conclusion, I want to stress that the current interest rates are high and hardly affordable by most individuals and businesses in Kosovo. However, the problem does not lie with the commercial banks, but rather to the state of Kosovo that has created a fragile economic environment and legal system in place. Moreover, the most worrisome fact is that in these current circumstances, banks are not profitable to work with a lower average interest rate than 11.5%; otherwise they would operate at a loss, which is contrary to some statements that banks should work with 6%, 8% or 10%. Comparison with other countries is misleading since the economic and legal situations are different.

Historic and hypothetic scenario of the banking system (amount in Million Euro)

Year	2008		2009		2010		2011		2012		Average for 6 years		Average	Average	Average
Scenario	Historic	No profit	Historic	No profit	Historic	No profit	Historic	No profit	Historic	No profit	Historic	No profit	Loss	Loss	Loss
Average effective interest rate	14.70%	11.10%	14.30%	11.60%	14.60%	11.50%	14.10%	11.05%	13.40%	11.80%	14.20%	11.48%	10.00%	8%	6%
Total revenue of the banking system	195		203.3		217.2		240		247.2		221	186			
Interest income	155.7	117.7	164.6	133.2	175.8	138	195.0	152.8	199.8	176.4	178.2	143.6	125.3	100.2	75.2
Interest expense	-43.1	-43.1	-52.1	-52.1	-55.3	-55.3	-58.4	-58.4	-63.1	-63.1	-54.4	-54.4	-54.4	-54.4	-54.4
Provision expense	-22.8	-22.8	-33.4	-33.4	-28.3	-28.3	-34.2	-34.2	-50.2	-50.2	-34	-33.8	-33.8	-33.8	-33.8
Operating expense	-91.1	-91.1	-86.4	-86.4	-95.8	-95.8	-105	-105.2	-111	-110.5	-97.8	-97.8	-97.8	-97.8	-97.8
Profit before other income	-1.3	-39.3	-7.3	-38.7	-3.6	-41.4	-2.8	-45	-24	-47.4	-8	-42.4	-60.7	-85.8	-110.8
Other income	39.3	39.3	38.7	38.7	41.4	41.4	45	45	47.4	47.4	42.4	42.4	42.4	42.4	42.4
Total profit of the banking system	38	0	31.4	0	37.8	0	42.2	0	23.4	0	34.4	0	-18.3	-43.4	-68.4

Note: Statistical data is obtained from the Central Bank of the Republic of Kosovo. The average analysis of 6 years is done since the analysis of one year cannot show the real situation of the banking system. The judgment on total revenue analysis is done because the bank can pay its employees from other income sources.

The role and importance of the compliance function in banks

In banking jargon, the term “compliance” means conformity for a variety of laws, regulations, rules, standards and best practices applicable to various banking activities. Generally, these laws, regulations and standards relate to issues such as conformity for the standards of conduct in the market, management of conflicts of interest, treatment of customers fairly and providing adequate advice to them etc. Particularly, this includes specific issues such as prevention of money laundering and terrorist financing, as well as other relevant tax laws. Moreover, the dimension of compliance goes beyond what is legally required, including extensive standard of integrity and ethical behavior.

Due to the fact that the existence of a law or a regulation would be meaningless if it did not impose the need for implementation, it can easily be concluded that the activity of compliance, in one form or another, is as old as the rules and laws.

The compliance function within banks has evolved over time. Nowadays, regardless of the organization structure of the compliance function within a bank, it must be independent and with sufficient resources, responsibilities should be clearly specified and its activities should be subject to periodic reviews and independent from the internal audit function. Basel Committee of Banking Supervision defines the concept of independence including four related elements. First, the compliance function should have an official status within the bank. This implies the approval of compliance policies or any other official document through which the role, authority, and independence of the compliance function is regulated. Second, there should be a compliance officer as a leader of the function, charged with overall responsibility for coordination of identification and management of the compliance risk of the bank and supervision of the other staff of the compliance function. Third, the staff of the compliance functions and in particular, the compliance leader should not be placed in a position where there is a potential conflict of interest between their compliance responsibilities and any other probable liability. Fourth, the staff of the compliance function must have access to information necessary to perform their responsibilities.

ALI KRASNIQI

HEAD OF COMPLIANCE AND AML

BANKA KOMBETARE TREGTARE

Within their organizational structure, most banks have established the department of compliance, which is generally entrusted with a wide range of duties and responsibilities. Depending on the institution, these duties and responsibilities may include ensuring compliance with the enforced laws and regulations, advisory services, preventing conflicts of interest and preventing money laundering, identification, measurement, and assessment of the risk of compliance, monitoring and reporting, etc. Compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss, or damage to reputation that a bank may suffer as a result of its failure to comply with laws, regulations, rules, self-regulatory standards of the institution, and codes of conduct applicable to its banking activities. A bank that fails to consider the impact of its actions to shareholders, customers, employees and the market could face negative publicity and reputational damages.

Given the nature of the banking business, the need to harmonize its activities with the standards, primary and secondary legislation increasingly complex and demanding, the role of the compliance function is key to ensuring business thrift and interests harmonization of all parties of interest. It is very important that compliance is not only seen as the responsibility of specialized personnel of compliance function. It has to do with all bank's employees, regardless of position, and should be seen as an integral part of the internal culture and the business of the bank.

Bank security Forum unites banks of Albania and Kosovo in Prizren

The Third National Forum of Bank Security was held in Prizren on May 28th, 2014 for the first time with the co-organization of the Banking Associations of Albania and Kosovo.

The purpose of the forum was to unite experts from the banking security fields who organized roundtable discussions on current issues and the latest developments in the field of security, where two bank security elements were addressed, the physical and information security. The afternoon session reserved for information security was an innovation in this year's Forum, aiming for the Forum to get larger in size and include a topic of a high importance in the banking sector. This way the banking sector has proved that it is implementing security safeguards for a more secure financial system in place.

Besides the representatives of banks from the two countries, other participants and contributors in the Forum included representatives from the Kosovo Police, the Central Banks of the two countries, and the Agency for Personal Data Protection, guests from Macedonia from NLB Tutunska Bank, and foreign companies that provide solutions in the field of information security.

Within the organization framework of the Forum in Kosovo, the Leadership of Physical Security Committee of Banks in Albania undertook visits in Prishtina. During this event, two bank branches in Pristina were visited to observe how the security is organized within the bank. Moreover, another visit was made to the premises of a private company that conducts physical security services to banks and representatives of the Department's Private Security Services within the Ministry of Internal Affairs, in order to exchange practices and experiences in this field.

Finally, both the participants and organizers evaluated the necessity of such organizations in both the regional level and beyond; hence, both the Associations will continue their cooperation in the future in an effort to expand and enrich this Forum.

XHANAN KARAQA

CHAIRPERSON OF SECURITY COMMITTEE AT KBA

HEAD OF SECURITY/ NLB PRISHTINA

Money laundering, one of the challenges of the banking sector

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PROCREDIT BANK

Money laundering is a criminal offense punishable by law. Due to the large amounts of money involved in the money laundering process and considering the fact that in some developing countries, such as Kosovo which has a small budget, this illegal inflow may have a large impact in the country's budget. This can cause a loss of control in the country's macroeconomic policies and may result in measurement errors of macroeconomic statistics, arising from money laundering. Money laundering can adversely affect the money supply and the rate of return, because the money launderers reinvest such funds in assets where money laundering is less susceptible to detection by different institutions rather than investing in those assets where returns are higher.

Since Kosovo's economy is mostly cash based, it makes Kosovo as a country more vulnerable to money laundering activities and terrorism financing. Immediately after the last war of 1999, there were a large number of investments in Kosovo, resulting in a large number of enriched people. With an economy newly emerged from the war, obviously there was need for a legal regulation, which would allow fighting money laundering and financing of terrorism; so, in 2004 the United Nations Mission in Kosovo created a regulation, UNMIK Regulation No. 2004/2, where the main focus was the prevention of money laundering and related criminal offenses. Under this regulation, the Financial Intelligence Unit was created. After over six years, the need to create a new law which replaced Regulation 2004/2 emerged. This was Law No. 03/L-196 for the prevention of money laundering and terrorist financing, under which the Financial Intelligence Unit of the Republic of Kosovo (FIU-K) was established, the independent national institution under the Ministry of Economy and Finance, responsible for requesting, gathering, analyzing and disseminating information to the competent authorities fighting money laundering and financing of terrorism. In 2013, this law was supplemented and amended by the Law No. 04/L-178 "Amending and supplementing the Law on Preventing Money Laundering".

Despite the fact that measures have been taken, corruption and money laundering are still a concern and a serious challenge to the Republic of Kosovo and particularly to banks. While reforms related to corruption and money laundering are an ongoing effort for years.

The Republic of Kosovo is not an important financial center or offshore country; however, as a transit country for trafficking of drugs, weapons, and smuggling of migrants, it still remains as a significant risk for money laundering.

Most income from smuggling activities are believed to have been injected directly into the economy in areas such as construction and real estate, retail stores, banks, financial services, casinos and other trading companies. Smaller amounts are thought to be laundered through the financial system. There is some evidence that the economy based on commerce is used for money laundering in the form of over and under invoicing (Source: United States Department of State International Narcotics Control Strategy Report (INCSR) 2010).

Despite the fact that Kosovo is not immune to money laundering, like any other country, it is worth mentioning that progress has been made in fighting money laundering. The cooperation between FIU and the banking sector are playing a crucial role in fighting money laundering, especially in the financial sector. This cooperation has shown to be successful even in practice.

The importance of financial education

Since the year 2000 the banking sector developed in a very dynamic way; Advancements and expansion of banking operations continuously contributed to increase the access to opportunities for all social categories, thus creating an opportunity for greater usage of the financial potential in the country; However, during this period more effort has been made in terms of sales, rather than providing full disclosure of services offered and therefore the financial education of customers has not pursued the rapid development of banking services in our country.

ALBENA ÇARKAXHIU

HEAD OF PR AND MARKETING

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The banking sector in Kosovo is one of the most developed and modernized sectors of the economy, and through financial intermediation this sector is a powerful contributor to the economic development of the country. With the advancement and dynamic expansion of the banking sector in Kosovo the competition among banks has increased as well, which in turn has resulted in an increased diversity of banking services served to Kosovar clients. It is not becoming easier for customers to be oriented among numerous banking services and be able to choose the right service to meet their needs. This rapid development of banking services has not gone hand in hand with the financial literacy pace of citizens and often such a process has not been aligned with efforts to dominate the sales motivations – to be led on the principle of a responsible financial institution that instead of sales, priority would be given to advising clients on the importance of basing their decisions on banking services that do not deteriorate their financial situation and get them deeper into debt.

So I believe that the entire banking sector in Kosovo should play a more active role in using its expertise and proper techniques to further advance towards educating clients' of their rights and obligations determined by the client – bank relationship, because only in this way we can contribute to creating a more sustainable social category and a stable and reliable banking.

Financial education for greater client welfare

Today the financial world has become very complex and it is very important that users of banking services have sufficient knowledge on the advantages and disadvantages of specific banking services in order to be able to successfully manage their personal budget. Consequently, many individuals and businesses in the western world, such as some developed countries in recent years have not been guided by the principle of how and what financial institutions to cooperate with, an issue that further deepened the financial crisis by increasing the workload of individuals' debt and risking their financial future.

So, considering the negative experience of other countries in relation to aggressive lending and non-transparent pricelists, it is very important that financial institutions be careful and responsible, by basing their decisions on sound financial analysis, economic situation of customers, business potential and payment capacity, so that customers benefit from more convenient banking services, including loans. In this context, the cease of promotion for consumer practices is essential. Instead, there should be promotion of the culture of savings and banking services that enable individuals and families to increase their investment value.

Financial education should be closely linked to the financial soundness and well-being of clients; A well-informed client will be able to take prudent decisions about their money and would subject them to understand how to protect themselves from any potential undesirable development; This way, financial education would ensure improved living standards of customers and a similar situation would qualify the financial education to clients as an added value to society.

Not only; cooperation with a financially educated clientele would increase market efficiency because a client well-informed of various financial instruments would be more demanding towards banking services - and for sure, this would lead to a more advanced and more competitive environment that would enable the development of banking service characteristics that can better meet the client's needs.

The initiative "Learn more"

Being aware of the importance of financial education, since 2008 ProCredit Bank Kosovo in cooperation with the Central Bank of Kosovo has taken the initiative "Learn more" dedicated to all clients so that the latter can make informed and responsible decisions for choosing the bank and the services they need, especially when taking loans. For this reason we have developed the necessary materials that address issues related to building and planning the household budget, the importance of savings, the elements that should be considered when choosing a loan, information on the calculation of the loan cost, and other information, so that each customer has a positive financial decision-making impact for the individual households, but also the economy of Kosovo in particular.

Developing a Housing Finance Market in Kosovo

Along with clean air, water, food, health, education and security, the right to adequate housing is recognized by international law, treaties, and the United Nations (UN) as one of the fundamental human rights and needs of all peoples[1]. Although Government clearly has a role to play, especially as it relates to the poor, housing is fundamentally different from most of the other key needs because the financing of housing can be predominately a private sector undertaking.

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For a sustainable housing finance system to exist in Kosovo, the Government must foster an enabling business environment as well as a proper set of regulatory structures and incentives that will encourage private capital to invest in housing and housing finance. In order to create the right business environment, the Government of Kosovo needs to work cooperatively with all stakeholders to ensure that all aspects of the housing development and housing finance systems function with a high degree of reliability and integrity consistent with the historical, cultural and economic characteristics of Kosovo. The Government of Kosovo also needs to work cooperatively with stakeholders to determine what are the proper incentives that will best support private sector resources in providing housing and developing the housing finance system. Those incentives need to be carefully weighed against the financial and other capabilities of the Government to deliver those incentives with a high degree of reliability and integrity.

The Housing Finance Project (HFP) started in March 2012 to support of the Government of Kosovo's' desire to improve the housing finance sector. The Project is funded by the US Embassy in Pristina and managed by the US Treasury, Office of Technical Assistance. The HFP directly supports the efforts of the Central Bank of Kosovo (CBK) and the Ministry of Finance (MoF) in developing an environment that enables housing finance by working with diverse public and private sector stakeholders that are integral to or support the housing finance system. The support of the CBK Governors – Gani Gerguri and Bedri Hamza – has been critically important to the efforts of the HFP. In particular, Bedri Hamza, first as Minister of Finance and then as Governor, has provided vital backing to the Project particularly

1 The Right to Adequate Housing, Fact Sheet No. 21/Rev.1, UN Habitat, Office of the United Nations High Comissioner for Human Rights,.

In 2012, Kosovo's GDP was € 4.9 billion. According to the CBK mortgage database, the value of residential, mortgages outstanding at the end of 2012 was only € 140.6 million or just 2.9% of GDP. The table below provides a comparison to other countries in the region and more developed countries to give this number some perspective. Kosovo's level of outstanding mortgage loans to GDP is half the rate for the next closest country in the region.

Value of Residential Mortgages Outstanding as a Percent (%) of GDP – 2012

Country	Percent	Country	Percent
Albania	7.7% H	Austria	27.7%
Bulgaria	17.6%	Spain	61.1%
Croatia	32.6%	Czech Republic	14.3%
Georgia	5.8% H	Turkey	5.9% H
Serbia	8.2% H	Switzerland	139.8% H
Slovenia	14.8%	USA	68.8%

Sources: *European Mortgage Federation, Hypostsat, Helgi Analytics (noted with an 'H') are for 2011*

through staffing support and guidance through interactions with Government and private sector stakeholders.

Kosovo has room for growth in mortgage originations. Since banks in Kosovo currently have excess liquidity, the issue will be whether the housing finance system will become operationally efficient and self-sustaining. Any concerns about issues with asset/liability management are alleviated with the use of variable rate mortgages, which are currently used by local banks. The CBK is planning to introduce mortgage regulations in 2014 and is attempting to coordinate and integrate various functions into a unified housing finance system. If successful, mortgage originations could easily double in the coming years, allowing more people to own their homes. This would also relieve the pressure on builders to arrange the financing for buyers.

Although the primary focus of the HFP is mortgage finance, there are many other issues that have a significant effect on the housing finance system and deserve consideration. For this reason, the HFP developed seven development goals based on the "12 Herculean tasks" identified in the World Bank Book, *Housing Finance Policy in Emerging Markets*[2] (Edited by Loïc Chiquier and Michael Lea). These development goals each have their own distinct set of stakeholders and development needs. The HFP has tried to address each of these goals to ensure the development of a sustainable housing finance system. It has required the use of intermittent advisors, coordinating with other development projects in identifying issues that need attention, and, in some cases, making recommendations for new projects.

The creation of an effective regulatory regime is the first development goal, and the primary focus of the HFP. The HFP conducted an extensive review of existing laws and regulations, which affect housing finance and prepared a recommendation about developing a comprehensive legal foundation for improving the environment for housing finance. It was determined that the timing was not right for changing any of the laws for political and practical reasons, so, the HFP proceeded with

2 http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/HousingFinanceforEMs_Ebook.pdf

the development of prudent regulations based on existing law. The regulations will cover all aspects of residential mortgage lending - mortgage origination, underwriting practices, loan documentation, servicing, credit reporting, capital adequacy, among other topics.

The HFP has been aided in its efforts by the legal and operational advice from the Kosovo Banking Association (KBA) Legal Committee and a working group from the KBA. Additional advice has come from several local attorneys and USAID projects including, but not limited, to the Contract Law Enforcement (CLE) program. The regulations and amendments will be submitted soon to the CBK for review and issuance.

A key feature of a well-functioning housing finance system is the use of standardized mortgage documents and specific standards for loans to qualify for investment purposes – including underwriting guidelines, mortgage structure, appraisals, servicing requirements.Implementation of this second development goal will lead to a more efficient mortgage market, which will facilitate the development of a secondary market for mortgages.

In conjunction with a working group of banks and other key stakeholders, the HFP has endeavored to rationalize the documentation required for all aspects of mortgage lending. It is important to note that the CBK cannot legally require the use of a standardized mortgage agreement but can support its adoption. The HFP is attempting to create a working group of interested stakeholders, notably the KBA and the Notary Chamber that can develop and maintain standardized mortgage documents. This may be coordinated with one or more USAID projects.

The third goal is supporting the provision of public awareness of housing finance issues. In keeping with this goal, the HFP has provided training to CBK and private bank staff on the fundamentals of mortgages and mortgage lending. Additional training will be provided with the introduction of the mortgage regulations by the CBK. Additionally, the HFP has developed a consumer guide to mortgages. It is coordinating the production of this guide with the World Bank project on consumer protection. It will be released in conjunction with the issuance of the mortgage regulations.

The availability of long-term funding for mortgage lending is crucial to the development of a sustainable housing finance system is a long-term goal. Almost all activities in the development of the housing finance system – including the mortgage product design and standardization, the prudential regulation of lenders, infrastructure to ensure proper valuation and market efficiency – focus on making mortgages an attractive investment to both local and international investors.

This long-term development goal will need an effectively functioning housing finance system to attract these possible investors. The HFP has made some efforts to develop preliminary interest in investing in mortgages in Kosovo.

Another goal is to support the development of institutions as well as the necessary legislation and procedures to ensure that land and property ownership are properly identified and the transfer of property is efficiently recorded. This is essential to a fully functioning housing finance system. The HFP has monitored activity in this sector to ensure consistency with the needs of a sustainable housing finance system. For example, the Government of Kosovo has made tremendous strides in the registration and documentation of property through the Kosovo Cadastral Agency along with other initiatives for resolving land disputes.

The HFP conducted an extensive survey of Kosovo builders to establish a baseline on financing activity construction industry. With a response rate of just over 50 percent, the results uncovered the high proportion of barter transactions in funding construction and the modest involvement of the banking industry in financing construction and purchase of properties by consumers. The new mortgage regulations should help to improve the banks' involvement in housing finance. Additionally, with the legal support of the USAID Business

Enabling Environment Project, the HFP advised the Ministry of Environment and Spatial Planning on the drafting of the new Condominium Law to create an effective regulatory regime for the development of jointly owned properties.

Another goal of the HFP is to support the development of housing finance infrastructure to support the housing finance system. The various supporting participants in the housing finance system, appraisers, real estate brokers, notaries and other need to be considered in how they interact in the system and how they may be helped in their development. For example, the CBK's Credit Registry of Kosovo ("CRK") provides individual credit information to credit providing institutions and credit subjects. HFP reviewed the CRK and found several areas for possible improvement, which are under consideration.

The HFP advised the CBK on taking the lead in the development of the Supervisory Board for Licensing of Appraisers for Immovable Properties in order to regulate appraisers through training and certification. The HFP advised on negotiations that placed the CBK Head of Regulation and the Executive Director of the KBA on the Board and advised on finalizing Supervisory Board's regulations and funding through financial support from key Ministries. The training regime for appraisers was reviewed to ensure for conformity to international standards. Additionally, the HFP is advising on the development of CBK regulations on appraisals for financial institutions in mortgage lending.

The HFP has identified the need for a project focused on organizing a self-regulatory organization to offer training and certification for realtors as important to the development of the housing finance system. It is possible another donor could take on this task.

Finally, the goal of the creation of a comprehensive national housing policy is one of the most significant challenges facing the Government of Kosovo. The purpose of such a policy would be to coordinate and prioritize within the various Government Ministries the many issues both national and regional in scope that need consideration. They include resolving issues like proper land registration; equitable resolution of land disputes; creating effective laws and regulations about construction codes and zoning; distribution of utilities; effects of population displacement from the war; along with many other ethnic, social and political considerations.

The complexity of these issues should not dissuade the Government from developing a process for addressing the need for a national housing policy because, as stated earlier, housing is a fundamental human need. Furthermore, a vibrant, self-sustaining housing market could make a significant contribution to improving Kosovo's economy. Depending on how one counts the multiplier effects of basic housing construction, housing can contribute anywhere from five to twenty percent of GDP. Improved access to housing through a self-sustaining housing finance system can lead to fair and equitable living conditions for all Kosovars (from the rural and urban poor to the growing middle class) and can be part of the foundation that supports the continued development of Kosovo's society and improvement of the economy.

The author is employed in the U.S Treasury and reflects this topic only according his private opinion. This is not automatically the public position of U.S Treasury or another American public entity.

Not only banks

The promotion of economic development and stability of the banking system in the country is not only the responsibility of commercial banks; the list of those responsible is long.

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Commercial banks have over 1.8 billion Euros in loans. This amount is 1.2 percent higher than the country's budget this year, or 36 percent of GDP, it is not small. However, this amount added by the investments from the public sector was not sufficient for a higher rate of economic development, at least to the extent of the start of the decline of unemployment and poverty.

There is plenty of criticism that declares that the main causer for this condition are commercial banks, which each year absorb money out of the market-in the form of deposits and savings, whereas they are reluctant when it comes to giving that money back, or have their high cost. According to these critics, banks should support the government strategy to reduce the price of the service, along with liquidity and the rate of return. Meanwhile, other influential stakeholders in the financial system remain as spectators, or expect to reap the fruits of this investment.
This is unfair, since the promotion of development and stability in the banking system is a complex problem, where banks are only one factor. Furthermore, if we consider that they are private share-holding businesses, then it is understandable why they cannot be so influential in changing the current economic and social development situation. Although they buy and sell money, this is still not enough to vest them this responsibility. There are many reasons for this.

First, banks have responsibility for the money they have received in form of deposits, or as savings. When we consider that as such they have over 2.4 billion Euros, then it increases their responsibility even more. So, they must be careful where they invest the money, they must take into account the rate of return, covering all expenses, and return the money to their owners when they demand it, along with the interest. If they would be careless and risk the money, then the consequences would not be so severe for banks, as for the savers. And lastly, the loss of deposits reflects the social and political tensions. Therefore, they cannot enter these adventures, and even CBK and its rules do not allow for this.

Second - Banks have neither the power nor the authority to look after the investments they make, although they are the main responsible ones. This issue in best regulated through compliance to the law, the increased efficiency of judicial institutions, as well as better interagency cooperation. The culmination of all this are the courts, which must demonstrate the functioning rule of law, but also guarantee the reliability of documents and respecting contracts. If they were more efficient, not only would they reflect stability, but at the same time they would not allow to accumulate over 10,500 bank-related disputes, through which 500 million Euros are blocked. This is equivalent to 21 percent of total deposits, or 17 percent of assets. This is a lot. Imagine how relaxed would banks be, if they had this money in circulation. Moreover, they would not be concerned about the compliance to the law and the respecting of contracts.

Third - Financial reporting would fundamentally change the wellbeing and the viewpoint of private businesses. In this case, banks are alone. It is their conviction whether they want to believe the financial reports presented by those seeking loans, an issue which relies on the professional capacity which they have to reflect this situation. The truth is that there are still many businesses that operate with multiple balances that they fix depending on the purpose they have. Why must this be so, when the solution is simple. The first alternative is for banks to obtain information from the Tax Administration of Kosovo about the "health" of certain businesses, since they report only to TAK. If it would be a problem to provide such information for each bank, then the issue could be remedied through the TAK-CBK relationship. The second option is the implementation of the law on financial reporting, while potential borrowers provide the bank with audited balances. In fact, there is no barrier for banks to request this already.

However, banks are not completely exempt from the liability that they should be active participants in the fight for the overall economic development and improvement of social welfare of the population. Despite all the problems, we should not forget the fact that the NPL in Kosovo are still at the lowest level in the region, although the growth trend is worrisome. However, banks currently have an overview of the sectors which have the ability to pay, namely the return of debt; therefore they should be more generous in their regard. Also, they should be more active in addressing the problems that businesses enter, which often occur due to sudden changes in the market, or because of incorrect predictions. If the issue is about problems that can be overcome, they should intervene through grace periods, debts re-programing or even intervene with the purpose of improving businesses liquidity. Also, given the high degree of liquidity that banks have, they can "favor" certain sectors or businesses with a percentage of the money available to them. They should not expect huge profits from these business but quick capital turnover. This enables those businesses to develop faster and increase their employment. Both parameters are advantageous for the banks, because the money created by the businesses or the employee will return to the bank, which directly affects the growth potential of the banking system.

„Basel II" - should it be implemented? Why "Basel II"?

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"„Basel II"", very often discussed in a lot of experts' circles and later on frequently critizised: from the neutral view this named "Basel II" is indeed the second one of the so-called Basel Accords, created in experts' rounds in the Bank for International Settlement located in Basel. This ideas contains at the end of the day important recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision. 1)

This very „Basel II", first published to the world in the mid of the year 2004, was intended to create an international harmonized standard for banking regulators. That was as well combined with the target to control how much capital banks need to put aside to guard against the types of financial and operational risks banks (and hopefully also the whole economy) face. The main focus was to maintain sufficient consistency of regulations, so that this does not become a source of competitive inequality amongst internationally active banks. The fathers of „Basel II" believed at that time, that such an international high developed standard could help to protect in an efficient way the international financial system from the types of problems that might arise should even a major bank or a series of banks collapse suddenly.

On the one hand: In the nice world of economic theory, „Basel II" attempted to accomplish this by setting up very deep differenced risk and capital management requirements designed to ensure that a credit institution has enough adequate capital for the risk this bank exposes itself to through its lending and investment practices. Generally speaking, these interesting looking rules mean, that the greater risk to which the bank is exposed, the greater the amount of capital the credit institution needs to hold to safeguard its own solvency and overall economic stability. 2)

Politically – on the other hand – it was in opposite to the mentioned economic theory, difficult to implement „Basel II" in the regulatory environment prior to 2008, and the progress was generally slow until that year's major banking crisis caused mostly by credit default swaps, mortgage-backed security markets and similar derivatives.

To put it into a nutshell:

The final aims of "Basel II" are:

1. Ensuring, that capital allocations of banks are automatically more risk sensitive;
2. Enhance disclosure requirements which will allow market participants to assess the

capital adequacy of an institution playing at financial markets;

3. Ensuring that (classical) credit risk, new defined operational risk and all other market risks are quantified based on data and formal techniques;

4. Last not least: Attempting to align economic and regulatory capital more closely to reduce the scope for regulatory arbitrage (not forgetting the globalization!). 1)

A wide range of supervision: Three pillars at all.

Our discussed „Basel II" uses since its implementation in the last decade in the OEEC world a so-called "three pillars" concept – that means:

(1) new and enlarged minimum capital requirements (quantitative standards),

(2) supervisory review processes (SRP) and

(3) market discipline and transparency (both, (2) + (3), qualitative standards).

But what does that three "topics" mean in general?

The first pillar refers to "classical" quantitative-based supervisory aspects and this pillar deals with maintenance of regulatory capital calculated for the named three major components of risk that a bank faces: the well known credit risk, the several times new defined operation risk and some different market risks. Other risks are not considered fully quantifiable at this stage.

So, there is, besides the well known TIER I capital (that means, roughly spoken, the paid-in capital and direct reserves) in addition to this a wide area of TIER II with a difficult scheme of calculation.

The credit risk component can be calculated in three different ways of varying degree of sophistication, namely the (easy) standardized approach, the Foundation Internal Rating-Based Approach (IRB) and the Advanced IRB.

For the today's defined operational risk, there are three different approaches – the basic indicator approach (BIA), the standardized approach (TSA) and the internal measurement approach (an advanced form of which is the advanced measurement approach (AMA)).

And not to forget: For the market risk the name of the corresponding approach is the value at risk (VaR). 3)

As the „Basel II" recommendations were phased in the OEEC world by the banking industry, it moved from standardized requirements to more refined and specific requirements that have been developed for each risk category by each individual bank. The upside for banks that do develop their own bespoke risk measurement systems is that they will be rewarded with potentially lower risk capital requirements According "Basel II" there are now closer links between the concepts of economic and regulatory capital. 1)

But did that first pillar of "Basel II" indeed fulfill all wishes and needs?

The answer after the financial crises is simply: "No!". The role of „Basel II", both before and after the named global disaster, has been discussed widely. While some argue that the crisis demonstrated weaknesses in the framework, 4) others have criticized it for actually increasing the effect of the crisis. In response to that financial crisis 5), the Basel Committee on Banking Supervision published quickly amended global standards. The Committee in Basel claimed, that the new standards would lead to a better quality of capital, increased coverage of risk for capital market activities and better liquidity standards among other benefits. 6)

Altogether, the first pillar of that very accord was not immediately responsible for the crises, but promoted effectively the crises with its pro-cyclical effects. Besides this, the elements of TIER II capital were according that hard experience from its tendency instable and in some cases very speculative. Recommendable is, when learning from the crises, indeed a better quality of regulatory capital and a better liquidity management and supervision. To put it straight: there is the urgent need more

TIER I capital, less TIER II capital and – in ideal case: with easier banking capital definitions. Countries, which have today just a minimum requirement of 12 % or mere of TIER I regulatory banking capital should not amend this. 7)

But, as well known, "Basel II" accord contains two other interesting pillars:

A new supervisory world: a qualitative-based view.

All this aspects are, at the end of the day, quantitative-based supervisory aspects in a very complex manner. New is in the whole world of "Basel II", that there are in addition to it, also several qualitative-based supervisory tools, embedded in a second pillar of that hugh framework. So, it also provides since the implementation in the OEEC countries a framework for dealing with systemic risk, pension risk, concentration risk, strategic risk, reputational risk and legal risk, which this second accord combines under the title of residual risk. Credit institutions can review their risk management system. 2)

The requirements set forth in this pillar relate to the management of material risks of the institution, as well as risk concentrations associated with these risks. In order to assess whether or not a risk is deemed material, the management has to obtain an overview of the overall risk profile of the institution.

As a general rule, the types of risk to be taken into consideration include:

a) counterparty risks (including country risks),

b) market price risks,

c) liquidity risks and

d) operational risks.

Lending decisions within the meaning of this pillar include all decisions on new loans, loan increases, participating interests, the exceeding of limits, the determination of borrower-related limits, as well as counterparty and issuer limits, prolongations and changes to risk-relevant circumstances on which the lending decision was based (e.g. collateral, loan purpose). The issue as to whether the decision was taken by the institution only or together with other institutions (syndicated lending) is immaterial.

Altogether, the "topic" trading business covers all activities based on a:

a) money market transaction,

b) securities transaction,

c) foreign exchange transaction,

d) transaction in fungible receivables (e.g. trading in borrowers' notes).

e) transaction in commodities

f) transaction in derivatives,

and which are concluded in the institution's own name and for its own account. Securities transactions also include transactions with registered bonds and securities lending, but not the initial issue of securities. Trading transactions also include - regardless of the underlying - any form of repurchase agreement.

Depending on the nature, scale, complexity and risk content of its business activities, each institution has to:

a) set forth regulations regarding the organizational and operational structure and

b) establish processes for identifying, assessing, treating, monitoring and communicating risks.

When determining the organizational and operational structure, the institution has to ensure that incompatible activities are performed by different employees.

Processes, as well as the related tasks, competencies, responsibilities, controls and communication channels have to be clearly defined and attuned to one another. This also applies to the linkage to material outsourcings.

The institution has to establish appropriate processes which ensure that material risks can be:

a) identified,

b) assessed,

c) treated and

d) monitored and communicated,

by the supervising entities. These processes should be included in an integrated risk-return management system.

Each credit institution must have a well functioning internal audit in place. The functions of an internal audit may be carried out by a member of the management board if it would be disproportionate with respect to the size of the institution to establish an internal audit. Waivers in that context are recommendable.

The internal audit as an instrument of the management board is under its direct control and has to report to the management board. It can also be subject to the direct control of one executive in the management board, who should, if possible, be the chairperson. 8)

In direct combination to this, there are parts of "homework" for both sides: It is on the one hand the Internal Capital Adequacy Assessment Process (ICAAP) that is the result of Pillar II of „Basel II" accord, which the supervised banks have to fulfill in a qualified manner. On the other hand there is in that context the "homework" named Supervisory Review and Evaluation Process (SREP), which has to be realized by the banking supervisors. 9)

Learning from the crises, there is to notify, that the ideas of the 2nd pillar were and are very helpful and simply good. It is not surprising that they survive in the third Basel's accord. 7)

Let us have a good corporate governance in the economic world

The third pillar last not least aims to complement the minimum capital requirements and supervisory review process by developing a set of disclosure requirements which will allow the market participants to gauge the capital adequacy of an institution.

The key aspect in that context is the market discipline, supplements regulation as sharing of information facilitates assessment of the bank by others, including investors, analysts, customers, other banks, and rating agencies, which leads to good corporate governance. The aim of this third pillar is to allow market discipline to operate by requiring institutions to disclose details on the scope of application, capital, risk exposures, risk assessment processes, and the capital adequacy of the institution. It must be consistent with how the senior management, including the board, assess and manage the risks of the institution.

When market participants have a sufficient understanding of a bank's activities and the controls it has in place to manage its exposures, they are better able to distinguish between banking organizations so that they can reward those that manage their risks prudently and penalize those that do not.

These disclosures are required to be made at least twice a year, except qualitative disclosures providing a summary of the general risk management objectives and policies which can be made annually. Institutions are also required to create a formal policy on what will be disclosed and controls around them along with the validation and frequency of these disclosures. In general, the disclosures under the 3rd pillar apply to the top consolidated level of the banking group to which the „Basel II" framework applies.

We can learn from the global crises, that the ideas of the 3rd pillar were target-leading and indeed very fruitful. A good corporate governance, just deeply embedded in the German regional banking system, is the best protection against banking runs in case of nervous financial markets. 7)

Basel II ahead?

One of the most difficult aspects of implementing "Basel II" is the very need to accommodate differing cultures, varying structural models, complexities of public policy, and existing regulation. Each country has its own individual development.

Besides this, banks' senior management will determine corporate strategy, as well as the country in which to base a particular type of business, based in part on how „Basel II" is ultimately interpreted by various countries' legislatures and regulators. There is as well the need to assist credit institutions as early as possible in operating with multiple reporting requirements for different regulators according to geographic location, there are several software applications available. These include capital calculation engines and extend to automated reporting solutions which include the reports required. As a communication wire, there will be banking associations very helpful. 1)

There is to say, that bank regulation based on the Basel II accords encourage unconventional business practices and contributed to or even reinforced adverse systemic shocks that materialized during the financial crisis. According to that, capital regulation based on risk-weighted assets encourages innovation designed to circumvent regulatory requirements and shifts banks' focus away from their core economic functions. Tighter capital requirements based on risk-weighted assets, may further contribute to these skewed incentives. New liquidity regulation, notwithstanding its good intentions, is another likely candidate to increase bank incentives to exploit regulation. Altogether, there is to recommend, that countries with an easy defined minimum requirement for TIER I capital should not amend this in the future. 11)

Looking now to the 2nd and 3rd pillars of "Basel II", there can be, in opposite to the 1st pillar, a lot of target-leading supervisory aspects. In every case, there should be in the time of preparation and as well in the time of realization a deep dialogue between the supervisors and supervised ones to be successful at the end of the day!

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The author is employed in the German Federal Financial Supervisory Authority (BaFin) and reflects this topic only according his private opinion. This is not automatically the public position of BaFin or another German public entity.

The importance of addressing the banking sector issues through Kosovo Banking Association and their impact on economic development

One of the most important structures within the Kosovo Banking Association (KBA) is the operation of ten (10) working groups / committees through which issues of interest to the banking sector in Kosovo are discussed and handled. Many issues and challenges facing the sector are addressed through committees, where the intention is to make the public aware, especially the competent institutions of the country such as the Central Bank, Ministry of Finance, the Financial Intelligence Unit, Deposit Insurance Fund and other stakeholders. In addition to addressing issues of interest to the sector, Kosovo Banking Association has become an integral part of institutional and international working groups, through which the drafting of many primary and secondary legislation is made, where its expertise has contributed to the financial sector. This way, taking into account the importance of the financial and banking sector in particular, Kosovo Banking Association has provided a significant contribution to the economic development of the country.

The ten functional committees within Kosovo Banking Association are: Payment Committee, Treasury, Legal, Human Resources, Anti Money Laundering, Anti Card Fraud, Finance, Security, Risk and Marketing Committee.

The environment of doing business in Kosovo continues to present difficulties, particularly in the field of law enforcement for many businesses including the banking sector which is constantly faced with these difficulties too. Through this important structure within, the Kosovo Banking Association, in collaboration with local institutions, has covered important issues in this area, becoming the promoter of many initiatives in the country. This way, it continues to contribute to the elimination of barriers to the banking business in the country, in order for this sector to provide better conditions to the citizens of the Republic of Kosovo. Following this article we mark some of the issues of interest in which the Kosovo Banking Association has been an active participant during 2014:

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KOSOVO BANKING ASSOCIATION

- FATCA (Foreign Account Tax Compliance Act)- Kosovo Banking Association has managed to sensitize primarily the domestic institutions to the importance of implementing FATCA, a directive from the United States of America, which aims to identify U.S. citizens who conduct their activities in various countries of the world, in this case in Kosovo. Failure of its implementation would have had consequences for the banking sector in Kosovo because of noncompliance/ noncooperation of this sector with requests coming from outside the country. Now this directive is in the final stages of its implementation and Kosovo is on the verge of signing this interstate deal with the United States of America;

- Regulation for Mortgage Loans - KBA in cooperation with the Central Bank of Kosovo and U.S. Treasury Office have created a working group through which a drafted regulation aiming to assist and facilitate citizens and banks in the mortgage lending process has been made. This draft regulation is in its final stage;

- Private Enforcement Agents- KBA has been involved in many activities related to the drafting of guidelines on the basis of which private enforcement agents will work up to their licensing. The commencement of work of these private enforcement agents during May 2014 has been a success for all institutions in the country, because it is believed that they will help Kosovo's judicial system with the backlog of cases that have not yet been solved. Their work will also help the banking sector, as it is known that in the judicial system now, there are over 10,000 court cases pertaining to the banking sector waiting to be handled;

- Memorandum of Understanding with the Ministry of Labor and Social Welfare - This memorandum agreed between commercial banks and the Pension Department under MLSW aims for the payment of social and pension schemes to be performed through bank accounts. In this case KBA has raised discussions with representatives of the MLSW to enable these categories of people to be issued bank cards, as the current agreement does not allow such a deed. MLSW has developed a new version of this agreement and it is undergoing a phase of treating the requests of this social category as well as those of the commercial banks.

- Banking Safety Forum - on May 28th 2014, Kosovo Banking Association in cooperation with the Association of Banks of Albania co-hosted a roundtable discussion which gathered experts in the field of physical security and information security. A special emphasis has been given to new developments in the field of banking and security in particular the cooperation between the security structures in commercial banks and supervisory institutions / government and other partners in Albania and Kosovo;
- Regulation on securities - with KBA's request to the Ministry of Finance, specifically, the Treasury Department, this institution has modified the regulation of securities, as a result of which the method of sales prices of treasury bills and government bonds has been altered; hence, the multiple price system started to apply. The new regulation entered into force on March 10th, 2014;

- Third National Card Forum - KBA has participated in the National Card Forum held on May 16th, 2014 organized by the Association of Banks of Albania. KBA has been represented by Mr. Fisnik Behxheti in this forum, where he presented the topic "Card Sector Developments in Kosovo", exchanging knowledge and experience from both our countries;

- Commentary on draft regulations and guidelines – in 2014, Kosovo Banking Association has made its contribution by providing suggestions and comments in the interest of this sector, but also in view of the general interest of citizens. The following are some of the regulations and guidelines in which KBA has participated: regulation for mortgage loans, regulation for default interest, securities regulation, regulation of anti-money laundering and terrorism financing, instruction for private enforcement agent fees, instruction for politically exposed persons, instruction for the operating scheme Kos-Giro payments and Direct Debit;

During this time, Kosovo Banking Association has built good cooperation with all institutions in the country, evaluating that jointly through close and genuine cooperation we can achieve significant results in the interest of all.

Financial terms that should be known

Percentage point definition: The difference between two percentages is termed as percentage point. Percentage point is used to show the changes in an indicator with respect to its previous standings.

Net book value of a fixed asset: The original cost of the item less accumulated depreciation for the item.

Gross book value of a fixed asset: The gross book value is the original/historical price paid for an asset, without a depreciation deduction.

Deferred revenue: Deferred income (also known as deferred revenue, unearned revenue, or unearned income) is, in accrual accounting, money received for goods or services which have not yet been delivered. According to the revenue recognition principle, it is recorded as a liability until delivery is made, at which time it is converted into revenue.

Definition of Accrual Accounting: An accounting method that measures the performance and position of a company by recognizing economic events regardless of when cash transactions occur. The general idea is that economic events are recognized by matching revenues to expenses (the matching principle) at the time in which the transaction occurs rather than when payment is made (or received). This method allows the current cash inflows/outflows to be combined with future expected cash inflows/outflows to give a more accurate picture of a company's current financial condition.

Nominal value (par value): The stated value of an issued security. Nominal value in economics also refers to a value expressed in monetary terms for a specific year or years, without adjusting for inflation. When used in reference to securities, nominal value is also known face value or par value. Nominal value in economics also refers to a value expressed in monetary terms for a specific year or years, without adjusting for inflation. When used in reference to securities, nominal value is also known face value or par value.

Petty Cash: A small fund of cash kept on hand for purchases or reimbursements too small to be worth submitting to the more rigorous purchase and reimbursement procedures of a company or institution. Petty cash funds must be safeguarded and documented to ensure that thefts do not occur. Often a custodian for the funds is appointed who is held responsible for any shortfall or lack of documentation of petty cash.

Definition of unencumbered: An asset or property that is free and clear of any encumbrances such as creditor claims or liens. An unencumbered asset is much easier to sell or transfer than one with an encumbrance. Examples of typical unencumbered assets are a house without any mortgage or other lien on it, a car where the automobile loan has been paid off or stocks purchased in a cash account, rather than a margin account.

Diversification: Not putting all your eggs in one basket. Investors are encouraged to do this by MODERN PORTFOLIO THEORY, as holding several different SHARES and other ASSETS helps to reduce RISK. At the sharp end of business, however, diversification is somewhat out of fashion. Economic studies of diversifying corporate MERGERS have found that these often hurt the shareholders of the acquiring firm; by contrast, diversified FIRMS that have sold off non-core businesses have typically made their shareholders much better off.

Dumping: Selling something for less than the cost of producing it. This may be used by a DOMINANT FIRM to attack rivals, a strategy known to ANTITRUST authorities as PREDATORY PRICING. Participants in international trade are often accused of dumping by domestic FIRMS charging more than rival IMPORTS. Countries can slap duties on cheap imports that they judge are being dumped in their markets. Often this amounts to thinly disguised PROTECTIONISM against more efficient foreign firms. In practice, genuine predatory pricing is rare - certainly much rarer than anti-dumping actions - because it relies on the unlikely ability of a single producer to dominate a world market. In any case, consumers gain from lower PRICES; so do companies that can buy their supplies more cheaply abroad.

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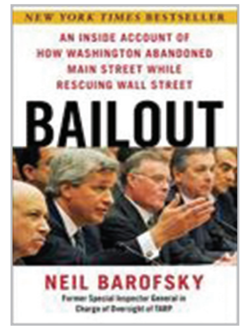
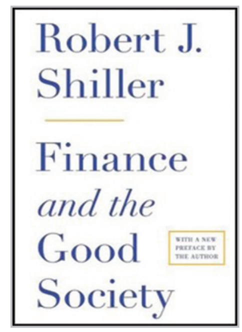
A summer reading list for commercial bankers

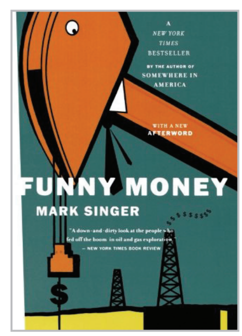
1. "Bailout: How I Watched Washington Rescue Wall Street While Abandoning Main Street," by Neil Barofsky: "Barofsky's damning insider account of how government officials handled the 2008 financial crisis has generated a great deal of buzz … and criticism. The New York Times doled out both with one reviewer calling the book a 'must-read' and another asserting the former Special Inspector General for TARP's first-person narrative contained numerous 'contradictions and inconsistencies.' The mixed reviews provide even more incentive to read the latest bailout book since it forces readers to draw their own conclusions."



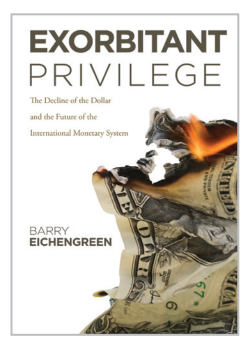
2. "Finance and the Good Society," by Robert J. Shiller: In this important and timely book, Shiller argues that, rather than condemning finance, we need to reclaim it for the common good. He makes a powerful case for recognizing that finance, far from being a parasite on society, is one of the most powerful tools we have for solving our common problems and increasing the general well-being. We need more financial innovation--not less--and finance should play a larger role in helping society achieve its goals.



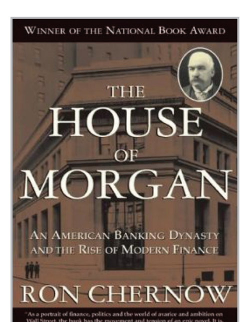
3. "Funny Money," by Mark Singer: Recounting the whole spectacular story and its colorful characters, Singer makes brilliantly (and hilariously) clear what actually happened and why it had to happen in boom-time Oklahoma. Nowhere else did money flow in quite the same spontaneous fashion. "[A] tale of wonderful verve" (New York Times), Funny Money comes to life through Singer's vivid prose and continues to resonate in today's culture of corporate corruption.

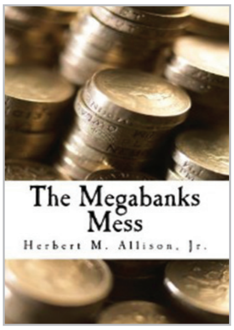


4. "Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System," by Barry Eichengreen: In Exorbitant Privilege, one of our foremost economists, Barry Eichengreen, traces the rise of the dollar to international prominence over the course of the 20th century. He shows how the greenback dominated internationally in the second half of the century for the same reasons--and in the same way--that the United States dominated the global economy. But now, with the rise of China, India, Brazil and other emerging economies, America no longer towers over the global economy. It follows, Eichengreen argues, that the dollar will not be as dominant. But this does not mean that the coming changes will necessarily be sudden and dire--or that the dollar is doomed to lose its international status.



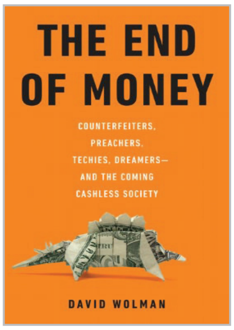
5. "The House of Morgan: An American Banking Dynasty and The Rise of Modern Finance," by Ron Chernow: The winner of the National Book Award and now considered a classic,The House of Morgan is the most ambitious history ever written about an American banking dynasty. Acclaimed by The Wall Street Journal as "brilliantly researched and written," the book tells the rich, panoramic story of four generations of Morgans and the powerful, secretive firms they spawned. It is the definitive account of the rise of the modern financial world. A gripping history of banking and the booms and busts that shaped the world on both sides of the Atlantic, The House of Morgantraces the trajectory of the J. P. Morgan empire from its obscure beginnings in Victorian London to the crash of 1987. Ron Chernow paints a fascinating portrait of the private saga of the Morgans and the rarefied world of the American and British elite in which they moved.



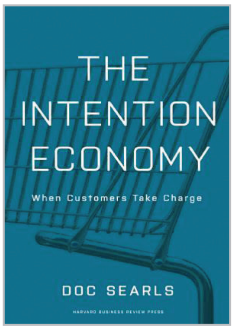


6. "The Megabanks Mess," by Herb Allison: Herb Allison builds a powerful case for breaking up the megabanks and overhauling regulation and oversight of the financial industry so that the public interest can prevail over the self-interest of bankers...and another financial crisis can be avoided.

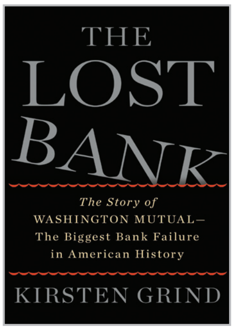
7. "Practical Bank Credit," by Herbert Prochnow of Illinois Continental National Bank.



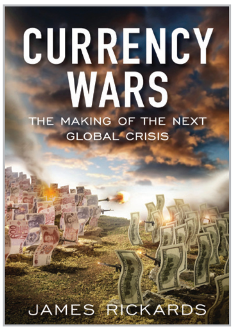
8. "The End of Money: Counterfeiters, Preachers, Techies, Dreamers - and the Coming Cashless Society," by David Wolman: For ages, money has meant little metal disks and rectangular slips of paper. Yet the usefulness of physical money—to say nothing of its value—is coming under fire as never before. Intrigued by the distinct possibility that cash will soon disappear, author and Wired contributing editor David Wolman sets out to investigate the future of money...and how it will affect your wallet.



9. "The Intention Economy: When Customers Take Charge," by Doc Searls: While marketers look for more ways to get personal with customers, including new tricks with "big data," customers are about to get personal in their own ways, with their own tools. Soon consumers will be able to: (1) Control the flow and use of personal data, (2) Build their own loyalty programs, (3) Dictate their own terms of service, and (4)Tell whole markets what they want, how they want it, where and when they should be able to get it, and how much it should cost. And they will do all of this outside of any one vendor's silo. This new landscape we're entering is what Doc Searls calls "The Intention Economy"--one in which demand will drive supply far more directly, efficiently, and compellingly than ever before. In this book he describes an economy driven by consumer intent, where vendors must respond to the actual intentions of customers instead of vying for the attention of many. New customer tools will provide the engine, with VRM (Vendor Relationship Management) providing the consumer counterpart to vendors' CRM (Customer Relationship Management) systems.



10. "The Lost Bank," by Kirsten Grind: During the most dizzying days of the financial crisis, Washington Mutual, a bank with hundreds of billions of dollars in its coffers, suffered a crippling bank run. The story of its final, brutal collapse in the autumn of 2008, and its controversial sale to JPMorgan Chase, is an astonishing account of how one bank lost itself to greed and mismanagement, and how the entire financial industry; and even the entire country; lost its way as well.



11. "Currency Wars: The Making of the Next Global Crisis," by James Rickards: As James Rickards argues in Currency Wars, this is more than just a concern for economists and investors. Rickards untangles the web of failed paradigms, wishful thinking, and arrogance driving current public policy and points the way toward a more informed and effective course of action.

Reference: http://www.americanbanker.com/gallery/-1051605-1.html (access date 15/06/14)

Global Money Week in Kosovo

Central Bank of the Republic of Kosovo (CBK) in cooperation with the Kosovo Banking Association (KBA) held a workshop with elementary school students in Pristina, fourth and fifth grades, in which savings as a concept was introduced using the motto "Let's learn to save ".

The event was organized as part of the Financial Education activities in order to raise awareness of children and young people on finance. International Money Week is organized every year in more than 80 countries worldwide which aim at financial education targeting children, students and youth. This year, for the first time Kosovo organized and marked this day by joining the regional countries which organize such events. The foreword in this case was given by the Governor of the Central Bank of Kosovo (CBK), Mr. Bedri Hamza, where he stressed the importance of savings, how to earn and spend money wisely and how children should become more careful when submitting their wishes to their parents. Governor Hamza showed some examples through which he explained the effect of savings.

On the other hand, the opening remarks were also made by the Chairman of the Board of Directors of the Kosovo Banking Association (KBA), Mr. Robert Wright, where he introduced the saving process by which it was said that the savings banks collect are then used to issue loans to customers who need loans. Mr. Wright encouraged children and parents to save in order to have a more secure future. He noted how banks work and the role they have in society. After the speech of Mr. Wright, Mrs. Shkendije Himaj, Executive Board Advisor in CBK, made a presentation on children's savings with personal stories told in the quality of parents, where she stressed the importance of savings and the encouraging of parents to save. CBK also shared some symbolic gifts for the children who were present at the workshop including savings boxes, notebooks to make children's savings plans, and distributed invitations to participate with their work to demonstrate their skills in drawings, poems or something similar and will be rewarded with prizes from CBK. *March 14th, 2014.*

Kosovo Banking Association (KBA) and International Finance Corporation (IFC) Supports Financial Literacy program in Kosovo

KBA as the representative of the banking industry in Kosovo and IFC, a member of the World Bank Group, have signed an agreement, marking a joint commitment to improve the financial literacy in Kosovo. Improving financial literacy will help to increase skills and knowledge of the clients and potential clients of banks in Kosovo on foundations of finance.

As the Kosovo financial sector deepens and consumers with lower financial capability start using more financial services, the country has shifted the attention to the consumer's protection and financial literacy and for ensuring that consumers are treated fairly. Citizens' lack of understanding of contractual relations and basic foundations of finance hamper the development of entrepreneurship, household and small businesses. It is also widely acknowledged that financial understanding among FIs' clients, especially consumers, households and MSMEs, is low.

Petrit Balija, Executive Director of the Kosovo Banking Association expressed that "The commercial banks of Kosovo are continuously participating in projects that aim to improve the socio-economic conditions of the citizens of Kosovo. This project between KBA and IFC is a great example of such an initiative that we believe will help to educate and raise awareness about the banking system in our country".

KBA as part of its financial education strategy will support financially while IFC will assist KBA to implement a Financial Literacy program in order to improve the current level of FL of the population, specifically targeted at existing and potential banking clients in Kosovo.

This program offers a large set of tools, identifies the best delivery channels, and ensure the consistency of the key messages of the program on nationwide level.

In the initial phase of the program, a broad financial literacy study will be conducted, with the objective to assess the current level of financial literacy among population.

Based on study results, trainings and counselling will be organized aimed to increase financial literacy of banking existing clients and potential clients. Moreover, design and development of marketing materials for a wide range of population through different delivery channels, such as television (TV) and radio broadcasts; printing materials and use of new technologies (SMS and/or call center messages). *June 30, 2014.*

Albania and Kosovo meet in Prizren at the Bank Security Forum

Today, the Third National Forum for Bank Security concluded its proceedings in Prizren. The forum brought together experts from the fields of banking security who discussed current issues and latest developments in the field of security, where the two elements of banking security, the physical and information, were addressed. For the first time, the forum was held in co-organization of the banking associations of the two countries, Kosovo and Albania.

During the forum, representatives of the two countries from commercial banks, central banks, the police and the state agency for the protection of personal data as well as foreign companies providing solutions in the field of information security, disclosed their concerns and solutions related to physical and information security.

The Executive Director of the Kosovo Banking Association Petrit Balija submitted that he is pleased with the cooperation they have created with the Albanian Association of Banks (AAM) over the past year and considers that it is an event of great importance for the banking industry. "As an association of banks we think physical security, but also the security of information is a key factor for customers of commercial banks and baring this in mind, considerable investments have been made in banks in Kosovo and this has resulted in a more secure financial system in Kosovo. At the same time, he submitted that there is a need for a broader local and regional coordination in order to exchange experiences between the banking industries of the region and also to improve communication with the relevant security institutions, such as Kosovo Police. *May 28th, 2014.*

Kosovo Banking Association meets with the IMF mission

In the course of meetings of the mission of the International Monetary Fund (IMF) in Kosovo, today, on March 27, 2014, a meeting was held between Kosovo Banking Association (KBA) and its members, the commercial banks in Kosovo, and IMF mission that is visiting Kosovo these days.

The Executive Director of the Association of Banks of Kosovo, Mr. Petrit Balija, said "In this meeting, issues of importance to the banking industry where discussed and it was concluded that the banking industry is stable and has sufficient liquidity but we have also raised our concerns about delays with the judiciary system in handling banking cases and the execution of contracts which relates to the high risk in Kosovo where we have over 10,000 pending cases." In this meeting, the International Monetary Fund (IMF) was represented by the IMF Resident Representative for Kosovo, Mr. Jose Sulemane, Mrs. Pamela Madrid, senior economist of the European Department, and Mr. Miniane Jacques, head of the IMF mission to Kosovo, European Department. Mr. Petrit Balija added that this meeting is quite important for the banking industry and such meetings and discussions are always productive and give good results in the future. At this meeting all CEOs of commercial banks operating in Kosovo, members of the KBA were present. *March 27th, 2014.*

KBA participates in the celebrations in honor of the National Day of the Republic of Italy

Executive Director of the Kosovo Banking Association, Mr. Petrit Balija, at the invitation of His Excellency the Ambassador of the Republic of Italy, Mr. Andreas Ferrarese, participated in the event organized at Square 21 in honor of the National Day of the Republic of Italy. With his participation, Mr. Balija expressed his appreciation for the continued support from the Republic of Italy. *June 3rd, 2014*

Bank for Business helps all elementary and high schools in Kosovo

Bank for Business, in collaboration with the Ministry of Culture, Youth and Sports, SSF and IRD, have distributed 22,800 balls in all elementary and high schools in Kosovo. The project includes three main components, which are: the process of distribution, educational training and football tournaments. About 800 schools and 30 youth organizations have been rewarded with balls, certificates and T-shirts. In each municipality, school principals, directors of education and in certain cases even the mayors were present to accept these balls. We are privileged that as a local bank, we have helped our citizens through sports and other activities. This was one of the initiatives that our bank has taken as a responsibility towards Kosovo society. BANK FOR BUSINESS –THE BANK OF YOUR COUNTRY! *May 21st 2014.*

BKT in support of society

BKT has a high social responsibility that expresses emphatically through its contributions to society in Kosovo. BKT seeks to positively touch the lives of everyone by expanding its charitable activities in different areas of society and culture.

The most important instruments of social accountability for BKT are sponsorships, activities and several other charity deeds that reflect the values of the institution to the community and its employees. BKT pays special attention to the development and emancipation of Kosovar society. Besides projects in the field of environment, sports, cultures and art in which BKT engages extensively, BKT has a special focus on activities that add value to the development of society, such as education. In this context, BKT has sponsored various educational programs and it has stimulated the best students through scholarships.

BKT
BANKA KOMBETARE TREGTARE

TEB Bank continues its support to Kosovar tennis

TEB Bank's dedication to the youth of Kosovo comes as a result of social responsibility that this institution takes over. Since sport is a very healthy and effective activity for the human body and brain and considering the large number of talents in Kosovo, TEB bank consistently supports the country's tennis players.

By now, TEB has been supportive of the tennis tournament "Dielli Open TEB" for the past 5 years. This tournament last year marked its 13th edition; however the support given by the bank has increased the value and professionalism thereof. In this tournament, the contests are held in two competitions, in that individual and couples. Among the participants of the tournament are the best ranking tennis players in Kosovo. The support that this bank gives is in

full compliance with TEB - BNP Paribas's sponsoring policies to help young players towards success on the field, school, and life.

TEB supports the basketball players of the future

TEB Bank, for years now is known for its commitment to Kosovo's youth. The contribution to society and the support to the community is an integral part of TEB; therefore sponsorship of cultural and social events, as well as sports reflects the responsibility that the bank feels towards society.

As part of this program, TEB bank now sponsors Kosovar basketball, having great influence on the development of this sport in Kosovo. TEB is the official sponsor of all new generations' leagues in basketball, which is a reflection of the attention that this bank pays to youth, sports, health, character development and the support for further achievements of people with such talent.

This initiative of TEB pledges support for the next three years for all new leagues and cups for different age groups, trying to increase the number of teams and the professionalism of the trainers. *April, 10th 2014.*

Raiffeisen Bank donates 100,000 Euros to the Gynecological Clinic

Raiffeisen Bank has donated 100,000 Euros to the University Clinical Center of Kosova (UCCK), Gynecological Clinic specifically. The donation includes the purchase of 11 operating tables, 10 CTG, 75 beds for children, 122 children mattress, 385 pillows for mothers' beds, industrial machines for washing and drying, as well as consumable materials.

This amount has been allocated as a donation by Raiffeisen Bank last year when the bank marked the tenth anniversary of its operation in Kosovo.

Social welfare, sports, culture, education and health have been the five areas which have been included in a survey asking customers to vote where they would like this donation to be allocated. Customers selected health; as such the Bank officials talked to the Ministry of Health and UCCK and determined that the donation should be offered to the Gynecological Clinic. Raiffeisen Bank believes that this donation will help the medical staff in their daily work and will affect the quality of services for mothers in Kosovo. *May 22nd, 2014.*

Projects supported by Raiffeisen Bank

Raiffeisen bank's commitment to support educational activities and cultural and sports projects has continued this year too. We have continued our support to the "ATOMI" project, which this year marks its third cycle. The bank, ever since the first cycle has been a supporter of "ATOMI", project which aims at identifying students with high intelligence, creating opportunities for specific lessons, and opportunities to develop their talents. Also, in April, activities that are traditionally supported by Raiffeisen Bank were held, such as, Chopin Piano Fest and PriFest. PriFest and Chopin Piano Fest promote the culture of classical music and film. Chopin Piano Fest marked its fifth edition and PriFest its sixth edition. These two projects provided a very rich artistic program. On May 24th, 2014, Raiffeisen bank joined the initiative "Let us clean up Kosovo". Volunteers from our bank cleaned up an area in Pristina to show our commitment to the environment.

ProCredit Bank part of the action “Let’s do it Kosovo”

ProCredit Bank enthusiastically accepted the invitation of the civic inititative “Let’s Do It Kosovo” cleaning up public spaces in the cities in which the bank operates. Over 250 banks’s staff filled few hundreds of banks with trash, transmitting the message that a clean environement is everyone’s responsibility. ProCredit Bank strongly supports the idea of this inititative that that the proper disposal of waste and taking care of the environment is everyone’s responsibility. *May 27th, 2014.*

ProCredit Bank supports international half marathon in Prishtina 2014

With the motto “Run for Peace and Tolerance”, for the fourteenth year in a row, ProCredit Bank supported the half marathon, which was won by Joel Maina from Kenya in the men’s competition, while Cira Elena Daniela won the women’s competition. Zijadin Kryeziu managed to be the best in the veteran’s competition and won the trophy again.

This year more than 1200 runners participated in the half marathon, coming from Kosovo, Kenya, Morocco, Hungary, Ukraine, Sweden, Albania, Macedonia, Serbia, Bulgaria, Romania, Moldova and others.

ProCredit Bank since the first edition of the half marathon held in 2001, supported Prishtina’s

marathon, assessing the event as the biggest sport event which is organized in Kosovo. *May 12th, 2014.*

INTERNATIONAL BANKING CERTIFICATION

EUROPEAN FOUNDATION CERTIFICATE IN BANKING | EFCB

For more information on registration or the programme, contact Training Center at Kosovo Banking Association at:

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KOSOVO BANKING ASSOCIATION

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