THE KOSOVO BANKER

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Potential of banking sector in Kosovo: Challenges and Opportunities

SHOQATA E BANKAVE TË KOSOVËS
KOSOVO BANKING ASSOCIATION

Publication of the Kosovo Banking Association

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SHOQATA E BANKAVE TË KOSOVËS
KOSOVO BANKING ASSOCIATION

The Kosovo Banking Association (KBA) is the voice of the banking industry in Kosovo. KBA is a representative of Kosovo's commercial banks, KBA member, regard to the banking sector issues and cooperates with all authorities including the Assembly of the Republic of Kosovo, the Government, the Central Bank, the International Financial Institutions, the Media, etc. in order to support the stability and development of the banking sector 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.
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EDITORIAL

DR. SC. PETRIT BALIJA
CEO - KOSOVO BANKING ASSOCIATION

The year we are leaving behind was undoubtedly full of challenges for the banking sector, however at the same time it brought many achievements and successes, which still reflect favorably on the aspirations of this sector. Despite the progress achieved in increased lending and deposits, this year marked the lowest interest rate on new loans in Kosovo, which presents good financing opportunities not only for retail clients but also for small and medium-sized businesses. The sustainability of the banking sector throughout the year proved yet again the potential for creating and maintaining a quality credit portfolio, while enhancing competition through an enabling environment of doing business by means of modernization and increased number of products and services that indisputably enable the further growth and development of the banking industry in the country. Adapting services to the needs of citizens and businesses, while reflecting on the contemporary spirit of development, has compelled competition to implement economic rationality. In turn, this means that the customer's needs are addressed and adjusted to changes in the spirit of fairness, offering fast and problem-solving services, in addition to being easy and secure.

The stability of the banking sector has also played an important role in the economic development of the country, contributing directly to the provision of a broad financing approach geared towards the growth and development of small and medium-sized enterprises, while among key challenges to note, besides dealing with pending court cases resulting in millions of Euros of bank funds being tied up due to a poorly functioning judicial system in Kosovo, was also the area of security, where despite a reduction in cases, the potential risk of armed and violent robbery persists causing further cause for concern in the banking sector in Kosovo.

Additionally, the legal uncertainty triggered by adopting legislation without adequate consultation with the banking sector remains a source of potential risks, which the Kosovo Banking Association continuously engages to prevent by cooperating with many institutions to align the legislation in the most efficient manner.

In this edition, you will learn in greater detail what are the developments and trends in the banking sector in Kosovo, where the challenges and opportunities that lie ahead for the sector have been addressed alongside with its potential. The authors of this edition, in addition to bringing insightful professional experiences, have managed to make a significant contribution to enhancing understanding of the key banking sector issues for both the Kosovo financial sector professionals as well as the general public.

What makes this edition even more important is the announcement of the new publication of the Banking Code of Practice by the Kosovo Banking Association. This Code represents a commitment and reaffirmation of the values and business ethics of the members of the Kosovo Banking Association. A copy of this code will be available for download from the official KBA website. Happy Holidays and cheers to a most auspicious New Year!

ALBERT LUMEZI
Chairman of the Board of Director of KBA
Chairman of Management Board of NLB Bank

The Banking Industry has opened a new chapter for the society of Kosovo

A pace with to the increasing potential to support the country's economic development, the industry has been able to be at service to Kosovo citizens and businesses by providing a wide range of financial services. The consolidation of the banking sector in collaboration with the regulator, the Central Bank of Kosovo, has produced a new spirit, contributing positively to the environment of doing business and opening new opportunities that directly serve, and are not limited to, the banking sector customers. Ongoing contributions through corporate social responsibility (CSR) have also played an important role in supporting different social activities, which in addition to promoting various causes have led to building new bridges of cooperation for a healthy society.

The sustainability of the banking sector in Kosovo, and the direct contribution of CBK to ensure the country has a stable financial system geared to support economic development, has made the banking industry into one of the main pillars of the country's economic development. Today, there are 10 (ten) commercial banks operating in the Republic of Kosovo, accounting for 66.14 percent of total assets in the financial sector, while total loans are EUR 2,755.50 million.

The development of the banking sector over the years has led to an increased demand for loans, the number of deposits has also increased steadily, while non-performing loans have declined gradually, followed by a decline in interest rates. The establishment of regulatory frameworks coupled with the willingness of banks to create a new operating infrastructure has helped this very important sector maintain market stability. In addition to its proven efficient functioning, over a relatively short period of time, the banking industry was able to implement international standardization frameworks, modernize banking services, and deliver highly attractive and innovative products, by creating new opportunities for improvement in the overall business environment in country and boosting competition.

On the other hand, the banking industry continues to be challenged in some respects. For almost two decades, banks continue to deal with cases that remain pending in the Kosovo justice system, where by 2017 the total number of pending cases reached 7,831 amounting to EUR 150,367,847.72. This fact is both troubling and challenging to resolve, as it requires intensive engagement by justice institutions to have the matter closed in a quick turnaround time. Establishing a Commercial Court is more than necessary to have the problem resolved efficiently and in the long run. The Kosovo Banking Association is committed to promoting such a development, which would be very positive to better capitalize on the potential of the financial sector. In addition, recovery of non-performing loans remains a challenge, although in terms of statistics, non-performing loan rates are among the lowest in the region and further

improvement of the bad loan portfolio is undoubtedly one of the primary objectives for the banking sector in Kosovo. The risks of exposure to physical attacks persists as a concern, although there have been major improvements by the security institutions in Kosovo, which have ramped up their security measures and their commitment to bring bank robbers to justice by arresting a significant number of them during the year we are leaving behind. This is also due to the signing of a Memorandum of Cooperation for Enhancement of Security, concluded between the Association of Banks, Kosovo Police, Ministry of Interior Affairs, and Central Bank of Kosovo. The banking sector continues to invest in cyber security that is no less challenging for the banking sector, especially now that the digitization of banking services has taken on a good momentum in Kosovo. Banks have successfully managed to set cyber security parameters attached to many digital payment and transfer services that were introduced to meet present day bank customer demands. In conclusion, I would say that the Kosovo banking sector has greatly contributed to Kosovo's economic development to date, however its potential remains not fully realized and we believe that by handling the above and many other issues addressed in this edition of The Kosovo Banker magazine, we can realize that potential for the benefit of economic and social development.

> The sustainability of the banking sector in Kosovo, and the direct contribution of CBK to ensure the country has a stable financial system geared to support economic development, has made the banking industry into one of the main pillars of the country's economic development. Today, there are 10 (ten) commercial banks operating in the Republic of Kosovo, accounting for 66.14 percent of total assets in the financial sector, while total loans are EUR 2,755.50 million.

DR. SC. FEHMI MEHMETI
Governor, Central Bank of
Republic of Kosovo

The future of the banking sector in Kosovo

The Kosovo Banking Sector is one of the key success stories of economic development in the last two decades. Over the past two decades, and especially in its early days, the sector went through various challenges such as the lack of laws and regulations, lack of human capacity, low level of financial literacy, volatile political environment, and lack of support infrastructure. The banking sector successfully overcame all these challenges and has already developed the necessary capacities to meet the challenges of the next decade, ranging from the further integration of Kosovo's banking sector with its counterparts in the developed countries, adjustment to the increasing dynamics in the information technology development leading to innovation in the field of digital financial services, the use of large volumes of data and in general adapting to an economic environment that is more reliant on information technology.

The fact that the challenges facing the Kosovo banking sector today are similar to the challenges featured in banks in developed countries, substantiates the success of the sector to date, which has reached a satisfactory stage of maturity. All this has been achieved over a short period of time. Today, in terms of financial health, this sector remains one of the best performers in the region, and beyond, with a capital adequacy ratio at 16.7%, return on equity at 15.8% and non-performing loans at 2.4%, which is the lowest rate among all countries in the region.

Banks in Kosovo have a high financial potential, advanced operational and managerial capacities, while at the same time, foreign banks are receiving a great deal of support from their head offices.

The fact that the challenges facing the Kosovo banking sector today are similar to the challenges featured in banks in developed countries, substantiates the success of the sector to date, which has reached a satisfactory stage of maturity. All this has been achieved over a short period of time.

TODAY, IN TERMS OF FINANCIAL HEALTH, THIS SECTOR REMAINS ONE OF THE BEST PERFORMERS IN THE REGION, AND BEYOND, WITH A

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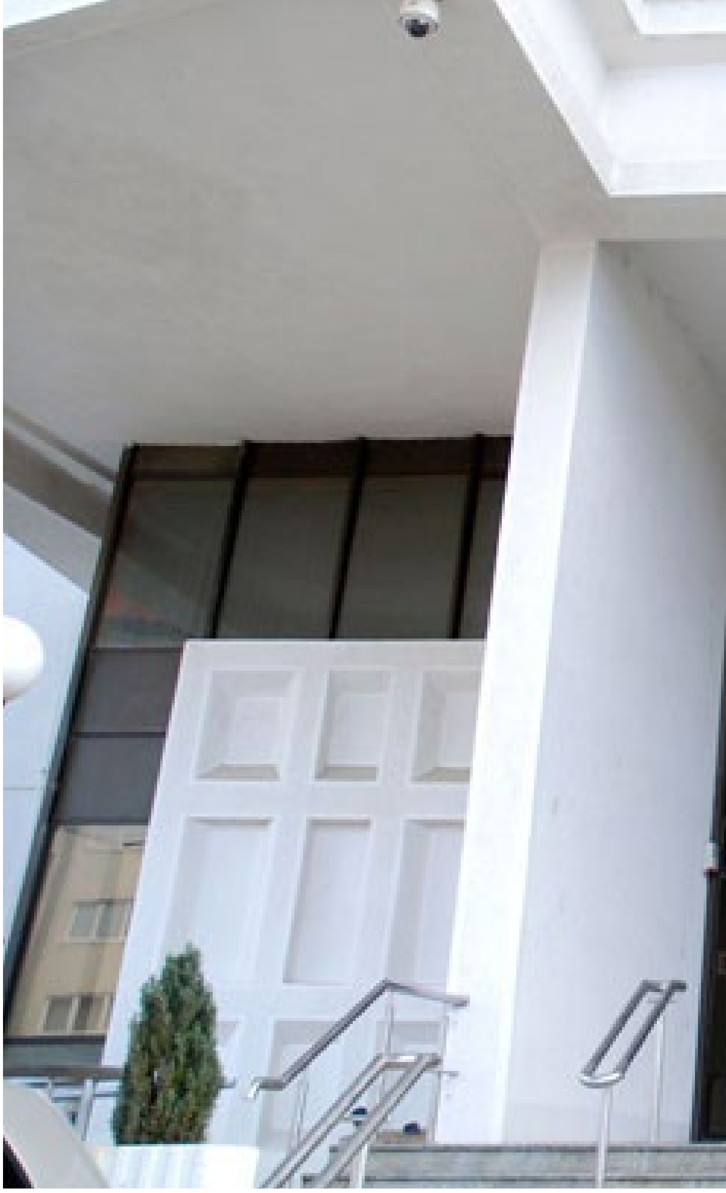


Banks in Kosovo have a high financial potential, advanced operational and managerial capacities, while at the same time, foreign banks are receiving a great deal of support from their head offices. These conditions have allowed banks to identify their challenges and opportunities quite early, thereby enabling opportunities for successful business development. Human capacities have improved both in quality and in quantity. Operational capacities have been developed and are much more efficient. The management of banks has improved constantly, and this is evidenced by the achieved outcomes. At the same time, Kosovo's economic and political situation has improved by creating better conditions for the sustainable development of the financial system. The issue of security from criminal conduct, including cybercrime, remains a challenge. The ongoing digital transformation exposes us even more to this risk, which has an ever-changing nature and an ever-increasing cost. According to some studies, the additional costs attached to cybercrime that are incurred by companies globally could exceed USD 5 billion in the next 5 years. Inter-agency cooperation

is indispensable in combating cybercrime. The rise of trade protectionism at the global level could hurt the global economy and the economic development of all, bringing into effect a decline in investment. These adverse developments will undoubtedly be felt in Kosovo as there is still a need for foreign investors.

Despite the challenges mentioned above, there are still many opportunities that banking sector can exploit in the future. Digital transformation, despite its risks, brings multiple opportunities and will, among other things, accelerate integration into the European Union banking system. Improving the financial literacy rate in Kosovo will allow banks to enhance their product range to include financial advisory services, equity financing, asset management and securities services, as well as scale-up trading of Government securities in the secondary market. An enhanced product range will enable both the diversification of revenue streams and the economies of scale, further improving bank efficiency. The mortgage market also represents an opportunity for growth, as this market remains significantly underdeveloped. Informal economy in Kosovo remains high despite the decline it has seen over the years. The downsizing of the informal economy is also a good opportunity for growth for the banking system. The same opportunity exists in access to finance, which has already improved with the introduction of the Kosovo Credit Guarantee Fund. This fund has additional potential that I believe the banks will use to improve access to finance.

Considering the current bank resources, whether financial, physical or in human capital, I believe that banks will prevail in overcoming the challenges of the future and at the same time leverage the many opportunities they have for further development in many facets and will continue to support the Kosovo economy, in addition to improving the ratio of lending to Gross Domestic Product.

The CBK will remain a partner to this sector by ensuring an appropriate regulatory environment and fair competition in achieving its objective of promoting and sustaining a stable financial system, including a secure, stable, and efficient system of payments.

ROBERT WRIGHT
Deputy Chairman of the Board of Directors, Kosovo Banking Association
& CEO, Raiffeisen Bank Kosovo

Interview: The Current state of the banking sector in Kosovo

HOW DO YOU SEE THE CURRENT PERFORMANCE OF THE BANKING SECTOR IN KOSOVO?

The current performance of the Kosovo banking sector is very positive and I am confident that we will have some of the best ever key performance indicators at the end of this year. The 3rd Quarter 2019 results are very favorable and some of the year on year comparisons are the best in the region. For example year on year credit growth for private individuals was 10.1% compared to 5% in Albania and 9.7% in North Macedonia. Non performing loans are the lowest in the region at 2.2% and the Kosovo banking sector profit increased by 9.3% compared to Q3 2018. The banking industry is a great example of a successful foreign direct investment in Kosovo and this is a key factor in the decision of Credins Bank in Albania to start operations here.

WHAT ARE THE MAIN CHALLENGES OF THE BANKING SECTOR THAT WERE EVIDENT DURING THE YEAR THAT WE ARE LEAVING BEHIND?

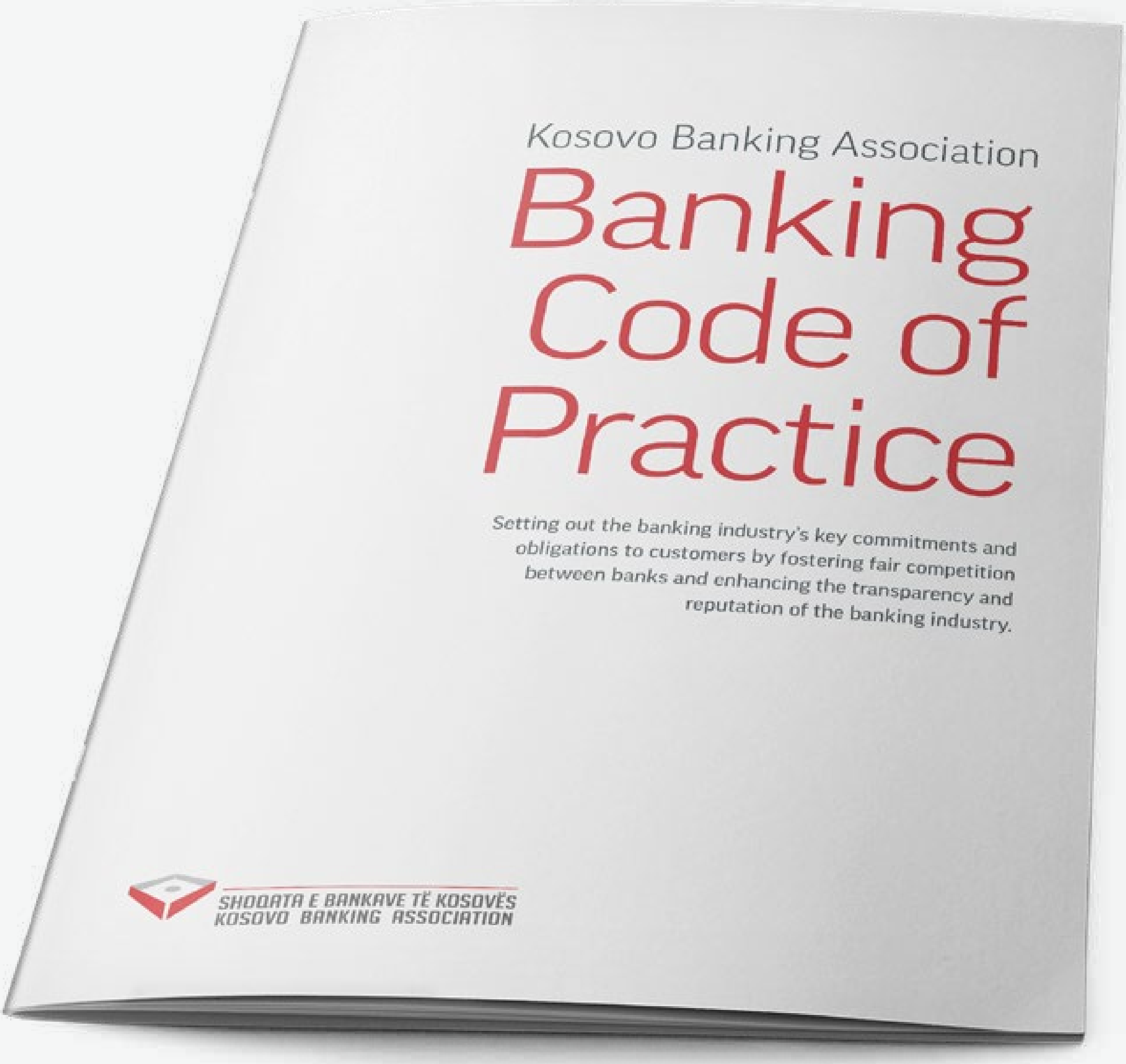
I think there were 2 key challenges for the banking sector in 2019. The first challenge was the lack of progress with the development of a combined, efficient and customer friendly ATM and PoS network. The current complexity, cost, and customer confusion needs urgent attention. The Banking Association and other relevant parties will give this a high priority in 2020. The second challenge in 2019 continued to be the recovery and resolution of delinquent loans. Even though non performing loans have declined significantly from 8.7% in 2013 to 2.2% today there are still thousands of unresolved cases, with some older than 10 years.

DO YOU THINK THAT THERE HAS BEEN IMPROVEMENT IN THE ENVIRONMENT OF DOING BUSINESS IN KOSOVO?

I think it is important that I answer this question based on independent reliable statistics not from a narrow subjective perspective. One such source of reliable data is the World Bank Doing Business Report and from October 2018 to October 2019 there have been minor changes and still very positive scores for getting credit in Kosovo – the country is ranked 15th in 2019 compared to 12th in 2018; enforcing contracts has improved from a ranking of 49 in 2018 to 53 in 2019

IN YOUR OPINION, WHAT SHOULD BE EXPECTED IN 2020 IN TERMS OF THE FURTHER DEVELOPMENT OF THE BANKING SECTOR IN KOSOVO?

In 2020 the industry will continue its transition to digital operations as customer needs continue to change and regulation and information technology continue to facilitate the change. However I want to stress even though the format of branch banking may change over time there will still be a significant network of branches throughout Kosovo for face to face banking needs and relationship management activities. I believe we will have another year of excellent loan growth and significant progress will be made in 2 key areas - first of all the issue I mentioned earlier – the increased coordination and facilitation of our PoS and ATM networks, and secondly, increased access to finance to a broader customer base as the banking industry continues to grow and expand due to its very successful performance.



Download Banking Code of Practice at www.bankassoc-kos.com

MUHARREM INAN
Treasury and Financial Institutions
Group Head

Milestones in Kosovo banking sector and the new edge

The Newborn country has a dynamic economy and demography. Kosovo economy has been sustaining a comparably high growth rate in the region over the last decade, which has been expressed in economic growth that exceeded 4% a year since 2015. With an average age in country ranging around 26 which is youngest in Europe and nearly a third of population being under 30, Kosovo's young spirit feeds into the dynamism in the country, consequently ranking Kosovo 44th in the World Bank's Doing Business report. The impact of banking sector towards country's growth has been significant. Kosovo banking sector has been the engine driving this sustainable growth rate in the country with total loans amounting to almost 40% of Gross Domestic Product "GDP" to the economy.

In this regard, the stable and high growth rate compared to region positively affected the banking sector in Kosovo, which provides a good indicator for risk reward structure, meaning that loans provided to economy are reflected as growth in real economy.

> Kosovo banking sector is well capitalized and profitable with capital adequacy ratio "CAR" ranging around **18%**
>
> return on assets above **2%**
>
> and return on equity well above **20%**

Those dynamics can be observed in bank financials as well. Kosovo banking sector is well capitalized and profitable with capital adequacy ratio "CAR" ranging around 18%, return on assets above 2.00% and return on equity well above 20%. The existence of international banks in the sector verifies the attractiveness of country and ease of doing business in the country. The lowest NPL ratio in the region represents another good indicator showing a sound and stable banking sector financially. Furthermore, the lowest debt-to-GDP ratio in the region at 17% confirms that, upon need, government can support the economy through fiscal policy.

In last years, banking sector has been focused on digitalization and operational efficiency. In this regard, adaptation to international trend in Kosovo has been fast and in-time. Digitalization in banking sector helps to decrease operational costs and risks while making country a potential hub for development of fin-tech products. Dynamic and young population in country can be an advantage for banking sector as well for transformation of conventional banks to fin-techs. In Kosovo, people are familiar with banks and enthusiastic to use banking products while this is supported by banks with huge networks of more than 200 branches throughout the country. In this regard, with high financial literacy, the potential to develop new products for diversification purposes is very high. To exemplify, Central Bank of Republic of Kosovo “CBK”, intends to start repo transactions with banks. This will make treasury bills and bonds more attractive to invest whereas help banks to better manage liquidity. CBK’s pioneering in banking sector is crucial for further development of the banking sector overall.

Kosovo’s economy is heavily dependent on diaspora remittances which constitutes 13% of GDP, amounting up to 800 million EUR through official channels whereas there is also an inflow through other means. In view of this, there is a need to analyze other countries having same economy model in the past to find accurate diagnosis and prepare for detrending of remittances. As majority of diaspora lives in Germany and Switzerland, Kosovo economy is influenced by economic situation in Europe where negative interest rates are applied to boost economy. While young population is an opportunity for the country, Kosovo is facing a brain drain to developed countries. So, the close cooperation among banks, corporates and universities is crucial to decrease and control pace of this flow.

The biggest threat to banking sector is decreasing growth rate of deposits. In the last 8 years, deposits have been growing on average by 7.00%, however the growth has shown to be highly concentrated. In spite of weak growth rate on deposit side, the competition in banking sector for growth in asset size has been fierce, accompanied together with expectation of entries for new players. The existing market structure will continue to push cost of funding higher, whereas loan rates have shown a decreasing trend over the years, resulting in lower Net Interest Margin “NIM” for the banking sector. Under such conditions, banks may need to focus on international banking in order to diversify their source of funding and open the way for international funds. On the other hand, with decreasing NIM and extension of loan maturities in the sector, banks will need to focus more on management of interest rate risk. In this direction, Assets and Liabilities Management “ALM” will be a critical issue for banking sector in upcoming years. Also, with supervision of CBK, players in the banking sector need to develop infrastructures for derivatives transactions to hedge interest rate risks in balance sheets.

LATEST DEVELOPMENTS IN BANKING SECTOR WILL PUSH BANKS TO FIND NEW ALTERNATIVES;

- for income generation,
- funding sources at lower costs,
- risk management, together with more focus on digitalization and operational efficiency.

NIHAT ŞAHAY
TEB Sh.A. / Credit Modeling and Risk Analysis Manager

Heyday of risk-analytics in banking

As the world's second and Europe's newest country, Republic of Kosovo and its determined people are playing catch-up with the rest of Western Balkans and Europe while enjoying independence after a turbulent history and bitter struggle. Despite big challanges in state-formation and economy, the country is moving forward to open doors for investors and offer opportunities where financial services are no exception.

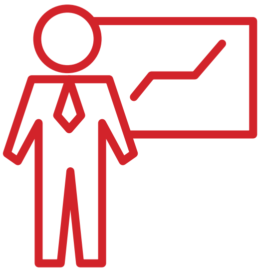
There are several local and international players in banking industry and Kosovo has among the youngest populations in Europe with average age of 28 providing a tremendous retail banking advantage. The highest internet usage rate in the region which is comparable to major Western European countries, relatively qualified youth and labour force, stability of using Euro as currency, diaspora remittances, tendency for marriage at early ages generating a high housing and expenditure demand, high economic growth and low NPL rates are the strengths of retail banking in Kosovo, enabling lenders a two-digit credit growth. On the other hand, high unemployment rate, low purchasing power, import oriented economy implying continuous trade deficit, informal economy and lack of fiscal transparency, salary cash payments, infrastructural and environmental issues are big challenges of the young country.

Retail banking is a mass-market service that has never been more dynamic, having a tough agenda with exciting opportunities. In many markets banks are under economic pressure and trying to improve their product and services through digitalization. Individuals request fast, simple and easy services while banks are dealing with high competition, costs and regulations. Retail banking offers two essential services to customers; savings and loans. Digital transformation investments of banks for those fundamental services are pushing advanced analytics as a key factor to contribute leaders shape the stategic agenda and risk-analytics enters in a golden era with mass loan demand and supply through any possible channel.

> “ While retail banking world goes through a digital revolution, Kosovo banking sector is working on catch up recent trends and close the gap.

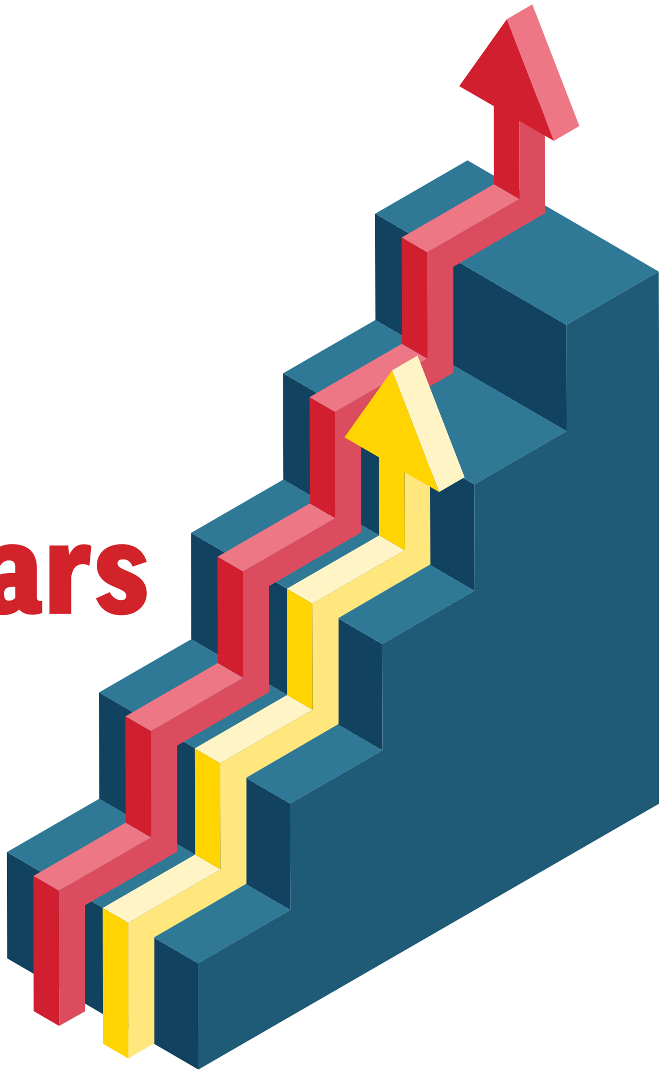
We witness one of the breakthrough periods of human history. Since a few decades, the new millenium has been named as information age, computer age or digital age. Businesses have started to realize the value of data and information, as banks have also noticed the real treasure they possess. With the availability of information, advances in technology and new analytical techniques banks can reveal deeper and more accurate strategies. The power of advanced analytics as a true business methodology is comprehensively in use where banks are ambitious to grow their portfolio in a high competitive environment meanwhile struggling to satisfy customers with higher expectations for rapid and simple financial services. Exploiting analytics enables banks to find new sources of growth and notice entire opportunities, increase productivity and custo-

Kosovo has among the youngest populations in Europe with average age of



28 years old

providing a tremendous retail banking advantage.



mer experience, accelerate decision making processes and enhance risk controls.

Business and Risk teams are composing/adopting new analytical techniques and models to engage and embrace all the potentials up there. Risk teams have already been using analytics for long time but the information age has boosted their expertise that can support leaders to shape the bank's top strategies. Nowadays some major players and fintechs have already started to build complex business and risk models using artificial intelligence and machine learning. Some analytics companies are developing credit risk models using machine learning with astonishing algorithms rather than classical scorecards.

In many markets banks are under economic pressure and trying to improve their product and services through digitalization.

Business concepts are evolving at such an unprecedented pace that there has already been a massive financial ecosystem. Banks can benefit higher revenue and productivity with less risk by driving advanced analytical credit models. Rapid and consistent decision making using risk models have been expanded to all consumer financing by some lenders having an impact on automotive and mortgage markets, even to some small-business financing. Not only underwriting but also other banking activities are powered with advanced risk-analytics. On the other hand, there are many obstacles keeping the lenders from realizing the potential benefits of risk-analytics, such as: isolating it from business strategy making process, insufficient technology and data infrastructure, organizational and competency factors, regulatory and cost restrictions.

Banks in Kosovo work hard to turn all the potential into great opportunities. Eventhough it is considered just a sideline to main businesses by some leaders today, advanced analytics is driving a revolution in banking industry which will hit the competition and create pioneers of its own.

While retail banking world goes through a digital revolution, Kosovo banking sector is working on catch up recent trends and close the gap.

Here are some recommendations to contribute the development of the industry and capture the opportunities in Kosovo using advanced analytics:

- **Impose it to all decision making processes;**
- **Acknowledge the value of risk-analytics and insert it into the top strategic agenda;**
- **Shape the organizational structure with independent and skilled analytics teams, seperate risk-analytics from other functions;**
- **Process all the available and healthy internal data, be open to outsource analytical expertise;**
- **Cooperate with peers to obtain more valuable external data: There is already an achieved level to gather essential external data for decision making but recommendations can be sorted as:**
  - Credit Registry of Kosovo (CRK) is a crucial bureau database for lenders. I would recommend it to have its own risk model generating a Bureau Score for each customer applying for a loani
  - CRK might be transformed to an instantaneous Risk Platform where individuals would be able to purchase their credit history for using in social life such as renting a property/vehicle or any other required reference
  - There could be some consultancy services by bureau or lenders in order to increase financial literacy of people for responsible lending and system's wellbeing
  - Any other historical data of customer duties like utility bill payments can be reported through new databases that would be established
  - Lenders would be able to verify applicants over the Trusti (Kosovo Pension Trust) database if they are actually employed and have an employment history, enabling fraud and credibility controls
  - There can be an automized database of Kosovo Business Registration Agency (ARBK) to verify the company of applicant employed/partnered

ARGJIRA KADRIJAJ DUSHI
Head of Business Development Function
ProCredit Bank Kosovo

Potential and challenges in financing strategic business sectors

Today Kosovo has a modern and sustainable banking sector that delivers the functions of a European banking system and plays a key role in business development and economic growth. In this respect, the key role of banks in general is to provide financial services to enterprises by helping them raise the capital necessary for economic development and ensuring economic and social stability. Among other things, the banking sector in Kosovo provides digital, modern and efficient payment systems, necessary for daily business transactions, channeling financial resources ranging from start-up depositors to investment projects and enterprises and offers a wide range of electronic services and financial products including trade finance.

Considering the impact on economic development, the focus of banks in Kosovo, and the focus of ProCredit Bank in particular, remains on small and medium-sized enterprises. SMEs are the backbone of Europe's economy. These enterprises promote sustainable economic growth, boost innovation, promote sustainable industrialization and above all, influence employment growth. SMEs represent 99% of all businesses in the EU and in the past five years, they have created around 85% of new jobs[1]. According to various European Commission sources, they account for about 45% of all employees in developed countries, and in developing economies, like Kosovo, these enterprises are projected to account for around 90% of employees.

SMEs' ability to grow greatly depends on their potential to invest in growth and development as well as in innovation and qualification. All such investments require capital and consequently access to finance. In Kosovo, commercial bank loans remain the main source of finance for businesses.

In the last year, banks have relaxed lending to SMEs by easing lending standards, and this is observed in the improved financing conditions and increased real demand for financing. Therefore, a laxer lending policy by banks this year was mainly implemented through lowering average interest rates, providing longer loan maturities and increasing the loan amount.

Financing for enterprises, respectively businesses in Kosovo has reached the amount of EUR 1.87 billion, whi-

1 Report by Commission for European Parliament and Council

PRODUCTION
32%

AGRICULTURE
4%

CONSTRUCTION
10%

TRADE
48%

TOURISM
3%

OTHERS
21%

Loan Financing according to sectors
Central Bank of Kosovo 2019

ch represents an annual growth of over 10% in business financing in Kosovo.

Improved access to finance with new loans to businesses in recent years shows an ongoing growth potential for businesses in country in various economic sectors. The manufacturing sector is of particular significance, having recorded the highest stable growth rate in the last three years. In the second quarter of this year alone, financing for manufacturing businesses grew by EUR 10 million, reaching a share of over 14% in total financing of enterprises in the banking sector. Trade remains the sector with the highest share in financing, reflecting both Kosovo's trade balance and its reliance on imports.

ProCredit Bank has placed a special focus on manufacturing businesses, strongly believing that these are businesses that bring economic growth, new jobs and also impact export growth. In addition to financing policies, these businesses are particularly supported in terms of advice and support in accessing regional markets through the ProCredit Bank regional network. ProCredit Bank's manufacturing sector financing amounts to over 22% of its current business loan portfolio.

Access to finance has been a major challenge for businesses in general, however the recent market developments and the increase in SME financing reflect significant improvement in this regard. Nonetheless, challenges in easy access to finance for businesses persist in terms of asymmetric business financial records and formalization.

Another challenge for businesses remains their participation in global value chains, which would help strengthen SMEs as local producers gain knowledge by virtue of access to foreign markets and emerging technologies, where such experiences bring the positive effect of increasing their productivity. Access to international markets would improve the quality of SME services and products by achieving the required standards and certifications, building their managerial skills and enabling the development of more feasible and more appropriate investment plans to meet economy needs that pop up in both domestic and international trends.

On the other hand, the renewable energy sector remains as a sector with high development potential, yet with more significant challenges. Requirements deriving from European directives to be met in Kosovo include increasing consumption of renewable energy and reducing environmental pollution.

Kosovo and the surrounding region offer great potential for renewable energy. Currently the needs of Kosovo and the surrounding region are mainly covered by coal and water-based power generation, with additional power needs covered by imports. Exploitation of natural resources such as water, sun, and wind, provides opportunities to develop new value-added chains. In Kosovo and the region, there are many new initiatives, in addition to ongoing active efforts, in projects for wind, water and solar power generation. Topics such as energy supply security, grid expansion, energy conservation, investment, and development of projects in conventional and renewable energy generation, on top of meeting liberalization obligations, are only a part of the current problems in Kosovo.

The main barrier for business development in pursuing renewable energy remains not only the lack of accurate and comprehensive data on energy sources and historical records on these resources (rainfall, wind, sunlight), but also definition of regulatory framework and determination of feed-in tariffs for all sources of energy in line with business needs. This is the only way to encourage business investments in renewable energy, to at least utilize the natural resources available in Kosovo.

“

Financing for enterprises, respectively businesses in Kosovo has reached the amount of EUR 1.87 billion, which represents an annual growth of over 10% in business financing in Kosovo.

Over the past several years, ProCredit Bank has increasingly focused on developing loan portfolios for financing renewable energy. Business plans for energy conservation investments, investments in renewable energy sources, and other environmentally friendly investments are not only supported but also advised by the bank. Considering the role of these investments in the environment and the positive effect, not only in reducing energy costs incurred by businesses but also in reducing the adverse impact on the environment, the bank provides financing for this strategic sector on special terms. By financing such business investments, we contribute to promoting environmentally friendly businesses at low energy costs and incentivize the green economy in Kosovo.

ARDIAN KADRIJAJ
Director, Legal Affairs Service
NLB Bank

Legal context of challenges and opportunities of the Kosovo financial system

The legal system in Kosovo is constantly undergoing reforms to strengthen the legal framework governing all business sectors. Progress in completing and enhancing the legal framework has produced significant positive effects, both on corporate governance and on the implementation of best practices by companies operating in the Republic of Kosovo.

A serious legal issue representing an ongoing challenge for commercial banks in Kosovo has been the determination of title holders of immovable property, which has often come up as a hindrance to companies seeking development support from the banking sector. The World Bank's Kosovo Real Estate Cadastre and Registration Project has significantly improved the determination of property rights and introduced legal certainty for investors on the one hand, with the additional benefit of enabling natural and legal persons to exercise their right to property and to provide the same as collateral for access to borrowing with commercial banks, and consequently improved the financial sector in Kosovo on the other hand.

The financial sector, despite legal framework reforms, still faces serious problems due to delays in the adoption of relevant bylaws directly related to the banking sector; on a positive note, the Law on Bankruptcy entered into force and implementation has begun even though there is a lack of practical experience in bankruptcy matters and the need for further training for both the judiciary and the business community persists. The Law on Bankruptcy focuses on finding ways to reorganize and restructure corporations, with the aim of continuing their operations effectively while still maintaining the jobs they provided.

The legal challenges facing commercial banks in Kosovo also include poor access, delays and the large number of pending cases in all Courts, although efforts are under way for in depth judicial reforms in Kosovo to enhance the capacity to settle various disputes, including a project to establish a dedicated Commercial Court. The judgments of the competent Courts are being made public and this boosts the confidence of the banking sector and other investors in the judicial system and contributes to the improvement of the business environment.

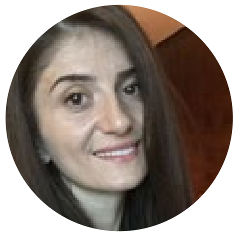
Another legal challenge for the banking sector was the lack of a Regulation on default interest applicable to credit products, which led banks to determine their default interest rates on credit products, however at the end of August 2019, the Central Bank of Kosovo adopted the Regulation on Interest for Late Payments for Credit Instruments, which has entered into force and represented a good opportunity for the banks to introduce uniformity of client contracts in this regard.

> The legal challenges facing commercial banks in Kosovo also include poor access, delays and the large number of pending cases in all Courts, although efforts are under way for in depth judicial reforms in Kosovo to enhance the capacity to settle various disputes, including a project to establish a dedicated Commercial Court.

Key priorities for the Ministry of Justice, in efforts to complete the legal infrastructure governing the justice sector, include the codification of civil law matters and this would represent one of the major projects related to the legal framework of the Republic of Kosovo since the war ended.

It is worth noting that, even for the currently applicable legislation of the Republic of Kosovo in civil law matters, it could be said that it was drafted in compliance with the principles of European Union law. USAID and the European Union have made a special contribution to this process through their direct support in drafting legislation. This implies that the laws covering the field of civil law are drafted in the spirit of EU legislation and do not violate its principles and consequently this is reflected on the likelihood of success for the banking system in Kosovo in terms of legal certainty.

MERITA HYSAJ
Credit Operations and Documentary Business Manager



ALBERITA MEMQAJ
Documentary Business Supervisor
TEB Sh.A.

Challenges of financing international trade in Kosovo

Doing business beyond state borders entails more risk than doing business domestically, considering the complexity of international trade due to differences in currency, language, culture, political situation, and legislation applicable in different countries.

The main concern in international trade is the failure to pay for the contracted goods or services rendered. The seller demands the due fulfillment of payment obligations, while the buyer demands delivery of goods in the desired form, quantity and quality. The common way of doing business in developing countries is to pay in cash.

Large amounts of money are often lost due to unclear definition of terms and conditions in business contracts, in addition to advance payments in the form of international transfers. This form of payment mainly damages the importer.

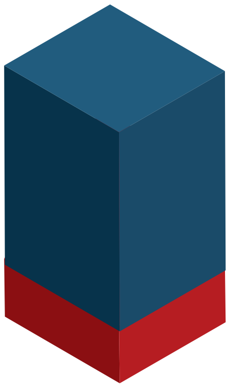
About 80% of transactions in international trade most often require some sort of bank financing or credit insurance.[1] Despite the continued advancement in types of international trade finance around the world, traditional products such as Letters of Credit and Letters of Guarantee still play a major role.

The total volume of world merchandise trade during 2018 amounted to USD 19.67 trillion, while the global trade finance gap was estimated at around USD 1.5 trillion per annum[2]. Therefore, developing and advancing trade finance is essential so that global trade does not lag and the existing gap does not appear in future statistical reports.

Figure 1: Global Trade Finance Gap

USD.
1,5 TRILION

1 Source: Trade Finance and SMEs - Bridging the Gap in Provision, WTO 2016
2 Source: Trade Finance and the Compliance Challenge IFC, WTO



World trade has grown steadily over the years 2008-2018 by

26%[3]

The steady increase in the volume of global trade has been accompanied by an increased demand for financing. On the other hand, banks have ramped up financial controls in order to prevent, combat and facilitate reporting fraud and abuse by professionals in this field. All these bank requirements are precautions that help preserve the reputation of the institution, boost security in the execution of transactions thus creating a safe environment for economic development.

For international transactions involving parties from different countries over long geographic distances, and exposed to commercial and political risks, bank intermediation is necessary to minimize such risks. This is achieved through the expertise of dedicated professionals in checking the documentation required in international trade transactions, in addition to exchanging experiences within the broad network of banks on similar transactions or the same customers.

TEB JSC as part of the BNP Paribas family, which was recognized by Global Finance[4] as the best bank in trade finance services, has brokered many complex transactions in Kosovo, providing liquidity to customers as well as payment guarantees.

Considering that Kosovo is still heavily reliant on imports, the use of trade finance methods provided by banks is indispensable to ensure a successful business, which also affects overall economic development. The total value of imports of goods in Kosovo during the period 2016-2018 outgrew exports by a large margin as shown in the table below.

Table 1. External Trade Flows in Kosovo (Source: KAS 2019)

External Trade Flows in Kosovo

3 Source: World statistical Review Trade Review 2019
4 Global Finance -The Magazine -February 2019-World's Best Trade Finance Providers 2019: Getting The Paper Out

In addition to commercial risk, there are many other challenges attached to international trade. Importers often miss the opportunity to cooperate with international business partners due to high collateral requirements from banks, various sanctions, and the implementation of new regulations against money laundering and terrorist financing. Market participants most likely to face this challenge are small and medium-sized enterprises (SMEs). Since SMEs represent 95% of the world's companies and 60% of private sector jobs[5] as key contributors to employment promotion and economic development, they need straightforward access to finance.

Lack of knowledge about the existence and how to use international trade finance products through financial institutions is another challenge for both SMEs and other market participants.

A new source of financing in Kosovo is factoring. This was made possible with the introduction of the legal basis by the Central Bank of Kosovo through the Regulation on Factoring, enacted in 2018. Through factoring, businesses can have easier access to finance by avoiding the problems of securing collateral, as this form of financing can be covered by supplier invoices as collateral. In the countries of the region this form of financing has found widespread use. Likewise, in Kosovo enabling conditions could be created for utilizing this source of financing through promotion and training, as well as by demonstrating readiness for product promotion in line with market capacities.

The International Finance Corporation (IFC) as part of the World Bank Group and the European Bank for Reconstruction and Development (EBRD) also provide additional support to the Kosovo market today. They provide good financing programs along with the relevant training.

"

When trade stops, sometimes the war starts. Trade is the way to build up trust and not the weapon [with which] to fight against each other.

Jack Ma, Founder of Alibaba Group

5 https://iccwbo.org/global-issues-trends/banking-finance/access-trade-finance/

EBRD

	Trade Facilitation Program (TFP)
Number of Countries of operation	26
Type of financial products	1. Guarantees issued trade finance instruments, e.g. L/Cs, SBL/Cs, advance payment bonds, payment guarantees, bid and performance bonds, trade related promissory notes and bills of exchange. 2. Short-term loans to selected banks and factoring companies
Number of Transactions since Commencement	21000
Value of Transactions since Commencement	US $ 18.5 billion
Number of Transactions in 2017	US $ 2.3 billion
Claims to date	2

Source: 2018 Global Trade – Securing Future Growth (ICC GLOBAL SURVEY ON TRADE FINANCE)

> Trade is like water: it will always find a way around obstacles.
>
> **Ruediger Geis, Commerzbank**

Both the IFC platform and the EBRD program aim to connect financial institutions in emerging markets with international banks to facilitate trade and create opportunities for SMEs and corporations to participate in the global value chains and trade.

These institutions can guarantee any transaction to and from the countries where they operate by providing confirmation on: Documentary Letters of Credit, Advance Payment Bonds, Bank Guarantees, Promissory Notes, and Bills of Exchange.

The EBRD also extends short-term loans to select banks and factoring companies in its countries of operations to fund trade-related advances to local companies for pre-shipment finance, post-shipment finance and other financing for foreign trade contracts and domestic and international factoring

Acting as an intermediary, these institutions extend additional guarantees and boost transaction credibility or, in other words, fills the gap of distrust in trading conducted between partners who do not know each other.

According to the 2017 ICC Report[6], of the total of 78,000 transactions processed with the support of IFC and EBRD since the inception of programs, only two transactions have resulted in failure to fulfills obligations by parties. This can be best seen in the table below:

Notwithstanding all the difficulties, risks, and challenges, in the use of financing products through financial institutions, the introduction and comprehensive enforcement of financial security regulations and restrictions and closer cooperation of banks with the regulator is indispensable and ensures quality and safe business operations in Kosovo.

6 Source: 2018 Global Trade – Securing Future Growth (ICC GLOBAL SURVEY ON TRADE FINANCE)

IFC
Global Trade Finance Program (GTFP)
85
GTFP provides up to 100% coverage on the country and commercial risks of individual trade-related instruments. Other trade programs include GTLP (Funded/ unfunded portfolio), CCFP, GËFP (Commodity Finance), GTST (Structured Trade), Working Capital Solutions, and GTSF (Supplier Finance).
57000
US $ 64 billion
US $ 6.7 billion
0

FATON RAMADANI
RISK MANAGER
IŞBANK - KOSOVO BRANCH

Model risk management
Model development, validation and implementation

Banks rely heavily on quantitative analysis and models in most aspects of financial decision making process. They routinely use models for a broad range of activities, including underwriting credits; valuing exposures, instruments, and positions; measuring risk; determining capital and reserve adequacy; and many other activities. In recent years, globally banks have applied models to more complex products and with more ambitious scope, while the markets in which they operate have also broadened and changed. In this regard, there are some changes in Kosovo's banking regulatory framework as well which have encouraged some of the recent developments, particularly in credit risk management, based on the Basel Committee on Banking Supervision framework as well as International Financial Reporting Standard.

Each bank that uses financial models is directly exposed to model risk, which is the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. Model risk can lead to financial loss, poor business and strategic decision making, or damage to a bank's reputation.

That's why it is crucial for all banks in Kosovo to have a sound model risk management which includes robust model development, implementation, and use as well as having a sound model validation process. Below I will briefly describe each of these elements of the model risk management process.

MODEL DEVELOPMENT

Model development process can vary significantly, depending on what is being modeled, regulatory requirements, preferences of banks and their modelers, and chosen modeling approaches. However, model development goes through a process which has a common similarity in almost every institution. Each model development starts with assessment and planning phase where model developers assesses and reviews the portfolio details, existing models, if any, and requirements, either from regulators or internal validators. In this phase, the scope and objective of the model development needs to be decided and stated clearly. The next step which is a lengthy and tedious process is data collection. The model by itself is dependent from the quality of data and how they are organized.

Next phase and most important is model development goes through the following steps:

- Exploratory data analysis
- Data Segmentation
- Variable selection and Estimation
- Model diagnostics
- Performance testing

MODEL VALIDATION

During this phase, models needs to be independently validated by model risk management team. Validation can be done also by external specialized companies. Validators go through model developers' codes and documents and try to find any vulnerability in the model. Normally, findings and recommendations are issued back to model developers for further actions. Model validation is crucial in an organization to en-

sure the model development quality. But model developers should not see validators as their "enemies", because in reality validators actually ensure that the model is in compliance with internal and regulatory requirements. On the other side, validators should not only by all means try to find gaps on the model but consequently should help model developers to result with a high qualitative model by recommending and guiding them on how to improve possible deficiencies on the model.

> Globally banks have applied models to more complex products and with more ambitious scope, while the markets in which they operate have also broadened and changed.

MODEL IMPLEMENTATION

Finally, the model is built, validated, and recommended to use. Now it's time to implement the model. Implementing a model is not as easy as it sounds. Teams of programmers and database administrators and other stakeholders work closely to make sure the model is implemented correctly and efficiently.

An important element which is not mentioned above is governance, which sets an effective framework with defined roles and responsibilities for clear communication of model limitations and assumptions, as well as the authority to restrict model usage.

Model risk management also requires sophisticated technological resources and qualified personnel as well as ongoing training of staff engaged throughout the model development process due to the complexity of model by their nature and rapid changes over time.

MUHAMET ALIU
MANAGER OF FINANCIAL ACCOUNTING
RAIFFEISEN BANK KOSOVO

Base rates and banking sector – the challenges ahead!

Interest rates are an important tool in setting macroeconomic policies. In times of economic recession, the rates are lowered by the Central Bank in order to make borrowing less costly for businesses and boost new investments in the economy. This should inject more funds in the economy and thus boost the overall economic expansion and reduce unemployment.

Banks will be the intermediaries in the process of macroeconomic change by adjusting lending rates for its customers and offsetting the reduced income by adjusting the rates they will pay for its liabilities which in the most part consist of customer deposits.

So, it makes sense that you take a mortgage loan in the bank and you pay a fixed or variable rate interest, and you deposit your savings in a bank and you earn interest.

But, it's been a number of years that this centuries old practice is moved out of the "ordinary" in the EU. Influenced by the 2008 crisis and a weak european economy the ECB has reduced the base interest rates to -0.5 per cent in September 2019.

Year	With effect from	ECB Rate
2019	18 Sep	-0.50
2016	16 Mar	-0.40
2015	9 Dec	-0.30
2014	10 Sep	-0.20
	11 Jun	-0.10
2013	13 Nov	0.00
	8 May	0.00
2012	11 Jul	0.00
2011	14 Dec	0.25
	9 Nov	0.50

Source: European Central Bank - www.ecb.europa.eu

The traditionalist bankers could say this is just a temporary adjustment on the market conditions until the European economy starts recovering. But, this might be a reality for some time to come. Based on a number of experts this will remain the case at least through 2021.

The step has been taken by ECB as a tool to keep the cost of borrowing low and increase the rate of investments in the economy. This was supposed to help the economy recover from the crisis.

Negative rates have had impact in the commercial banks as well by changing the regular pattern of investments in monetary assets. This has led to increase in cash that banks are keeping in their vaults as result of negative interest from investments in either money market placements or with Central Banks.

The question is; are European banks ready for this new "challenge"? Based on a number o economy experts the negative base rates in EU have become an "addiction" from its role as an short term instrument. In an article from the WSJ the economist Brian Blackstone concludes the following:

"The negative-rate policy's ineffectualness is a sign of just how weak Europe's economic engines are, and how vulnerable. The policy threatens pensions, creates the risk of real-estate bubbles and doesn't fully quell the specter of deflation.

> "While I do not believe that the ECB has hit the effective lower bound on policy rates, it is clear that low rates have implications for the banking sector and financial stability more generally
>
> **Christine Lagarde, ECB president-elect**

European banks struggle with weak interest income and thin margins on loans, putting them behind American peers in profitability and making it harder for them to finance the economy."

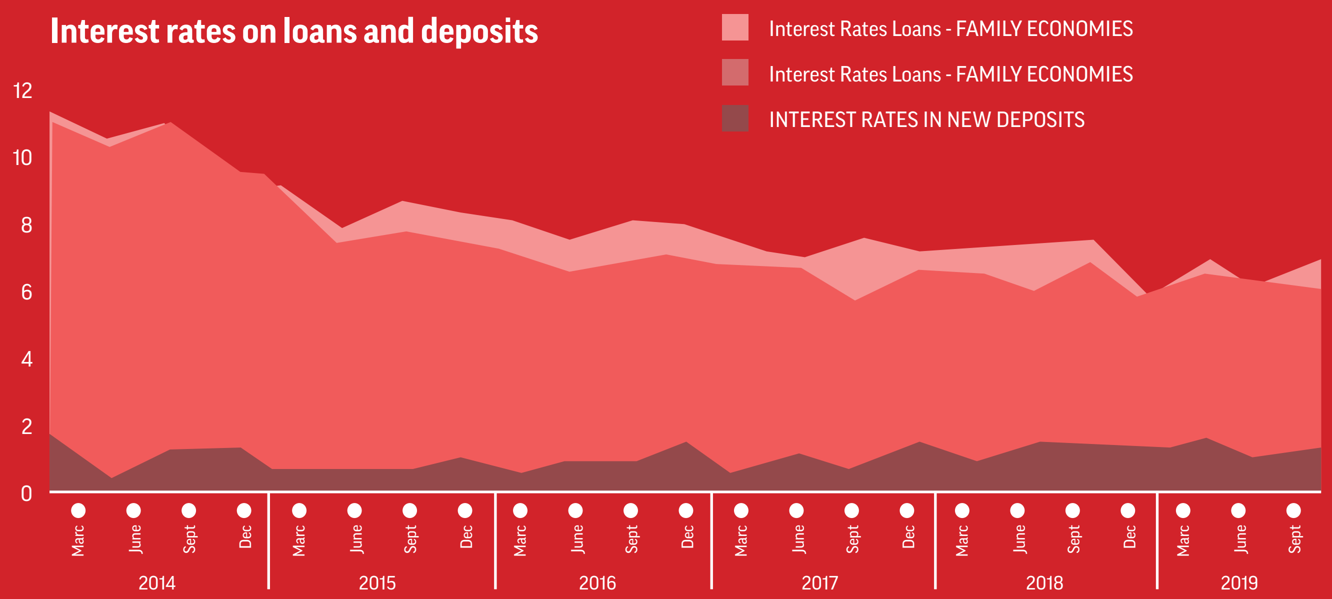
So will the latest rate cut from -0.4 to -0.5 per cent help the economy or make matters worst for the commercial banks of the EU zone will remain an issue we will observe in the future!

This trend is in a way damaging the young generations from savings for the future. A number of young people who have saved from their hard work will see their savings diminish over time. A number of them in EU countries have taken steps to invest in real estate, in some cases in empty ones, in order avoid the costs of keeping cash. **It's simply cheaper to invest in empty real estate than hold cash.**

In light of the new reality in the economy the latest shock cake from Denmark. The Danish JYSKE bank started offering the world first negative rate mortgages in August of this year. The charge is minus 0.5 a year. Negative interest rates effectively mean that a bank pays a borrower to take money off their hands, so they pay back less than they have been loaned.

Until now, something like this would have seemed as a science fiction story. But this example from JYSKE with its ten year mortgages which

Interest rates on loans and deposits



Source: Central Bank of Republic of Kosovo https://bqk-kos.org

pays you to borrow is a game changer. It could also serve as a lesson for the banking sector as what might come in the future.

And what about local banks operating in the Kosovo market. We have seen on the statistics as published by the CBK that Bank lending interest rates have been falling year after year.

WHAT IS THE LOWEST RATE THAT THE KOSOVO FINANCIAL MARKET CAN SUSTAIN WITHOUT GOING IN A DEEP CRISIS?

This cost of negative rates will obviously be shifted towards the customer deposits. But, the rates are now 0 on most local banks. If the trend of falling rates continues further on the loans and the negative rates dominate the EU, than, at least a part of this cost will be allocated to the bank liabilities. This means additional costs for holding cash in the bank for local businesses and private individuals. We have seen that the costs for having a bank account have gone up in almost all local banks. This is in line with trends in a number of other EU countries where banks are now charging fees for depositing cash in the bank current account. We could potentially see more and more people in the future taking the decision to invest in either real estate or capital markets in order to retain the value of savings and potentially gain from the fluctuations in the market.

Banks will have to adjust to the new age of banking and incorporate more products which differentiate from traditional deposit and lend business. This means adding more investment opportunities and portfolio diversification for own purposes and for its client base. **We have an exciting new age of banking ahead of us in Kosovo, where banks will have to put forward their creativity in order to create an acceptable return on equity but also provide value for its customers.**

> The traditionalist bankers could say this is just a temporary adjustment on the market conditions until the European economy starts recovering. But, this might be a reality for some time to come. Based on a number of experts this will remain the case at least through 2021.

ARBËR HALILAJ
BRANCH MANAGER
RAIFFEISEN BANK KOSOVO

Digitalization as a trend in the banking industry in Kosovo

Traditional banks in Europe are already facing fierce competition, not just with other banks in the same market, but also with other organizations providing various financial services, other companies like Paypal, Fintech, which have their own payment systems.

Everything around us is changing and transforming, therefore the bank digitalization process in the region, but also in Kosovo, represents great prospects and its full potential should be explored. In order for our banks to continue to be successful and competitive, digitalization as a process will allow us to better understand customers' needs, and in turn enable us to provide them with quality banking services and create value.

According to IMF data, 2019 will mark the tenth consecutive year of real GDP growth of more than 3.5% worldwide, and 2.9% in the USA. At the same time, the EU Zone, Central and Eastern Europe are experiencing the fastest growth since the last crisis, so GDP in Eastern Europe rose by an average of 3.2% in 2018, still according to the IMF. Additionally, we have stable lending with a positive growth trend of around 5% over the last three years (2017-2019). This economic growth and bad debt sales reduced the percentage of non-performing loans, which affects the profitability of banks in the region.

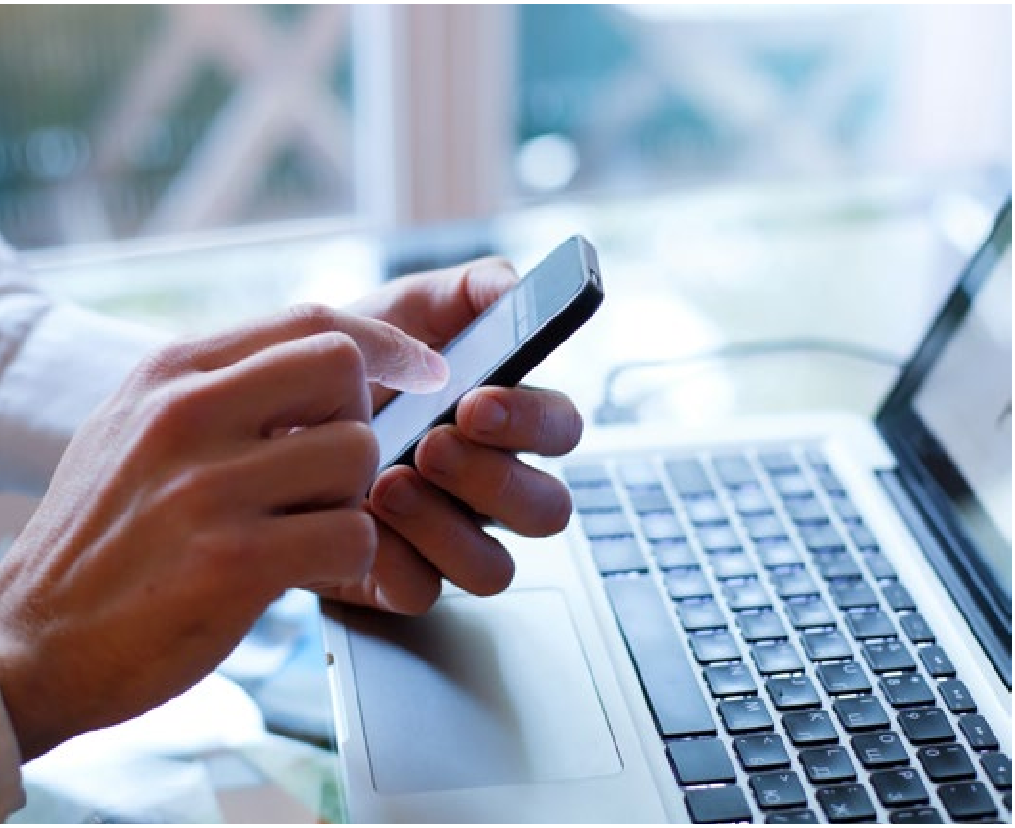
THE EU ZONE, CENTRAL AND EASTERN EUROPE ARE EXPERIENCING THE FASTEST GROWTH SINCE THE LAST CRISIS, SO GDP IN EASTERN EUROPE ROSE BY AN AVERAGE OF

3.2%

IN 2018, STILL ACCORDING TO THE IMF

Countries in the region, including Kosovo, have attained a solid level of information technology (IT) development for process digitization and automation, while the digital infrastructure in these countries is at a level similar to most advanced Western European countries. By improving customer services through digitalization, banks can devote more time to customers who have high expectations for fast services. Along with the trend of digitalization in banks, we are also seeing the rise of FinTech companies in Europe, especially in the sectors of transactions and payments, fast financing and investment.

Banks establish contact with their customers through all possible channels (by having the customer visit the local branch, contacts via Call Center, SMS, live chat, etc.) to facilitate access, communications, and provide the best possible service. Another fact in favor of digitalization is that in Eastern Europe almost 50% of the population is 35 years of age and under, while in Kosovo 42.5% of the population is under the age of 19. Internet distribution in the region exceeds the average of 60% coverage, with almost every person having at least one smartphone. The Kosovo Agency of Statistics (KA) published the results of its survey on the penetration of information of technology and communication, indicating that more than half of households in the country use technology or the in-



ternet penetration in the country is over 88.8%, much higher than the regional average.

Such a high level of internet penetration in Kosovo does not make the country any different to EU countries in terms of digital technology infrastructure opportunities. Large scale internet coverage is key to Kosovo's economic and social development in line with EU standards, and to leveraging the opportunities that lie with the digitalization of the banking sector.

For banks in Kosovo to provide high level customer services, manual data entry and other slow and inefficient processes must be eliminated. Automatic data entry and processing, data management and business process automation in banks shall enable the elimination of manual processes. For efficient banking, it is not enough to simply digitize customer-oriented services, rather all internal bank processes must be automated and optimized.

THE KOSOVO AGENCY OF STATISTICS (KA) PUBLISHED THE RESULTS OF ITS SURVEY ON THE PENETRATION OF INFORMATION OF TECHNOLOGY AND COMMUNICATION, INDICATING THAT MORE THAN HALF OF HOUSEHOLDS IN THE COUNTRY USE TECHNOLOGY OR THE INTERNET PENETRATION IN THE COUNTRY IS OVER

88%

The term "bank" that up to date has been interpreted as a branch with counters, is changing as a traditional model of structuring distribution channels within banks. Following the global economic crisis that began a decade ago, digitalization represents the latest process of consolidation and transformation of operations in the banking system. Digitizing internal processes is a prerequisite for digitized customer services because it increases engagement, frees up staff time and gives them the opportunity to focus on efficient customer service. This accelerates work to a great extent, reduces costs and helps achieve higher efficiency.

Despite digitalization, many key business processes in Kosovo banks, and elsewhere in the region, are still chock-full of routine paperwork. Digital banking should, indeed, complement existing traditional banking methods, and such a mix of traditional and digital banking seems to be the best way for banks here to succeed in providing services to their customers.

Digitalization is actually happening as something that is inevitable and banks should apply its most appropriate model, but it should be kept in mind that this process provides the same handling for a diverse customer base, while people themselves are different and prefer to be treated as such. One thing is certain: whether "digital" or traditional banking, in terms of human resources and services, consulting with the banker will always have a key role in the level of customer satisfaction with banking services.

FISNIK LATIFI
DEPUTY TREASURER & FIXED INCOME MANAGER
RAIFFEISEN BANK KOSOVO

Time for investment banking in Kosovo

Since its inception, the banking business in Kosovo has followed a simple model: the bank connects savers and borrowers, accepting deposits listed in its balance sheet as liabilities, and recording loans issued to customers as assets. The interest rate differential constitutes the gross profit margin. The simplicity of the model made the business successful.

However, this type of banking, commercial banking, faces its own set of limitations. The first limitation for banks is the need for capitalization. Under the shadow of Basel 3 and soon Basel 4, the recapitalization requirements keep on rising, so this limitation will be further emphasized. Banks are restricted to lending in general, but in particular to concentrated exposure as well.

Another limitation of banks, as much as of customers, is the requirement for collateral, where its utility in the event of liquidation is doubtful. For this reason, although banks insist on collateral, they issue loans with increased caution, avoiding the need to use collateral. The positive side effect is having a portfolio with the lowest non-performing loan ratio in the region, but in reality, banks have given up on a significant portion of the business.

Business clients are also limited to not very long loan maturity periods, and in the absence of capitalization alternatives, all roads lead to banks.

> “
> The bank will still be the place where savers and borrowers meet, but this time it will have the role of an intermediary, earning from charging fees and commissions.

Let’s make a quantum leap of development, where banks operating in Kosovo are equipped with a second business model. We are talking about investment banking, and this approach will address a series of limitations of traditional banking.

The bank will again be the place where savers and borrowers shall meet, however this time it will not be a business counterpart to its customers, but rather an intermediary. Specifically, we will deal with established businesses that require market capital and turn to the bank for help. The bank will open an investment book and make its own efforts to meet capital demand by attracting investor interest. Non-commercial savers, but also trusts, pension funds, and other local and international financial institutions will express their interest by signing up for the investment book with their participating amount and price. Similar to a type of auction, the bids submitted will compete with each other for investment. After the closing of the investment book, securities are emitted, either equity or bonds, and distributed to the successful bidders, while the capital goes to the emitting business. The bank earns intermediary fees and commissions.

WHY GO THROUGH THE TROUBLE?

As an intermediary, the bank does not accept deposits in its balance sheet nor issue loans. This relieves the bank from the capital requirement. The Bank can make immediate profit, without subjecting itself to credit risk or interest rate change risk. On the other hand, if the bank wants to be exposed in this emission, it can do so by retaining a portion of the securities in its books. So, here the bank can combine the two business models according to its interest.

The emitting business has found alternatives to capitalization, by not relying on the bank's offer alone. More importantly, the emitted capital does not necessarily require collateral, which relieves the business of the burden of pledging its assets. Of course, this freedom comes with the price of an interest rate premium, but at least the business has the choice whether or not to offer collateral.

Another mitigating factor for the business is that it could potentially acquire lower cost capital than through the bank, as the capitalization investor now is not a single entity that assumes full credit risk, rather a diverse range of investors through auctioning where the bids that are most favorable for the business win. In the case of business equity emission there is a possibility for capitalization with virtually no repayment term.

Foreign investors are looking for medium risk investment opportunities, and Kosovan businesses are well-suited: they have relatively high returns, are euro-denominated, and have a low correlation to global markets. In an environment of low interest rates as it is now, attracting them would be feasible.

At the macroeconomic level, investment in Kosovo will have a multiplier effect. Kosovo is currently an exporter of capital, not only with imports of goods but also with the purchase of securities by banks, pension funds and private investors. One part of this capital can be invested within our economy, by participating in the local capital market. Add to this market the capital of foreign investors, who prefer portfolio investments to foreign direct investments, due to the simplified exit strategy. The multiplier effect is achieved when money in the local economy runs in a circular flow multiple times before leaving the country again, which has direct effect on gross domestic product growth.

IS KOSOVO READY FOR INVESTMENT BANKING?

We have shown that the existing business model, namely commercial banking, faces limitations that are difficult to overcome without profound changes. In order to keep the existing business model intact, it is required to apply a complementary business model that addresses these constraints, namely investment banking.

Although this business is profitable for banks, operations cannot begin immediately. In the absence of a legal basis, actors can operate in accordance with international standards but are never protected from arbitrary court decisions. For this reason, banks, as primary beneficiaries of this business, are well advised if they themselves undertake the drafting of a capital market law. In this way, they can also protect their domain from the arrival of new actors, for example by setting market entry thresholds through high capitalization demands, as banks do.

In conclusion, it is worth noting that the investment banking business will never replace commercial banking, nor should this be the goal. It should rather be seen as an additional tool in the operation of banks, where they decide the relevant level of utilization.

MS ALBERT DEVAJA
INTERNAL AUDITOR
IŞBANK – KOSOVO BRANCH

Role of internal auditor in the bank: challenges and opportunities

The existence of the internal auditor function in the banking sector is closely linked to the need to have an independent and impartial point of view on the short-term and long-term objectives of the banking institution, the work and steps taken to achieve them, the risks facing the banking institution, and potential areas for misuse or fraud that may exist in the process of achieving the objectives of the banking institution. Therefore, in banking literature, the function of internal auditor is classified as the third line of defense of the banking sector.

According to international standards of internal auditing, the Internal Auditor should be independent from the management structure of the banking institution, i.e. report to the Audit Committee, or directly to the Board of Directors of the banking institution; should be objective, his/her work and decisions should not be influenced by social, financial or other factors; must be competent, must be professionally trained and have the knowledge necessary to perform the function of internal auditor, must be a person of integrity, must do his/her job responsibly, carefully, and honestly.

Considering that the primary objective of banks is to own as many shares and gains as possible in the banking market, the key goals of the internal auditor are to contribute to increasing efficiency, functioning internal controls and improving the operational actions of the banking institution while pursuing their primary objective.

However, these purposes of the internal audit are often misunderstood and misinterpreted, resulting in a reluctance from the audit subject

to share more detailed documents and information during the audit process, on grounds that the internal auditor may find procedural violations or irregularities that may have disciplinary consequences for the audit subject. Conversely, the function of the internal auditor should be considered as a function that helps improve efficiency and accuracy in daily operations of other banking functions and in minimizing banking risks.

One of the key principles attached to the role of the internal auditor is being competent, i.e. the person exercising the function of the internal auditor must have the professional knowledge how internal audit works. Considering that international standards, European Union Directives, international practices of the global banking system and processes are increasingly being implemented in the Banking Sector of the Republic of Kosovo through legislation and regulations by the Central Bank of Kosovo, it is very important that persons exercising the function of internal auditor are trained and certified to keep up with the latest developments in the international banking sector.

> The purpose of the Internal Auditor purpose is to prevent irregularities and fraud, not to punish those responsible!

It should be noted that national and international training, certifications, and seminars build the level of competence of a bank's internal auditor, not only with the lessons taught by instructors but also with the exchange of experiences with other participants in those events. Topics covered in training/certification events greatly influence awareness raising and learning, which in turn make the internal auditor competent in his/her function, consequently making them essential for internal auditors. Therefore, such events are considered to represent an ideal opportunity for the professional development of internal auditors.

In some cases, the insufficient annual budget allocation to the internal audit function is considered a major challenge for internal auditor's role. Since novelties, reporting rules and other banking developments are mostly initiated by developed countries, it can be inferred that the most qualitative and up-to-date training and certification is organized in those countries, and consequently the costs attached to attending such training and certification are assigned according to the standards of these countries, meaning the costs are considered to be high, which prevents the participation of internal auditors under budget restrictions.

In light of difficulties to attend training and certification events in the scope of internal audit, cooperation between internal auditors may come into play as an alternative option. The professional development of internal auditors can be achieved through workshops, seminars or even working meetings between internal auditors themselves where they can engage in discussions on the novelties, developments and changes in the banking sector, the interpretation of banking laws and regulations, in addition to the problems, challenges and obstacles faced by internal auditors and sharing personal experiences in exercising their function in the banking sector.

In conclusion, the purpose of the internal auditor is not to punish, but to contribute to the preservation of assets and increase the value of the banking institution, and this contribution becomes even more qualitative with the continuing professional development of the internal auditor.

XHEMAJL GASHI
RISK CONTROL SPECIALIST
RAIFFEISEN BANK KOSOVO

Banking sector: overview and challenges

All assessments by relevant domestic and international institutions (IMF, WB, CBK, KAS) confirm that the economic growth trajectory for 2018 is on the range of 3.8 - 4.0 percent. Economic developments in the first half of 2019 - indicate that economic growth will remain at a one-digit rate for this year as well. Further, projections for the coming years do not reflect a marked increase, high above this current one. However, this growth is considered high enough, but not sufficient for a low base effect economy, as is the case with us, to enable a substantial reduction in unemployment, and a robust growth of the private sector, in particular that of export producers. At present, the country's trade balance continues to be highly unbalanced, and is not expected to change in the short term. Exports manage to cover for about 12 percent of imports. This economic growth is driven by domestic consumption, which is largely financed by remittances, and they continue to remain an important contributor to the country's GDP. It would be more significant if economic growth came as an export contribution.

THE COUNTRY'S BANKING SECTOR IS DOMINATED BY FOREIGN CAPITAL, REACHING

86.8 %

AND THE REMAINDER IS COMPOSED OF DOMESTIC CAPITAL.

OF THE

10

BANS

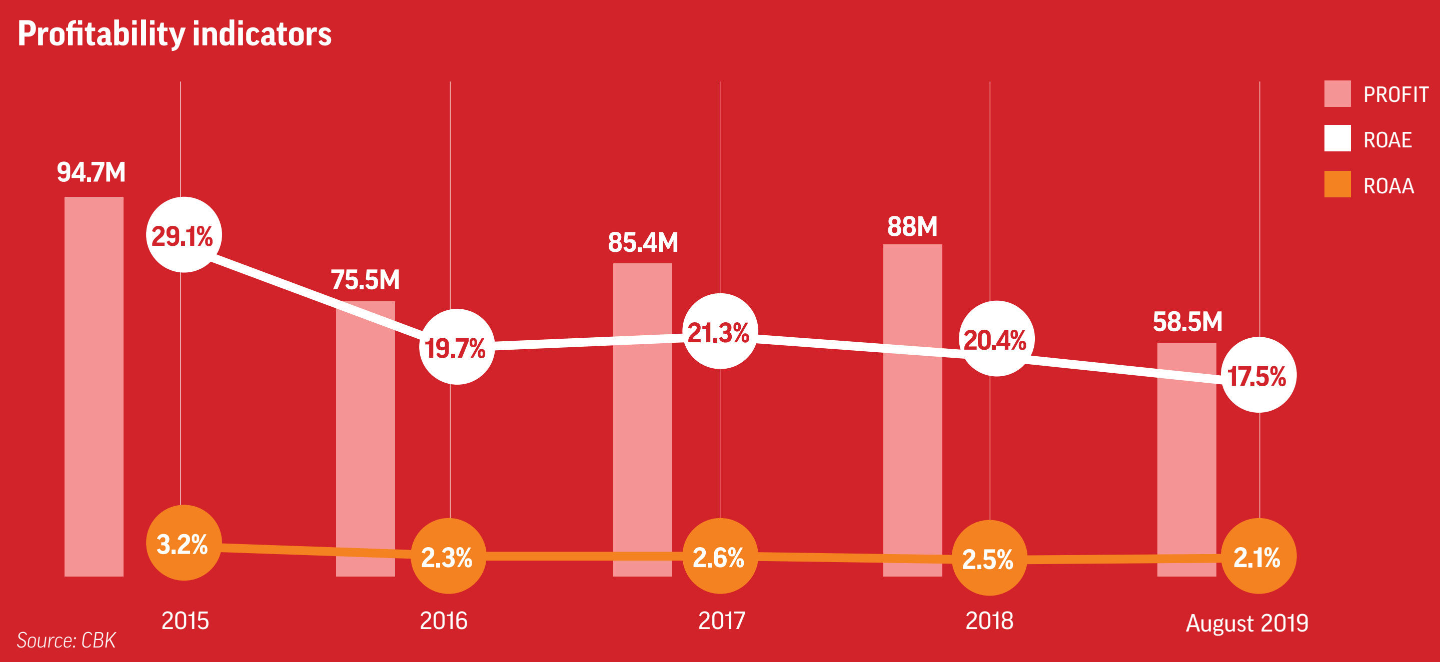
OPERATING IN COUNTRY

8

ARE FOREIGN-OWNED.

The year 2018 closed with an inflation rate of 1.1 percent, while measurements for August 2019 reflect a 2.6 percent rise in prices compared to the same month in the previous year. In reality, inflation in Kosovo features as an imported inflation due to the fact that imports constitute the bulk of the country's consumer goods and services. This sharp rise in prices was triggered by the imposition of a 100 percent tax on imports originating in the neighboring northern country.

The country's banking sector is dominated by foreign capital, reaching 86.8 percent and the remainder is composed of domestic capital. Of the 10 banks operating in country, 8 are foreign-owned. The banking sector established in country has a wide and compact reach with a total of 217 operating units, employing 3,297 persons. The foreign capital prominently featured in the country's banking sector is both an advantage and available potential for the prospective support to the expected private sector growth in country. Moreover, these banks are part of respective bank groups, enjoy advantages over other smaller banks,



have lower costs, are more profitable, benefit from brand equity, have more advanced human capital, and have greater opportunities for adjustment to changes in the financial industry.

The country's banking sector is denoted as quite profitable, financially sound, well capitalized, and liquid. Last year ended with EUR 88 million profit, while by August 2019 - profit reached EUR 58.5 million. The return on average assets (ROAA) rate is 2.1 percent while that of return on average equity (ROAE) is 17.5 percent. Liquidity ratio is 37 percent, while Tier 1 & Tier 2 account for 17 percent of risk weighted assets (RWA). On the other hand, non-performing loans are rated as the lowest in the region, and according to September 2019 data - they are around 2.2 percent. Moreover, such loans are well covered by provisions, and the provision coverage ratio is quite high, at around 164 percent.

Assets have been steadily growing, and their value by August of this year (2019) amounted to EUR 4,464.5 million. Of this volume, the stock of loans amounts to EUR 2,942.9 million (annual growth rate 10.4). The rise in loans was followed by a drop in the effective interest rate curve, which is now 6.4 percent.

Deposits amounted to EUR 3,617 million (annual growth of 11.9 percent). Of those deposits, EUR 2,500.8 million are household deposits, while the rest 638.1 belong to enterprises.

KOSOVO BANKING SECTOR CHALLENGES

The banking sector now faces difficulties arising from the complex growth of the regulatory environment in the country, pressure related to operating costs, and increased efforts to maintain a steady growth trajectory. The more competition continues to grow, the greater profitable opportunities made available to the consumer. Customers prefer easy access and use of electronic services. Therefore, banks are pushed to transform by forgoing the typical traditional model, and gradually transitioning to a model that provides advanced electronic technology-based services. Subsequently, on the road to transformation, they face complex challenges.

1 USING MULTIPLE CHANNELS IN SEARCH OF NEW CUSTOMERS

The increasing pressure to find new customers is pushing banks to become more innovative in their lending strategy. On the one hand they face the challenges of maintaining a steady partnership with existing customers, on the other hand they face the challenge of meeting new customers and signing them up. To achieve this, they must use marketing through multiple channels such as traditional, digital, social media (chat box). But before doing so, they need to engage in due diligence of target customers and decide on marketing spending at the level necessary to attract them, and ensure that the invested money will yield the best possible return.

2 LOW COST CUSTOMER SERVICE ORIENTED BANK

Friendly services is both a motto and a challenge for any modern bank. Portable applications, online banking services save customers time, while saving the bank money. Alternatively, the traditional approach is more costly. The purpose of applying and using all of these technological advances is to attract customers and solve the respective challenge.

3 REGULATORY AUTHORITY

Regulatory requirements are on the rise, and banks are required to spend part of their budgets to comply with the requirements at the pace set by the regulator. They must constantly evaluate and improve their operations to ensure that they are in compliance with the regulator. Fees and charges, provisions, capital base, are requirements deriving from the regulatory authority. That is the downside to ensuring a stable banking system is in place and capable of withstanding the shocks that are likely to occur. The implementation of the Basel Committee directives should be included here as well. And finally, the necessity to align the country's banking system and begin to incorporate it in the integration and unification process with the European banking system.

4 PROPERTY RELATED ISSUES - INFORMALITY

From the banking industry perspective, immovable property is perceived as a contributor, especially to mortgage loans. A modern cadaster system is in place, as a tool for the management and administration of immovable property and land. However, the real situation is rife with complex problems that are both inherited and recently created by a lack of vision and strategy to provide the best solution. It is estimated that the vast majority of the real estate sector is not legalized. This limits the growth of financing or lending especially when it comes to mortgage loans, and at the same time constitutes a barrier to economic growth. Economists believe that the financial sector is the driving force behind economic growth. Therefore, any obstacle shall reduce its capacity for a more rapid growth of the economy.

LAST YEAR ENDED WITH

88mil

EURO PROFIT,

WHILE BY AUGUST 2019 - PROFIT REACHED

58.5mil

EURO

5 JUDICIARY AND CONTRACT ENFORCEMENT

The justice system provides good laws but struggles in terms of functionality. The backlog of cases of the years is staggering. This is due to inefficiency, lack of competence and accountability. Significant progress has been made in contract enforcement in recent times, but there is still much room for improvement. A potential solution would be to set up a specialist court-chamber to handle banking sector cases. This would substantially improve the competitive position of the banking sector in the broader context.

6 INFORMAL ECONOMY

It is estimated that about 30 percent of the country's economy falls in the area of informality. Many businesses maintain two sets of books, one for fiscal purposes and the other for own purposes. Financial statement disclosure and audit is still at an early stage. This presents an issue for banks, as bank analysts need to do more analysis to confirm the authenticity of financial statements, and this takes more time and affects costs.

7 CONTINUOUS GROWTH IN TECHNOLOGY - FINTECH

FinTech is a new feature introduced to financial services. The rapid growth and expansion of its use is changing the banking business around the world, and we are not an outlier in this evolution. FinTech is becoming an integral part of banks, and now banks are also competing with the non-financial sector, in areas such as payment services, for services that they have traditionally provided. Furthermore, FinTech is extending to all financial services. Recent advances in technology require banks to ramp up their investments in FinTech. Some view FinTech as a threat to traditional banking services, while others see it as an opportunity because they offer more flexibility, better functionality and aggregation of services. Therefore, banks are reinforcing their risk position, namely reducing risk by association and keeping up with developments in FinTech.

CONCLUSION

The banking sector in Kosovo has grown significantly. Its lending capacity has increased significantly, from a profit standpoint it remains quite attractive, it managed to demonstrate sustained growth and maintain an adequate level of capital base.

Banks need to adapt their business model to change, diversify their revenue streams, and reduce inefficiency costs. They must be prepared to face the challenges of digitalization, competition, cost reduction, ensuring operational compliance with the regulator, and get ready for the initial phase of the alignment and integration process with the European banking system.

KATERINA BOSEVSKA
MANAGING DIRECTOR
EOS MATRIX - MACEDONIA AND KOSOVO

Combined effects of the macroeconomic and bank-specific determinants of NPLs

NPLs are one of the basic indicators of the financial health of banks and constitute the main measure of credit risk in the banking system.

When number of economic entities have difficulties in servicing their debt we consider increase of probability of loans not to be repaid (credit default).

The bank assets value erodes and its wealth decreases as a result of losses incurred due to write-offs. Given that the banks do not function independently and separately from one another but rather interlace and operate with multiple backlinks, the poor performance of one bank can easily spill over to the entire banking sector and trigger financial instability and stress. At worst, the deteriorated quality of loans in banking sector creates a threat of systemic risk, panic and deposit outflows, limitations to financial intermediation, and ultimately limitations to investments and growth. The experience has shown that the increase of non-performing loans has a key role in the emergence of bank crises. (Kunt & Detragiache, 1988; Gonzales-Hermosillo, 1999). Considering the above stated, the issue of non-performing loans, along with the factors they depend on and their effect on the real economy, became a primary concern of almost all countries in the world and resolving this issue became a precondition for regaining the functionality of financial markets (Klein 2013).

Studying the determinants of NPLs and their impact has gained in importance in the last few years, especially after the financial crisis of 2007-2008. Few diagnostic analyses based on the long-term relationship and estimated short-term dynamics indicate several links between the macroeconomic environment, the banking determinants and the non-performing loans. Coming from the analyses themselves, the determinants of NPLs can be classified as bank-specific and macroeconomic. Both determinants of NPLs have an impact on the amount of NPLs both to enterprises and households.

Bank-specific determinants such as profitability, credit growth and capital adequacy-solvency, have limited influence on non-performing loans depending on the determinant. For example, profitability expressed via return on assets (ROA), with the empirical results of Louzis at al. (2010) confirms negative and statistically significant impact, i.e. less profitable banks tend to undertake higher credit risks leading to increased exposure to risk of non-performing loans as banks hastily attempt to compensate for the underperformance. The credit growth has negative and close to no influence on to NPLs assuming that when granting new credits banks act with increased caution. Share of capital in total assets expressed via capital adequacy ratio, or solvency show positive and statistically significant impact only to NPLs to enterprises since allows increased capacity of the banks to accept higher risk, that negatively impact the credit portfolio quality in return.

Macroeconomic determinants such as GDP growth, rate of unemployment, real exchange rate, inflation shows also different influence. For example, GDP growth has negative relationship. Increase of economic growth decreases the credit risk (i.e. NPLs). Rate of unemployment has a positive and statistically significant impact on NPLs as an increase in unemployment results in a decline of effective demand that affect production and with reduced production enterprises have reduced income or reduces cash to households influencing their capabilities to meet their obligations. Real exchange rate has significant influence only to NPLs to enterprises namely due to the expected negative tendencies in the real sector in case of depreciation of the currency. Inflation proved to be a statistically significant determinant with short-term dynamics to NPLs coming from households due to the fact that the growth of inflation rates reduces the real value of the debt.

IN 2013 THE AVERAGE RATIO OF NPL IN EUROPE WAS AT SCALE OF

6.4%

IN US

2.5%

AND IN JAPAN

2.1%

WHICH IS FOR APPROXIMATELY.

60%

HIGHER AVERAGE

ALTHOUGH IN THE NEXT 3 YEARS THERE HAS BEEN A TREND OF DECREASING THE AVERAGE RATIOS, STILL IN EU THE AVERAGE RATIO FOR NPLS AT SCALE OF

3.7%

IS FOR APPROXIMATELY

67%

HIGHER THAN THE ONE IN US AND JAPAN AT SCALE

1.2%

What can be seen from available data in the World Bank and IMF, even though there is a general trend of decreasing NPL ratios, the EU has higher average ratios than the US and Japan. For example: in 2013 the average ratio of NPL in Europe was at scale of 6.4%, in US 2.5% and 2.1% in Japan which is for approximately 60% higher average. Although in the next 3 years there has been a trend of decreasing the average ratios, still in EU the average ratio for NPLs at scale of 3.7% is for approximately 67% higher than the one in US and Japan at scale 1.2%.

The great contribution to the trend of decreasing the NPL volumes has the banking regulation on force that can be characterized as a succession of waves of deregulation and tighter policies following period of crises.

Recent regulatory initiatives are helping to create a sustainable NPL resolution system within the EU. Regulatory supervision and market framework require a strategic and proactive approach in managing credit portfolios that should lead to lower NPLs. Changes from typical credit portfolio management to Active Credit Portfolio Management (ACPM) is resulting from the introduction of the IFRS9 regulation that requires at very early stage active and market-oriented management of credit portfolio in order to avoid provision and P&L volatility and reducing permanence of nonperforming exposures on Banks' books. Regulatory guidance, prudential backstops and IFRS 9 will reduce value of distressed assets on banks' balance sheets and push banks further to sell and write-off their NPL stocks. From April 1st 2018 onwards a

> Regulatory supervision and market framework require a strategic and proactive approach in managing credit portfolios.

full prudential provisioning is required for new NPLs after 7 years for secured and 2 years for unsecured assets. The increase in provisions on the initial application of IFRS9, considering the supervisory data reported by 53 banks, amounts to 9% on simple average. It is important to highlight that results reported do not indicate future trends or movements on these numbers. The allocation of financial instruments to the different categories under IFRS9 leads to an impact due to changes in the measurement of those numbers. Now three categories instead of four categories under IAS 39. The increase in provisions is mainly linked to performing financial assets (assets in stage 1 or 2) for which provisions increased 94% on simple average. The high increase is due to the low initial stock of provisions for performing assets under IAS39 requirements, and it is in line with the intended effects of the new standard (addressing some of the criticisms of the previous model. Banks are asked to inform the European Central Bank of any differences between their practices and the prudential provisioning expectations as part of the SREP supervisory dialogue whilst enforcement and consequences are limited. Following latest EBA Guidelines on management of non-performing and forborne exposures from June 30th 2019 applied to all regulated credit institutions in Europe, EU banks with gross NPL ratios in excess of 5% are expected to establish a NPL strategy as part of their overall strategy and implement robust governance and operational arrangements.

In addition to IFRS 9 regulation, new regulation and supervisory expectations pose new challenges to Banks capital requirements, meaning, improving capital accuracy through both technical and business levels. The council of the EU at April 2019 adopts a reform to impose capital requirements for banks' non-performing loans. The reform introduces a prudential backstop for new NPLs on banks' balance sheets, which means common minimum loss coverage for the amount of money banks need to set aside to cover losses caused by future loans that turn non-performing, with fact that loans that are 90 days past due are classified as NPLs. Different coverage requirements will apply depending on the classifications of the NPLs as unsecured or secured assets and whether the collateral is movable or immovable.

Regulatory and supervisory pressure tend to motivate banks to tackle their NPL burden which facilitates active balance sheet management. Guidelines and prudential backstops from EU institutions as well as IFRS 9 will contribute to NPL market activity in many countries in the CEE region. The reform from the EU-Council sets strict capital requirements for banks, while the impact of previous guidelines from ECB and EBA is limited.

Regulatory supervision and market framework require a strategic and proactive approach in managing credit portfolios. Changes from typical credit portfolio management is mainly due to the fact that IFRS9 requires at very early stage active and market-oriented management of credit portfolio to avoid provision and P&L volatility and continuous insistence to reducing permanence of nonperforming exposures on Banks' books.

THE EUROPEAN CENTRAL BANK ASKS BANKS TO DEFINE "REALISTIC AND AMBITIOUS STRATEGIES" FOR NPL MANAGEMENT. A SOUND NPL MANAGEMENT STRATEGY SHOULD BE BUILT UPON 3 LAYERS OF ANALYSIS

- Balance Sheet Analysis
- Value Analysis (EVA calculation)
- Capital Impacts

Balance sheet-based analysis is considered to be a partial approach-without forward looking perspective, because does not include some items such as capital remuneration. Capital and economic analysis must be a component in the transaction assessment and decision-making process that should be framed in the overall NPL management strategy.

Most Eastern European countries have seen a subdued development in NPL Volumes with a total decrease of 7% resulting from their debt sales activities as a respond to the need for a fast and dynamic treatment of NPLs.

BANKING SECTOR IN NUMBERS

216
NUMBER OF BANKING UNITS

494
NUMBER OF ATM-S

13,637
NUMBER OF POS TERMINALS

292,318
NUMBER OF E-BANKING ACCOUNTS

1,271,379
NUMBER OF BANK CARDS

3,295
NUMBER OF EMPLOYEES

2019

Financial sector assessment consultative meeting (FSAP) has been held

Pristine, 18.06.2019 - Chief Executive of the Kosovo Banking Association (KBA), Mr. Petrit Balija, accompanied by Mr. Kreshnik Kosumi, Senior Operations Officer, hosted today in a meeting the World Bank delegation consisting of Mr. Nadeem M. Karmali, Senior Economist, Mr. Will Paterson, Financial Sector Specialist, Natalie Nicolaou, Financial Sector Specialist and Mr. Diego Sourrouille, Financial Sector Analyst, who are staying on a official visit in Kosovo, where they will conduct a financial sector assessment (FSAP), with particular focus on the development aspects of the

Chief Executive Officer of the Kosovo Banking Association received at an official meeting in Brussels by representatives of the European Banking Training Network (EBTN

Brussels, 13.08.2019 - Chief Executive Officer of the Kosovo Banking Association Petrit Balija was received at an official meeting in Brussels by representatives of the European Banking Training Network (EBTN), Mr. Colin Morrison, President of EBTN and Mrs. Felicia Emery, Executive Manager at EBTN.

EBTN
EUROPEAN BANKING & FINANCIAL SERVICES TRAINING ASSOCIATION Aisbl

financial system, the payment system, the financing potential in Kosovo, etc. In this meeting also participated representatives of the banking sector as Mrs. Suzan Dervari, Vice-Chair of the Compliance Committee and Mrs. Vlora Osmani, Chairwoman of the Legal Committee within KBA. During this meeting, it was discussed about the creditor/debtor's practices and rights, the creation and registration of safe transactions, debt enforcement, and loan repayment, bankruptcy proceedings, the appropriateness of legal reforms and institutional implementation.

Chief Executive of KBA, Mr. Balija informed the delegation about the current state of the financial sector in Kosovo and the banking sector's challenges in doing business over the difficulties with property titles for mortgage lending. It was also said that the efficiency of private enforces have contributed to improving the fulfillment of contractual legal obligations between the parties."

In addition to discussing the challenges and barriers of the financial sector, the meeting highlighted the development potential that the banking sector offers in Kosovo.

During this meeting they discussed the possibilities of expanding the cooperation between the KBA Banking Academy and EBTN, to increase the opportunities for acquiring knowledge for bankers in Kosovo by advancing training programs according to European accredited programs.

Trends in the European arena of employee advancement and professional development through training have also made the professional framework of Banks in Kosovo on an equal footing, thus meeting European standards through international certifications.

KBA Members attended the program: “Executive Program-A Strategic Bank Management Review” held in Luxembourg

Luxembourg, 24.06.2019

Representatives of members of the Kosovo Banking Association, after four (4) days stay in Luxemburg, highly appreciated the program: "Executive Program-A Strategic Bank Management Review ", an event of particular importance in the banking sector, where participants were the Senior Management of Banks from Europe, including Kosovo, where our banking sector was represented by Mrs. Arta Shporta, Head of Credit Risk Management, Raiffeisen Bank Kosovo and Mr. Agon Skeja, Chief Finance and Administration Officer, Banka Kombëtare Tregtare.

During their stay in Luxembourg, participants had the opportunity, besides lectures, participation in panel discussions and visits of financial institutions, to meet with the bank's leaders, with whom they exchanged experiences from the banking sector.

The Kosovo Banking Association, in cooperation with its partners, is committed to continuously offer the possibility of participating for its members, in such events, which directly contribute to the growth and enhancement of the professional capacities of individuals.

Implementation of IFRS 9 and other new regulations

Pristine, 06.09.2019 - "The banking sector in Kosovo has shown success in the process of applying the international standards of Basel and IFRS 9, while the Central Bank of Kosovo is fulfilling the best international practices in order to enable the proper functioning of the banking sector in Kosovo through financial regulation". This was stated in a one-day workshop organized by the Kosovo Banking Association in cooperation with the Central Bank of Kosovo, which brought together representatives of the banking sector and the CBK to discuss the challenges, opportunities, and impacts of the implementation of IFRS 9 by the banking sector in Kosovo. Within this workshop, among other important topics of the discussion were: Reporting to the Credit Registry – evaluation of the customers according to credit rating (IFRS 9 models) or by existing CBK standards; The effect of IFRS 9 on taxation; Clarifications on IFRS 9 credit portfolio models or new products; Validation of IFRS 9 models and clarifications regarding macroeconomic models. It was further stated that Kosovo has shown a willingness to move forward through the implementation of IFRS 9, despite the fact that this process is quite challenging.

Private sector in Kosovo will benefit from Banking Financing through Factoring

Pristine, 12.09.2019 - Today, the workshop 'Factoring as an Alternative Tool for SME Financing in Kosovo' was held, where the Kosovo Banking Association was invited as a representative of the banking sector in Kosovo. The keynote speakers who gave welcoming remarks at the event were: The Head of the European Bank for Reconstruction and Development for Kosovo, Mr. Neil Taylor, the Deputy Governor of the Central Bank of Kosovo, Mr. Sokol Havolli and the Chief Executive Officer of KBA, Mr. Petrit Balija. In his opening remarks, the Chief Executive Officer of KBA, Mr. Balija said that "Factoring as an instrument has opened a new chapter in the private sector in Kosovo while businesses are those that have benefited directly from the favorable opportunities available to them, enabling them to save time and execute real-time transactions to enable smooth business operation."

Further, Mr. Balija emphasized that the Kosovo Banking Association has been involved since the beginning of the factoring development initiative in Kosovo and said that KBA will be a partner in implementing the conclusions and recommendations that will come as a result from this workshop.

The workshop brought together leaders of public-private institutions who, through discussions, presented the advantages, practical examples and international best practices, which were considered during the drafting process of the current Factoring Regulation, which has been into force since November 2018.

By the end of the workshop, participants analyzed the current challenges of delivering this tool in Kosovo and emphasized that the latest technological developments have played an important role in advancing this service, making it quite attractive for businesses.

The Kosovo Banking Association supports the establishment of the Commercial Court in Kosovo

Pristine, 10.09.2019 - Chief Executive Officer of the Kosovo Banking Association, Mr. Petrit Balija received in an official meeting the representatives of USAID Program for Commercial Justice, Ms. Vjosa Shkodra, Deputy Chief of Party and Mrs. Njomza Zejnullahu, Senior Legal Adviser. In this meeting participated also the Chairwomen of the Legal Committee, Mrs. Vlora Osmani and Senior Operations Officer, Mr. Kreshnik Kosumi. The main discussion of this meeting was about the Commercial Justice Program, which goal is to establish Commercial Court, reduce corruption opportunities by helping to use alternative methods of resolving commercial disputes, improving the environment of doing business and enforcing judgments.

The program consists of two components; under Component One, the program works to improve the quality of commercial justice, focusing on reforms that will reduce opportunities for corruption, regulate the proper course of cases and improve the capacity of the courts on commercial law and procedures, including training for judges, professional associates, court staff and other stakeholders, while in the Second Component, the program works to increase the use of alternative dispute resolution methods, ensure that commercial laws are in line with European Union legislation and international best practices, and improve public awareness of trade disputes and enforcement mechanisms.

During this meeting, Mr. Balija said that the establishment and functioning of a commercial court in Kosovo is a priority of particular importance for the banking sector as well, therefore the KBA supports these developments which can improve legal infrastructure and law enforcement and contracts that are in line with European best practice.

Meanwhile, Mrs. Shkodra emphasized that the Commercial Justice Program is supporting the initiative of establishing the Commercial Court as well as providing technical assistance to improve efficiency in the economic department of the Basic Court in Pristina. She also emphasized that this program supports the Ministry of Justice in building the professionalism of the private enforcement system, ensuring that laws in the field of commercial law are harmonized and in line with European Union legislation and international best practice enabling better enforcement of commercial agreements and related disputes, promoting alternative dispute resolution through arbitration and mediation mechanisms. In this meeting, the parties agreed on the coordination of activities and further cooperation until these objectives are met.

Harmonization between the Law on Sponsorship and Tax Legislation is required

Pristine, 11.10.2019 - The Law on Sponsorship has opened a new hopeful stage for strengthening sports in Kosovo, while also giving businesses the opportunity to invest in the cultivation of values in sports, including the banking sector, which has consistently expressed a willingness to make a direct contribution to Kosovan society. This was stated today at the workshop on the Law on Sponsorship, which was organized by the Kosovo Banking Association in co-operation with Deloitte.

In addition to addressing the general forms and criteria of sponsors and beneficiaries, this workshop also provided the opportunity to clarify the dilemmas of registration, the form of reporting and sanctions arising from this law, including the tax treatment of sponsorship. The workshop was attended by representatives from the Tax Administration of Kosovo, the Ministry of Youth, Culture and Sport, the Central Bank of Kosovo, the KBA Legal Committee, the KBA Finance Committee and the KBA Marketing Committee the need for the creation of an administrative instruction and the re-amendment of the law on sponsorship was emphasized, which would address and clearly define the legal gaps that have been identified after the adoption of this law which would enable the full implementation of the law in question.

The Law on Sponsorships in the Field of Sport, Culture, and Youth is foreseen to have a direct effect on increasing private sector sponsorships, including the banking sector, which continues to contribute to capacity building and the advancement of sports clubs in Kosovo.

Kosovo Banking Association marks World Savings Day 2019

Pristine, 30.10.2019 - Under the motto "Saving for children today is a wonderful gift for their tomorrow!", today the Kosovo Banking Association organized various educational activities with Naim Frashëri Elementary School students headed by the Deputy Principal Mrs. Drita Qorolli and students of Qamil Batalli Elementary School, with Principal Mr. Liridon Maliqi, thus marking the World Savings Day, which is organized by financial institutions worldwide.

Through these activities, the Chief Executive Officer of the Kosovo Banking Association, Mr. Petrit Balija conveyed the message of the Kosovo banking sector to the students about the importance of saving and the benefits that savings bring if practiced from an early age and have informed them that banks, in order to help children save money, have enabled opening of saving bank accounts for children free of charge through their parents, so that as they grow older they can use the funds raised for further education or other personal needs.

Fourth grade students in these schools were given packages with educational materials as well as savings boxes. This organization was supported by the commercial banks of Kosovo, which are also members of the Kosovo Banking Association.

This date was set as World Savings Day at a convention held in Milan after World War I with the aim of raising awareness and the importance of savings.

In Kosovo, the World Savings Day has started to be celebrated by the Kosovo Banking Association since 2014.

TEB Bank marks the World Environment Day: 1 planted tree for each green loan

TEB Bank, as a partner of the European Bank for Reconstruction and Development (EBRD), in the framework of implementation of Green Loans, has planted 210 trees today in four different cities to mark the 5th of June - World Environment Day.

On the World Environment Day, TEB Bank has in cooperation with EBRD and its clients planted 210 trees in Prishtina, Prizren, Peja and Malisheva. During the main activity held in Prishtina, participants were the bank executives, representatives from EBRD, GEFF, the Municipality of Prishtina and the European Union, as the main grant donor for the GEFF program. Each tree bears the name of a person who obtained a Green Loan from TEB and thus has assisted to protect the environment. The respective municipalities have provided the necessary locations for the trees, while TEB Bank has provided the trees for its customers. In the hope that these trees will multiply in the future and each of us will help to reduce air pollution.

TEB Bank as an EBRD partner provides financing for investments in high energy efficiency products for the residential sector with EU grants up to 20% of the eligible credit value for investments.The World Environment Day is United Nations' Day for encouraging awareness and action around the world to protect our environment. This year's theme is dedicated to air pollution.Every family may contribute to this worldwide challenge by consuming energy efficiently.

By applying for a Green Loan at TEB Bank, for energy-efficient technologies, such as efficient windows and doors, heating/cooling systems and insulation systems, households can significantly reduce their energy consumption and thus also reduce their energy bills. TEB Bank for a world in motion.

NLB Bank supports Basketball Tournament in Wheelchair

On October 5, at the Sports Hall "Bashkim Selishta" in Gjilan, a Basketball Tournament was organized with several teams from Kosovo participating. This tournament was organized by Handikos and supported by NLB Bank.

Organizing such tournaments has a positive impact on people with special needs and offers the opportunity to socialize and to express their capacities and talents. Through this physical activity as well as the sense of belonging to the group / society, this tournament has a great impact on the awareness of society in general.

NLB Bank's contribution will continue in the future in supporting important activities and projects to improve the daily life of the community in which we operate.

Procredit Bank supports Kosict International Technology Festival

ProCredit Bank proudly announced that it supports the international technology festival KosICT, organized by the Kosovo IT Association (STIKK). Supporting this initiative further deepens the role of ProCredit Bank in supporting technological developments and innovation.

Raiffeisen Bank supports the activity of "Autostrada Biennale"

Autostrada Biennale with the support of Raiffeisen Bank organized activities with children in the framework of the educational program "Education on green spaces and health!".
The activities were aimed at children exploring the city, reflecting on green spaces, the river and ways we can have a clean and healthy environment.
The children with the motto "Revolution I Am", together with the creative group of the Orchid Women's Community have organized a workshop where they were introduced to handicrafts and creative ways of embroidering wood in order to protect against the constant damage to various posters and advertisements.
During the workshop the children learned to stay and through art to contribute to environmental protection. After the workshop the children performed the tree embroidery performance together with the Orchid group.
Autostrada Biennale non-formal education program strives to educate younger generations in the spirit of contemporary art by fostering critical thinking based on the principle of inclusiveness.
Autostrada Biennale expresses its gratitude to the "League of Prizren" school for its continuous participation and cooperation in its activities.

Banka për Biznes Cooperation Agreement on financing basketball club "Sigal Prishtina"

Banka për Biznes and Sigal Prishtina Basketball Club have signed cooperation agreements for financing the club from the capital
Arton Celina of the Banka për Biznes has said that this deal with Pristina is one-year agreement, but he hopes to extend it for another year.
"The sport has proven to be the best ambassador in the world. KB Pristina deserves to be on the highest pedestal, and we are striving to be a supporter of Prishtina. Sponsorship law is also a push for us as a bank to continue our club support. The agreement is one year long, and this can go on and on. I believe that this agreement can last even longer, "he said. The president of the BC "Sigal Prishtina", Shkelzen Fetiu, is pleased with this agreement.
He welcomed them as he said at the champions house.
"I welcome you to the champions house and we hope that you as a local bank will be the champion of banking like we are" Fetiu said.

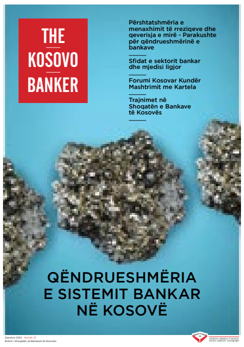
Banka Ekonomike supports Streetball 3x3 Prishtina

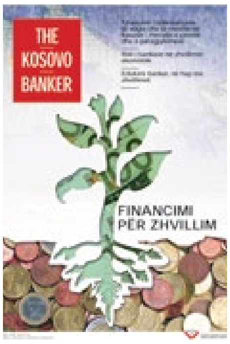
Sport encourages the development of important values such as loyalty, perseverance, friendship, collegiality and solidarity. Sport in addition to affecting physical health has an impact on mental health as well. Many think that sport has a decisive influence on the character of a society.
Therefore, with this in mind, Banka Ekonomike continues to support the sport, thus supporting the organization of Streetball 3x3 Prishtina, which this year has been licensed by FIBA. This event was held for the liberation of Pristina, as one of the 20 main activities in honor of this day, with participants from all over the world with renowned teams such as Chicago, America, as well as other well-known European teams.
Banka Ekonomike will continue to contribute to the increase of responsibility in our society and the overall professional and social development.

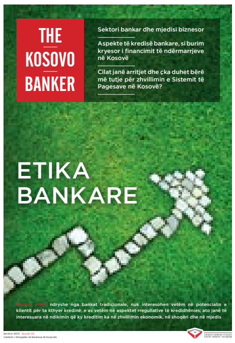
PUBLICATIONS OF THE KOSOVO BANKING ASSOCIATION

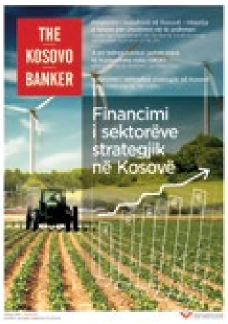
“The Kosovo Banker” is a publication of the Kosovo Banking Association. The magazine is published twice a year with the aim to properly inform the public on the banking industry in Kosovo. For more information, please go the the web site of the Kosovo Banking Association

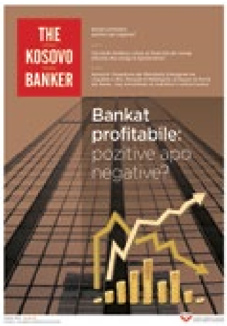
www.bankassoc-kos.com











THE TRAINING CENTER OF THE KOSOVO BANKING ASSOCIATION

The Banking Training Center within the Kosovo Banking Association offers training in the following areas:

> Risk Management in Banking
> Compliance and Prevention of Money Laundering
> International Financial Reporting Standards – IFRS
> Internal Control and Audit
> Asset and Liability Management
> Digital Banking
> Cyber Security and Information Management
> Credit Assessment
> Selling of Financial Services
> Trade Finance
> Personal Data Protection
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