

SHOQATA E BANKAVE TË KOSOVËS KOSOVO BANKING ASSOCIATION



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PERIODIC OVERVIEW OF FINANCIAL SECTOR IN KOSOVO



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PART I

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WHAT ARE NON-PERFORMING LOANS AND WHAT IS THEIR IMPACT IN BANKING INDUSTRY?

One of the main activities of the banking industry is lending. Banks during the entire lending process and until its maturation phase is faced with the risk whether the client has the potential to pay back the loan within the deadline or within the terms defined with contract. In case the client does not manage to pay back within the timeframe defined by the contract, it is considered as a problematic loan and if this problem is not solved within 90 days, than this loan is considered as non-performing.

The consequences for the banking industry, as a result of non-performing loans, can be major, in case prevention measures are not taken. Non-performing loans affect negatively the performance and the stability of the banking industry, through increasing provisions, shrinking the lending and in serious cases can bring the financial institution into an insolvent position,

During the lending process, banking industry is faced with different risks, including: lending risk, liquidity risk, market risk, operational risk, reputational risk and legal risk. Therefore, this industry is very sensitive and the impact can have huge consequences on the economy of the country. In this regard, the banking industry has a supervisory body as a regulator which in Kosovo's case is the Central Bank of the Republic of Kosovo which supervises the industry according to the legislation in force, but also supervises through the regulations that are approved for this industry.

With the purpose of protecting themselves from non-performing loans, commercial banks in Kosovo take preventative steps in order to minimize the consequences and to lower the impact on performance.

The reserve requirements that each bank is obliged to deposit in the Central Bank of the Republic of Kosovo (CBK), represents the first step of protecting from the risk where reserves are used only in cases when the bank cannot cover its liabilities. Loans provision is another measure, where the banks for each loan issued, are allocating provisions at CBK. In addition, banks are obliged to maintain also the levels of liquidity in order to be able to pay at any time the obligations that the bank has towards its clients.

Besides the legal measures that commercial banks are obliged to respect during the lending process, in order to ensure the repayment of the loan, banks require from the client as pledge immovable properties or collateral to cover the loan and in case that the client cannot repay the loan, the bank can own that property up to the value of the damage that may have been incurred to the bank as a result of non-repayment of the loan.

NON-PERFORMING LOANS IN KOSOVO

As it is seen in figure no.1, in Kosovo, non-performing loans have marked a slight increase from year to year, while at the end of 2013 the value of NPL reached 8.5% compared to total gross loans issued from the banking industry. At the end of March 2014, non-performing loans reached the value of 8.4% (CBK - Monthly Information Report of the Financial System no.5).

Figure no.1 shows that the growth rate of non-performing loans has decreased by 18.1% during the last year compared to the previous year when this growth was 35.8%.

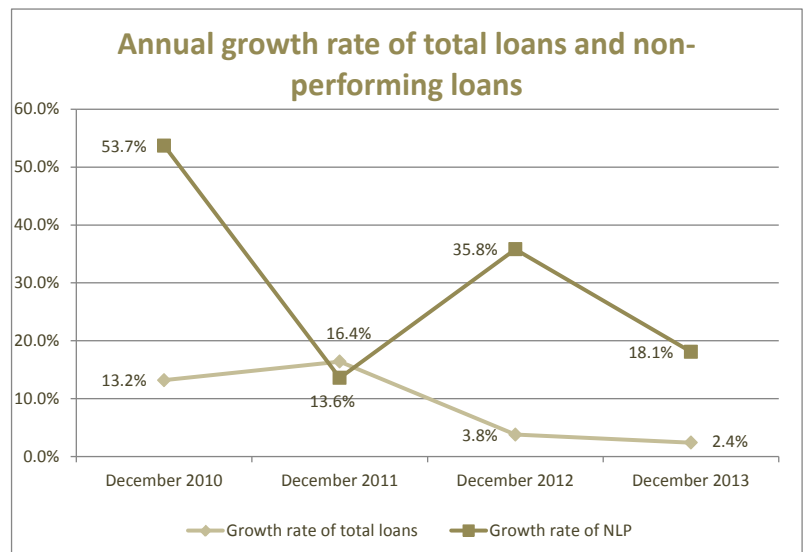


Fig. 1 | Source: Central Bank of Kosovo - 2013 Annual Report

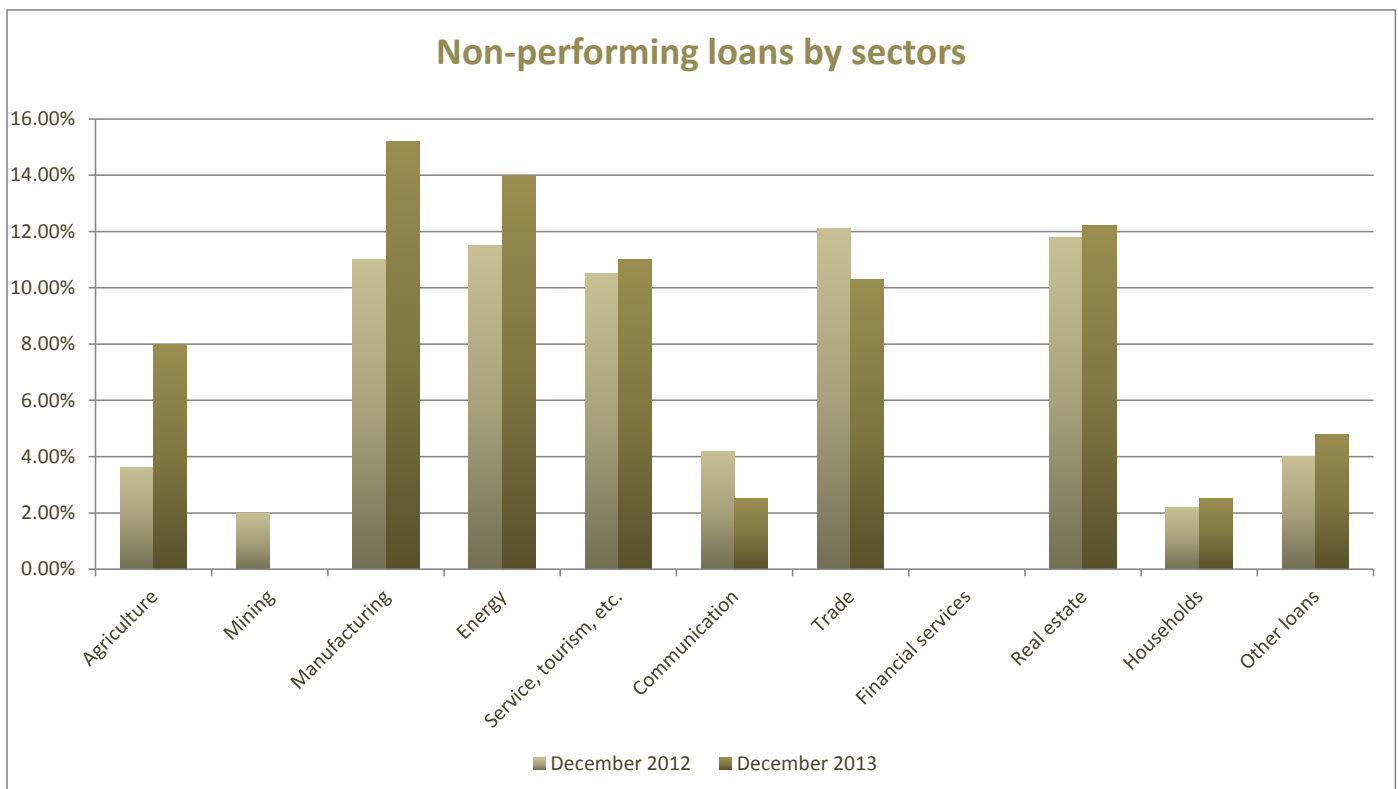


Fig. 2 | Source: Central Bank of Kosovo - 2013 Annual Report

Non-performing loans rate is higher for enterprises than for households. This can be seen in figure no.2, while the highest non-performing loans rate was for production sector with 15.2%, while trade was with 12.2%. Households had the lowest rate of non-performing loans with 2.6%.

From the total value of loans issued from the banking industry, 66.3% of them constitute the issued loans for non-financial corporation's (KBA - Periodic Overview of Financial Sector in Kosovo no.3), which means that this considerable amount of loans are attributed with higher rate of non-performing loans. This shows that businesses in Kosovo still do not offer such assurance and financial stability, where banking industry would have more confidence in the process of issuing loans for enterprises.

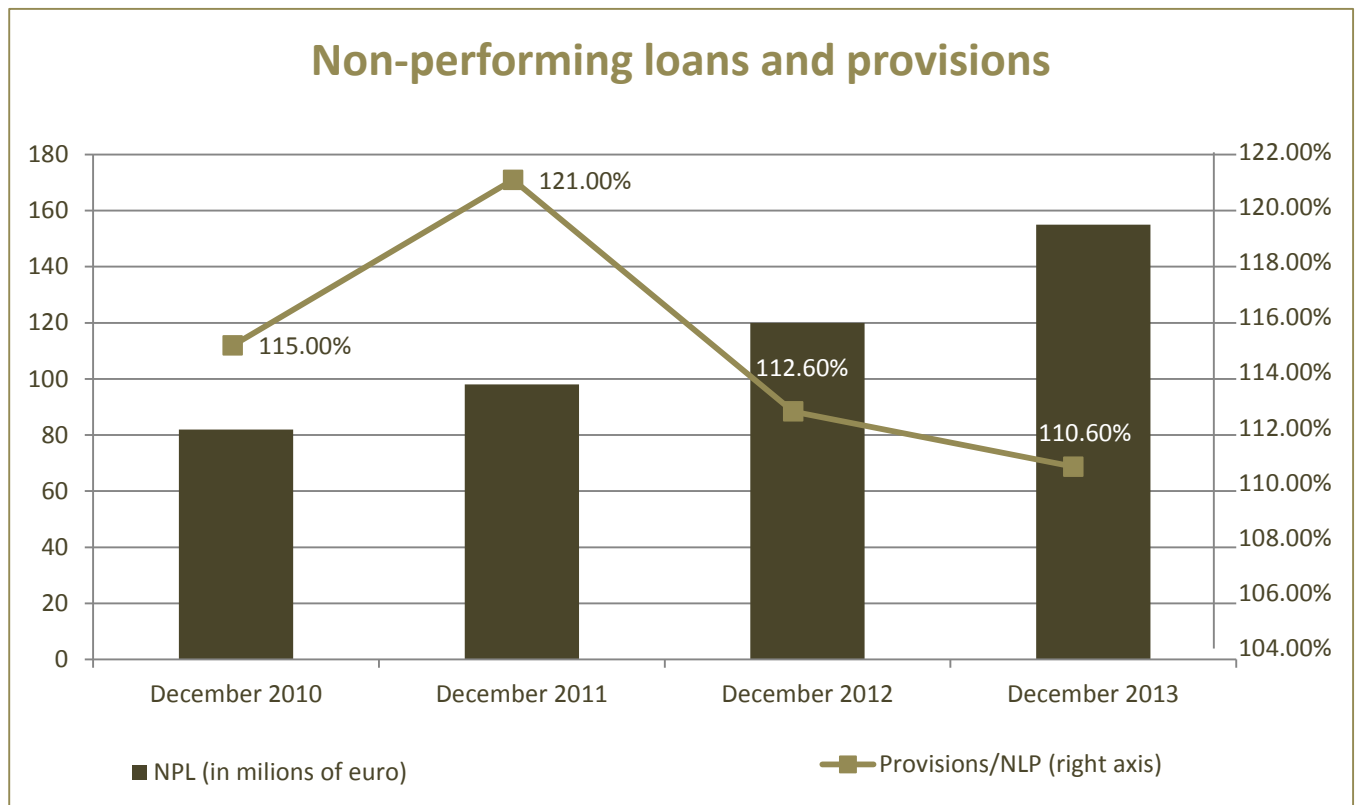


Fig. 3 | Source: Central Bank of Kosovo – 2013 Annual Report

As we have addressed in the first part of this publication, one of the prevention measures that banks undertake to protect themselves from credit risk, respectively from non-performing loans, is provisioning of issued loans. Figure no.3, shows that at the end of 2013 banks have allocated provisions up to 110.6% in order to cover the possible losses from non-performing loans. This means that banks are able to cover all losses that may derive as a result of non-performing loans.

THE LEVEL OF NONPERFORMING LOANS IN KOSOVO, THE REGION, EUROPE AND THE WORLD

Kosovo compared with countries in the region has the lowest percentage rates of non-performing loans, in comparison with Albania, Macedonia, Montenegro and Serbia.

Kosovo in late 2013 recorded 8.5% of non-performing loans compare to total loans that the banking industry has issued to its customers and the monetary value of which was 1,805 million euros. From the region, Albania has registered the highest value of non-performing loans by 23.5%, while Serbia has registered 20.6% of total gross loans.

Bank nonperforming loans to total gross loans (%)

No.	Country Name	2008	2009	2010	2011	2012	2013
1	Kosovo	3.3%	4.3%	5.8%	5.7%	7.4%	8.5%
2	Albania	6.6%	10.5%	14.0%	18.8%	22.5%	23.5%
3	Macedonia, FYR	6.7%	8.9%	9.0%	9.5%	10.1%	10.9%
4	Montenegro	7.2%	13.5%	21.0%	15.5%	17.6%	
5	Serbia	11.3%	15.7%	16.9%	20.0%	18.6%	20.6%
6	European Union	2.8%	4.7%	5.4%	5.8%	6.8%	7.3%
7	World	3.0%	4.3%	3.9%	3.8%	3.8%	4.0%

Table 1 depicts that almost all countries have a growing trend of non-performing loans, particularly in the western Balkan countries. Although Kosovo has managed to keep this trend in single digits, the values however show an upward trend.

Tab. 1 | Source: World Bank – Bank nonperforming loans to total gross loans (July 29th, 2014)

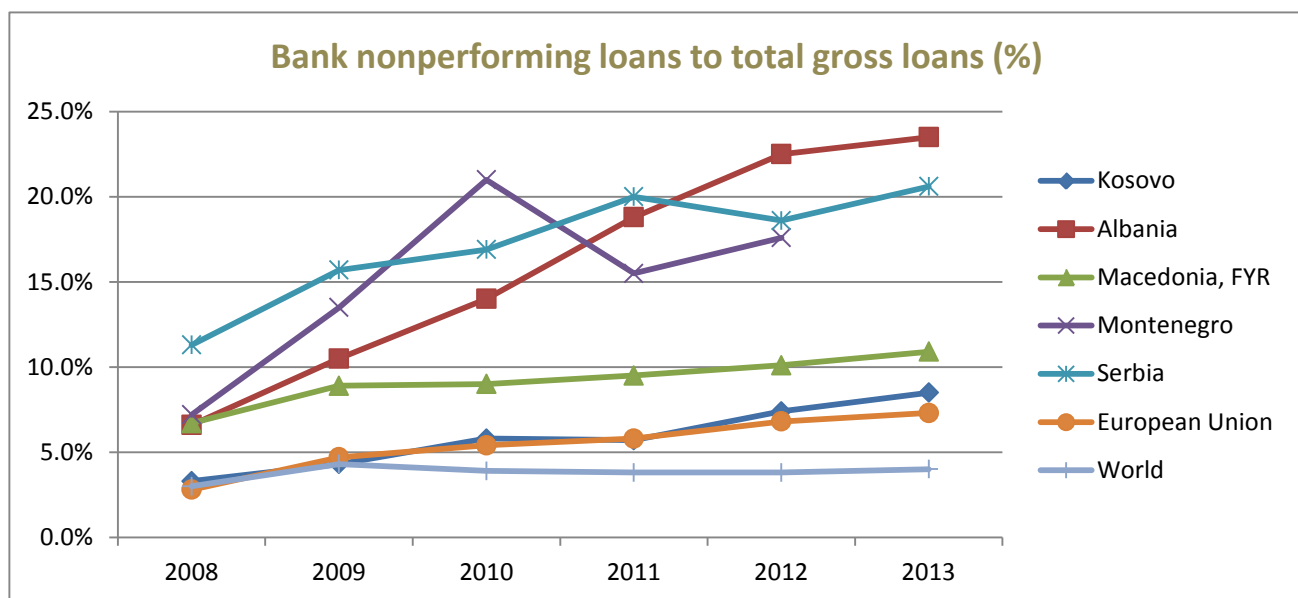


Fig. 4 | Source: World Bank – Bank nonperforming loans to total gross loans (July 29th, 2014)

As it can be seen from Figure 4, the trend of nonperforming loans in Kosovo is low compared with countries in the region, roughly the same trend with European Union countries, while it has a trend somewhat higher than average level of all world countries where the World Bank collects such data.

The world average of non-performing loans is lower than all other countries' averages obtained for comparison in this publication, which means that all countries in the region, including Kosovo, have the highest rate of non-performing loans than the world average in relation to total gross loans issued. This shows that these countries should consider this factor and they should work together with relevant national institutions in greater reduction of effects that can lead to the non-repayment of loans, given that non-performing loans may occur as a result of mutual factors in a country's economy.

PART II

- HIGHLIGHTED JULY NEWS FROM THE BANKING INDUSTRY

HIGHLIGHTED JULY NEWS FROM THE BANKING INDUSTRY

IFC SUPPORTS THE FINANCIAL LITERACY PROGRAM IN KOSOVO

IFC, a member of the World Bank Group, have signed an agreement with Kosovo Banking Association, 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.

Established in 2002, KBA is the representation of the banking industry. KBA represents all eight commercial banks. It cooperates with the Government, the Central Bank of the Republic of Kosovo, media and the public with the aim of supporting a healthy banking industry, which promotes the long term economic development in Kosovo.

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.

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". 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). *(July 2nd, Agjensia e Lajmeve Ekonomia, Kosova Live 360)*

BANKS GET "ARMORED"

After a large number of robberies that have occurred this year in Kosovo, but also last year, officials of commercial banks have started to get new security measures in all facilities that they have. PR officer of "ProCredit Bank" Fitore Sinani, told to the newspaper that recently it is noticed an increase number of robberies of various institutions and companies in Kosovo. "We, as a bank, are concerned with such a thing and we consider that these robberies are related to external factors, which require stringent measures and a systematic and coordinated approach to all institutions in the country," she said.

While media and public relations officer of "Raiffeisen Bank", Iliriana Tahiraj, told to the newspaper that this bank in Kosovo implements security measures in accordance with internal policies and procedures and in accordance with applicable laws in Kosovo. Tahiri said that "Raiffeisen Bank" has a very good cooperation with the Kosovo Police and other security institutions in Kosovo, in order to jointly achieve the desired results in the field of security.

As general figures, police stated that in 2013 are reported a total of 493 cases of robbery, while in 2014 we have had a total of 123 reported cases. *(July 8th, Kosova Sot)*

INTEREST LOANS REMAIN DOUBLE-DIGITS

Kosovo continues to be the country with the highest interest rates on loans in Europe, and so even if we compare with our region. According to economic experts, the reduction of these high interest rates is an imperative need to promote economic development in our country.

Petrit Baliija, executive director of the Kosovo Banking Association, said that there was a decrease in the interest rate on the loan for 4 points if its compared April 2014 to 2010. He believes that by next year the average interest rate for credit will be single digits.

President of BAC, Agim Shahini said that our country leads with higher interest rates on loans. "Unfortunately, in our country operate only commercial banks, where in the market economy demand and supply determine the price. (July 14th, Kosova Sot)

BANKS, UP TO 30 EUROS FOR A CERTIFICATE

Commercial banks in Kosovo recently have extremely increased the price of their administrative services. Just for a certificate that was issued to their customers, who no longer have any financial obligation to that bank, depending on the bank it is paid 15, 25 up to 30 euros.

Besnik Kada, CBK spokesman, said that prices and tariffs for products and services offered by banks are set by banks themselves, depending on the assessment of their cost and banks are obliged to disclose these fees, in accurate and clear way for all their clients, in order to enable them to compare the costs for products and services offered by different banks.

Regarding to these extortion that commercial banks are doing to their clientele experts and specialists of banks have separate opinions. Petrit Baliija, executive director of the Kosovo Banking Association, said that commercial banks in Kosovo make cost calculation for providing a service, depending on the nature of the services. "If a service is not part of the regular product-service of the bank and needs more manual work, then the cost is higher for that service. However, consumers should compare banks comprehensively and not just focus on one aspect and so evaluate which bank offers the cheapest prices and best services, in order to choose the best alternative, as this is a matter of free competition between banks. But at the same time we need to clarify that there are some commercial banks, who to their clients for these types of services did not receive any euro" Baliija said. (July 23rd, Kosova Sot)

MORTGAGES ARE NOT SOLD

All citizens who have loans in commercial banks, as a guarantee should leave a real estate as collateral, the value of which should be two times higher than that of the borrowed loan.

For this, customers in various commercial banks have left as mortgage shops, homes, cars, lands, electronic and technological equipment.

And if customers have trouble repaying the loans, banks are entitled to issue the mortgage for sale by public auction, in most cases, the value of mortgage greatly impaired.

Experts on financial issues in Kosovo believe that the functioning of the banking system and the beginning of issuing loans, banks have sought high value mortgage and devalue it. Flamur Keqa, considers that in assessing loans, bank analysts should focus more on the possibility of income and not to the mortgage assets.

Regardless, the fact that very often in print media it is noticed the advertisement from commercial banks to sell mortgages, the interest of third parties to buy properties which are the subject of judicial sales is very low. (July 24th, Radio Evropa e Lire, Tribuna, Telegrafi)

EUROMONEY: RAIFFEISEN BANK , THE BEST BANK

British financial magazine Euromoney awarded the prize as “Best Bank in Central and Eastern Europe” Raiffeisen Bank International AG (RBI) already for the eighth time. The award is given at a ceremony in London last Thursday. At the same time, are awarded the prizes even for the best banks operating in certain markets, among which were the four banks of Raiffeisen Bank International network. Raiffeisen Bank Kosovo has received the award as the “Best Bank in Kosovo” while the same prize in the states where they operate, is awarded to Raiffeisen Bank International in Bosnia and Herzegovina, Romania and Serbia.

“We have always invested in further development of banking products and services in Kosovo. In 2013, we increased the portfolio of loans and deposits. The use of electronic services was one of our priorities in 2013, the use of these services by our customers is increased by 50%. This award recognizes our excellent results and confirms our commitment to meet the demands and needs of our customers,” said Robert Wright, executive director of Raiffeisen Bank Kosovo. *(July 15th, Telegrafi, Kosova Sot, Zëri)*

IT IS INAUGURATED THE PARK IN “DARDANIA”

ProCredit Bank as a bank that invests every day in caring for the environment, today inaugurated the park in Dardania in Prishtina. More than 9500 public sqm is green and equipped with seats and baskets - transforming this space in a comfortable park to stay and use for residents who live around. This investment of ProCredit Bank in made possible in cooperation with the Municipality of Prishtina.

Shpend Ahmeti the Mayor of Pristina said that ‘this project began as an idea last year, that one of the parks in Dardania to get restored, plant with trees, place benches in order to be used by citizens. Moreover, the idea is that a corporation like ProCredit Bank which operates not only in our community but in our state to use a portion of its turnover to invest in something that has social benefits for all citizens.

The investment in this park reflects the need for more public green spaces in Kosovo and continuing contribution to the environment of a responsible financial institution.

“With this investment we as a bank, aim to contribute in the increase of green areas that are very important in urban areas. This investment closes a project to increase green spaces in many cities nationally, representing a total investment of nearly 60,000 euros, about 415 trees planted and over 10,500 m² of green area,” said Ilir Aliu General Director of ProCredit Bank . *(July 18th, Telegrafi)*

TEB BANK RELEASES THE 1,000TH AGRO CARD

Upon issuance of the 1,000th Agro card, TEB bank in collaboration with USAID, on Wednesday organized a press conference at the company’s facilities “Haxhijaha” in Rahovec.

The CEO of TEB, Ayhan Albeyoglu emphasized that the Agro card since the first day of launch in the market has shown exceptional signs of success. While the Director of the Office of Economic Development at USAID, Scott Cameron, said that it’s a pleasure to see with what speed this concept was adapted by businesses and farmers and how banks respond to their requirements consistently. *(July 25th, Telegrafi, Zëri)*



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