



SHOQATA E BANKAVE TË KOSOVËS KOSOVO BANKING ASSOCIATION

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PERIODIC OVERVIEW OF FINANCIAL SECTOR IN KOSOVO

2014



SHOQATA E BANKAVE TË KOSOVËS
KOSOVO BANKING ASSOCIATION

The Voice of Banking in Kosovo

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BANKING INDUSTRY REVENUES IN KOSOVO

Banking industry in Kosovo year after year has shown a continuous increase of revenues, while the growth at the end of 2013 was for 0.8 million euro or 0.3% higher than the end of 2012. The difference between the end of 2013 and 2012 as shown in the table 1 is that the interest income from loans have marked a decrease for 2.4 million euro or 1.2% of total interest income for loans issued, while a slight increase have shown the revenues received from non-interest for 3.9 million euro or 6.2% comparing with 2012. This shows that despite the increase of total loans issued from the industry (2012-2013), the interest income for loans issued have marked a decrease, which reflects that the interest effective rate for loans have decreased. While the income from tariffs and commissions have remained almost the same as in 2012.

Banking Industry Revenues

Million EUR

Period	Interest income				Non-interest income		Total
	Loans	Placements with banks	Securities	Other	Tariffs & Commissions	Other operational income	
2010	169.6	2.7	3.1	0.4	37.5	3.9	217.2
2011	186.3	4.1	4.2	0.5	41.7	3.3	240.1
2012	194.9	2.0	3.0	0.6	44.2	2.4	247.0
2013	192.5	1.4	2.3	2.0	45.6	3.9	247.8

Tab. 1 | Source: CBK – Income Statement (April, 2014)

As shown at the table 1 and below fig. 1 & 2, at the end of last year, banking industry has received 247.8 million euro in total, while the main revenues were coming from the interest income for loans issued in an amount of 192.5 or 77.6% of total income. At the end of 2013, 80% of total income of banking industry was constituted from the interest income, which includes the income from loans interest, placements with commercial banks, securities and other.

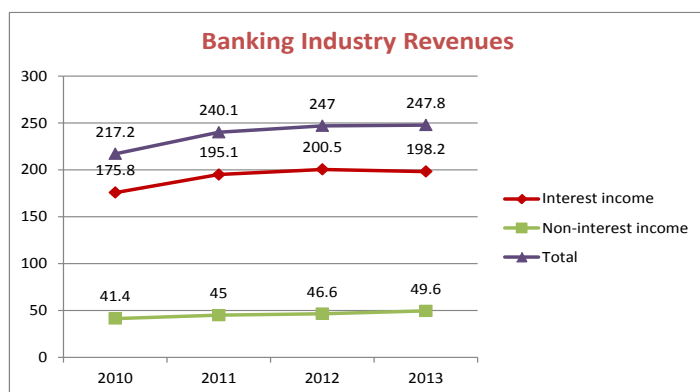


Fig. 1 | Source: CBK – Income Statement (April, 2014)

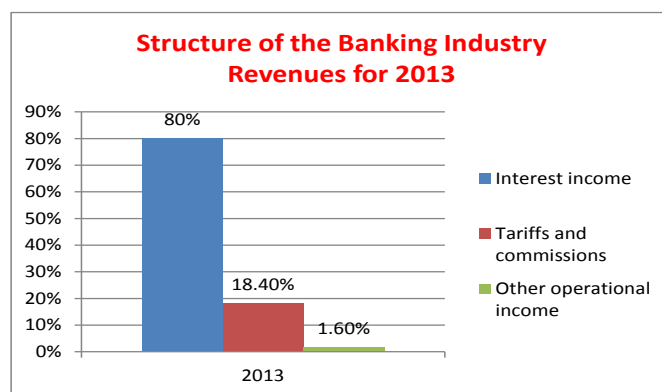


Fig. 2 | Source: CBK – Income Statement (April, 2014)



From the total of revenues, 18.4% is constituted from non-interest income, respectively the income from tariffs and commissions, while other operational incomes are 1.6%.

Regarding the 2014, as shown at the tab. 2, the main part of the banking industry revenues are constituted from the interest received of loans issued, while a significant portion of these revenues are constituted also from tariffs and commissions income.

Banking Industry Revenues for 2014

Million EUR

Period	Interest income				Non-interest income		Total
	Loans	Placements with banks	Securities	Other	Tariffs & Commissions	Other operational income	
April 2013	63.6	0.5	0.9	0.6	14.5	1.1	81.2
April 2014	61.5	0.5	0.8	1.1	14.5	1.1	79.5

Tab. 2 | Source: CBK – Income Statement (April, 2014)

Until the end of April of 2014, total revenues of banking industry have reached the amount of 79.5 million euro.

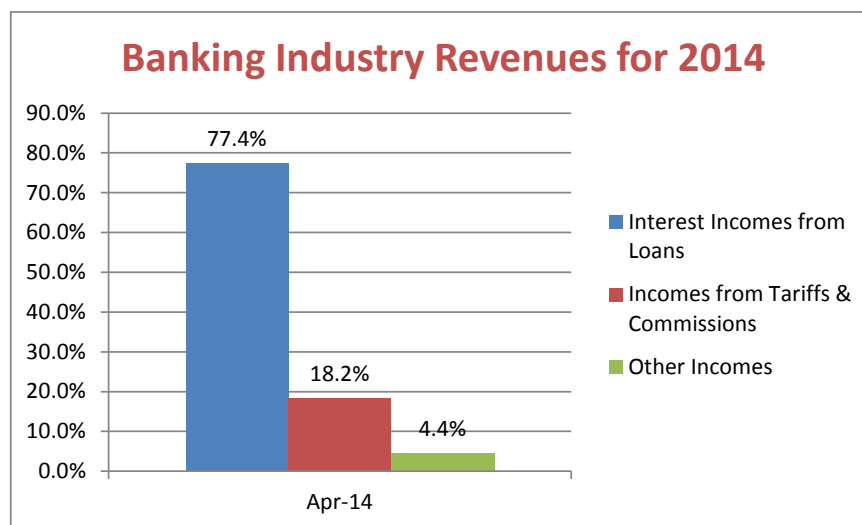


Fig. 3 | Source: CBK – Income Statement (April, 2014)

From the total amount of these incomes, as it is presented in fig.3, 77.4% of the revenues are constituted from the interest of loans issued, while 22.6% are constituted from other incomes. The revenues from tariffs and commissions consists 18.2% of total income of the industry. Almost the same structure of the revenues was also in previous years.



BANKING INDUSTRY EXPENSES

The total expenses of banking industry until the end of April 2014, as it is presented at tab.3, have reached 65.5 million euro.

Banking Industry Expenses for 2014

Millin EUR

Period	Interest expenses			Non-Interest expenses		General & Admin. Expenses			Total
	Deposits	Borrowings	Other	Tariffs & Commis-sions	Provisions for losses of loans	Personal expenses	General expenses	Other non-interest expenses	
April 2013	19.9	0.9	0.7	3.1	15.1	13.8	11.9	7.1	72.4
April 2014	15.6	0.8	1.5	3.9	11.5	13.9	11.6	6.8	65.5

Tab. 3 | Source: CBK – Income Statement (April, 2014)

Unlike the banking industry revenues, the expenses structure (fig.4) of the banking industry is more dispersed, in which case the interest expenses are consisted with 27.3% (deposits, borrowings and other), 23.5% constitutes the costs from non-interest (tariffs, commissions and provisions from the losses of the loans) and 49.3% of total expenditures comprises the general and administrative costs.

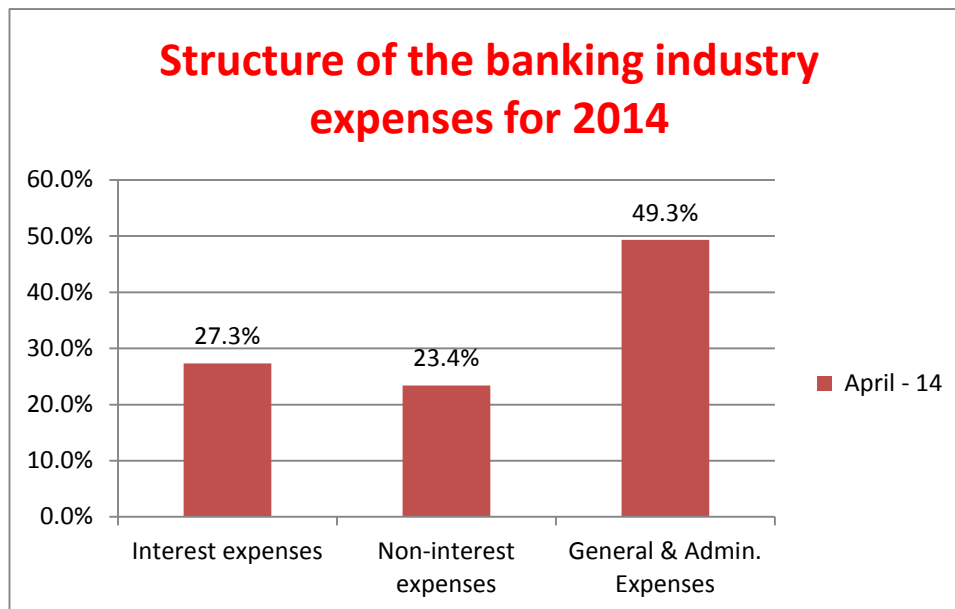


Fig. 4 | Source: CBK – Income Statement (April, 2014)

Banking industry expenses over the years (tab.4), as well as revenues, have increased, although at the end of the year of 2013 the total expenses was 219.8 million euro or 2.1% lower than the expenses of 2012.



Banking Indust

Million EUR

Period	Interest expenses			Non-interest expenses		General & Admin. Expenses			Total
	Deposits	Borrowings	Other	Tariffs & Com-missions	Provisions for losses of loans	Personal expenses	General expenses	Other non-interest expenses	
2010	49.4	4.8	1.1	7.7	28.3	37.8	37.6	12.6	179.4
2011	51.3	5.6	1.5	8.5	34.8	40.7	33.5	22.9	198.8
2012	57.6	3.2	2.3	8.7	50.3	42.3	35.5	24.5	224.6
2013	58.0	2.6	3.2	9.4	46.1	42.3	35.6	22.5	219.8

Tab. 4 | Source: CBK – Income Statement (April, 2014)

The reduction of the expenses has continued to decrease also during the first part of the year of 2014, since until the end of April we have a slight decrease of the expenses comparing with 2013 (tab.3).

The largest part of the banking industry expenses for the year of 2013 constitute the general and administrative expenses with 100.4 million euro or 45.6% of total expenses. A considerable amount of the total expenses of banking industry comprises the expenses caused for the payment of the deposits interests, borrowings and other, which at the end of 2013 reached the amount of 63.8 million euro or 29% of the total expenses.

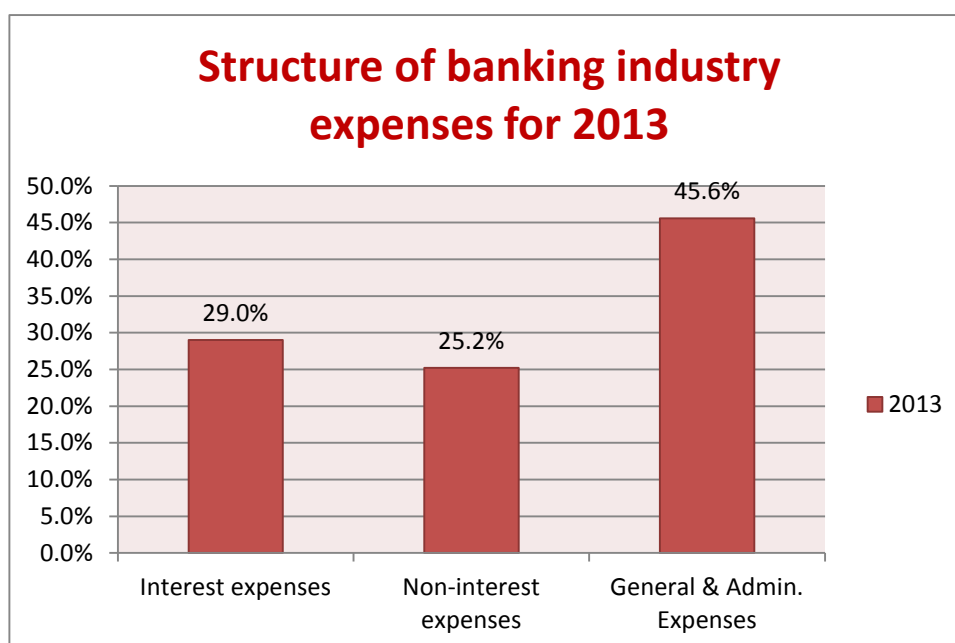


Fig. 5 | Source: CBK – Income Statement (April, 2014)



What mostly affected in decreasing the expenses for 2013 comparing with 2012 was the decrease of costs of the provisions for losses of loans for 4.2 million euro or 8.3% less than 2012 as well as the decrease of other non-interest expenses for 2 million euro or 8.1% less expenses.

OPERATIONAL NET INCOME OF BANKING INDUSTRY

Operational Net Income of Banking Industry

Million EUR

Period	Revenue	Expenses	Net Income	Net Profit (loss)	Extraordinary items	Provisions for taxes	Net Profit/loss for the period
	A	B	A-B=C	D	E	F	C+D+E-F
2010	217.2	179.4	37.8	-0.6	-0.1	4.3	32.8
2011	240.1	198.8	41.3	-0.4	-0.7	4.2	36.0
2012	247.0	224.6	22.5	-0.6	-	3.3	18.5
2013	247.8	219.8	28.0	1.2	-	3.2	26.0

Tab. 5 | Source: CBK – Income Statement (April, 2014)

The revenues of the banking industry in Kosovo have consistently recorded positive values in report to the costs incurred over the years (tab.5), which shows that the banking industry in Kosovo provides financial safety and sustainability, this very important factor for the economic stability and development of our country.

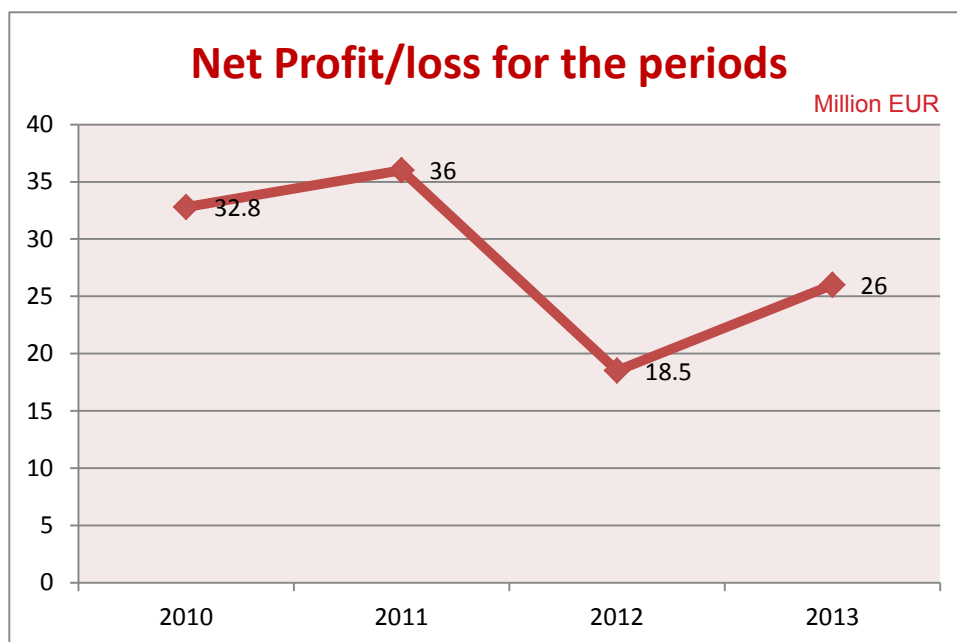


Fig. 6 | Source: CBK – Income Statement (April, 2014)



At the end of 2013 net profit after provision for taxes was 26.0 million euro, which represents an increase of 7.5 million euro or 40.5% compared with 2012. The figure no. 6 depicts that there is a decrease in the profit made since 2011 when it was 36 million euro to 18.5 million euro or 48.6% less profit than year-end of 2011. However, the upward trend has continued in 2013, while the similar trend continues to be well over 2014.

Operational Net Income of Banking Industry

Million EUR

Period	Revenues	Expenses	Net Income	Net Profit (loss)	Extraordinary Items	Provisions for taxes	Net Profit/loss for the period
April 2013	81.2	72.4	8.8	0.2	-	1.3	7.7
April 2014	79.5	65.5	14.0	0.2	-	1.7	12.5

Tab. 6 | Source: CBK – Income Statement (April, 2014)

Net operating income after provision for banking industry taxes in April 2014 amounted to 12.5 million euro, which indicates a growing trend in the same period last year.



PART II

HIGHLIGHTED MAY NEWS FROM THE BANKING INDUSTRY

Albania and Kosovo co-organized the Forum for Banking Security in Prizren

Today has ended the works of the Third National Forum for Banking Security in Prizren. The forum gathered in a roundtable the experts from the banking security field where they have discussed current issues and latest developments in the field of security, where the two elements of banking security were addressed, physical and information security. For the first time the forum was held in co-organization between banking associations of the two countries, Kosovo and Albania.

During the forum, representatives of two countries from the commercial banks, central bank, police, State Agency for Personal Data Protection as well as foreign companies disclosed their concerns and their solutions for physical and information security. (Kosovo Banking Association, May 29th 2014)

On Friday, the Fourth Albanian National Card Forum was held

The Fourth Albanian National Card Forum was held on Friday in the premises of Hotel Sheraton in Tirana, with the organization of Albanian Association of Banks. The Kosovo Banking Association was also part taking in the forum, where the vice chairman of the Committee against card fraud, Mr. Fisnik Behxheti, presented the card business in Kosovo banks. Mr. Behxheti presented details and statistics on the level of utilization of bank cards as a payment instrument, in which case Kosovo's progress was emphasized regarding the wide inclusion of card payments, compared to the region. (Kosovo Banking Association, May 19th 2014)

“Ziraat Bank” applies at CBK

The Kosovo's banking market is being dominated by German and Austrian banks with their capital, but recently there is a banking expansion by Turkish commercial banks, actually being there of them operating. According to CBK, we learn that the fourth commercial bank with Turkish capital have applied in request for a working license and are awaiting a decision. Besnik Kada, spokesperson at CBK, said for “Kosova Sot” that the Department for Licensing and Standardization at CBK has accepted an application from a foreign bank and it is about one of the largest banks in Turkey, “Ziraat Bank”. “The application from ‘Ziraat Bank’ is to establish a branch of its bank in Kosovo, which is going to deal with banking activities, among which are also agriculture loans, as a more specialized activity of this bank in Turkey”, said Kada. (Kosova Sot, May 23th of 2014).



The citizens are not buying the mortgages

For this issue economic experts are having different opinions. The lack of culture for buying the real estate through public auction, is a cause for citizens to hesitate, is saying Berat Rukiqi from Kosovo Chamber of Commerce. "It's a risk issue, especially for mortgages that are part of joint ownership of wider families. Because of the culture aspects that has been inherited for years there is a sort of consultation or 'permission' that you should obtain from neighbors and for this citizens are hesitating", said Rukiqi. The citizens' mentality for not buying the real estate's from the banks is mistaken, considers Milazim Abazi, expert for financial issues. Lack of interest for mortgages, will have also a negative impact for the client which can't pay the loan installments. (Telegrafi, May 05th 2014).

Over 14 thousand businesses were extinct 130 thousand new ones opened

There are new businesses being registered continuously in Kosovo, but there are also many being extinct. Mehdi Pllashniku, coordinator for legal and practical issues at the Agency for Registration of Businesses within MTI, says that only this year, from January 1 till May 13 there are 4122 new businesses registered. During the same time, 14 thousand and 299 businesses were extinct. Visar Hapçiu, an economist at the American Chamber of Commerce in Kosovo said that the number of newly registered enterprises, even though may be an indicator for an environment where it is easy to open a business, is not necessarily an indicator of the economic development of that country. (Kosova Sot, May 15th 2014).

From July, Kosovo part of the 'green card'

Rrahim Pacolli, head of the Kosovo delegation for dialogue in Brussels regarding the green card, has said for Tribuna that Kosovo will be part of the 'green card' as of July this year. "We have been involved into talks even earlier and now we have signals for reaching of the agreement", said Pacolli. He explains that the Council of the European Bureau of Insurance has agreed that Kosovar insurance companies may have a common budget which in fact sends us one step forward towards the green card. "Parallel the agreement with the Serb party, at the same time we will achieve an agreement for a fund in Europe and for the beginning of issuing green card insurance policies", said Pacolli. Based on the report by Central Bank of Kosovo, insurance companies have cashed considerable income from the border insurance policies, while the percentage of damage compensation remains symbolic. The income from border insurance policies has been dozens of millions per year. (Tribuna, May 15th 2014).



Kosovo continues to have the highest interest rates on loans

Radio Kosovo: Kosovo's financial sector, especially the banking sector, continues to play an important role in economic development. How much has this sector developed from year to year?

Petrit Balijs: The banking sector in Kosovo is relatively new when compared to the region and other countries. We started with the first banking license in 2001, and since then, we have 9 banks and the 10th has just applied for licensure, so I think that there has been a very good development in the banking sector within a short period. At the same time performance is continuously improving. In 2013 we had an excellent performance and probably one of the best in recent years, so I think that the banking system has performed quite well these past years.

Radio Kosova: Meanwhile lending as well as deposits have stalled. This is also reflected in the recent report of the World Bank. Regarding loans, what is the reason for this stagnation, due to declining demand or stricter criteria imposed by banks?

Petrit Balijs: Lending depends on supply and demand. Supply from the banking sector is not lacking, because we have sufficient funds to inject in the market but there has been a decrease in demand, especially in some key sectors of our economy, which are experiencing difficulties during these years and have not experienced rapid development. Interest has decreased and I can say that applications we have received are not feasible for issuing loans. On the other hand, stricter criteria may have occurred in the sectors that are experiencing difficulties because they pose a higher risk for the banks. In general the banks are interested to place their funds in the market because they have surplus, excess liquidity, but the demand is not at an appropriate level.

Radio Kosova: What is the current value of loans and deposits?

Petrit Balijs: We have 2.4 billion Euros in deposits while 1.8 billion in the loan portfolio.

Radio Kosova: There is a major discrepancy between interest rates on loans and deposits. Interest rates on loans are still very high, while the ones in deposits have significantly been reduced recently. Why is that?

Petrit Balijs: We need to look at long-term trends, because short-term fluctuations are numerous and may confuse the citizen and the customer. If we look at long-term trends from 2010 to 2013 the average interest rate on loans has declined by 3.5 percent. While the interest rates on deposits



have also declined by a percentage point, meaning from 3 per cent, where the deposit rates were three years ago, to an average 2 percent at the present. Deposits are now at a level where they are discouraging for consumers to save, but on the other hand, they are stimulating in terms of investing and interest rates on loans are reflecting the decline of interest in deposits. Obviously, the decline cannot be reflected immediately; 6 to 7 months are needed to complete the contracts that we had with different clients however; the fall in deposit rates means a lower cost of funds for banks and also automatically means a lower interest on loans. However, as the Association of Banks and as the banking industry, we aim at consistently lowering the interest rates in line with market risk. Obviously, we cannot reduce the interest rates at the industry's risk, thus ignoring the risk in the market, but in line with the decline of risk we will also reduce interest rates.

Radio Kosova: However, interest rates on loans are the highest in the region, right?

Radio Kosova: Yes, interest rates on loans are the highest in the region. Interest rates on individual loans are not so high. Serbia has higher interest rates on individual loans than Kosovo, so we are within the average in terms of individual loans, but when it comes to business loans, we are still at a higher level compared to the region.

Radio Kosova: Why is that?

Petrit Baliija: Due to the risk in our market. For instance, we are listed 138th out of 180 countries in contract enforcement. Meaning, when a contract is signed between the bank and the borrower, the implementation of the contract is problematic to enforce in its entirety. At the moment when there is any difficulty or failure in repaying the loan, the bank is in an unfavorable position, where the law is not at the banks' disposal to execute the contract in question and this presents a huge problem. This is reflected through the fact that we have over 10 thousand cases blocked in courts, representing a value of about half a billion Euros.

Radio Kosova: Within what period of time have all these cases been accumulated?

Petrit Baliija: These cases have accumulated over the past ten years; there are cases that are older than 5 years, but there are new cases too. However, there is a total of 10 thousand 500 cases, with 250 million Euro in worth, which means that we have to provision an additional 250 million and this



represents half a billion Euros that the economy of Kosovo cannot utilize.

Radio Kosova: Are banks facing difficulty in selling foreclosed mortgage?

Petrit Balijs: We are dealing with some deeper problems perhaps even cultural in Kosovo, which have often followed some habits that are not beneficial for the modern economy, and when it comes to selling a property of an individual who has lived there for years, maybe even centuries in terms of family, then it is a problem to be sold to or bought by another party. I think that we, as a society, should reform in this direction because modern economy, free market economy requires such a reform through which there is free trading and no such obstacles. Unfortunately, it is often true that parties who wish to buy a certain property do not feel safe to do so. Hence, the bank is in a position where they have to sell the property probably at its market value and make a loss.

Radio Kosova: There is a high level of non-performing loans, which are known as bad loans, although they still remain the lowest in the region. But according to you, is there a risk that the level is going to increase?

Petrit Balijs: In the recent years, we have noticed a concerning increasing trend, which has increased rapidly in the past three years, and has reached 8.6 percent, while during the last six months it has remained stable. Current stability is attributable to the interest of banks to hold nonperforming rate stabile because when we realized that we had a growing problem, then banks prioritized the effort to prevent their levels rise too quickly. And thanks to these measures and the caution of the banking industry, we have managed to stabilize the level of non-performing loans. On the other hand, we have pressure to issue more loans, develop and stimulate the economy, and it is very difficult to balance this act when on the one side we stimulate businesses and issue more loans while on the other we control the level of non-performing loans and the level of risky loans.

Radio Kosova: Let's return to loans and their structure. Of the total value, how large is the share of household participation and businesses participation?

Petrit Balijs: This is interesting to analyze because if we initially look at deposits, we have more deposits from households and less from businesses but then we have more loans issued to businesses and less to households and this means that households are funding businesses in Kosovo, thus we have more business loans than household loans at a rate of 75 to 25 percent.



Radio Kosova: TEB Bank has already started issuing green loans, with the support of EBRD. How much is this type of loan being utilized?

Petrit Baliija: This loan is a very good example of innovative products, which the banking industry in Kosovo is trying to place on the market. This loan enables agro-businesses to have more favorable loans and we have noticed an immediate and great interest from agro-businesses. In this case, the bank in question has taken a long-term loan and will also provide businesses with a longer term grace period and we think that this will lower the interest rate as well as the burden on the businesses, so that they can have an easier cash flow in their businesses.

Radio Kosova: With the exception of contract execution, what other challenges does the banking sector face with?

Petrit Baliija: Yes, that is the primary challenge, but there are other challenges too, for example, we have problems with the cadastre, although the cadastre has recently undertaken a major project in the census of land and we have a very good cooperation with the cadastre and I think that progress is being made, but there are still some problems in this regard. Moreover, there are problems with the financial statements of businesses. Currently, financial statements of businesses are not verifiable, especially for medium and small businesses, because they are not obliged to report their audited financial statements anywhere. At the same time, we do not have access to the tax agency to see those financial statements, so the financial statements which we accept from businesses are completely unfounded and it is very difficult for the bank to measure risk adequately. So, a system of reporting audited statements, where banks can verify those statements could eliminate this barrier.

Radio Kosova: At what level are online banking services being utilized?

Petrit Baliija: Banks have invested heavily in this direction in the recent years. This is also in line with the national strategy for reducing the use of cash, established by CBK, and if we look at the statistics, we see that we have doubled the electronic services in the last year, which is very encouraging and we are seeing an increase in the use of electronic services. I believe that customers are also noticing the benefit of their use, saving time; providing safety and being cheaper than physical services.



Radio Kosova: What are your plans for this year as an association and as banking sector in general?

Petrit Balijs: This year's priority is the problem of the judiciary, and are working closely with CBK and the relevant institutions, in order to reduce the number of blocked cases and to improve the enforcement system, which has already started to get activated but there are several problems in the legislation and also in implementation, which we have addressed to the Judicial Council and hope to prioritize it this year and solve the issue of the judiciary and financial cases in court.

Radio Kosova: As for the 1.5 billion Euros fund, which has been mentioned as an investment in Kosovo through banks; has this yet been discussed with you and will you be able to play the role of the mediator if requested by you?

Petrit Balijs: Regarding the investment fund, it is still unclear as to how this fund is intended to operate. However, the banking industry welcomes any fund that has to do with business stimulation, because even us as an industry, have a problem with the current state of businesses, because as I mentioned earlier, there is an insufficient demand from businesses which is causing excess liquidity in our banks. So, any initiative that would stimulate the private sector and the economy of Kosovo is welcome. Regarding the technical aspects of the implementation of this fund, I think it should be within the free market principles, and through proper required licensing, and if the support of banks is required in this regard, I believe that the banks will also be willing to contribute to any fund that helps the economy of Kosovo. (Radio Kosova, May 27th 2014)

Ref: [http://www.rtklive.com/new/index.php?cid=11,1&newsId=101664&mf8d^drM\)or*0kcw-8q#5_mGe-aez4#-5i2/3T^iw~0\(LVm=n\(ds0Cz3v~80xa993Bk2l&m1zIC9J5rtd735s#&8s6=8wmi0r8*tBm](http://www.rtklive.com/new/index.php?cid=11,1&newsId=101664&mf8d^drM)or*0kcw-8q#5_mGe-aez4#-5i2/3T^iw~0(LVm=n(ds0Cz3v~80xa993Bk2l&m1zIC9J5rtd735s#&8s6=8wmi0r8*tBm)