THE KOSOVO BANKER

Banking 2020

July 2017 Number 11 Publication of the Kosovo Banking Association

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KOSOVO BANKING ASSOCIATION


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THE KOSOVO BANKER

IMPRESSUM

EXECUTIVE DIRECTOR OF KOSOVO BANKING ASSOCIATION AND EDITOR-IN-CHIEF:

MR. PETRIT BALIJA

COMMUNICATIONS OFFICER AND EDITOR:

MS. MIRANDA RUGOVAJ

SHOQATA E BANKAVE TË KOSOVËS
KOSOVO BANKING ASSOCIATION

The Kosovo Banking Association (KBA) represents the banking sector in Kosovo through cooperating with the Government, the Central Bank of the Republic of Kosovo, international organizations and civic society, media and the public. The aim of KBA is to support a healthy banking industry, fair and open competition as well as financial education for banking clients in order to promote the long-term economic development in Kosovo.
KBA facilitates the cooperation between banks while offering a single platform for discussions of the new initiatives. KBA also identifies and reviews the legal and regulatory initiatives, coordinates common activities for banking sector and promotes banking activities in front of the wide audience.
Established in 2002, KBA is a main reference point related to the issues that deal with the banking sector in Kosovo. Currently, KBA represents nine commercial banks: Banka Ekonomike, Banka Kombëtare Tregtare, Banka për Biznes, IsBank, NLB Bank, ProCredit Bank, Raiffeisen Bank, TEB Bank and Ziraat Bank. The KBA Training Center operates within KBA and it offers trainings in banking and finance. The Kosovo Banking Association is the voice of the banking industry in Kosovo.

"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 Lidhja e Pejes, n.n Zona Industriale, Prishtina; 10000. Republic of Kosovo; +381 38 246 171; www.bankassoc-kos.com; contact@bankassoc-kos.com;

THE KOSOVO BANKER IS SUPPORTED BY THE EUROPEAN FUND FOR SOUTHEAST EUROPE –DEVELOPMENT FACILITY (EFSE –DF)

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- TEB Sh.A. provides non-financial services to women entrepreneurs

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EDITORIAL

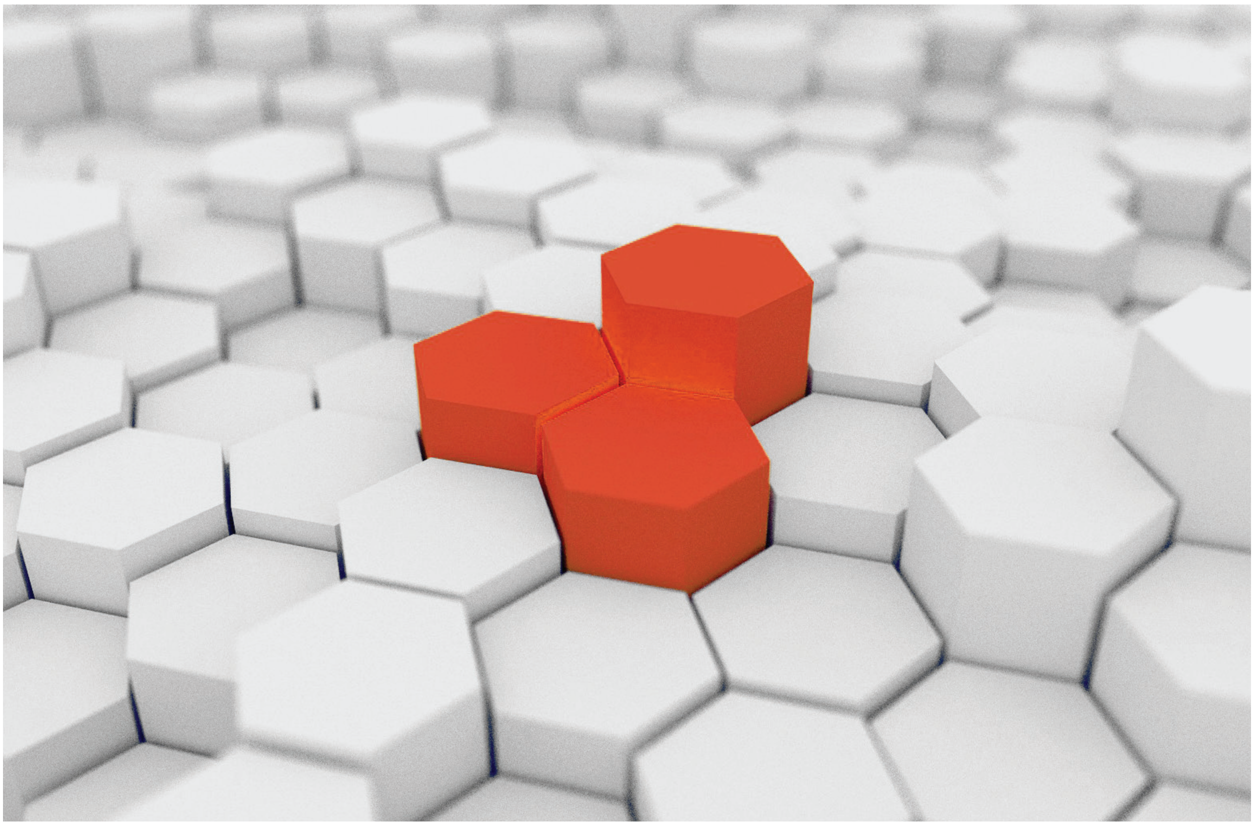
Mr. PETRIT BALIJA
EXECUTIVE DIRECTOR
KOSOVO BANKING ASSOCIATION

Banking as a term, conveys the meaning of the use of banking services by customers but also the way of doing business and providing services by banking institutions.

Banking 2020, as the main topic of this edition, aims to shed light on the most recent developments in the international financial arena and its implications in the banking sector in Kosovo going forward. These developments are changing Banking for both banking institutions as well as their customers, but also for Central Banks as institutions fostering stable and efficient financial system.

Regulatory expansions, advancement in digitalization of services, market penetration of Fintech non-banking institutions, customer empowerment and rapidly changing customer behavior, sluggish economic growth, negative interest rate policy applied by the European Central Bank, raising compliance pressure regarding the prevention of money laundering and terrorism financing, increased cash handling costs, and the significance of cyber security are just some of the global developments that are changing Banking immensely. These changes are taking shape while we are advancing towards 2020. The year 2020 is considered a point in time where the various transitions, which started in the late 20th century are now crystallizing over the first two decades of the 21st century, will create the opportunity for a new era of entirely new 21st century developments in many aspects of Banking.

In this edition, you will find articles that address some of these aspects in detail through a thorough analysis of these developments. In addition to the articles addressed with high expertise, this edition



also includes information in the area of financial literacy which can be relevant for each and every citizen, respectively banking clients.

What are the effects of monetary policy and regulation of the European Banking Authority and the European Central Bank on the banking sector in Kosovo? How do banks perceive these developments in Kosovo and how can they adapt to these changes? What are the expectations of banks in Kosovo regarding digitalization of services? How will the risk management techniques change and what are the new opportunities of managing non-performing loans? How can one calculate his or her borrowing capacity? You will find the answers to these questions and more, in this edition. You will also find additional information on the activities of the Kosovo Banking Association and the commercial banks.

Thanking the commercial banks of Kosovo, the EFSE -Development Facility and all of the authors who contributed to the accomplishment of this edition, I wish you pleasant reading and much success during the remainder of the second half of the year 2017!

Sincerely,

Petrit Balija

Executive director
Kosovo Banking Association

FOREWORD FROM THE RE-ELECTED CHAIRMAN OF KBA

Honored and privileged to have been re-elected as the Chairman of the Kosovo Banking Association for a second term, I remain committed to continue to contribute to this important organization which is the voice of the banking sector and has a mission to support the development of a healthy, stable and growing banking sector in Kosovo.

Reflecting back on the results of the banking sector of Kosovo for the first 6 months of 2017, it is evident that performance indicators are improving in all aspects: a) improved access to finance for both businesses and private consumers, b) improved quality of banking sector assets, c) improved lending conditions, d) improved service quality through technology and innovations and e) maintenance of stable profit rates for the sector.

Starting with access to finance for businesses and individuals, the results show that banks have been lending at a very dynamic pace of achieving close to 10% annual growth rate. This is the highest loan growth in the past five years, which shows that the banking sector is operating with a high level of engagement in the economy by greatly contributing to the development and expansion of the real sector. Furthermore, the banking sector of Kosovo, with the support of the Central Bank of Kosovo has been able to ensure a very low level of NPL, reaching the lowest level of 4.3 % in May of 2017. This level is a reflection of the prudency both from the regulator and the commercial banks operating in Kosovo, and is one of the best performing banking sectors in the region.

Better risk selection enabled banks to improve lending conditions by constantly improving cost of financing, with the average interest rates on loans reaching level below 7% in March of 2017. A remarkable example in this development is reported by CBK in a report stating that average interest rate of agro credits stood at 6.2%, compared to two years ago when the same was reported at 10%. In addition to this, service quality, availability and convenience has increased with banks expanding their distribution channels and investing in innovative state of the art technologies, ensuring both outreach and

Mr. ILIR ALIU

CHAIRMAN OF THE BOARD OF DIRECTORS, KBA

CEO, PROCREDIT BANK KOSOVO

efficiency. Despite decrease of interest rates, banking sector managed to maintain stable profit due to increased credit portfolio (as of 2016 Kosovo's banking sector total outstanding loan portfolio is Eur 700 mln higher compared to 2010), and by increasing operational efficiency. This indicator together with other performance indicators and highly innovative services demonstrate clearly that the banking sector is the most successful sector in Kosovo in last seventeen years. This is also confirmed regularly in both national and international reports.

The indicators mentioned above have been accompanied with investments in new technology and payments services both on the side of banks as well as the Central Bank of Kosovo by improving the speed and security of payments systems. It is our commitment to continue the efforts to modernizing banking services and increasing efficiency and convenience as a means of further development and growth.

On behalf of board of directors of the Banking Association of Kosovo and its highly committed and professional staff I would like to extend high appreciation to the key stakeholders of the sector and call for continuity in advancement of the legislation and its consistent implementation which are necessary prerequisites for the sector to operate successfully and play its developmental role.

CHANGE IS INEVITABLE. CHANGE IS CONSTANT.

(Benjamin Disraeli UK Prime Minister 1874)

If there is one thing that is certain in life, it is change and looking ahead to 2020 there are 3 key changes coming to the Kosovo banking industry which will have significant consequences for banks, customers and all those in some way linked to the banking industry. These changes are digital banking, cybersecurity and regulation..

Mr. ROBERT WRIGHT

VICE-CHAIRMAN OF THE BOARD OF DIRECTORS, KBA

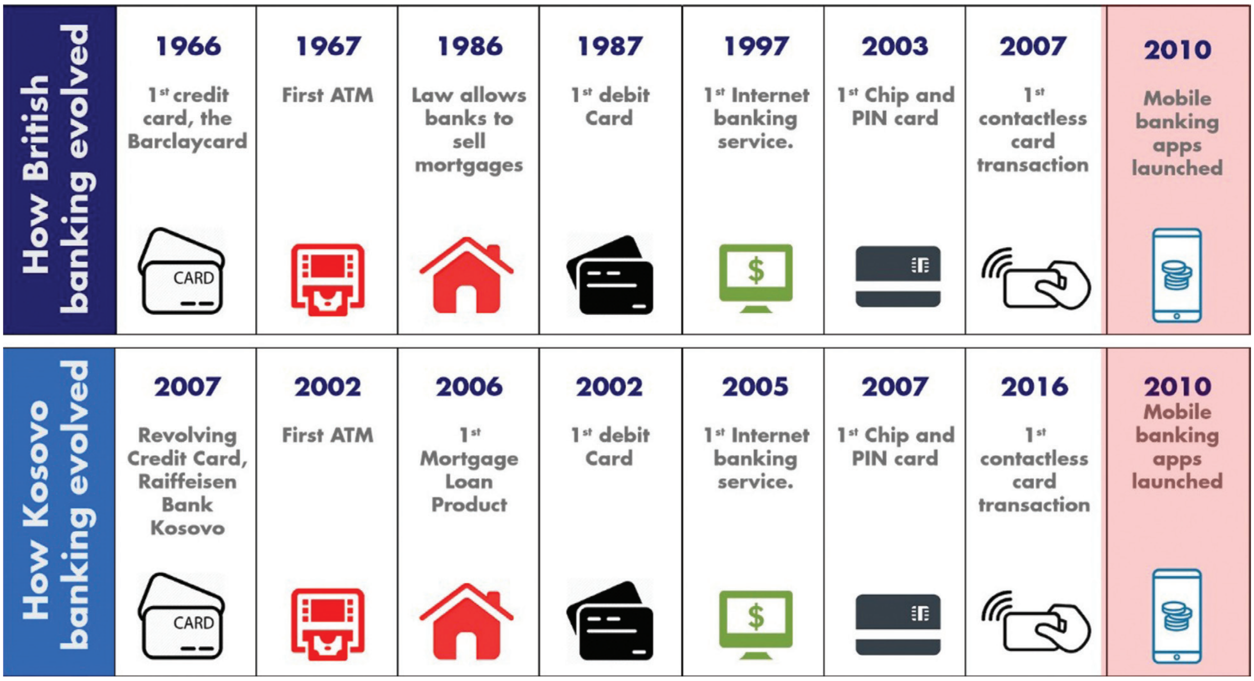
CEO, RAIFFEISEN BANK KOSOVO J.S.C

Digital Banking

Bill Gates once said "We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten." I think this is very true and this view can also be applied to Kosovo banking as well. Please don't misunderstand me, the pace of change is fast in the Kosovo banking industry but in 2020 there will still be bank branches with over the counter face to face transactions and we will still be teaching customers how to use ATMs and POS machines for the first time.

However, we have come a long way in a short space of time and Banks are well known worldwide as early adopters of new technologies. The banking industry in Kosovo is no different and has swiftly embraced new banking technologies to help customers have a leading edge banking experience. ATMs, POS terminals, contactless cards, internet banking, mobile banking, call centers, and self-service areas are just some examples of the advances made by banks in Kosovo; and all of it has happened in a short space of time compared to Western European countries as the diagram below illustrates:

The banking industry in Kosovo is no different and has swiftly embraced new banking technologies to help customers have a leading edge banking experience. ATMs, POS terminals, contactless cards, internet banking, mobile banking, call centers, and self-service areas are just some examples of the advances made by banks in Kosovo; and all of it has happened in a short space of time compared to Western European countries.



Nuk ka absolutisht asnjë dyshim se ky trend do të vazhThere is absolutely no doubt that this trend will continue and by 2020 we will see more digital technologies implemented by the banks, in particular more services via mobile phones which is increasingly the preferred channel for many customers. I believe many banks in Kosovo will switch services to mobile banking as the primary means of customer engagement by 2020.

Through mobile applications, banks will become an integral part of a customer's financial affairs in many aspects of their lives whether it is for the purchase of a new house, the buying of a car, payment to a friend or shopping on line. McKinsey, the global consultancy, recently stated that leading edge banks will soon interface on line with customers 12 to 15 times a day compared to the current 3 or 4 times per day for traditional banks. The ability to do this will require banks to have real time, sophisticated data analytics so that tailored and relevant propositions can be delivered to clients. This will be a significant challenge for the industry and a key factor in the successful implementation of this development is that Kosovo needs to become digital in many areas of life, not just the banking industry. Retailers, utility providers, government institutions and many other participants in a customer's daily lives also need to be digital. The value creation and benefits from offering a digital banking proposition collapse if part of the interfacing process with third parties is still manual or face to face.

In 2020 bank branches will still remain relevant but will be more focused on advisory and fee generating activities rather than on traditional services. By 2020, self-service areas will be normal and the current cash based Kosovo economy will be in decline but unfortunately I believe it will still remain an unacceptably significant part of the Kosovo economy.

By 2020 we may also see the first FinTechs in Kosovo. FinTechs are reshaping the global banking industry and many of them will try to exploit the opportunities of the Payment Services Directive 2 (PSD2) that the parent organisations of the foreign banks in Kosovo are already addressing. In the short term, Kosovo as a non-EU member, is not forced to comply with PSD2, however there are still payment services opportunities that will interest FinTechs. With 80% internet penetration and a population with an average age of 26, Kosovo represents an ideal environment for new digital banking technologies and the banks could be challenged by FinTechs who can offer simple and cheap leading edge payment and other transaction facilities.

It is also very important that by 2020 the Central Bank of Kosovo introduces legislation and technology that will support a digital banking environment as new digital technologies will bring new opportunities but also new challenges and risks. One of those risks is cybercrime and cybersecurity.

There is absolutely no doubt that this trend will continue and by 2020 we will see more digital technologies implemented by the banks, in particular more services via mobile phones which is increasingly the preferred channel for many customers. I believe many banks in Kosovo will switch services to mobile banking as the primary means of customer engagement by 2020.

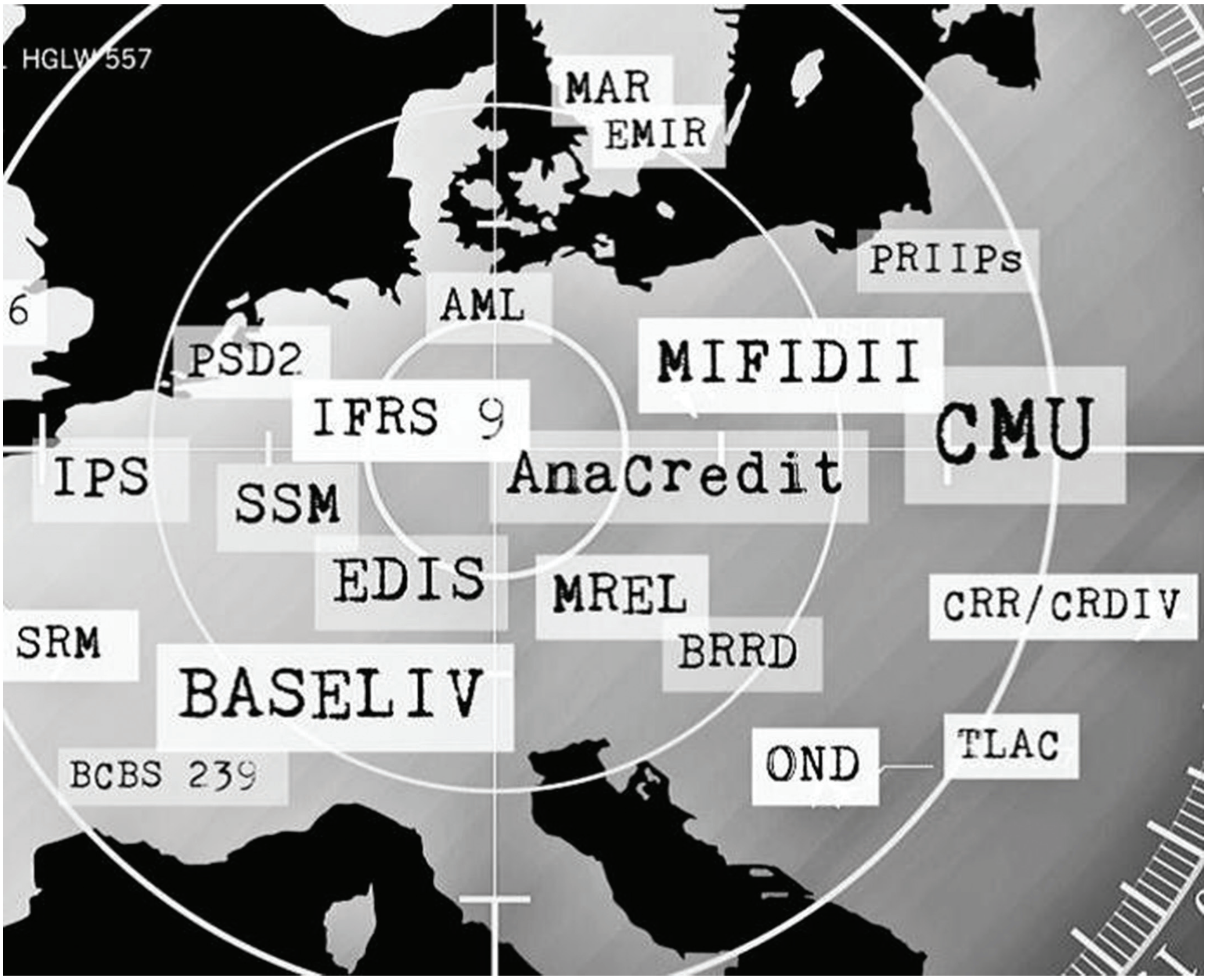
Cybersecurity

Effective and reliable cybersecurity is paramount if the banking industry is to gain customer trust in digital banking. Recently, we saw a global ransomware attack where many famous companies were affected and potential losses equated to billions of dollars. Luckily no major impact was reported in Kosovo but, that doesn't mean we are safe. While western countries have matured in the area of cybersecurity by introducing appropriate legislation, and by creating special cyber-units, Kosovo is still in the early stages of development and must give this a higher priority in the near future. Currently Kosovo banks, through the Kosovo Banking Association, have good cooperation in the area of security as was seen recently with security incidents related to ATMs, and this cooperation now requires further development in areas such as digitalization and cybersecurity. This will be a much more complicated and technically demanding situation than dealing with relatively simple ATM incidents.

Effective and reliable cybersecurity is paramount if the banking industry is to gain customer trust in digital banking. Recently, we saw a global ransomware attack where many famous companies were affected and potential losses equated to billions of dollars. Luckily no major impact was reported in Kosovo

Regulation

Some would say that the European banking industry deserves the dramatic increase in regulation and supervision that has occurred over the last seven or eight years since the financial crisis of 2009 /10. The huge growth of all major key performance indicators in the banking industry during the decade prior to the crisis, plus the illegal or, at best, non-transparent activities by some banks and the obsession with increasing shareholder value all contributed to the crisis and a lack of regulation and supervision was also a contributory factor. As a consequence we are today faced with a huge amount of regulatory, supervisory and structural change. The diagram below shows what is currently on the agenda of European banks.



As Kosovo is not a member of the EU the banking industry does not yet have to fully comply with all European Banking Authority or European Central Bank regulations and policies but we still have a significant and challenging range of legal and supervisory changes to address.

For example Basel II, IFRS9 and Anti Money Laundering regulations are all top priorities at the moment for Kosovo banks. In addition, the international banks in Kosovo also have to comply with some EBA and ECB regulations and procedures because their parent bank is based in the EU. The Kosovo Banking Association, the Central Bank of Kosovo, the IMF representative office in Prishtina and relevant government institutions are working together to achieve the various mandatory implementation deadlines.

Apparently Basel I regulations consisted of 30 pages, Basel II regulations cover 347 pages and Basel III is 616 pages long. By 2020 we will be addressing Basel IV. How many pages will that be?!

Basel II, IFRS9 and Anti Money Laundering regulations are all top priorities at the moment for Kosovo banks.

IFRS 9 IMPAIRMENT REQUIREMENTS: KEY ELEMENTS AND CHALLENGES

Mr. FATON RAMADANI

RISK MANAGER

ISBANK - KOSOVO

The International Accounting Standards Board (IASB) completed the final element of its comprehensive response to the financial crisis with the publication of International Financial Reporting Standards (IFRS) 9 Financial Instruments in July 2014. The package of improvements introduced by IFRS 9 includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The new Standard will come into effect on 1 January 2018 with early application permitted.

IFRS 9 Impairment has introduced radical fundamental changes in impairments. In the past IAS 39 impairment of financial assets are recognized using an 'incurred loss model'. This model assumes that all loans will be repaid until evidence to the contrary (known as a loss or trigger event) is identified. So it was based on the historical data that's why it is considered as backward-looking model.

As opposed to IAS 39, IFRS 9 uses the expected loss model which is considered as forward-looking model. While incurred loss is certain, is past, is easy to measure, the future is more difficult to determine and to evaluate. Due to this fact comprehensive risk management techniques should be used.

From the practical perspectives, what is the impact? In IAS 39 impairments are booked if there were a default event. So it was late action whereas in IFRS 9 impairment will be booked from day one of loan disbursement because from day one is considered an expected loss. So the impact in the profit and loss (P&L) is really important and material. Based on results from the European Banking Authority (EBA) impact assessment of IFRS 9 issued on November 2016 the estimated increase of provisions compared to the current levels of provisions under IAS 39 is 18% up to 30% on average for the most of the banks.

IFRS 9 uses the expected loss model which is considered as forward-looking model. While incurred loss is certain, is past, is easy to measure, the future is more difficult to determine and to evaluate. Due to this fact comprehensive risk management techniques should be used.

The first aspect that is the key element for the Board of Directors of banks is that IFRS 9 Expected credit loss model affects the P&L, while the expected credit loss model determines at the end the minimum capital requirement. The minimum capital requirement is very important but this is a volatile condition.

The second aspect is the lifetime expected loss. Who knows what will be the expected loss over the lifetime of the mortgage loans for fifteen years? Only God knows! So this is the concern that is really unknown.

The third aspect that concerns Board is the operational implementation of IFRS 9. It is a big challenge for any bank.

So development of models that banks already have in order to build IFRS 9 models and make them consistent is challenging most of the banks in Europe and I think that this will be the main challenge also for the banks in Kosovo.

Banks will not be in compliance with IFRS 9 by using the credit risk model. The reason is that there will be too many differences between the risk models. The first difference is the time horizon. Under IFRS 9 the time horizon requires to compute the lifetime credit loss while usually in a credit model is used a one year. The second difference is that IFRS 9 takes the point of view of now, of the reporting time. So it's a point in time view while under Basel of under usual credit risk it is through the circle. The third difference is that IFRS 9 use the effective interest rate to discount the cash flows. Next to that, the models under IFRS 9 will also have to use the macroeconomic factors and will also have to use different scenarios that are not probably used under current credit risk models.

So development of models that banks already have in order to build IFRS 9 models and make them consistent is challenging most of the banks in Europe and I think that this will be the main challenge also for the banks in Kosovo.

The first challenge is to transform the IFRS 9 guidelines into policies and procedures. Banks will need to have their own definition what default is, what low credit risk means for the bank and for each product.

The second challenge is to implement policies into practice. So it needs the system support to help enforce the policies which should be flexible because IFRS 9 guidelines are fixed and the policies and procedures may change over time.

The third challenge is integrating and reconciling risk and finance. Risk from day one computes the expected credit loss and from day one in finance they book it as the impairment of loans. So from day one it needs to reconcile every time and make sure they are consistent and this can only happen when risk and finances solutions are integrated.

If banks that are operating in Kosovo intend to centralize the application of the IFRS 9 impairment requirements across group entities and to use similar policies, methodologies, scenarios and interpretations across the group, they should take into consideration subsidiaries' local specificities (for instance, adjustments to the centralized scenarios to consider local economic conditions) at both the group and the entity levels. This will ensure that the estimation of the ECL reflects these specificities, rather than applying one-size-fits-all accounting practices within groups. This is also the recommendation of the European Banking Authority.

Because of the major importance impairment can have on Profit and Loss (P&L) and because of the involvement of the Board it is really necessary to do as soon as possible an impact assessment

All these challenges are superseded by one challenge in the governance. The governance is the first principle that Basel committee issued on expected loss. It says that the Board is responsible for the level of impairment of loans, for the level of expected credit loss and is responsible for the controls and the consistency we have in accounting gap and supervision guidance. So this is a real challenge to make sure that all that happen is under the supervision and governance of the Board.

Because of the major importance impairment can have on Profit and Loss (P&L) and because of the involvement of the Board it is really necessary to do as soon as possible an impact assessment. So that the Board will have all necessary information in order to give the impairment project the right priority and the right resources.

So in general the implementation process of the IFRS 9 can be summarized in two main points. The first point is the risk models. This is very important stream and it will determine the level of the amounts of impairment of loans respectively the level of variations in the P&L. The second point is the systems and resources. It needs to make sure that those two streams are performed under the strict governance of the Board.

SECURING FINANCIAL SOLVENCY THROUGH DEBT SALE

In the last decade the world and the EU in particular witnessed unexpected, but rather very turbulent economic times.

Since 2007 the market was shaken by a number of significant events that led to the creation of huge piles of bad debt that in the beginning of 2017 reached close to 1 trillion of EUR in the EU alone.

Regulators' raising concern has led to stricter requirements for Basel III, announced in 2011, with a final implementation date in 2019, as well as IFRS 9 expected to become effective as of 2018. Basel III, although still not fully implemented is almost talk of the past as Basel 4 is being looked into already. Both are intended to strengthen banks' capital, which is to be achieved by liquidity improvement and decrease in the debt used to finance assets. Under IFRS 9, banks will have to set risk models based on expected rather than incurred losses, which only means that even fully performing exposures will need to be provisioned.

The increasing bad portfolios, the trend of implementing stricter capital requirements and increased disclosure of financial facts, as well as the prolonged Euro crisis and low interest rates have challenged banks to look for reliable, modern, fast and safe risk management solutions.

As much as 44% of all companies in Europe hire outsource for dealing with a debt portfolio. Most banks have long term partner cooperation with professional collection agencies for debt collection services, but more and more banks and financial institutions are also incorporating debt sale to their risk management strategies. In a press release from March 2017 the European Central Bank (ECB) in its guidelines to banks on how to tackle

Ms. KATERINA BOSEVSKA

MANAGING DIRECTOR,

EOS MATRIX L.L.C.
KOSOVO BRANCH

non-performing loans focuses on the fact that high NPL interferes with banks' ability to lend and requires valuable management time. One of the suggestions on how to deal with NPL is exactly the debt sales option. Until recently, and mainly due to low cost of capital, banks did not feel economic pressure to sell NPLs, but regulatory pressure is increasing as the volumes of bad debt are pluming

Banks will not only sell bad debt portfolios, but will give primary focus on active portfolio sales

According to a Deloitte's report in 2015 the amount of debt sales closed in 30 EU countries amounted to 104 billion of euros. In 2016 the amount of closed transactions remained almost the same (103 billion of euros), with another 70 billion in ongoing transactions by the end of the year. In the last years the most active markets for debt sales were Italy, Spain and the Central Eastern European region, for which experts say that has an even higher potential in the upcoming years. Additionally, **as regulations are becoming stricter, it is expected that banks will not only sell bad debt portfolios, but will give primary focus on active portfolio sales. This is already part of some large banks' risk management strategies and it is already happening across Europe and in the Balkans region.**

Debt sales simply means transfer of all right and obligations, as well as the risk of collection, arising from a loan contact, from the original creditor to a new owner of the debt, which will pay an agreed amount to the original creditor for the transfer of these rights and obligations.

The market offers two types of debt sale agreements:

- One off portfolio sales – suited for NPL portfolios and based on per portfolio sale
- Revolving sales – suited for active portfolios (low days past due defaults) as a regular arrangement and integrated part of an optimal risk management strategy

By selling a portfolio of debts the seller benefits from:

- the positive effects on the balance sheet
- immediate cash flow for new investments
- possibility to predict future cash flows from debt sales
- time to concentrate on core business
- saving time and energy in accounting
- reducing the time needed to manage and report on NPL
- eliminating all future costs connected to collection of bad debts
- reduce fixed costs and overhead

Additionally, a reliable partner in the process of debt sale will also:

- dedicate time and resources helping the seller understand the model
- transfer knowledge regarding the model implementation
- dedicate time and resources to understand the seller's market position, strategy and portfolio as a way to reach fair price
- process the bought receivables in a legitimate and ethical way, protecting the seller's good reputation

The price paid for a debt portfolio depends on the quality of the portfolio being sold and it is calculated each time a new debt sale contract is agreed on. In One-off portfolio sales each portfolio is sold under a different contract, whereas in Revolving portfolio sales one contact may last for a prolonged period of time including sale of multiple portfolios with comparable quality.

The debt sale process starts with signing a NDA between the seller and the buyer from which point, with a serious and reliable buying partner, usually takes no more than three weeks to finalize the agreement. The process itself should be simple, straight forward and seamless, which also is very much influenced by the quality and professionalism of the buying partner.

The supplier of the debt sale/purchase service should be very carefully selected and apart from professional approach to the purchase price determination procedure, should also be able to provide client support, ongoing service offering, client understanding, flexibility and ethical code of conduct.

EOS Matrix is part of the EOS Group, one of the biggest international financial service companies with 40 years of experience in receivables management, one of the biggest debt purchaser in Europe, with more than 20,000 clients worldwide..

IFRS 9 & KEY CHANGES WITH IAS 39

Ms. ARTA LIMANI

SENIOR MANAGER

DELOITTE KOSOVA SH.P.K.

Mr. ARIAN META

MANAGER

DELOITTE KOSOVA SH.P.K.

The introduction of new requirements in IFRS 9 *Financial Instruments* will be a significant change to the financial reporting of banks. It will impact many stakeholders including investors, regulators, analysts and auditors. Given the importance of banks in the global capital markets and the wider economy, the effective implementation of the new standard has the potential to benefit many. Conversely, a low-quality implementation based on approaches that are not fit for purpose has the risk of undermining confidence in the financial results of the banks.

The International Accounting Standards Board (IASB) published the final version of IFRS 9 Financial Instruments in July 2014. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement, and is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The new standard aims to simplify the accounting for financial instruments and address perceived deficiencies which were highlighted by the recent financial crisis.

Time is running out. Banks that report under IFRSs must apply IFRS 9 *Financial Instruments* in their 2018 financial statements. To be ready, banks must complete a large multi-disciplinary project combining the skills of finance, risk and IT. The project will require strong governance and internal controls to give all stakeholders confidence in resulting financial information. For many banks, the adoption of expected credit loss accounting will be the most momentous accounting change they have experienced, even more significant than their transition to IFRSs.

The **key changes** between IFRS 9 and IAS 39 are summarized below.

Changes in Scope

- Financial instruments that are in the scope of IAS 39 are also in the scope of IFRS 9. However, in accordance with IFRS 9, an entity can designate certain instruments subject to the own-use exception at fair value through profit or loss (FVTPL); hence, IFRS 9 will apply to these instruments.
- The IFRS 9 impairment requirements apply to all loan commitments and contract assets in the scope of IFRS 15 Revenue from Contracts with Customers.

Changes in Classification and Measurement

- The classification categories for financial assets under IAS 39 of held to maturity, loans and receivables, FVTPL, and available-for-sale determine their measurement. These are replaced in IFRS 9 with categories that reflect the measurement, namely amortized cost, fair value through other comprehensive income (FVOCI) and FVTPL.

- IFRS 9 bases the classification of financial assets on the contractual cash flow characteristics and the entity's business model for managing the financial asset, whereas IAS 39 bases the classification on specific definitions for each category. Overall, the IFRS 9 financial asset classification requirements are considered more principle based than under IAS 39.
- Under IFRS 9, embedded derivatives are not separated (or bifurcated) if the host contract is an asset within the scope of the standard. Rather, the entire hybrid contract is assessed for classification and measurement. This removes the complex IAS 39 bifurcation assessment for financial asset host contracts.
- Under IAS 39, derivative financial assets/liabilities that are linked to, and settled by, delivery of unquoted equity instruments, and whose fair value cannot be reliably determined are required to be measured at cost. IFRS 9 removes this cost exception for derivative financial assets/liabilities; therefore, all derivative liabilities will be measured at FVTPL.
- IAS 39 allows certain equity investments in private companies for which the fair value is not reliably determinable to be measured at cost, while under IFRS 9 all equity investments are measured at fair value
- For certain financial liabilities designated at FVTPL under IFRS 9, changes in the fair value that relate to an entity's own credit risk are recognized in other comprehensive income (OCI) while the remaining change in fair value is recognized in profit or loss. Exceptions to this recognition principle include when this treatment creates, or enlarges, an accounting mismatch and also does not apply to loan commitments or financial guarantee contracts designated as FVTPL. In such instances, IFRS 9 requires the recognition of all changes in fair value in profit or loss.
- Reclassification of financial assets under IFRS 9 is required only when an entity changes its business model for managing financial assets and is prohibited for financial liabilities; hence, reclassifications are expected to be vary rare.

Impairment

- IFRS 9 applies a single impairment model to all financial instruments subject to impairment testing while IAS 39 has different models for different financial instruments. Impairment losses are recognized on initial recognition, and at each subsequent reporting period, even if the loss has not yet been incurred.
- In addition to past events and current conditions, reasonable and supportable forecasts affecting collectability are also considered when determining the amount of impairment in accordance with IFRS 9

The impairment requirements under IFRS 9 are significantly different from those under IAS 39. The followings highlights the key differences between the two standards.

IAS 39 Incurred Loss Model

- Delays the recognition of credit losses until there is objective evidence of impairment.
- Only past events and current conditions are considered when determining the amount of impairment (i.e., the effects of future credit loss events cannot be considered, even when they are expected).
- Different impairment models for different financial instruments subject to impairment testing, including equity investments classified as available-for-sale.

IFRS 9 Expected Credit Loss Model

- Expected credit losses (ECLs) are recognized at each reporting period, even if no actual loss events have taken place.
- In addition to past events and current conditions, reasonable and supportable forward-looking information that is available without undue cost or effort is considered in determining impairment.
- The model will be applied to all financial instruments subject to impairment testing.

The general (or three-stage) impairment approach

IFRS 9's general approach to recognizing impairment is based on a three-stage process which is intended to reflect the deterioration in credit quality of a financial instrument.

- Stage 1 covers instruments that have not deteriorated significantly in credit quality since initial recognition or (where the optional low credit risk simplification is applied) that have low credit risk
- Stage 2 covers financial instruments that have deteriorated significantly in credit quality since initial recognition (unless the low credit risk simplification has been applied and is relevant) but that do not have objective evidence of a credit loss event
- Stage 3 covers financial assets that have objective evidence of impairment at the reporting date.

12-month expected credit losses are recognized in stage 1, while lifetime expected credit losses are recognized in stages 2 and 3.

What are 'credit losses'?

Credit losses are defined as the difference between all the contractual cash flows that are due to an entity and the cash flows that it actually expects to receive ('cash shortfalls'). This difference is discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

What are '12-month expected credit losses'?

- 12-month expected credit losses are a portion of the lifetime expected credit losses
- they are calculated by multiplying the probability of a default occurring on the instrument in the next 12 months by the total (lifetime) expected credit losses that would result from that default
- they are not the expected cash shortfalls over the next 12 months.

They are also not the credit losses on financial instruments that are forecast to actually default in the next 12 months.

What are 'lifetime expected credit losses'?

Lifetime expected credit losses are the expected shortfalls in contractual cash flows, taking into account the potential for default at any point during the life of the financial instrument.

IFRS 9 draws a distinction between financial instruments that have not deteriorated significantly in credit quality since initial recognition and those that have. '12-month expected credit losses' are recognized for the first of these two categories. 'Lifetime expected credit losses' are recognized for the second category. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument. An asset moves from 12-month expected credit losses to lifetime expected credit losses when there has been a significant deterioration in credit quality since initial recognition. Hence the 'boundary' between 12-month and lifetime losses is based on the change in credit risk not the absolute level of risk at the reporting date.

Finally, it is possible for an instrument for which lifetime expected credit losses have been recognized to revert to 12-month expected credit losses should the credit risk of the instrument subsequently improve so that the requirement for recognizing lifetime expected credit losses is no longer met.

What is the definition of "default"

IFRS 9 explains that changes in credit risk are assessed based on changes in the risk of a default occurring over the expected life of the financial instrument (the assessment is not based on the amount of expected losses). 'Default' is not itself actually defined in IFRS 9 however. Banks must instead reach their own definition and IFRS 9 provides guidance on how to do this. The Standard states that when defining default, an entity shall apply a default definition that is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate. However, there is a 'rebuttable presumption' that default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Individual or collective assessment for impairment

Depending on the nature of the financial instrument and the information available about its credit risk, it may not be possible to identify significant changes in credit risk at individual instrument level before the financial instrument becomes past due. It may therefore be necessary to assess significant increases in credit risk on a collective or portfolio basis. This is particularly relevant to financial institutions with a large number of relatively small exposures such as retail loans. In practice, the lender may not obtain or monitor forward-looking credit information about each customer. In such cases the lender would assess changes in credit risk for appropriate portfolios, groups of portfolios or portions of a portfolio of financial instruments. Any instruments that are assessed collectively must possess shared credit risk characteristics. This is to prevent significant increases in credit risk being obscured by aggregating instruments that have different risks. When instruments are assessed collectively, it is important to remember that the aggregation may need to change over time as new information becomes available.

Collateral

While the existence of collateral plays a limited role in the assessment of whether there has been a significant increase in credit risk, it is very relevant to the measurement of expected credit losses. IFRS 9 states that the estimate of expected cash shortfalls reflects the cash flows expected from collateral and other credit enhancements that are integral to the instrument's contractual terms. The estimate of expected cash shortfalls on a collateralized financial instrument reflects:

- the amount and timing of cash flows that are expected from foreclosure on the collateral
- less the costs of obtaining and selling the collateral.

This is irrespective of whether or not foreclosure is probable. In other words, the estimate of expected cash flows considers both the probability of a foreclosure and the

cash flows that would result from it.
A consequence of this is that any cash flows that are expected from the realization of the collateral beyond the contractual maturity of the contract are included in the analysis. This is not to say that the entity is required to assume that recovery will be through foreclosure only however. Instead the entity should calculate the cash flows arising from the various ways in which the asset might be recovered and assign probability-weightings to those outcomes.

Key Disclosures

The disclosures added to IFRS 7 are intended to enable users of the financial statements to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows.

IFRS 7 has been amended to include both extensive qualitative and quantitative disclosure requirements. Some of the more important disclosures include:

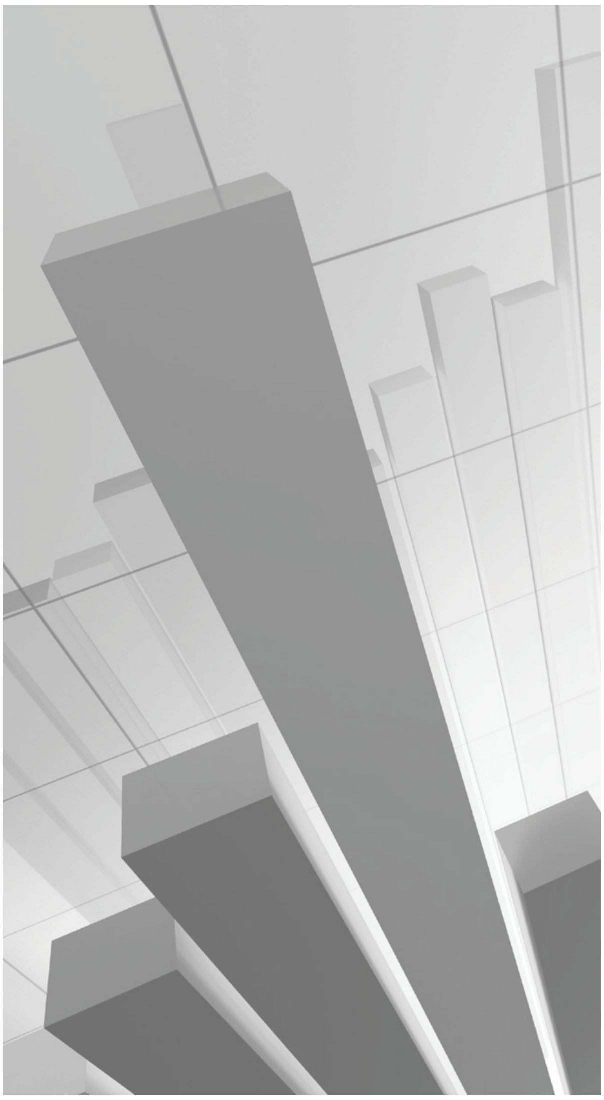
Qualitative disclosures

- inputs, assumptions and techniques used to:
  - estimate expected credit losses (and changes in techniques or assumptions)
  - determine 'significant increase in credit risk' and the reporting entity's definition of 'default'
  - determine 'credit-impaired' assets
- write-off policies
- policies regarding the modification of contractual cash flows of financial assets
- a narrative description of collateral held as security and other credit enhancements.

Quantitative disclosures

- reconciliation of loss allowance accounts showing key drivers for change
- explanation of gross carrying amounts showing key drivers for change
- gross carrying amount per credit risk grade or delinquency
- write-offs, recoveries and modifications
- quantitative information about the collateral held as security and other credit enhancements for credit-impaired assets.

To conclude, the classification and measurement based on IFRS 9 rules will achieve increased comparability internationally in the accounting for financial instruments and paint a fairer picture of the entity's unique risk management policy and strategy.



BEHAVING RESPONSIBLY IN A LOW INTEREST RATE ENVIRONMENT: A CENTRAL BANKER'S PERSPECTIVE

Speech by Yves Mersch, Member of the Executive Board of the ECB, Stiftung Marktwirtschaft: Expertentagung "5th Kadener Gespräch", Alveslohe, 10 February 2017

The policy of the European Central Bank (ECB) is often said to be at the root of the current problems in the banking and financial sector. Particularly in Germany, there's the added accusation of monetary policy "expropriating" savers.

A closer look quickly reveals that such hasty judgements fail to appreciate the complexity of the matter. Today, therefore, I shall examine carefully the underlying reasons for our monetary policy action. By focusing on the reasons for our actions we can understand more easily how to get back to a normalisation of monetary policy.

Low natural interest rates

Why are interest rates so low? The growth trend has been declining in many mature economies not just since the crisis, but for several decades. This slowdown in growth has led to lower long-term interest rates.

The structural causes of this trend of slowing growth is a subject of controversy among specialists. Demographic and technological developments are mentioned, as are the effects of the financial cycle, which may be out of sync with the business cycles. I do not want to pre-empt this ongoing discussion. Instead, I would like to focus on two issues, which in the current context are very relevant from a monetary policy perspective – regardless of the structural causes underlying the weak economic growth.

First, the slowdown in growth in this environment increased the risk of a self-reinforcing downward spiral. For the weak growth dynamics will not go unnoticed by economic actors: their expectations are worsening. If, for instance, a company expects demand to fall, it will be less inclined to make big investments.

Secondly, ageing societies, which exist in many mature economies, not only have to cope with a shrinking labour force, but they also have to save more. This has led to a savings glut and to a shortage of safe assets. So investments are falling and savings are rising. This weakness of investment is further reinforced when public authorities invest less than is even needed to preserve the capital stock. This is a cause for concern especially where both fiscal space and demand exist.

This dynamic has led to a reduction in the natural interest rate, i.e. the real rate of interest in which savings and investments are in equilibrium in an economy operating at its potential, where there is neither upward nor downward pressure on inflation.

In the current environment, the ECB has brought the market rate below the level of the natural rate. The key rate since March last year has been at zero and the rate on the deposit facility at -0.4%.

Had we not done this, constant nominal interest rates amid falling inflation rates would have led to higher real interest rates and undermined anaemic growth even more. This would have significantly increased the risk of deflation. This is just as harmful as accelerating inflation. As Walter Eucken said: "Deflation distorts the price framework just as much."[1]

Thus, price stability for the ECB means that we have to protect European citizens not only from inflation rates that are too high, but also from a deflationary spiral. This is reflected in our quantitative definition of price stability: an inflation rate of below, but close to, 2% in the medium term.

We therefore acted in order to abide by this symmetrical mandate on price stability.

But we are aware that we cannot lower our interest rates to an unlimited extent.[2] As from a certain level, it becomes more attractive to keep cash – despite the associated costs – than to pay negative interest rates. And even if this point has not yet been reached, we are bearing in mind that further rate cuts into negative territory may have non-linear effects. The reactions of people in extremis cannot be anticipated.

But we can also influence market interest rates in other ways. Thus, for example, with our asset purchases we have pushed the yield curve down. And by offering targeted longer-term refinancing on favourable terms which reward additional lending, we have made it possible for banks to cut their interest rates, a move which has led to increased lending.

All these measures in recent years have contributed to the economic recovery in the euro area.

Thus, both the demand for, and supply of, credit is rising. In the real economy, too, positive surprises have predominated recently. The growth rate in the fourth quarter of last year rose to 0.5 %. In the euro area, the seasonally adjusted unemployment rate fell to 9.6% in December. In November it was 0.1 percentage point higher and in December of the previous year it was still at 10.5%.

Overall, the prospects for economic growth in the euro area are increasingly positive. However, while the data within the monetary union is pointing to growth risks being more and more in equilibrium, uncertainty and the risk of political shocks outside continental Europe have clearly gone up.

To put it another way: while the economic outlook for the euro area is steadily brightening, dark clouds are building up on the political horizon beyond the continent.

But of course we shall pay particular attention to how prices evolve. The annual rate of inflation rose, according to provisional estimates by Eurostat in January, by 0.7 percentage point to 1.8%. This sharp jump in the rate of inflation is largely attributable to volatile components, namely energy and, to a somewhat lesser extent, food. Core inflation, on the other hand, which excludes food and energy, remained stable at 0.9%.

For us, the overall inflation rate is the key figure because we protect the purchasing power of citizens, albeit in the "medium term", not on a month-to-month basis. Given the current high variability of energy prices, indicators of the underlying price dynamics say more about future developments than about the overall inflation rate.

We still assume that, because of energy prices, the overall inflation rate will rise until the middle of this year – reaching our "comfort zone". But one swallow doesn't make a summer. For in the second half of the year, it is likely to fall again and then reach 1.5% in 2018.

So, subdued inflation will be with us for quite some time, but the spectre of deflation has disappeared from the radar of market participants.

For this recovery to gain traction, we have to keep our word. The adjustments to our asset purchase programme will be implemented as announced in December – because, first, it contributes significantly to the economic recovery and stabilisation on the price front. And second, monetary policy in times of heightened uncertainty must be a guarantor of stability and reliability by being credible.

And yet, at the same time, how much longer can we continue to talk about "even lower rates" as being a monetary policy option? Considering the importance of credibility for a central bank, as mentioned, there should be no delay in making the necessary gradual adjustments to our communication.

But support from the political dimension is needed too. Structural reforms are required in various areas as well as fiscal stimulus where budgetary flexibility exists.

And what sounded like a platitude yesterday risks being forgotten today: political stability, the rule of law and reliability are essential conditions for maintaining our prosperity. And only open markets and free trade make it possible to boost this prosperity. We need to make the cake bigger, instead of squabbling over the existing portions. Protectionism will only lead to a loss of prosperity for all.

Impact of monetary policy on banks

We are aware that our measures have side effects and that these become more pronounced the longer the unconventional measures last. Let me emphasise that these measures are temporary and are not a permanent part of our active toolbox.

To mitigate risks as far as possible, we closely monitor the broader repercussions of our monetary policy. We carefully watch insurance companies, pension funds and, above all, banks, which play a key role in the transmission of our monetary policy.

Let's first of all take a look at the banks: over the longer term abnormally low or negative interest rates, together with a very flat yield curve and negative term premia, can have adverse effects. [3]

Those banks whose business depends heavily on maturity transformation and on deposit-based refinancing are being hit particularly hard. And as it is difficult to pass negative interest rates onto retail customers and as the introduction of fees provides only limited remedy, some of the banks will have to adapt their business models. Also, consolidation will continue to be necessary to increase efficiency in the long term.

We are now already seeing that concerns about the future profitability of banks are affecting their share prices. The euro area bank index fell by around 40% between August 2015 and August 2016. This decline was driven by, among other things, a worsening outlook for the global economy and growing concern about the effects of the low interest rate environment and non-performing loans. When banks' share prices fall, their cost of equity increases, which could then reduce the net return on lending. This may cause banks to become more conservative in their lending in future and to raise the cost of lending. Internal calculations have shown that a decline of around 10% in a bank's share price reduces corporate lending by around 0.5 percentage point.

Allow me, however, to comment on the sometimes severe criticism, especially from Germany, that we face: the German banking sector is one of the largest in the euro area but at the same time it's the least efficient. German banks have a cost-income ratio of 73%, which is much higher than that of the rest of the euro area. And while other countries have cut the number of banks by almost a quarter following the financial and economic crisis in order to reduce overcapacity, the corresponding figure for Germany was only 10%.[4]

Traditional business models under review

The current low interest rate environment has not just revealed weaknesses among banks, it has also called into question the traditional business models of insurance companies and pension funds.

For many insurers in Germany, guaranteed returns have become an issue. In the current market environment, it is becoming increasingly difficult to achieve the guaranteed interest rates of 4% that were commonplace in contracts concluded in the mid-1990s. The German ministry of finance has reduced the guaranteed interest rate for the current year from 1.25% to 0.9%. Many insurance companies are now increasingly turning to unit-linked products.

In addition, new regulatory requirements are increasing the demand for safe assets. German government bonds alone are yielding negative returns on maturities of up to seven years.

Against this backdrop, discussions are under way as to what can be done to counter this shortage of safe assets. One suggestion is that market participants create a new kind of safe asset, known as European Safe Bonds (ESBies)[5], consisting of the senior tranche of a portfolio of existing bonds from different euro area countries. The advantage here would be that no joint liability would exist, as is the case in other proposals of this kind.

From a purely academic perspective, this is certainly an interesting idea. But it would be difficult to counter the public's assumption that this would be a surreptitious mutualisation of sovereign debt. The political desire to introduce ESBies in the near future is likely to be very limited.

I therefore don't see this proposal as being part of the operational agenda but rather as a subject for long-term study.

Outlook

Let me conclude.

Weakening global growth and a generally lower natural interest rate are demanding very low, sometimes negative, market rates so that investment and consumption become more attractive. In the medium term we are thereby aiming to get inflation back to a level in line with our mandate to ensure price stability of below, but close to, 2%.

Without our measures, the euro area economy would probably have slipped back into recession, with the risk of fully fledged deflation. We had to act and have prevented things from getting worse. Our measures have proved effective.

Our mandate is clear. It says that in the medium term we have to achieve an inflation rate of below, but close to, 2%. This is the only goal that our unconventional measures are also bound by. And price stability is an exclusively internal objective – the ECB does not pursue an exchange rate policy.

Nevertheless, the longer it takes to achieve this goal, the greater the risk that the side effects of our measures become stronger, especially of the negative rates. While we are doing what we can to keep the side effects to a minimum, the financial industry must play its part and adapt as far as possible.
The recovery has started. However, for it to be sustainable, we must first and foremost address the causes of this global low interest rate environment. But monetary policy cannot manage this on its own – not least because our measures are not intended to become a permanent feature of the system.

The economic recovery cannot be sustained by monetary policy alone; it also needs support from politicians. The main objective is to bring about a turnaround in global growth. This involves stepping up fiscal policy measures where there is scope and need. We also require reforms that increase productivity.
But even these political measures won't be effective if the virus of isolationism is rife. Because the plague of protectionism only creates losers.

[1]Eucken, W. (1990), "Grundsätze der Wirtschaftspolitik", 6th edition, J.C.B. Mohr (Paul Siebeck), Tübingen, p. 257.

[2]See Rostagno, M., Bindseil, U., Kamps, A., Lemke, W., Sugo, T. and Vlassopoulos T., (2016), "Breaking through the zero line: the ECB's negative interest rate policy", Brookings Institution, Washington DC, 6 June. The presentation is available on the website of the Brookings Institution.

[3]Borio, C., Gambacorta, L., Hofmann, B., (2015) "The influence of monetary policy on bank profitability", BIS Working Paper October.

[4]Mersch, Y. (2016), "Low interest rate environment – an economic, legal and social analysis", speech at the University of Applied Sciences of the Deutsche Bundesbank, Hachenburg, 27 October.

[5]Brunnermeier, M., Langfield, S., Pagano, M., Reis, R., Van Nieuwerburgh, S., Vayanos, D., (2016), "ESBies: Safety in Tranches", ESRB Working Paper Series, No 21, September.

CALCULATING BORROWING CAPACITY: HOW MUCH CAN YOU BORROW?

Few of us think that we have enough money for our basic necessities, our children's education, and the other things that we want. And many of us have businesses that we would like to expand, if only we had the money to invest. We can borrow money to make up for a shortfall in capital, but we have to be careful how much debt we take on. If we never borrow, we might not ever make progress; but if we borrow too much, we risk not being able to repay. How do you know how much you should borrow?

Gold rule of 20%: Although every family has to decide for itself how must debt it can afford, taking into account all sources of savings and incomes, one good rule of thumb is that that total debt repayments should not be higher than 20% of the total family income. If a family's monthly income is 1,000 EUR, then the amount of all debt for that month should not exceed 200 Euro. This amount includes the total debt from all sources, both formal and informal, for the month (e.g. for loans, the monthly repayment size; for informal debt, the amount to be repaid that month).

In conclusion, we would like to remind you the following:

- Analyze your capacities before deciding to borrow.
- Calculate your repayment capacity to understand, how big loan you can afford.

Identifying all costs of the loan

Borrowing is all about what for do we borrow and foremost if we can afford borrowing. Everybody should be able to understand fully how much does the loan cost. The interest rate is rarely the only cost of the loan.

Therefore, below is presented the method to compare two different loans:

	Loan A	Loan B
Loan amount	5000 EUR	4500 EUR
Monthly installment	500EUR	420 EUR
Number of installments	12 MONTHS	14 MONTHS
Up-front fee	75 EUR	0
Annual fee for the bank account	75 EUR	0
Insurance (12 months)	150 EUR	150 EUR

And it is analysed costs calculation:

	Loan A	Loan B
Loan amount	5000 EUR	4500 EUR
Monthly installment	500EUR	420 EUR
Number of installments	12 MONTHS	14 MONTHS
Up-front fee	75 EUR	15
Annual fee for the bank account	75 EUR	0
Insurance (12 months)	150 EUR	150/12*14 muaj = 175 EUR
Total amount to be paid back	500 * 12 = 6 000 EUR	14 * 420 = 5880 EUR
Interest total	6000 - 5000 = 1 000 EUR	5880 - 4500 = 1 380 EUR
Total cost	1 000 + 150 + 2*75 = 1 300 EUR	1380 +175 + 50= 1605 EUR
Total cost per month	1300 / 12 = 108 EUR	1605 / 14 = 114 EUR

Therefore, according to the above table Loan A is cheaper than Loan B.

We have calculated the direct costs, but this is not enough. For the loan B, the financial institution is located around the corner. The other institution, Loan A, is located far away you need to take a car to get there, and spent the fuel, which may cost you, for example, 25 EUR.

How does it change the costs? Which loan is cheaper now?

	Loan A	Loan B
Loan amount	5000 EUR	4500 EUR
Monthly installment	500EUR	420 EUR
Number of installments	12 MONTHS	14 MONTHS
Up-front fee	75 EUR	15
Annual fee for the bank account	75 EUR	0
Insurance (12 months)	150 EUR	150/12*14 months = 175 EUR
Total amount to be paid back	500 * 12 = 6 000 EUR	14 * 420 = 5880 EUR
Interest total	6000 - 5000 = 1 000 EUR	5880 - 4500 = 1 380 EUR
Total cost	1 000 + 150 + 2*75 = 1 300 EUR	1380 +175 + 50= 1605 EUR
Total cost per month	1300 / 12 = 108 EUR	1605 / 14 = 114 EUR
Fuel cost	25 EUR	0
Total cost per month	108+25 = 133 EUR	114 EUR

According to the second analysis when the indirect costs are taken into account, it appears that Loan B now is cheaper than Loan A. So, this is one of the methods which can be used to compare loan costs.

In conclusion we would like to remind you that:

- There is no 'easy money' loan - every loan has different costs, not only the interest rate.
- It's always important to compare products: price, terms and conditions.
- Every responsible borrower should ask questions about all products terms and conditions.

The materials published are part of the project for Financial Literacy undertaken by Kosovo Banking Association in cooperation with International Finance Corporation (IFC). This project is supported by member banks at KBA (Banka Ekonomike, Banka Kombëtare Tregtare, Banka për Biznes, IsBank, NLB Bank, ProCredit Bank, Raiffeisen Bank, TEB Bank), IFC as part of the World Bank Group, Master Card International and Visa International.

FINANCIAL EDUCATION STARTS AT YOUNG AGE


GLOBAL MONEY WEEK


GLOBAL MONEY WEEK

Bank Liquidity Risk Management in the Basel III and CRD4

February 21, 2017

Certification Programme: International Compliance Foundation Level

March 27-31, 2017

IFRS9 -Expected Credit Losses

March 28 -29, 2017

Training on Internal Audit and Control

May 2 -5, 2017

Training on Credit Risk Management

June 7, 2017

THE GENERAL ASSEMBLY MEETING OF KBA, MAY 25, 2017

Banka Ekonomike gives a donation to SOS Children's Villages

During the fundraising event "I give hope", organized by SOS Children's Villages, Banka Ekonomike gave a donation to the package "I WANT TO BE A LIDER", which covers 1 year of education expenses for 14 young people without parental care, as well as the "I HAVE A FAMILY" package, which covers 1 year of food and hygiene costs, for one without parental care.

This donation is part of the continued commitment of Banka Ekonomike to raise the awareness and social responsibility of our society.

Banka Ekonomike
Thinks about you!

Banka Kombëtare Tregtare signs an agreement with Kosovo Credit Guarantee Fund

On June 16, 2017, in a joint ceremony, Banka Kombëtare Tregtare and Kosovo Credit Guarantee Fund signed a guarantee agreement, from this agreement; the Bank will gain more security in the field of lending as well as risk reduction for loans issued to Micro, small and medium enterprises

This agreement gives the micro; small and medium enterprises ease of access to financing, helping borrowers expand their businesses, create new jobs, and boost domestic production.

BPB teaches children about savings

On the International Children's Day, BPB has opened its doors for children of different ages and from different educational institutions in Kosovo. The children, some of them with their parents, have visited the bank to learn more about savings and the value of money.

'BPB has designed a number of products, including products that aim at securing the future of our children. With best conditions in the country, all clients can now visit our bank to decide on their savings program for their children.', says Mr. Arton Celina, CEO at BPB.

Savings for children, is considered a long-term and a very efficient investment to support the building of the child's future. Through savings for your children, you can now secure strong basis for future investment in their education or other important matters, securing a bright future for them.

'The children were very curious about different processes within the bank. Therefore, during their visit we made sure they see all departments, aiming to give a thorough and a simple explanation of processes within the bank, their saving possibilities and the value of money.', said Mr. Celina during the conversation.

The bank of the country in support of the local products

BPB, one of the most dynamic banks in the country, enables the employment of tens of Kosovars within local production enterprises and initiatives, through its well-designed humanitarian activity.

Through cooperation with the Down Syndrome Association in Kosovo and the support provided to small businesses, associations of women in Janjeva, Krusha and Fushe Kosova, BPB has made possible the increase of the income generation of these local producers and the employment of around fifteen Kosovan's throughout the year.

Through this cooperation, the bank of the country buys merchandise and products of local producers, to distribute them later for free in a welcoming pack for all the bank clients. 'Through this initiative, BPB has secured income generation and employment places at few enterprises, including the Down Syndrome Association and the women associations in Krusha, Janjeva and Fushe Kosova. We hope that the partnership lasts and that it generates more income and as a result, employment opportunities within the organizations we have cooperated with', said Artan Sadiku, deputy CEO at BPB.

EBRD awards NLB Bank as the “Most Active Bank for Issuance of Guarantees in Kosovo in 2016”

The European Bank for Reconstruction and Development (EBRD) has awarded NLB Bank for its performance in 2016 within the Trade Facilitation Program (TFP). This award was presented at the EBRD Annual Meeting and Business Forum in Cyprus, during the TFP Information and Price Ceremony Session on 9 May 2017.

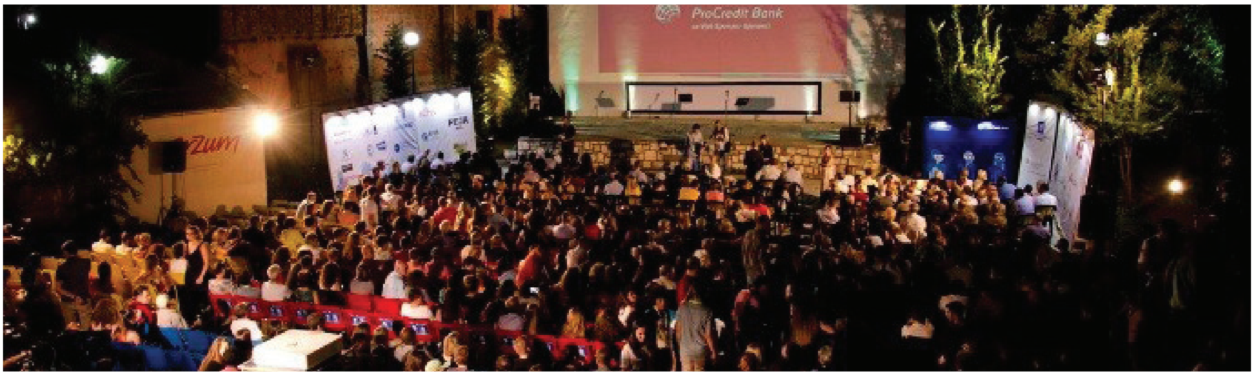
Holger Muent, EBRD Director for the Western Balkans, said: “It is a pleasure to reward NLB Bank’s achievements through this award. The bank has joined the TFP program almost a year ago and has become a very important EBRD partner in the region”.

Boryana Ivanova Mustafa, Director of Payment and Treasury Division at NLB Bank, said: “We are very pleased with the support provided by the EBRD. This collaboration within the TFP program enables our clients to gain expertise in new markets and build relationships with their counterparts around the world”.

To date, EBRD has invested more than 220 million Euros in 51 projects in Kosovo. The Bank is active in many sectors of the economy and the strategic priorities in the country are aimed at promoting regional integration and addressing global and regional challenges. The largest investments of the bank are in the private sector.

The EBRD’s Trade Facilitation Program was launched in 1999 and aims to promote foreign trade between the countries in which EBRD invests. Through this program, the EBRD provides guarantees to international confirming banks and short-term loans to selected banks and factoring companies to finance local exporters, importers, and distributors. The EBRD TFP program currently includes 96 partner banks in 26 countries, in which EBRD invests with limits exceeding 1.5 billion Euros in total and over 800 confirming banks worldwide.

ProCredit Bank, Dokufest's multi-year partner

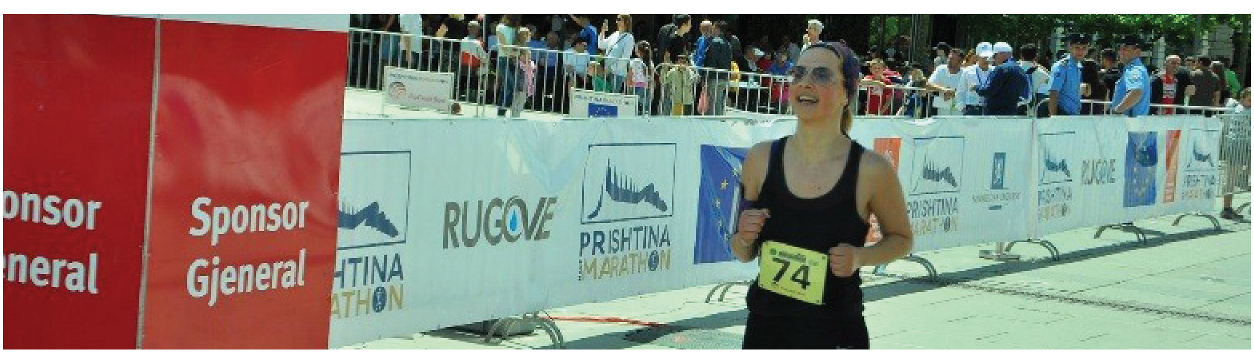


This year, for the 13th consecutive year, ProCredit Bank has confirmed the support for the largest cultural and prestigious event in the country, the International Short Film and Documentary Festival - Dokufest, as the general sponsor of this event that begins on August 4th until August 12th, 2017, in the historic and picturesque city of Prizren.

"ProCredit Bank as an institution that continuously supports genuine events in Kosovo, especially those that contribute directly to the development of culture and improvement of Kosovo's image in the world, has trusted in DokuFest since its first years, being among the main supporters for 13 consecutive years".

It is worth mentioning that after many years of holding this festival, DokuFest is one of the 25 best documentary film festivals in the world.

ProCredit Bank supports "Half Marathon Prishtina 2017"



With the motto "Run for Peace and Tolerance", ProCredit Bank supported the Half Marathon Prishtina 2017 this year as well becoming the partner of this event which was held in Prishtina.

In addition to the winners in other categories, the athlete from Kenya, Benard Muinde Matheka, triumphed in this race with 1 hour, 5 minutes, and 53 seconds.

ProCredit Bank is a traditional supporter of this important sporting event in the country, which contributes to improving the image of Kosovo's sport, since this edition as the Balkan championship held in Kosovo has attracted the attention of a large number of sports enthusiasts and other authorities within and outside Kosovo.

Raiffeisen Bank supports various projects nationwide

From this year, Raiffeisen Bank started with a new form of project support in 6 regions of Kosovo (Prizren, Gjilan, Ferizaj, Mitrovica, Peja, and Gjakova). An open call for applications has been made for each region in areas aimed at promoting values in the field of arts, culture, cultural heritage, and sport development.

To facilitate the application form we have also developed an official site where the interested parties can get more information and apply online by filling in the required fields.

After the deadline for application, the commission will select the projects to be supported by the Bank during 2017, in the mentioned regions.

Two of the selected projects have already been realized, the one in Mitrovica and Gjilan. The other projects will be organized over the next few months.

EBRD "Gender Award" for TEB Sh.A.

Projects of TEB Bank Sh.A. for women entrepreneurship have gained high rating from EBRD (European Bank for Reconstruction and Development - EBRD)

At the EBRD annual meeting (European Bank for Reconstruction and Development) held in Cyprus, TEB Sh.A. has been awarded with the "Gender Award".

This award comes following the active joint programs between TEB Sh.A. and EBRD for women in business. The award was handed over to the managing director of TEB Sh.A, Orcun Ozdemir during the annual meeting and EBRD Business Forum in Cyprus. TEB Sh.A. and EBRD have started their cooperation in the scope of Women in Business Program in February 2015.

The program enhances access to finance through credit lines for local banks as well as through business advice, training and support for women entrepreneurs and for women-run businesses. The program includes funding, technical assistance and risk reduction through primary coverage of losses for local financial institutions and women-led SMEs counselling services. TEB Sh.A. remains committed to increasing presence of women in entrepreneurship in Kosovo by offering various favourable funding opportunities.

TEB Sh.A. provides non-financial services to women entrepreneurs

TEB Bank Sh.A. continues with the support of women's entrepreneurship along the European Bank for Reconstruction and Development (EBRD) and Frankfurt School.
In the framework of cooperation between the Bank, TEB Sh.A. and EBRD, seminars for "Women in business" have been held in Prishtina and Gjilan.

The first seminar was opened by Dren Krypa (Deputy CEO of TEB Bank), after whom the speech was followed by Leonora Kusari (Principal Manager, Business Advice, EBRD) and Yllka Brada (Owner of Yllka Brada B.I., designer). "The current Entrepreneurship Portfolio for women in business stands at about 7million Euros, of which over 200,000 Euros are from start-ups. In total, more than 700 customers have been credited, and more than 80 of them are start-up businesses. These businesses come from different sectors and their owners are of different backgrounds, qualifications, and areas of expertise", said Krypa.

EBRD Representative, Kusari presented the program and support offered by the European Bank for Reconstruction and Development for women in business.

After completing the first part of the seminar, the participants attended the "Business Lenses" presentation by Vlora Avdiu Burani (Senior Officer, Business Advice, EBRD), as well as lectures by Butrint Batalli, Inova Consulting Manager on "Develop Your Business: Resource Management Advice" and "Develop Your Business: The Power of the Brand".

In the second seminar in Gjilan, TEB Bank Sh.A and EBRD programs for women entrepreneurs were presented. Business owner of NSH Hello, Hysnije Ismaili narrated about the journey and the challenges of the business she has been running for several years until achieving success. After the first part of the seminar, women had the opportunity to attend a training on "How to Improve Your Business with Bank Support" by Eugen Doce, senior bank expert for Women in Business, Frankfurt School of Finance & Management. Seminars for women in business are part of non-financial services provided by TEB Bank Sh.A in cooperation with the EBRD in order to increase the participation of women in entrepreneurship.

The series of seminars for women in business returns in September in the city of Peja.

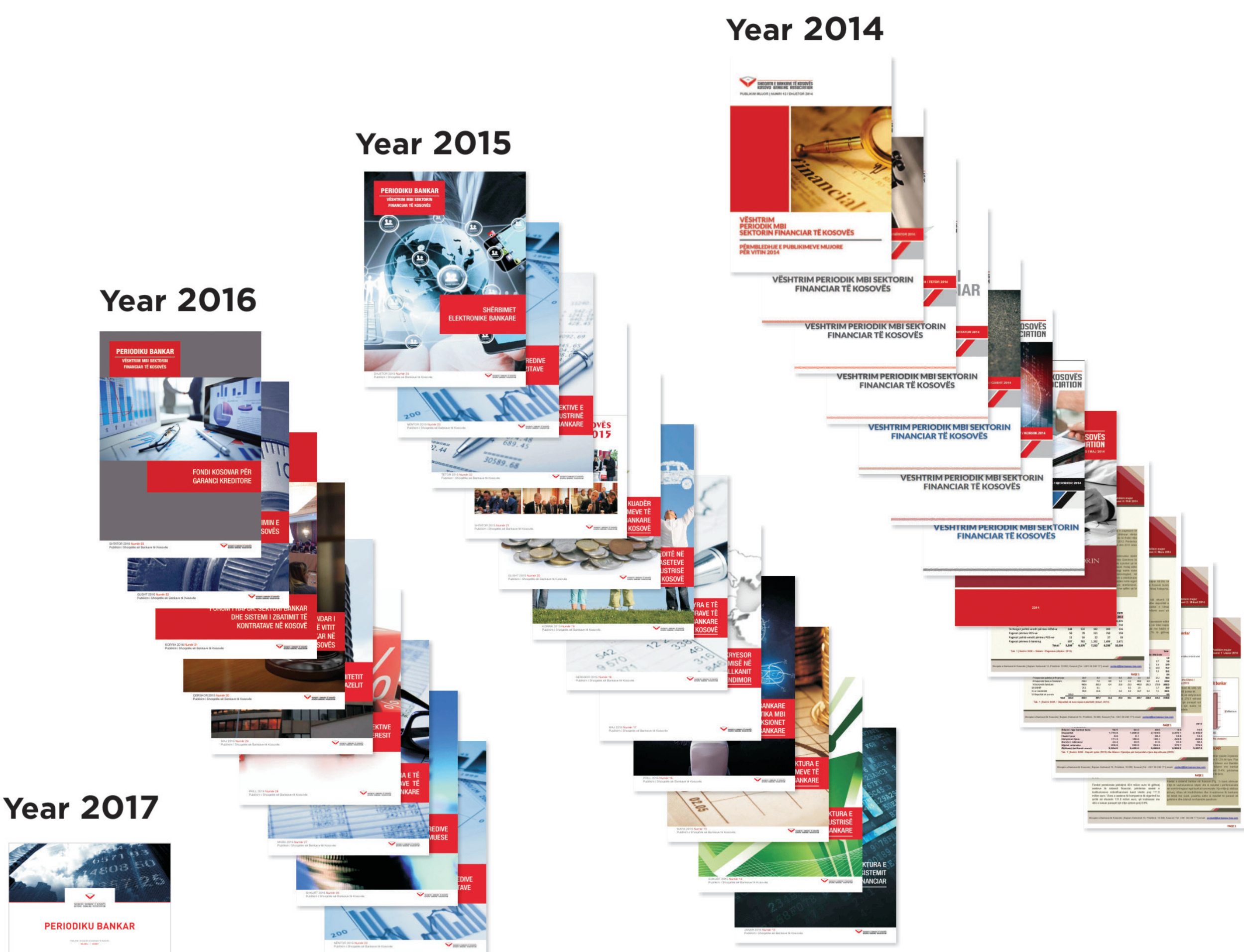
Publications of the Kosovo Banking Association

"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. For more information, please go the the web site of the Kosovo Banking Association

www.bankassoc-kos.com.

Banking Periodic is a publication of the Kosovo Banking Association. This Banking Periodic initially was published on monthly basis starting from January 2014 until end of 2016. Since the beginning of 2017, Banking Periodic is published twice a year and offers data and general overview of the financial system in Kosovo. All editions of the Banking Periodic can be found on KBA's web page

www.bankassoc-kos.com



KBA Banking Training

The Kosovo Banking Association offers a wide range of trainings and certifications in banking.

For more information about scheduled trainings, visit

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