

PERIODIC OVERVIEW OF FINANCIAL SECTOR IN KOSOVO

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PART I

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TRENDS OF KEY INDICATORS OF THE BANKING INDUSTRY



The banking industry in Kosovo continues to expand and reflect high levels of sustainability in all aspects, including the high level of capitalization, strong liquidity position and the good quality of the loan portfolio. The banking industry in Kosovo continues to show good performance and growth from year to year. This can be seen from the key indicators that are disclosed for the period December 2013 - September 2014 in this publication.

ASSETS OF THE BANKING INDUSTRY

Assets of the banking industry have consistently recorded positive growth, which indicates a positive development and sustainability of the banking industry. As of the end of September 2014, banking industry assets have reached a value of 3,149.50 Million Euro

Assets of the banking industry										
*Milionë euro										
Description	December 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014	July 2014	August 2014	September 2014
Assets	3,059.3 €	3,048.5 €	3,045.1 €	3,053.3 €	3,038.3 €	3,014.0 €	3,059.5 €	3,116.4 €	3,160.4 €	3,149.5 €

Tab. 1 | Source: CBK - Balance Sheet (31 October 2014)

As illustrated in table no.1 and figure no.1, the value of assets on a monthly basis has fluctuations, but if considered in the longer term basis (December 2013 - September 2014), it is visible that assets have positive trends with an average increase of 2.9%. The greatest value of assets for this year has been recorded in the month of August 2014 with a value of 3,160.4 Million Euro. This value also represents the highest value achieved for the industry so far.

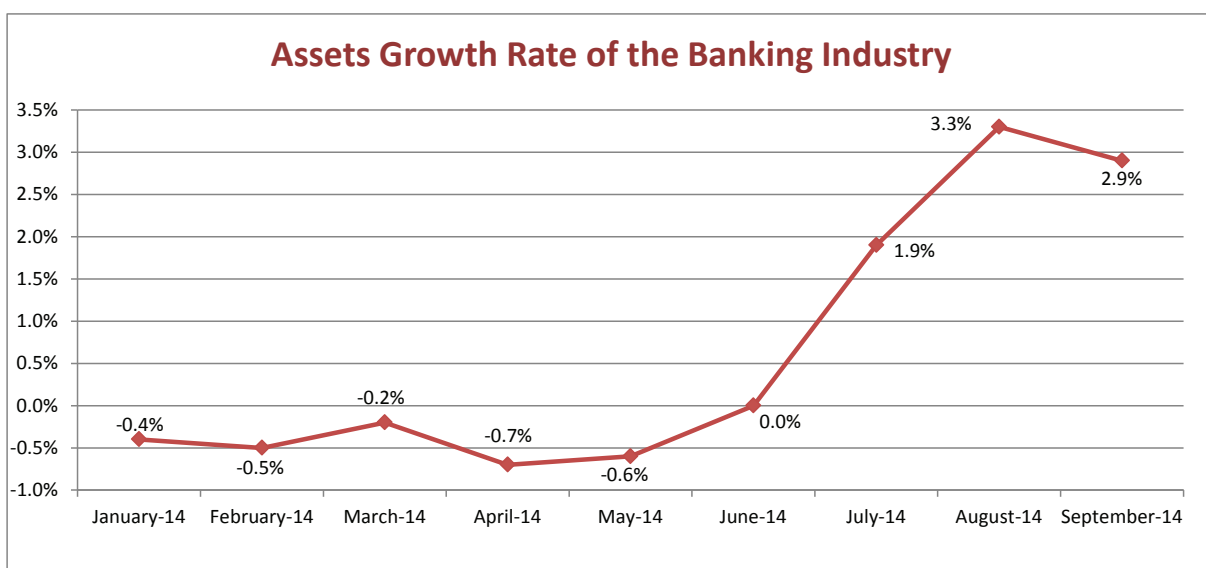


Fig. 1 | Source: CBK - Balance Sheet (31 October 2014)

Loans and leases comprise the majority of the total assets of the banking industry. At the end of September 2014, 59.9% of total assets consisted of loans of the banking industry or 1,855 Million Euro in total of disbursed loans.

Gross loans and leases in the banking industry										
*Million Euro										
Description	December 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014	July 2014	August 2014	September 2014
Gross loans	1,805.8 €	1,794.5 €	1,794.3 €	1,825.9 €	1,839.7 €	1,856.8 €	1,889.9 €	1,874.3 €	1,848.2 €	1,855.0 €

Tab. 2 | Source: CBK - Balance Sheet (31 October 2014)

The values of the loans disbursed by the banking industry through the months have marked different fluctuations, but if taken on a long-term basis (December 2013 - September 2014), then figure and table no.2 shows that the loans have recorded positive trends of 2.7 % increase or an additional 49.2 Million Euro were issued by the end of September 2014, compared to December 2013. Total gross loans and leasing disbursed by the banking industry by the end of September 2014 were 1,855 Million Euro. The highest amount of loans disbursed during the year was in June in the amount of 1,889.9 Million Euro.

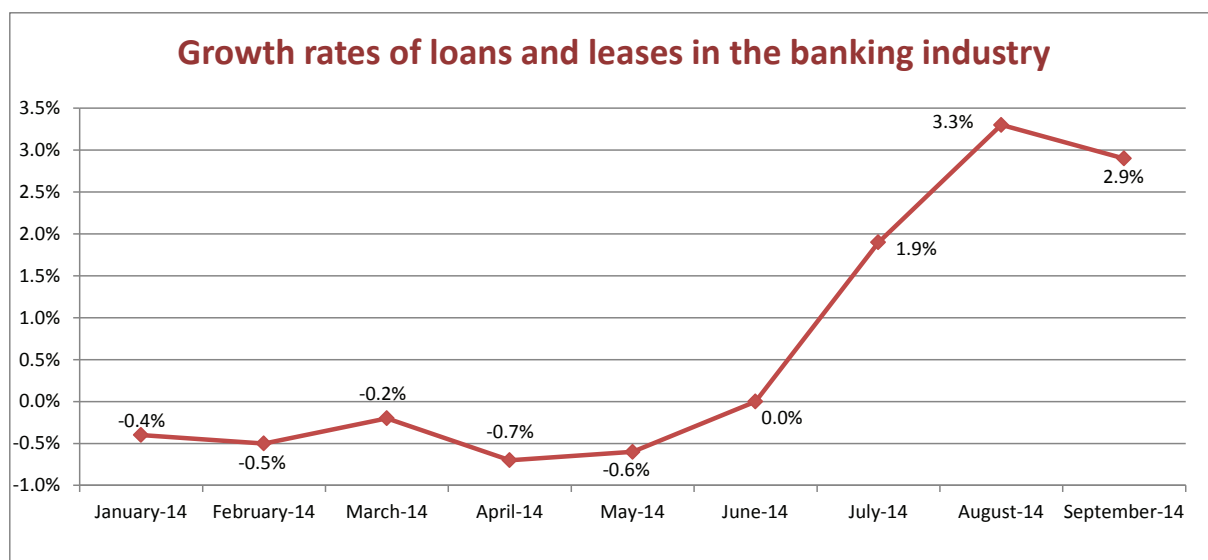


Fig.2 | Source: CBK - Balance Sheet (31 October 2014)

DEPOSITS IN THE BANKING INDUSTRY

One of the main sources of funding for banking industry in Kosovo are deposits that customers place in their bank accounts. For the banking industry, it is important that these deposits show a sustainable growth, in order to finance Kosovo's economy. Based on data available at the Central Bank of the Republic of Kosovo, deposits have increased continuously.

Deposits of the banking industry										
*Million Euro										
Description	December 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014	July 2014	August 2014	September 2014
Deposits	2,499.0 €	2,443.4 €	2,433.4 €	2,430.8 €	2,425.9 €	2,415.1 €	2,421.0 €	2,474.9 €	2,513.6 €	2,518.0 €

Tab. 3 | Source: CBK - Balance Sheet (31 October 2014)

In table no. 3, it can be seen that the deposits in the banking industry through the months have marked fluctuations, although in the longer term between December 2013 and September 2014, deposits have recorded a positive trend of growth. Specifically, deposits during this period have increased by 69 Million Euro or 2.8%.

At the end of September 2014, total deposits reached 2,518 Million Euro. This value also represents the highest value ever recorded for deposits of the banking industry in Kosovo.

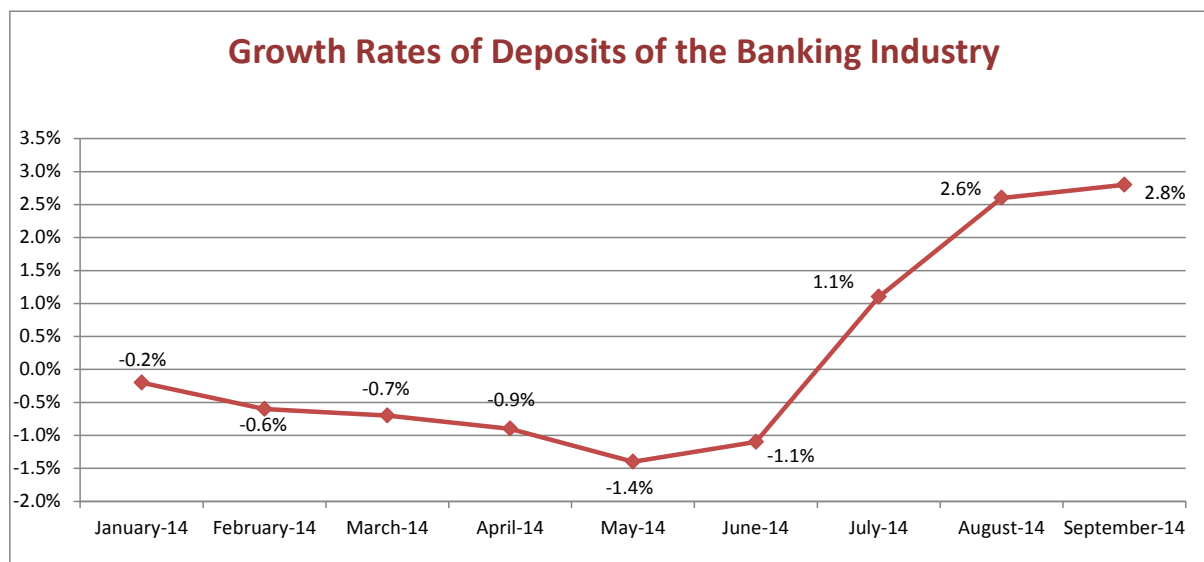


Fig.3 | Source: CBK - Balance Sheet (31 October 2014)

PERFORMANCE INDICATORS OF THE BANKING INDUSTRY

One of the performance indicators of the banking industry is the income statement, respectively the revenues and expenses recorded for the respective period. It is important and essential for a business that these revenues should be sustainable, while the expenditures should be managed in compliance with the revenues. In the table no. 4 is an overview of these revenues and expenses for the period December 2013 - September 2014.

Revenues and expenses of the banking industry										
*Million Euro										
Description	December 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014	July 2014	August 2014	September 2014
Revenues	249.0 €	20.1 €	38.9 €	59.4 €	79.7 €	100.6 €	121.6 €	142.7 €	163.7 €	183.5 €
Expenses	223.0 €	17.1 €	33.6 €	49.7 €	67.2 €	81.2 €	94.7 €	111.2 €	123.1 €	136.6 €
Net profit/loss	26.0 €	2.9 €	5.4 €	9.8 €	12.5 €	19.4 €	26.9 €	31.5 €	40.7 €	46.9 €

Tab. 4 | Source: CBK - Income Statement (31 October 2014)

In table no.4 it can be seen that throughout the months the positive trend of increased revenue has continued in relation to costs made by this sector. At the end of September 2014 the realized profit of the banking industry is 46.9 Million Euro. Although at the time of this publishing the year 2014 has not ended, the realized profit in the third quarter of the banking industry is significantly greater than the one recorded at the end of December 2013. There is 20.9 Million Euro additional profit compared to the end of last year.

What is important to note from table no. 4 is that the banking industry has achieved to significantly reduce costs, from where it also derives a significant increase of profit for the reporting period, while industry revenues remain approximately the same as last year. It is worth mentioning that this progress in Kosovo's banks' performance comes at a time when the average loan interest rate is the lowest since the establishment of the banking industry in Kosovo.

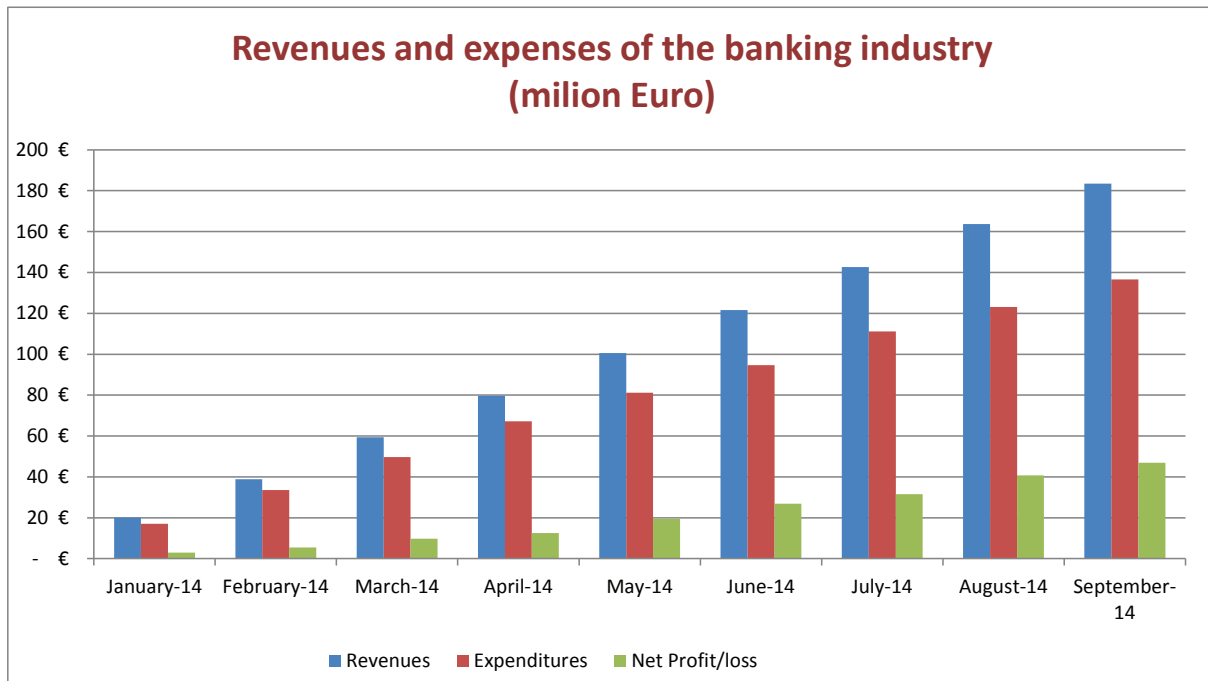


Fig.4 | Source: CBK - Income statement (31 October 2014)

Another important indicator of performance measurement of the banking industry is the Return on Average Assets - ROAA and the Return on Average Equity - ROAE. The ROAA is calculated on a quarterly or annual basis and does not show the highest or lowest level of this return, but rather reflects the average return on assets for the reporting period. Return on average assets represents the ratio between the net income and total average assets. On the other hand, the ROAE represents the ratio between the net income and average shareholders' equity, while the average shareholders' equity is calculated by taking into account the equity at the beginning of the reporting period and equity at the end of the reporting period, divided by two.

The banking industry in Kosovo during the reporting period (December 2013 - August 2014) has consistently recorded positive growth of these two indicators (ROAA and ROAE).

Return on Average Assets (ROAA) and Return of Average Equity (ROAE) of the Banking Industry									
Description	December 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014	July 2014	August 2014
ROAA	0.9%	1.2%	1.1%	1.3%	1.2%	1.5%	1.8%	1.8%	2.0%
ROAE	9.4%	12.5%	11.4%	13.8%	13.3%	16.5%	19.0%	18.9%	21.1%

Tab. 5 | Source:CBK - Monthly Information Report (Publication no.1-8)

The highest value recorded for these two indicators has been achieved in August 2014 where ROAA grew to 2.0%, while ROAE grew to 21.1%. The lowest values recorded for this reporting period were in December 2013, where the ROAA was 0.9% and ROAE was 9.4%.

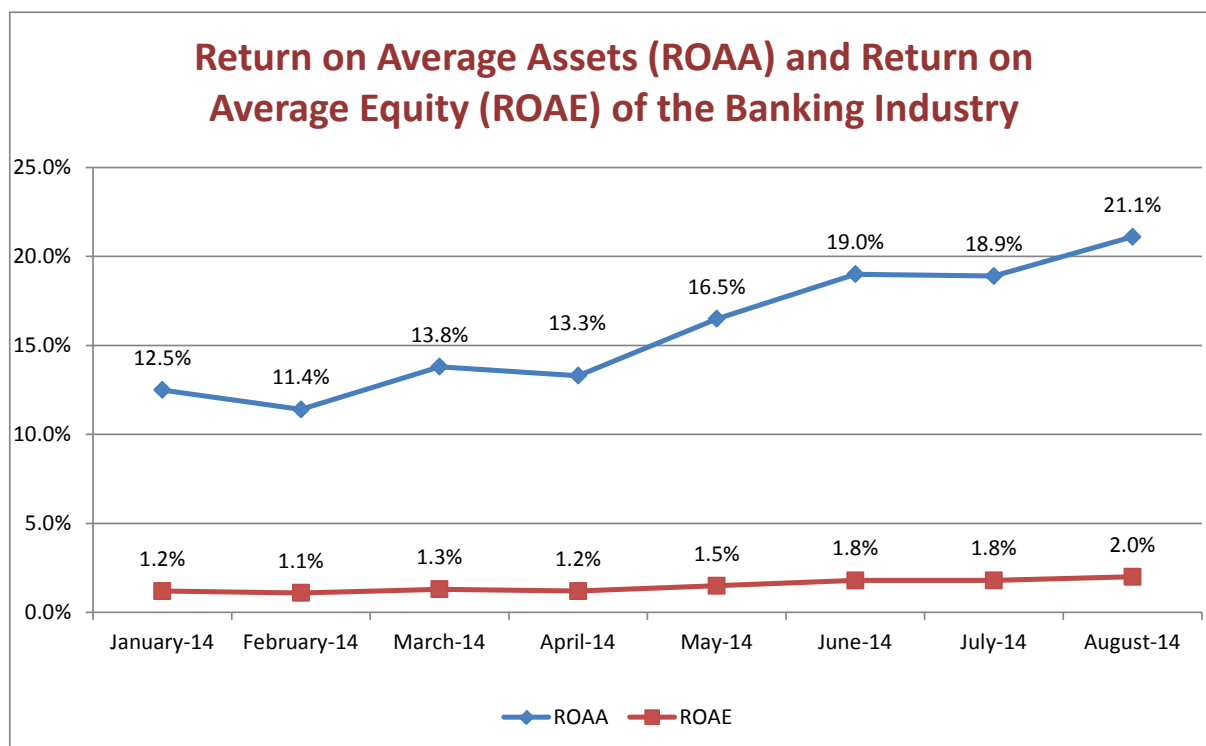


Fig.5 | Source: CBK - Monthly Information Report (Publication no.1-8)

From the presented figure no.5 it can be seen that the positive trend continued during this reporting period for both these indicators. If we consider the profit achieved for this period and these two indicators, then it can be stated that the banking industry shows great stability, which is very important for the safety of the financial system and a satisfactory return for investors.

NON-PERFORMING LOANS IN THE BANKING INDUSTRY

In order to have a clear overview of a larger number of financial indicators for the banking industry, the following information presents the details of non-performing loans.

Non - performing loans of the banking industry (NPL)									
Description	December 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014	July 2014	August 2014
NPL	8.7 %	8.7 %	8.8 %	8.6 %	8.6 %	8.4 %	8.2 %	8.2 %	8.3 %
Provision coverage	110.6 %	112.5 %	112.3 %	114.6 %	116.1 %	117.0 %	116.4 %	117.9 %	116.8 %

Tab. 6 | Source: CBK - Monthly Information Report (Publication no.1-8)

Another positive indicator from the banking industry is that non-performing loans (NPL) have decreased to 8.3% in August 2014, in comparison to the end of 2013 when the NPL was 8.7%, while the lowest value was recorded during the month of June 2014 by 8.2%.

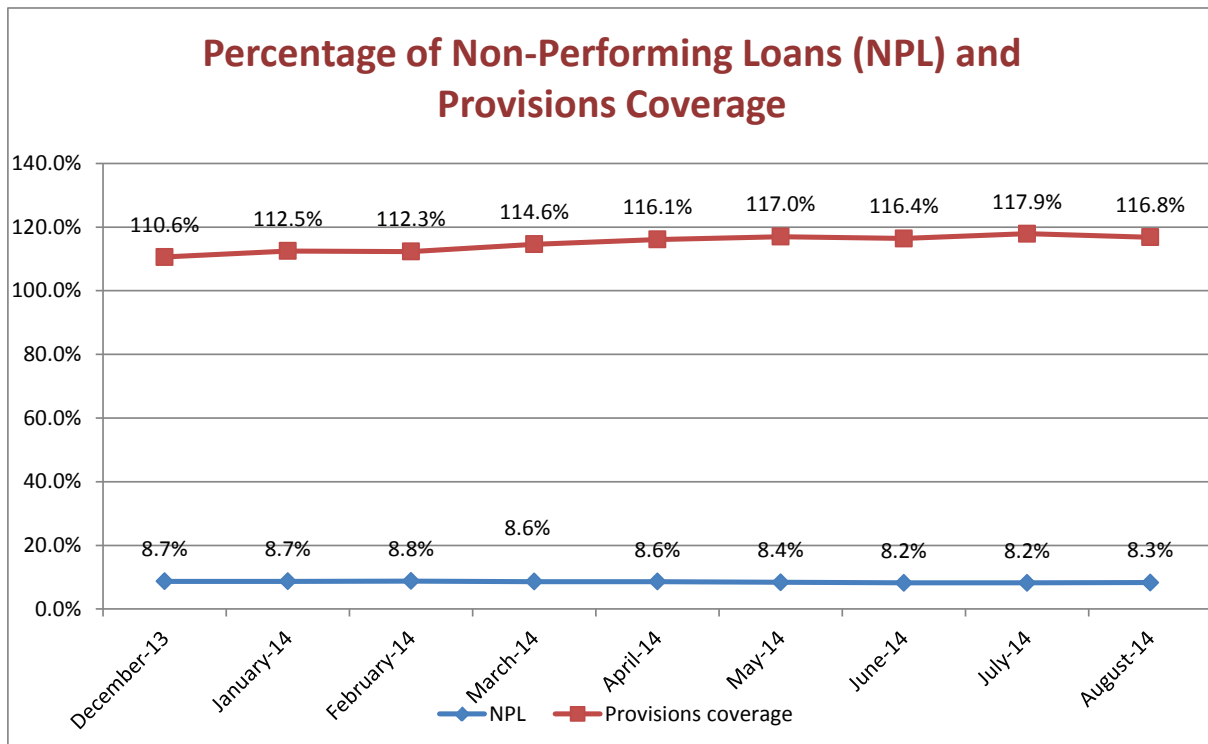


Fig.6 | Source: CBK - Monthly Information Report (Publication no.1-8)

It is important to note that the coverage of non-performing loans is above 100%, which means that the banking industry is well provisioned and therefore the percentages outlined above for non-performing loans do not pose a significant risk to the stability and sustainability of the banking industry in general. In late August 2014, the provision coverage was 116.8%.

THE EFFECTIVE INTEREST RATE IN THE BANKING INDUSTRY (EIR)

The effective loan interest rate includes all costs that the customer or user of the loan must pay to the financial institution for the loan received, including the nominal interest and other possible administrative costs arising from obtaining such a loan. The effective interest rate is applied to both cases, in the interest on the loans that the banking industry disburses and in the case when the banking industry pays interest on customer deposits which it holds. Publication of this information is very important, since it represents the total cost that the customer must pay to the bank upon receiving the loan. In Kosovo, all banks disclose the EIR, as required under the rules of the Central Bank of Kosovo.

The following are the details of the effective interest rate for the period 2010 - 2014:

Effective Interest Rate in the Banking Industry (EIR)					
Description	2010	2011	2012	2013	2014
Loans	14.3 %	13.9 %	12.9 %	11.1 %	10.8 %
Deposits	3.4 %	3.6 %	3.7 %	2.1 %	1.0 %

Tab. 7 | Source: CBK - Effective Interest Rate (31 October 2014)

The Effective Interest Rates have declined consistently in recent years which can also be seen from table no. 7 presented. The effective interest rate at the end of September 2014 is 10.8% for loans, while 1% for deposits. Compared to the end of 2010, EIR for loans has declined by 3.5%. The lowest value of EIR for loans this year was in June 2014 when it was 10.5%.

Figure no. 7 shows the trend of the effective interest rate from 2010 to September 2014. In 2010, the effective interest rate for loans was 14.3%, while in the month of September 2014 is 10.8%. On the other hand, the effective interest rate on deposits have marked an increase from 2010 to 2012 and then have dropped significantly during 2013 and 2014.

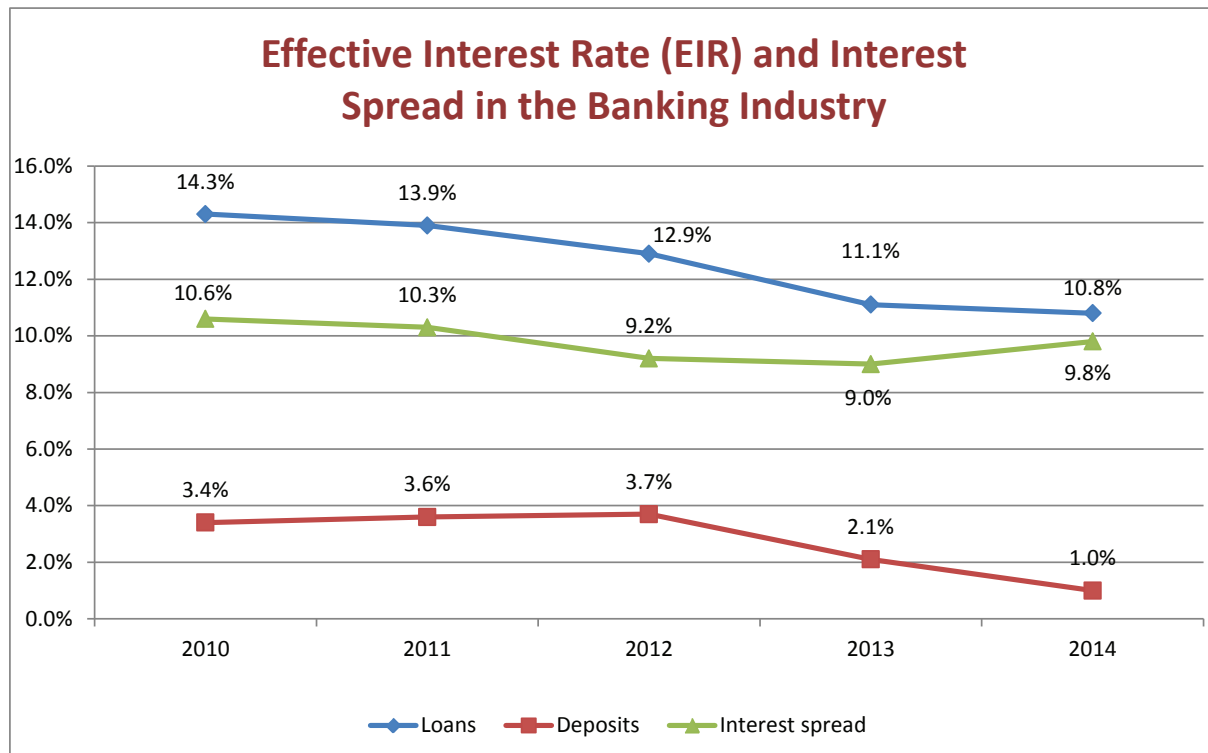


Fig.7 | Source: CBK - Effective Interest Rate (31 October 2014)

It is important to emphasize that the decrease of effective interest rate on deposits in recent years is a Regional and European general trend. For example in Germany it is reported that some of the banks are applying a negative interest rate on deposits, as it is the case with Deutsche Skatbank which is applying an interest rate of -0.25% on deposits, which means that the client should pay the bank for holding the deposits. However, it is positive that the interest rate on loans in Kosovo, according to the above mentioned trends are decreasing, which means that the loans in 2014 are more favorable for banking clients compared with previous periods.

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PART II

- HIGHLIGHTED OCTOBER NEWS FROM THE BANKING INDUSTRY

BANKING INDUSTRY NEWS THAT MARKED THE MONTH OF OCTOBER

LICENSED REAL ESTATE APPRAISERS

In a ceremony at the Kosovo Chamber of Commerce (KCC), the first licenses for real estate evaluators were delivered. Individual professional licenses were issued by the Board for Licensing of Real Estate Appraisers, after following around 120 hours of training. Trainings are conducted in the Kosovo Chamber of Commerce by trainers



from Albania. The President of the Kosovo Banking Association, Petrit Balijsa, said that this early generation of licensees will have the heaviest burden to establish sound practices for the assessment of real estate. According to him, the real estate market is the main foundation for the development of the banking sector. (*Economy Online, October 22, 2014*).

IMPROVEMENT OF CLIMATE FOR DOING BUSINESS

In the World Bank report on “Doing Business” for 2015, Kosovo has made progress in the overall ranking in this report; officials of the Agency for Business Registration within the Ministry of Commerce and Industry of the Government have claimed.

They have focused on two of the 10 indicators assessed in the report on “Doing Business”, which are directly linked to the Ministry of Trade and Industry, and the Business Registration Agency.

The World Bank report on “Doing Business” for 2015 has ranked Kosovo at position 75. (*Zeri, October 30, 2014*).

WORLD SAVINGS DAY MARKED



Today the anniversary of World Savings Day was also marked in Kosovo, at a time when bank deposits in commercial banks in Kosovo have reached the highest amount ever, about 2.5 Billion Euro.

The Executive Director of the Banking Association Mr. Petrit Balijs, spoke in an interview for Radio Television of Kosovo, saying that this day is commemorated with the aim of raising awareness to citizens about the importance of opening bank accounts and establishing savings habits. Mr. Balijs's message was for Kosovo's citizens not to keep cash in their homes as this way of holding financial assets is unsafe.

He stressed that the banking system in Kosovo is well capitalized and liquid, and provides a safer option for citizens' savings. Mr. Balijs also mentioned the Deposit Insurance Fund which already insures part of savings and that this fund is growing. (Radio Television of Kosovo, October 31, 2014)

POLITICAL CRISIS THREATENS BANKING SECTOR

The executive director of the Kosovo Banking Association, Petrit Balijs, said that the political deadlock is directly impacting negatively on the banking sector, as in any other sector. If there will be no solution to the political crisis by the end of the year, targets set for reducing interest rates on loans may be at risk. "If this situation persists until the end of the year, this would result in direct adverse effects on the development of the banking sector and many other sectors and will have a real cost that won't be recovered," said Balijs. He said that, as in other sectors, the banking sector has been affected by the political deadlock in a negative way. "Like other sectors, the banking sector has been negatively affected by the political situation created, since there are delays in the necessary measures to improve the environment for doing business in Kosovo," said Balijs. According to him, there are many reforms that have been undertaken by various ministries and agencies, but there are others that require approval by the Assembly of Kosovo. "There are times when certain councils and boards mandate has expired and we cannot address our requests in these instances until the formation of institutions; some of these cases can carry major consequences," said Balijs



for the newspaper "Epoka e Re". He added that all these delays are very harmful, when we consider the dynamics of developments in the banking sector. When asked if there will be interest rate cuts on loans next year, Balijs responded: "I explained that if the trend of recent years of declining interest rates continues, next year we will certainly have single-digit interest rates on loans, but I hope that the necessary reforms continue to occur in order for this plan to be realized by next year. But, if reforms and economic development stagnate as caused by the political crisis in the country, then these targets may be at risk and we may not see the desired results." (Epoka e Re, October 29, 2014).

JUSTICE CRISIS STRAINS THE BUSINESS



Corruption, dysfunction of the Judiciary, the lack of professionalism among judges is one of the main problems, which businesses operating in Kosovo are facing. The large number of cases affects also the activity of banks in Kosovo. Preveza Muharremi, Head of the Anti-Money Laundering and Legal Compliance Department at ProCredit Bank, explained the problems brought by unresolved cases. There are over 2500 cases subject to the bank she represents. "ProCredit Bank, has over 2500 execution cases, some of these cases date back to 2009," she said. (*Kosova Sot, October 15, 2014*).

RAIFFEISEN PASSES THE TEST

Raiffeisen Zentralbank Österreich AG Group (RZB) - which represents the central institution of the Austrian Raiffeisen Banking Group, including the Raiffeisen Bank International Group (RBI), companies in specialized sectors and UNIQA - successfully passed the stress test



of the European Central Bank (ECB). RZB significantly exceeded capital adequacy ratios, in the basic scenario as well as the adverse scenario stress test. (*Zeri, October 28, 2014*)

ECB: 25 EUROPEAN BANKS "SICK"

Banks in Europe have a shortfall of 25 Billion Euro, or 31.7 Billion Dollars, which would be necessary to survive a financial or economic crisis. The news was announced by the European Central Bank this Sunday. The conclusion was the result of a yearlong audit of the eurozone lenders, and represents a potential turning point for the region's battered economy. (*Kosova Sot, Koha Ditore, October 27, 2014*)

GERMAN BANK APPLIES NEGATIVE INTEREST RATE TO CUSTOMERS

On Wednesday, a small German bank announced that it will offer "negative interest" for monetary deposits in large amounts, meaning that customers will get charged 0.25 percent on deposits higher than 500,000 Euro.

European Central Bank, last year, has determined a negative scale for large banks to so-called "overnight deposits" (maintaining daily bargaining), but this is the first time in Germany that customers have to pay banks for custody of their monetary funds, transmits lajmi.net

Skatbank, a small bank in Altenburg city, east of Germany, has announced that negative interest rates will start to apply from next month. The spokesman of this bank said Skatbank, which has 15,000 clients, currently does not pay interest on deposits over 500,000 Euro.

The interest rates in Germany have melted after the European Central Bank tried to revive the dormant area of the eurozone through cheap credit, but it did not give any result to be commended. Financial markets are greeting cheap loans, but rich Germans are protesting because of a lack of opportunities for beneficial investments.

Portal Verivox has announced that commercial banks few weeks ago have started applying the negative interest rates. [/lajmi.net/](http://lajmi.net) (*Zeri, October 31, 2014*)

DRAGHI: EUROZONE AT CRITICAL PHASE

The eurozone is in a critical phase, with an economy that has lost momentum, where investment is weak, confidence is declining, credibility is at stake, inflation is at record-low levels and many decisions taken have not produced the expected results. Grim picture of the economy of the old continent is made by the head of the European Central Bank, Mario Draghi. (*Scan TV, October 27, 2014*)



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