CENTRAL BANKING AUTHORITY OF KOSOVO
AUTORITETI QENDROR BANKAR I KOSOVËS
CENTRALNI BANKARSKI AUTORITET KOSOVA

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Structure of Financial Sector

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ABBREVIATIONS:

ATM	Automated Teller Machine
BKT	Banka Kombëtare Tregtare
BR	Bank Branch
BS	Balance Sheet
CAR	Capital Adequacy Ratio
CBAK	Central Banking Authority of Kosovo
DBM	Deposits by Maturity
DEAS	Directorate for Economic Analysis and Statistics
EBRD	European Bank for Reconstruction and Development
EUR	Euro currency
FA	Financial Auxiliaries
FC	Financial Corporations
FYROM	Former Yugoslav Republic of Macedonia
GDP	Gross Domestic Product
HHI	Herfindahl-Hirschman Index
HQ	Headquarter
IBNR	Incurred But Not Reported
IMF	International Monetary Fund
IC	Insurance Companies
IS	Income Statement
IT	Information Technology
KM	Komercijalna Banka
KPST	Kosovo Pension Saving Trust
LBI	Loans by Industry
LBM	Loans by Maturity
MFI	Micro Financing Institutions
NFA	Net Foreign Assets
NFC	Non-Financial Corporations
NIM	Net Interest Margin
NLB	Nova Ljubljanska Banka
NPISH	Non-Profit Institutions Serving Households
NPL	Non-Performing Loans
OFC	Other Financial Corporations
OFI	Other Financial Intermediaries
POS	Point of Sales
pp	Percentage Points
ROAA	Return on Average Assets
ROAE	Return on Average Equity
RWA	Risk Weighted Assets
SB	Sub-branch
SEE	South-East Europe
TEB	Turk Ekonomi Bankasi
TPL	Third Party Liability
UNMIK	United Nations Mission in Kosovo

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1. INTRODUCTION

This CBAK Bulletin is an achievement of continuous work of the Directorate for Economic Analysis and Statistics (DEAS) in analyzing developments in the Kosovo financial sector. This publication mainly emphasizes the developments in the banking sector. It also includes Other Financial Corporations (OFC) that is Insurance Companies (IC), Pension Funds (PF), Other Financial Intermediaries (OFI) and Financial Auxiliaries (FA). This publication covers mainly the period June 2006 – June 2007.

Chapter 2 covers general characteristics of the financial sector in Kosovo in terms of structure by asset size and position of the financial sector in terms of claims and liabilities towards all three sectors: external, fiscal and real. Chapter 3 focuses on developments in the banking sector, concentrating mainly on lending activity, deposits, profitability, liquidity and solvency of the banking sector. Chapter 4 summarizes the developments in insurance companies, pension funds, other financial intermediaries and financial auxiliaries, which all together compose the remaining 11.0% of financial sector assets. Chapter 5 provides explanations on the methodology used for calculation of the selected indicators, while Chapter 6 consists of individual bank balance sheets.

Assets of the financial sector reached euro 1.4 billion in June 2007, mainly composed of loans to domestic economy. Banking sector assets remain the main component of total financial sector assets representing 88.6% in June 2007. The number of commercial banks operating in Kosovo remained constant at 6, but the ownership structure changed with Slovenian bank Nova Ljubljanska Banka (NLB), buying majority of shares of two domestic banks, Kasabank and Banka e Re e Kosovës. Thus, from six commercial banks operating in Kosovo only two remained with full domestic ownership.

Kosovo banking sector is continuously growing. This is expressed by total banking sector assets reaching euro 1.2 billion, what accounts for around 50% of GDP.[1] Loans granted by the banking sector recorded an annual growth of 27.1%. NFC continue to absorb the largest share of loans, while loans maturity keeps extending. Also deposits at the banking sector recorded to be higher than in June 2006 (16.1%). The main source of deposits continues to be households, while the maturity remains mainly short term. Banking sector has shown a good performance with strong profitability indicators, while remaining liquid and solvent.

Nine insurance companies that operate in the market compose around 5% of total assets of the financial sector. As in the banking sector, foreign ownership dominates this sector, with 6 foreign insurance companies. In terms of total assets, insurance companies grew by 29.5%, on yearly basis, while Third Party Liabilities (TPL) insurance remains the main activity of the industry.

Apart from the insurance market, other financial corporations are composed of 2 pension funds, 16 other financial intermediaries, and 27 financial auxiliaries which act mainly as exchange bureaus and some of which as money transfer agencies. Total amount of the pension funds accumulated at the mandatory scheme (KPST) recorded an annual growth of 48.5%. Increased activity is also noticed in OFI that increased the volume of granted loans by 24.9% in annual basis. Moreover, money transfer through FA recorded an annual growth of 11.1%, mainly comprising of transfers from Kosovo Diaspora.

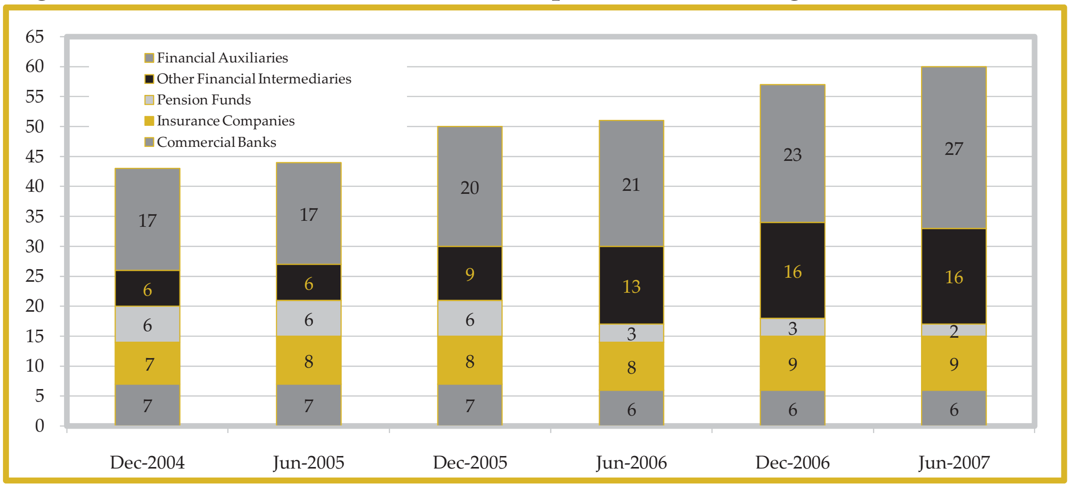
[1] GDP data are the IMF estimates (IMF Aide Memoire, October 2007).

2. Financial Sector in Kosovo

2.1. General characteristics

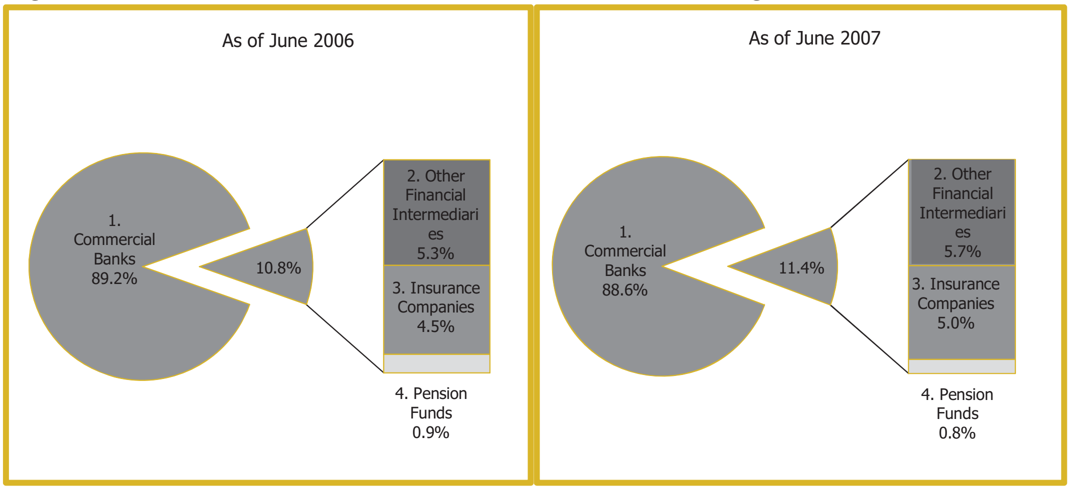
In June 2007, excluding the CBAK, the Kosovo financial sector was composed of 60 financial corporations (57 in June 2006). While the number of banking sector institutions remained unchanged (6) between June 2006 until June 2007, one IC has been licensed in November 2006 increasing the number of IC to 9 as of June 2007, whereas, CBAK revoked the license to a pension fund. In addition, 6 FA have been licensed since June 2006, numbering 27 in total in June 2007.

Figure 1. Number of individual financial corporations (excluding CBAK)



In June 2007, financial sector assets (excluding CBAK) amounted at euro 1.4 billion, an annual increase of 16.8%, which is lower than the annual growth recorded in June 2006 (19.1%). Although the share of banking sector assets to total financial sector assets declined by 0.6pp, they still represent the largest share of total financial sector assets (88.6%). The share of OFC assets to total financial sector assets increased slightly to 11.4%. The structure of OFC remains broadly same, showing minor increase in the share of OFI and IC assets to total OFC assets (Figure 2).

Figure 2. Structure of the financial sector in Kosovo (excluding CBAK)

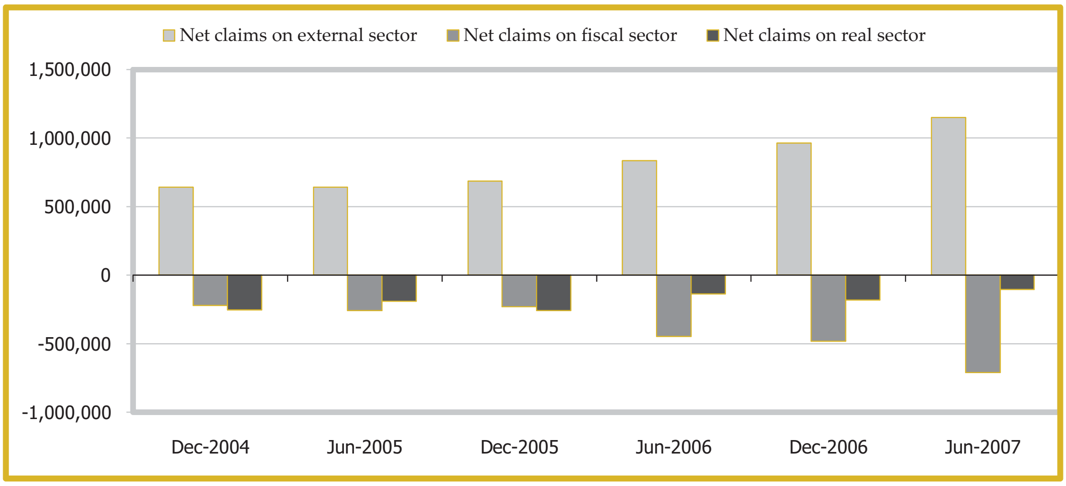


Recording an annual growth of 17.3%, banking sector assets amounted at euro 1.2 billion in June 2007, compared to euro 1.0 billion in June 2006. OFI assets in June 2007 grew annually by 8.5% amounting at euro 80.3 million. Insurance Companies assets amounted at euro 67.7 million (euro 54.7 million in June 2006), while Pension Funds assets amounted at euro 10.2 million (euro 9.5 million in June 2006).

Amounting to euro 864.4 million in June 2007, financial sector claims on real sector recorded an annual increase of 26.3%. Comprised mainly from loans, financial sector's claims on real sector accounted for 34.6% of GDP in June 2007. On the other hand, liabilities to the real sector (composed mainly from deposits) grew by 18.5% over June 2006, amounting at euro 969.1 million.

Financial sector net claims on government (fiscal sector) stood at euro -710.7 million. Government deposits grew by 59.0% in June 2007, mainly as a result of the budget surplus carried forward from 2006 (euro 76.5 million), as well as the revenues from the licensing of second mobile telephony operator (euro 75 million) and the increase in revenues from privatization process. Amounting to euro 328.9 million, privatization revenues accounted for 54.3% of total government deposits at the CBAK. The amount collected through the privatization process recorded an annual increase of 31.3%. Government deposits at the CBAK are mainly in the form of transferable deposits. However, in June 2007, other deposits of the government at the CBAK amounted at euro 93.6 million.

Figure 3. Financial corporations domestic claims, in EUR thousands



NFA increased by 37.4%, amounting at euro 1.15 billion in June 2007, supported mainly from increase in the claims on nonresidents (euro 1.23 billion). The main source of the increase in the claims on nonresidents derives from the increase in the government deposits at CBAK (euro 699.1 million). These claims are mainly composed from deposits that composed 73.6% of total claims on nonresidents in June 2007. Sizably, lower than claims on nonresidents, liabilities to nonresidents in June 2007 amounted at euro 80.9 million, which is an annual growth of 16.6%.

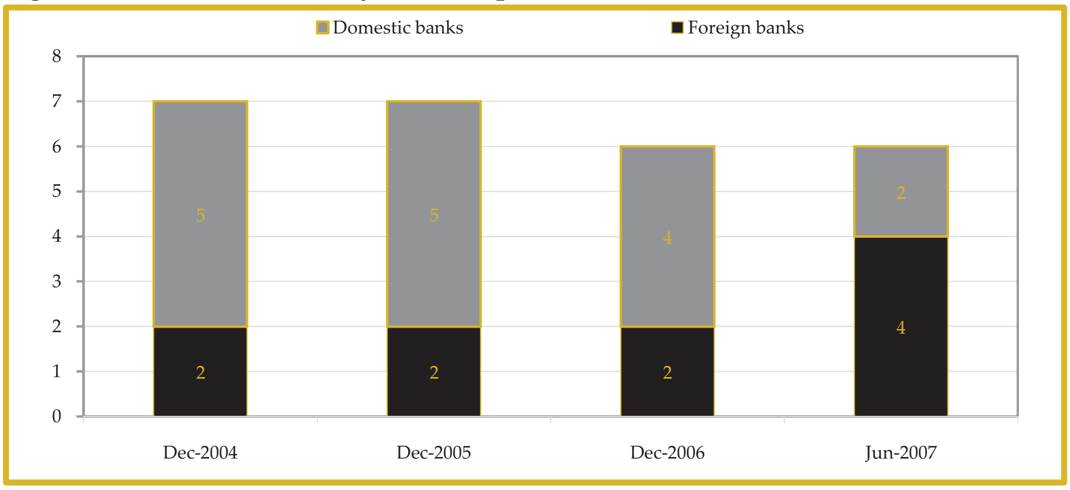
3. Banking sector

3.1. Structure of banking sector

The banking sector in Kosovo consisted of six banks (June 2007). However, in August 2007, the CBAK granted the license of operation to two new bank branches: Banka Kombëtare Tregtare (BKT) and Komercijalna Banka (KM). In September 2007, Turk Ekonomi Bankasi (TEB) was granted a preliminary license by CBAK. Expansion of the sector by new banks is expected to increase the competition in Kosovo banking sector.

Kosovo banking sector attracted new foreign investors with strong banking background in the region and wider. With respect to the banking sector regulatory framework, amendments of several existing banking rules were introduced and approved during the first half of 2007. During the third quarter of 2007, the amendments of the Rule on Reporting Requirements and on the Liquidity Requirements, as well as the amendment of the UNMIK Regulation No.1999/21 on Bank Licensing, Supervision and Regulation were approved. The purpose of these changes in the framework of the banking rules is mainly due to changes in the CBAK approach to supervision.[2]

Figure 4. Number of banks by ownership structure



[2] For further details see: http://www.cbak-kos.org/english/N71.htm

Regarding the change in the ownership structure, Slovenian bank Nova Ljubljanska Banka (NLB) entered the market by buying more than 50% of the shares of two domestic banks, Kasabank and Banka e Re Kosovës, increasing the number of banks with foreign ownership. Thus, as of June 2007 from six commercial banks operating in Kosovo, only two remain with full domestic ownership (managing about 8.0% of total banking sector assets. The ownership structure of the banking sector in Kosovo, in terms of the number of the foreign banks to total banks, is similar to some countries in the region, where foreign banks dominate the banking sector (Table 1).

Table 1. Number of banks in countries in the region, end 2006

Country	Foreign banks	Domestic banks	Total
Albania	15	2	17
Bosnia and Hercegovina	22	10	32
Croatia	14	20	34
FYR Macedonia	8	11	19
Montenegro	7	3	10
Serbia	17	23	40
Sllovenia	10	15	25
Kosovo *	4	2	6

Source: EBRD Transition Report (2007) and CBAK (2007)
* Data for Kosovo are as of June 2007

With regard to asset size, three banks manage the largest share (84.2%) of total banking sector assets, while the other three are small banks with only 15.8% of total banking assets in June 2007 (Table 2). A high market share of the three largest banks is noticed also in categories of loans and deposits, which represent 86.0% of total banking sector loans, and 87.4% of total banking sector deposits. The high market share of the three largest banks indicates that Kosovo banking sector is a relatively concentrated sector. Moreover, the market share of the three largest banks in June 2007 has further increased compared to previous periods.

Table 2. Market share (in %) and HHI concentration (points)

Description	Dec-2004	Dec-2005	Dec-2006	Jun-2007
Market Share of three largest banks				
Assets	73.9%	78.8%	83.3%	84.2%
Loans	71.2%	78.9%	84.6%	86.0%
Deposits	74.6%	79.8%	86.6%	87.4%
HHI for banking system				
Assets	2,504	2,721	2,772	2,873
Loans	2,028	2,722	2,871	3,015
Deposits	2,640	3,014	3,043	3,150

The level of concentration is also represented by Herfindahl-Hirschman Index (HHI), which stands at 2,873 points for assets in June 2007. The HHI index is higher for loans and deposits, recording 3,015 points and 3,150 points, respectively. Moreover, the index reveals a continuous increase of concentration in the banking sector, if compared to the last three years.

Network and activity expansion. With 17 banking units[3] more than a year before, banking sector is increasing its accessibility. In June 2007, the total number of banking units reached 231, aiming a higher efficiency in providing their services to their customers. Banking units are mainly concentrated in the capital city, representing around 30% of total banking network. With opening of new banking units, the number of employees increased also from 2416 in December 2006 to 2631 in June 2007. However, the number of employees per banking unit is broadly stable compared to previous periods (11 per banking unit), as well as the amount of assets managed by an employee (around euro 470.0 thousands per employee), implying a stable efficiency of the banking sector (Table 4.)

Table 3. Banking sector network and employment

Description	Dec-2004	Dec-2005	Dec-2006	Jun-2007
No. of banking units	213	239	220	232
No. of employees	2,066	2,341	2,416	2,631
Employees per banking unit	10	10	11	11
Assets per employee (in euro)	393,000	421,000	480,640	470,000

The branch expansion is followed by the increase in the number of Automated Teller Machines (ATMs) and Point of Sales (POS). As of June 2007, throughout Kosovo there were 148 ATMs (110 in June 2006) and 1978 POS (1446 in June 2006). Consequently, there was noticed a significant increase in payments processed via POS – around 30% more than as of June 2006. Also, clients became more familiar to e-banking services. The number of clients using this service almost doubled, while the number of transactions processed using e-banking almost tripled during the course of one year (18,116 transactions amounting to euro 50.8 million). The latter indicates the deepening of clients confidence in the e-banking services provided by the banking sector. By introducing loans with longer maturities (e.g. up to 10 years) in 2006, banks are continuing to expand their activity by identifying new products to be offered to their clients. As a result, during the third quarter of 2007 some banks introduced financial leasing service, providing mainly industrial machinery and equipment. This product is expected to develop among OFI, as well.

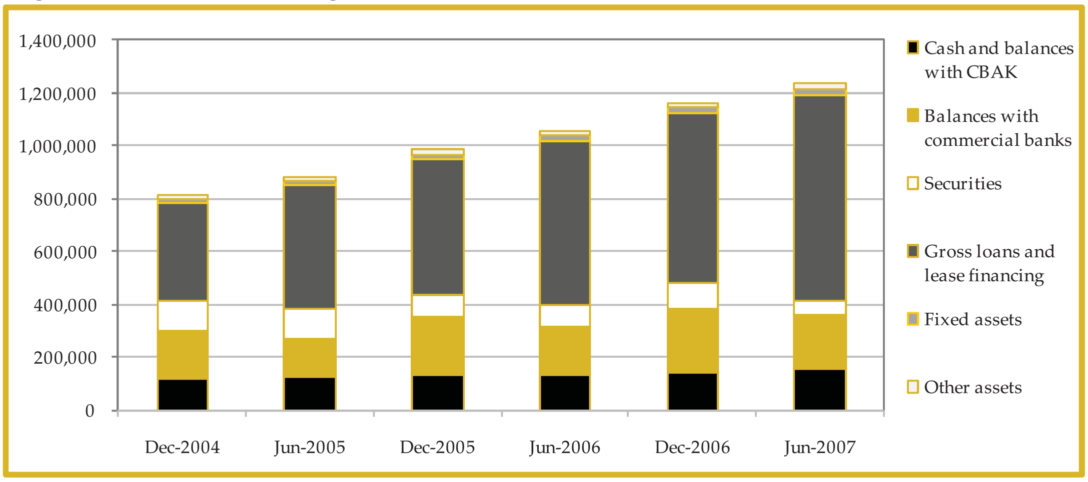
[3] Banking units consist of head offices, branches and sub-branches.

3.2. Balance Sheet of Banking Sector

3.2.1. Asset Structure

Assets of the banking sector grew by 17.3%, amounting at euro 1.24 billion in June 2007 from euro 1.05 billion in June 2006. The growth of assets mostly derives from the increase in the three largest banks' assets that recorded an annual growth of 21.1%. As a share to GDP, banking sector assets reached 49.6% in June 2007 from 43.8% in June 2006, which indicates an increase in the intermediation of the banking sector of Kosovo. The structure of assets was not subject to significant changes between June 2006 and June 2007. Representing 63.4% of total assets, loans remain the main item of the banking sector assets. Despite an annual increase of 13.8% in terms of volume, balances with commercial banks declined to 17.1% of total assets in June 2007. Cash and balances with CBAK remained relatively stable at around 12.0% of total assets.

Figure 5. Structure of banking sector assets, in EUR thousands



A decline is noticed also in investments in securities abroad as a share to total assets to 3.8% in June 2007 (7.7% in June 2006). Standing at 1.9% of totals assets, fixed assets declined by 0.5pp compared to June 2007, while other assets were relatively stable at 1.5% of total assets (1.4% in June 2006). The structure of assets is mainly the same for all banks, independent of the size and proprietorship of the bank.

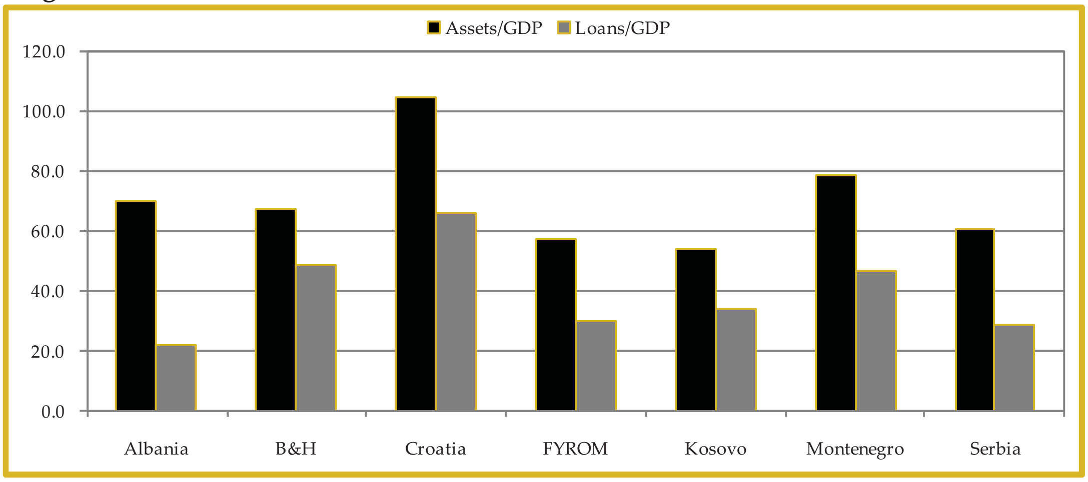
3.2.1.1. Loans

Loans of the banking sector reached euro 784.4 million in June 2007, which is an increase of 27.1% compared to June 2006. The increase in loans has mainly resulted from the expansion of the three largest banks that contributed with 26.4pp (out of 27.1%) in the overall increase of loans. The increase of loans was mainly driven by the growth of loans to Non-Financial Corporations (NFC) that contributed with 21.7pp, whereas in terms of maturity, loans with maturity over 2 years (mainly to NFC) were the main driver. The credit expansion is financed mainly from the increase in deposits in the banking sector and potentially a shift from investments in securities towards loans.

Box 1. Banking sector assets and loans as a share of GDP – Comparison with SEE countries

With banking sector assets accounting for 53.5% of GDP in June 2007, Kosovo ranks below the countries of the region that attained an average ratio of 72.8%. In terms of lending activity, Kosovo banking sector compares relatively well with other SEE countries. Loans granted by the banking sector of Kosovo accounted for 33.9% of GDP in June 2007 compared to the average of 38.9% for other SEE countries. Loan-to-GDP ratio in Kosovo ranks higher than the ratio attained in Albania (22.3%), Serbia (28.2%) and FYROM (29.6%).

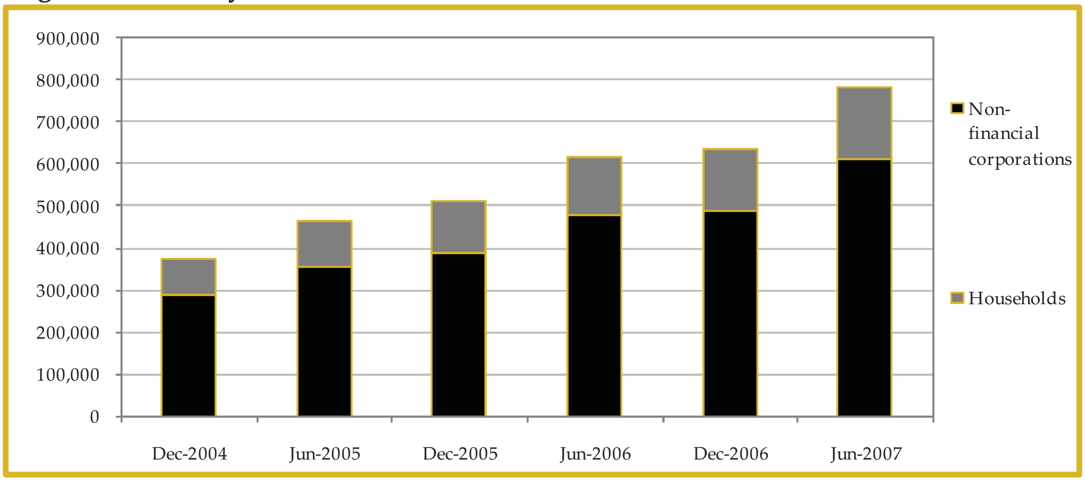
Figure 6. Assets and loans as a share of GDP in SEE countries, in %



Source: Central Banks in respective countries, CBAK (2007)
Note: Data for Albania, Bosnia and Herzegovina, FYROM, Montenegro, and Serbia are as of December 2006, whereas for Croatia as of June 2006.

Loans by sector. The largest share of banking sector loans goes to NFC that absorbed 78.3% of total loans or euro 614.5 million in June 2007, an annual increase of 27.9%. The period between June 2006 and June 2007 marked an extension in the maturity of NFC loans. The share of NFC loans with maturity over 2 years to total NFC loans recorded 56.6% in June 2007 that is an increase of 13.0pp compared to June 2006. Whereas, NFC loans of the same maturity increased their share to total loans with maturity over 2 years at 72.4% in June 2007 from 68.8% in June 2006.

Figure 7. Loans by sector, in EUR thousands



Amounting euro 169.9 million in June 2007, loans granted to households recorded an annual growth of 24.5%. As a share to total loans, loans to households stood at 21.7% in June 2007, a decline of 0.4pp compared to June 2006. Similar to NFC loans, maturity is extended also for household loans, where loans with maturity over 2 years accounted for 74.6% of total household loans in June 2007 (69.2% in June 2006). However, the share of household loans with maturity over 2 years to total loans of the same maturity recorded an annual decline of 4.4 pp in June 2007, standing at 27.6%. The share of household loans to total loans in Kosovo is the lowest in the region. This is mainly due to the high level of interest rates prevailing in the Kosovo banking sector which makes it difficult for households, taking into consideration the low level of income, to afford high interest payments. In addition, the low level of credit to households is also a consequence of the high level of unemployment persisting in Kosovo, since potential borrowers that do not receive income through the banking sector generally are not qualified to be granted a loan.

Table 4. Loans to Households in SEE countries, as of 2006

Country	Loans to households (% of total)
Albania	30.5
BiH	77.7
Bulgaria	35.1
Croatia	55.6
FYROM	31.0
Romania	42.6
Serbia	n/a
Montenegro	39.9
Kosova (2007)	22.4
Average	**41.9**

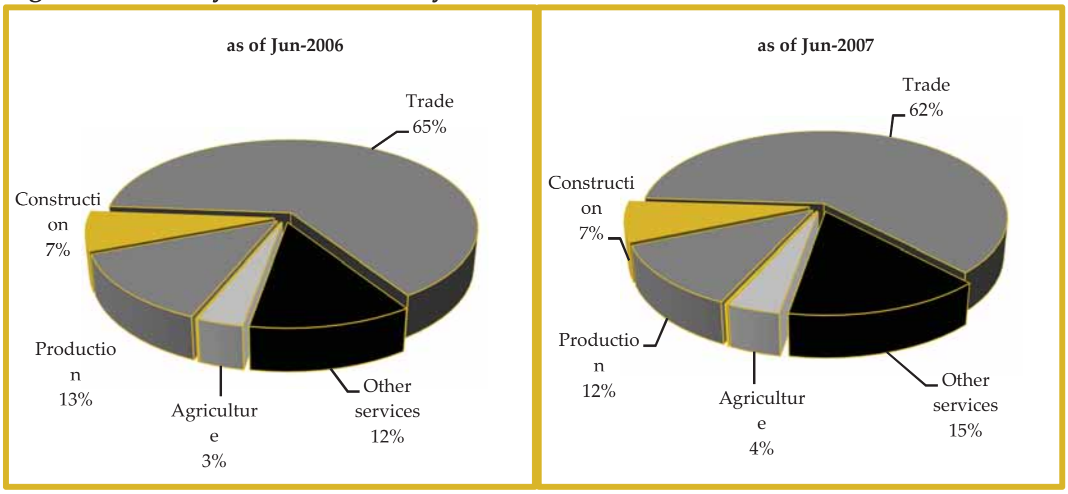
Source: EBRD Transition Report (2007)

Loans by economic activity.[4] Services remain the most credited sector by banks in Kosovo, with loans amounting euro 471.6 million in June 2007 that is 76.8% (76.5% in June 2006) of total loans to NFC. Loans to services mainly consist of trade sector loans that compose 61.9% of total loans to NFC. Production sector absorbed 11.7% of total loans to industry, which is euro 72.2 million. Production sector loans mainly

[4] Loans by economic activity include loans granted to NFC.

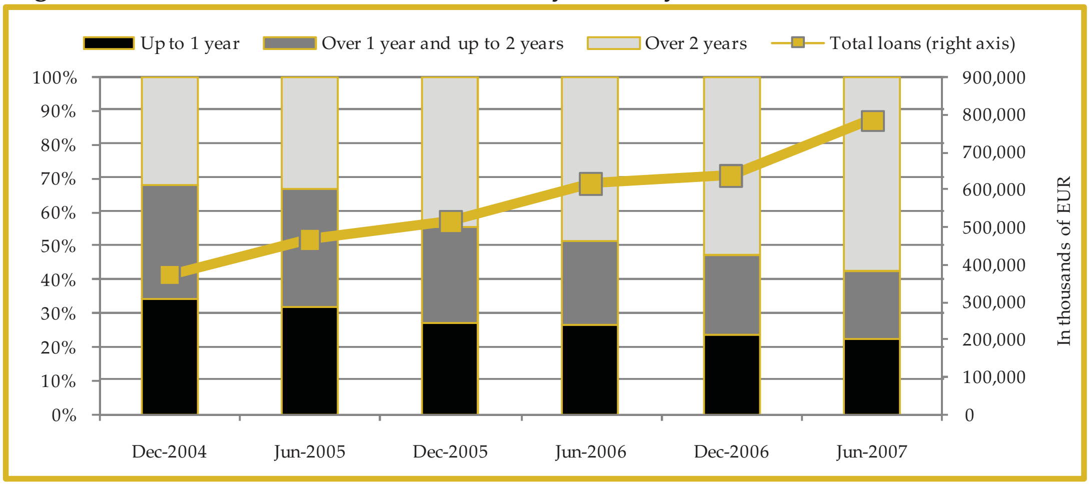
consist of loans extended to the manufacturing sector (food, textile, leather, lumber, paper) that accounted for euro 62.9 million or 9.8% of total loans to industry. Loans extended to production sector mainly (98.1%) have over 1 year maturity. Construction sector absorbed 7.4% of total loans to the production sector in June 2007 compared with 7.1% in June 2006. Loans extended to the agriculture sector accounted for 4.0%, which is 0.6pp higher than in June 2006.

Figure 8. Loans by economic activity



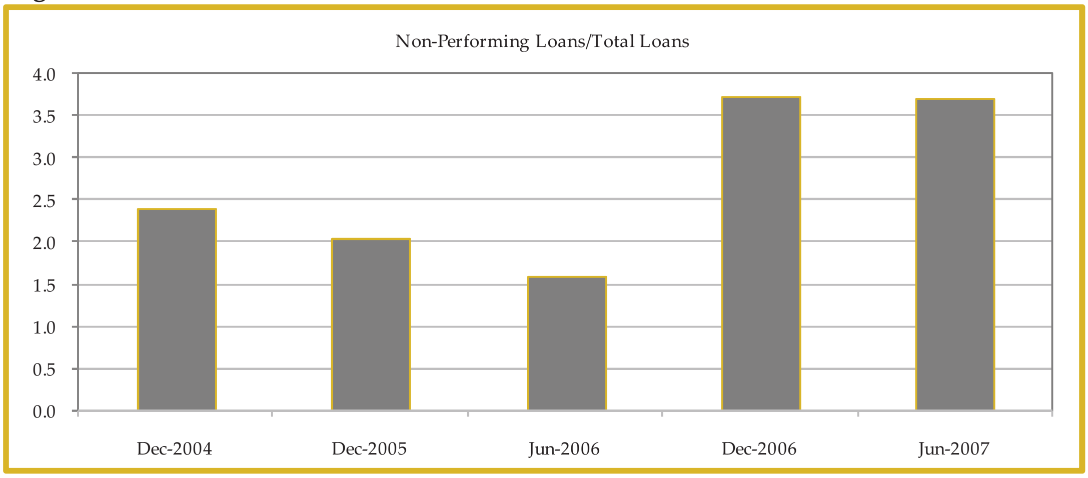
Loans by maturity. Loans with maturity up to 1 year accounted for 22.1% of total loans in June 2007, which is a decline of 3.9pp compared to June 2006. A decline of 3.8pp is noticed also in the share of loans with maturity over 1 and up to 2 years. The largest category of loans are with maturity over 2 years and further increased their share to total loans reaching 57.8% in June 2007 (49.1% in June 2006). The increase in the loans maturity can partially be attributed to the increase in the banks confidence in market. Three largest banks have the highest share of loans with maturity over 2 years, composing 63.0% of their total loan portfolio compared to 26.4% in other three banks.

Figure 9. Total loans and structure of loans by maturity



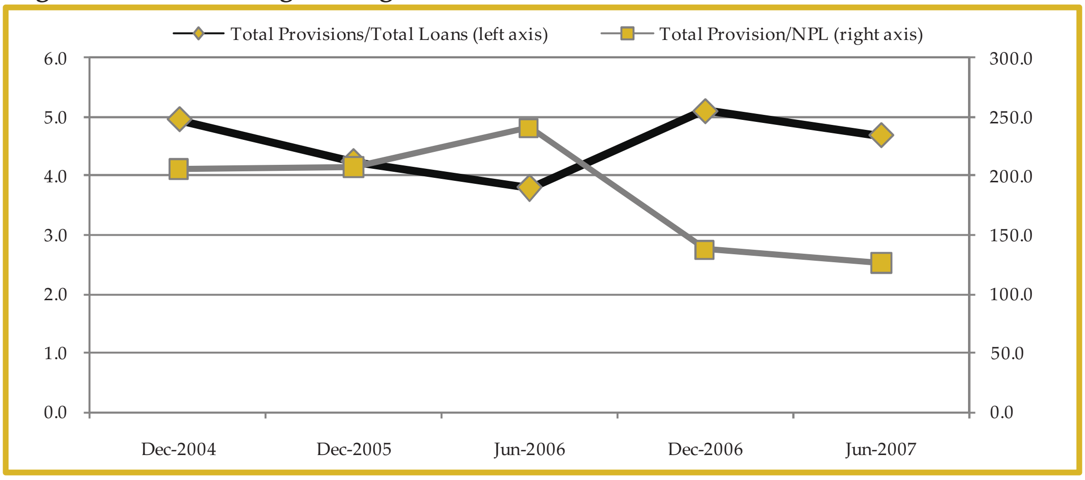
Loan Quality and Provisioning. Consisting of doubtful and loss loans, Non-Performing Loans (NPL) represented 3.7% of total loans in June 2007, indicating a slight deterioration in the quality of loan portfolio compared to June 2006 (1.6% of total loans). The increase in NPL was mainly recorded during the second half of 2006, where the share of NPL to total loan portfolio reached 3.7% in December 2006. NPL in Kosovo banking sector mainly consist of doubtful loans that compose 63.0% of total NPL, followed by loss loans with 37.0%.

Figure 10. Share of NPL to total loans, in %



Taken by bank groups, larger banks appear to have a better quality of the loan portfolio than smaller banks. As of June 2007, three largest banks recorded a NPL to total loans ratio of 3.2%, while at rest of the banks, on average, NPL accounted for 8.1% of their loan portfolio. Compared to June 2006, NPL to total loans ratio for the three largest banks increased by 2.1pp, while for other banks it increased by 3.2pp.

Figure 11. Provisioning coverage of total loans and NPL, in %

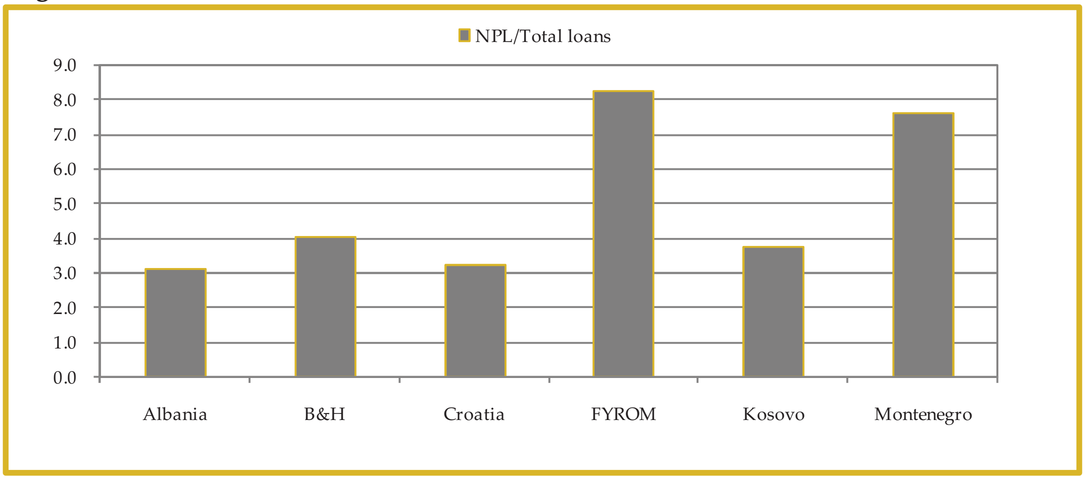


The growth of total loan portfolio was also associated by an increase in total provisioning that in June 2007 covered 4.7% of total loan portfolio, which is an increase of 0.9pp compared to June 2006. However, the degree of NPL coverage by total provisions (total provisions to NPL ratio) declined to 125.6% in June 2007 from 240.6% in June 2006, mainly due to a faster growth in NPL than in provisions.

Box 2. NPL to total loans – Comparison with SEE countries

The NPL to total loans ratio of 3.7% ranks Kosovo below the average of 5.2% recorded in region countries, indicating that loan portfolio of banking sector in Kosovo, on average, is of a better quality than in other countries of the region.

Figure 12. Share of NPL to total loans in SEE countries, in %



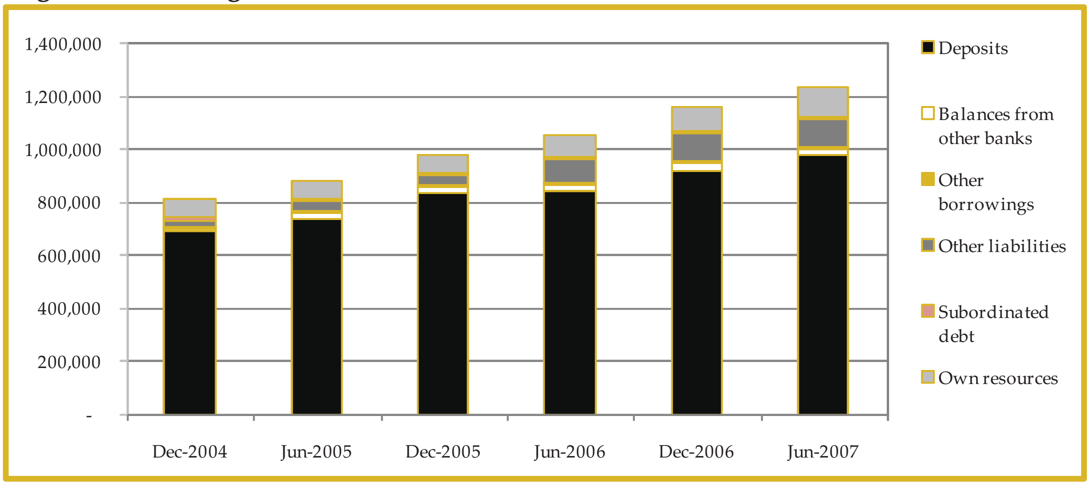
Source: Central Banks in respective countries, CBAK (2007)
Note: For Croatia, the share of partly recoverable and irrecoverable placements to total placements is used
Note: Data for Albania, Bosnia and Herzegovina, FYROM, and Montenegro are as of December 2006, whereas for Croatia as of June 2006. Data for NPL level in Serbia are not available.

The highest NPL to total loans ratio is noticed in FYROM, where non-performing loans accounted for 8.2% of total loan portfolio, followed by Montenegro with 7.6%. Whereas, the country that recorded the lowest share of NPL to total loans is Albania with an NPL to total loans ratio of 3.1%.

3.2.2. Liability structure

Amounting at euro 1.24 million in June 2007, banking system liabilities were 17.3% higher than in June 2006. The increase in total liabilities was mainly driven by deposits that contributed with 12.9pp (out of 17.3%), followed by own resources that contributed with 3.1pp.

Figure 13. Banking sector liabilities, in EUR thousands



The largest category of banking sector liabilities remained deposits that accounted for 79.4% of total liabilities in June 2007 (80.2% in June 2006). The structure of liabilities changed slightly in favor of own resources that became the second largest category of banking sector liabilities, representing 9.3% of total liabilities in June 2007, following an annual increase of 39.9%.[5] Balances from other banks recorded an annual decline of 10.4% in volume that, in turn, declined to 2.0% as a share to total. Other liabilities and subordinated debt remain relatively stable at 8.4% and 0.6% of total liabilities, respectively.

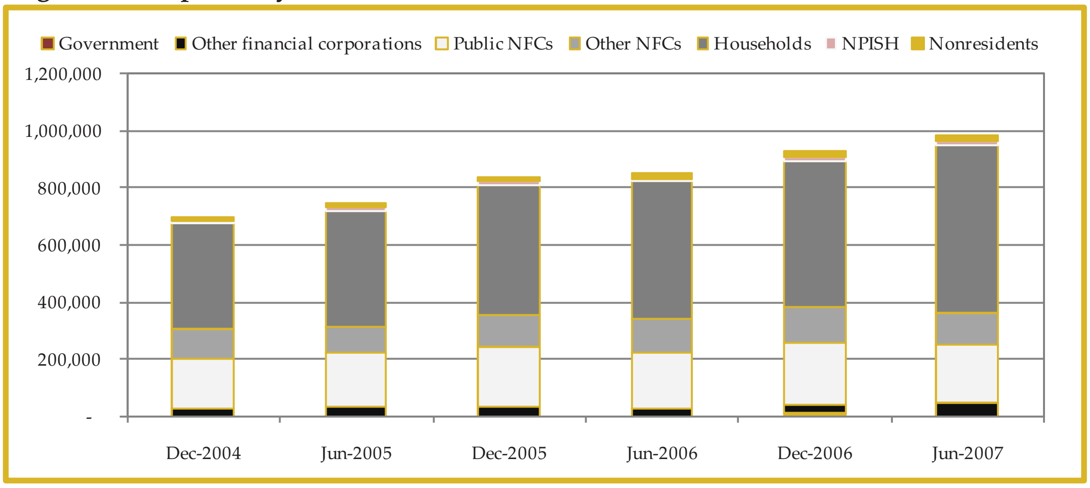
3.2.2.1. Deposits

Banking sector deposits in June 2007 amounted at euro 981.5 million, an increase of 16.1% compared to June 2006. The increase in deposits originates mainly from the growth of deposits in three largest banks that grew by 19.2%. Banking sector deposits are held mainly in euro currency (95.3% of total deposits, as of June 2007).

Deposits by sector. Deposits of the banking sector mainly consist of household deposits that in June 2007 composed 60.0% of total deposits (euro 589.1 million). Compared to June 2006, household deposits increased their share to total deposits by 3.3pp while in volume they increased by 23.0%.

[5] Own resources are composed from: Share capital, Contingency reserve, General and other reserves, Profit/loss of the year, Retained profit/loss.

Figure 14. Deposits by sector, in EUR thousands



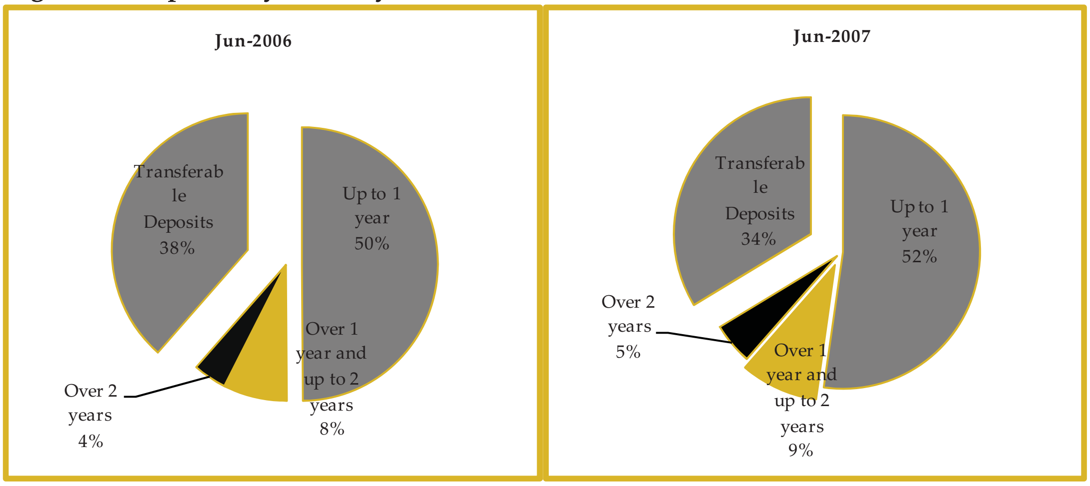
NFC deposits represent the second largest source of banking sector deposits. These deposits amounted at euro 316.6 million in June 2007 that represents 32.3% of total deposits. However, compared to one year ago, the share of NFC deposits in total deposits declined for 4.7pp, while in volume had a relatively low annual growth of 1.3%. They mainly consist of public NFC deposits that account for 63.9% of total NFC deposits (20.6% of total deposits).

Government deposits in banking sector amounted at euro 4.6 million in June 2007, which is an annual decline of 0.9%, whereas as a share to total deposits they remained constant at 0.5%. An increase is noted in deposits of OFC that, considering the low base, increased by 88.3%, increasing their share to total deposits at 3.8% from 2.4% in June 2006. Amounting euro 19.3 million, deposits of non-residents represented 2.0% of total deposits at banking sector in June 2007 (2.2% in June 2006). In volume, deposits of non-residents grew by 5.3% annually, which is much lower than the annual growth of the past two years that averaged to 20.6%.

Deposits by maturity. The share of transferable deposits to total deposits continues to decline as the share of other deposits is continuously growing. Transferable deposits represented 33.7% of total deposits in June 2007, which is a decline of 5.0pp compared to June 2006. Transferable deposits amounted at euro 330.5 million in June 2007, an annual increase of 1.1%. Other deposits, on the other hand, reached 66.3% of total deposits in June 2007 from 61.3% in June 2006. With an annual growth of 25.6%, the outstanding amount of other deposits amounted at euro 651.0 million in June 2007.

The structure of other deposits mainly comprises of deposits with maturity up to 1 year that compose 78.8% of other deposits (81.9% in June 2006), followed by deposits with maturity over 1 year and up to 2 years that compose 13.9% (11.3% in June 2006). The smallest share of deposits is represented by deposits with maturity over 2 years that compose 7.4% of total other deposits (6.8% in June 2006). Taken by bank groups, there are no significant changes in the composition of other deposits between larger and smaller banks.

Figure 15. Deposits by maturity



3.3. Banking sector performance

3.3.1. Income statement

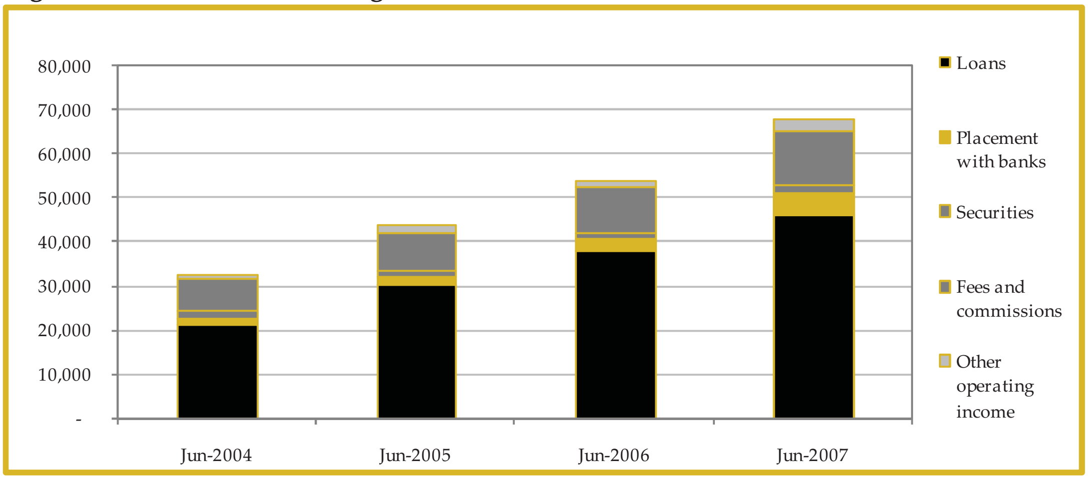
Net profit of banking sector reached euro 17.1 million in June 2007, which is an increase of 58.5% compared to June 2006. The increase in the net profit of banking sector is mainly due to a faster increase in the income than expenditures. Income of banking sector recorded an annual growth of 26.1% in June 2007 against the annual growth of 18.5% in expenditures.

Table 5. Banking sector income statement, in EUR thousands

Description	Jun-2004	Jun-2005	Jun-2006	Jun-2007
INCOME				
Interest Income	24,311	33,361	42,276	53,070
Non-interest income	8,471	10,410	11,573	14,860
Total income	32,782	43,771	53,849	67,930
EXPENDITURES				
Interest expenditures	4,277	6,975	9,028	12,282
Non-interest expenditures	6,822	11,956	9,856	10,608
General and administrative expenses	15,215	20,504	21,830	25,357
Total expenditures	26,314	39,435	40,714	48,247
NET INCOME				
Net operating income	6,468	4,336	13,134	19,683
Net income before tax	6,638	4,573	13,198	20,606
Provisions for taxes	981	1,464	2,416	3,514
Net profit/loss for period	5,657	3,109	10,783	17,092
Retained profit	5,657	3,109	10,783	17,092

Structure of Income. Total income received by banking sector amounted at euro 67.9 million in June 2007, an increase of 26.1% compared to June 2006. The increase in total income is mainly driven by the increase in interest income (20.0pp). Interest income mainly comprises of interest from loans that composes 87.2% of total interest income, while interest from placements with other banks and interest from securities are represented with 9.1% and 3.6% of total interest income, respectively.

Figure 16. Structure of banking sector income, in EUR thousands



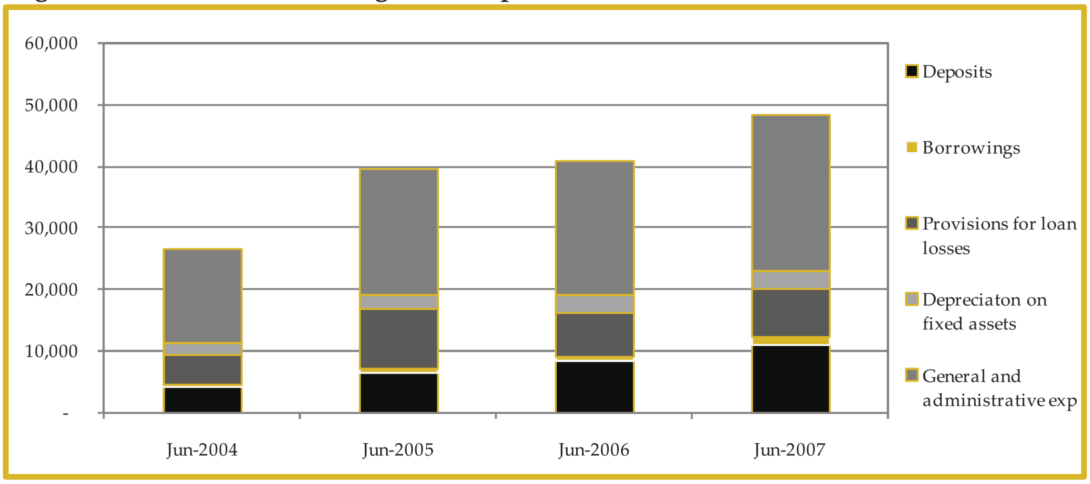
With euro 14.9 million, non-interest income represents the other source of banking sector income. Non-interest income is mainly composed from fees and commissions (81.7%) and the rest consists of other operating income.

Taken by size of the banks, the structure of the banking sector income slightly differs between banks. Even though interest income is the main source of income for all banks, its share to total income differs between larger and smaller banks. The share of interest income of three largest banks to the total income of these banks was 82.9%, while for other banks (share of interest income of three remaining banks to total income of these banks) this ratio equaled 52.2%, implying that smaller banks rely on non-interest income more than larger banks.

Structure of Expenditures. Expenditures of the banking sector, in June 2007, reached euro 42.8 million, an annual increase of 18.5%, mainly driven by general and administrative expenditures (8.7pp) and interest expenditures (8.0pp). The largest share of expenditures (52.6%) is explained by general and administrative expenditures, followed by interest expenditures and non-interest expenditures with 25.5% and 22.0% of total expenditures, respectively.

Interest expenditures mainly consist of the interest paid on deposits that composes 88.0% of total interest expenditures, with the rest belonging to the interest paid on other borrowings. Non-interest expenditures, on the other hand, mainly consist of provisions for loan losses that represent 73.7% of total non-interest expenditures, while the remainder comprises of depreciation on fixed assets.

Figure 17. Structure of banking sector expenditure, in EUR thousands



Interest rates.[6] Interest rates for deposits in June 2007 stood at 2.46%, which is an increase of 0.43pp compared to June 2006. In terms of sector, interest rates for NFC deposits reached 3.33% in June 2007 (2.53% in June 2006), while interest rates for household deposits increased to 2.10% (1.98% in June 2006). Increase is noticed also in interest rates for loans that increased by 0.33pp compared to June 2006, reaching 14.84% in June 2007. In terms of sector, interest rates for loans to NFCs stood at 15.38% in June 2007 (14.93% in June 2006), while interest rates for loans to households stood at 13.14% (12.56% in June 2006).

Table 6. Interest rates on loans and deposits, in %

Description	Dec-2004	Jun-2005	Dec-2005	Jun-2006	Dec-2006	Jun-2007
DEPOSIT rates	2.38	2.25	2.64	2.03	2.32	2.46
Nonfinancial corporations	3.00	3.18	3.23	2.53	3.19	3.33
Households	2.05	2.00	2.24	1.98	2.06	2.10
LOAN rates	15.72	15.11	14.47	14.52	14.70	14.84
Nonfinancial corporations	16.04	15.73	14.87	14.93	14.97	15.38
Households	12.53	12.74	11.51	12.56	12.48	13.14
Overall Interest Rate Spread	13.34	12.86	11.83	12.48	12.37	12.38

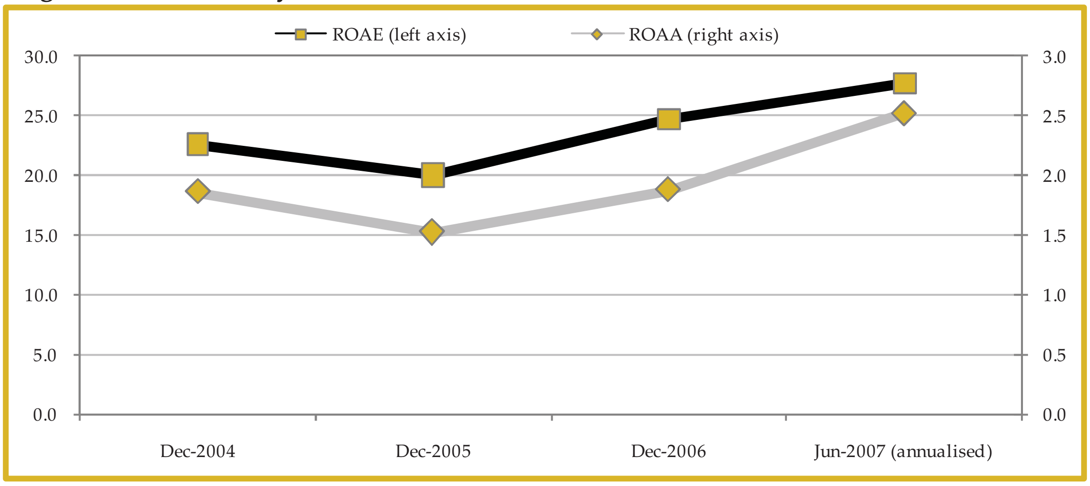
The overall interest rate spread in June 2007 declined to 12.38pp from 12.48pp in June 2006. Decline of the interest rate spread is due to a higher increase in the interest rate for deposits than in the interest rate for loans. The interest rate spread for NFCs declined to 12.05pp in June 2007 (12.40pp in June 2006), while the interest rate spread for households increased to 11.04pp (10.58pp in June 2006).

[6] Weighted average among different products.

3.3.2. Profitability and Efficiency indicators

The profitability of banking sector in Kosovo improved both in terms of return on average assets (ROAA) and return on average equity (ROAE). In June 2007 (annualized data), ROAA stood at 2.5% that is for 0.6pp higher than in end-2006, while ROAE (annualized) increased to 27.7% from 24.7% in end-2006. The increase in the return of banking sector is attributed to a higher net profit realized in June 2007 that mainly originated from the increase in loan interest income.

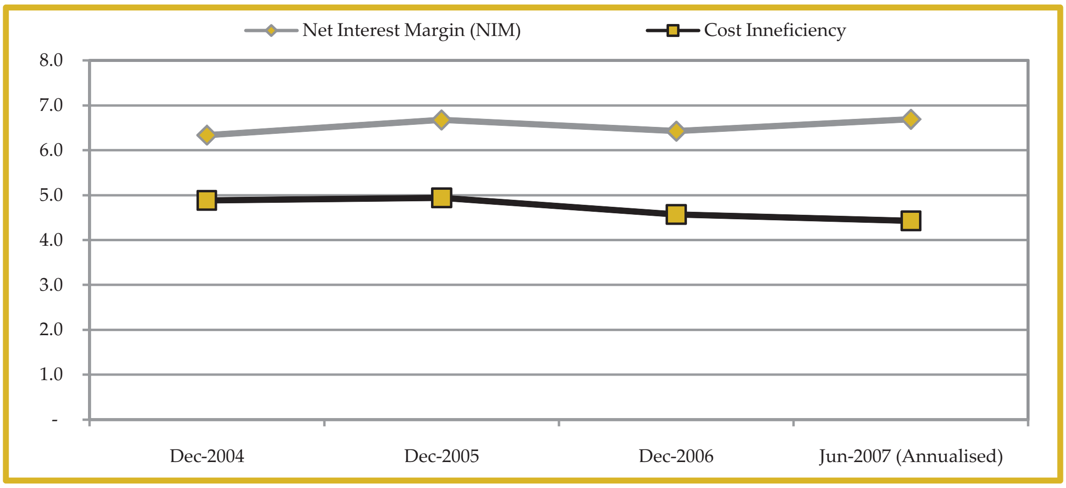
Figure 18. Profitability Indicators, in %



Banking sector incurred favorable results also with regard to Net Interest Margin (NIM) that represents the difference between interest income and interest expenditure as a share to average assets. Standing at 6.7% (annualized), NIM of banking sector recorded for 0.3pp higher than in end-2006. Banking sector improved also with regard to the Net Non-Interest Margin that stood at 0.6% (annualized), which is an increase of 0.3pp compared to end-2006.

Another indicator that shows an improved efficiency in the banking sector is the Cost Inefficiency indicator that represents the share of general and administrative costs to total assets of the banking sector. This indicator declined to 4.4% (annualized) in June 2007 from 4.6% in end-2006 (Figure 19).

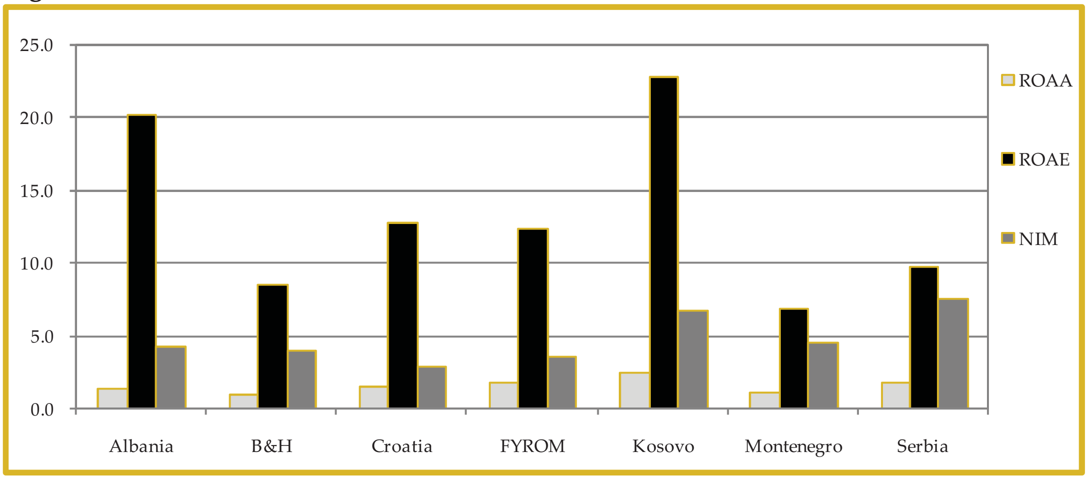
Figure 19. Efficiency indicators, in %



Box 3. Banking Sector profitability and efficiency – Comparison with SEE countries

Banking sector in Kosovo appears more profitable than banking sector in the region. The ROAA of 2.5% attained by banking sector in Kosovo is for 1.1pp higher than the average ROAA recorded in the region countries. Banking sector in Kosovo recorded higher profitability also with regard to ROAE that stood at 27.7% against the average of 11.7% recorded in the region countries.

Figure 20. ROAA, ROAE and NIM in SEE, in %



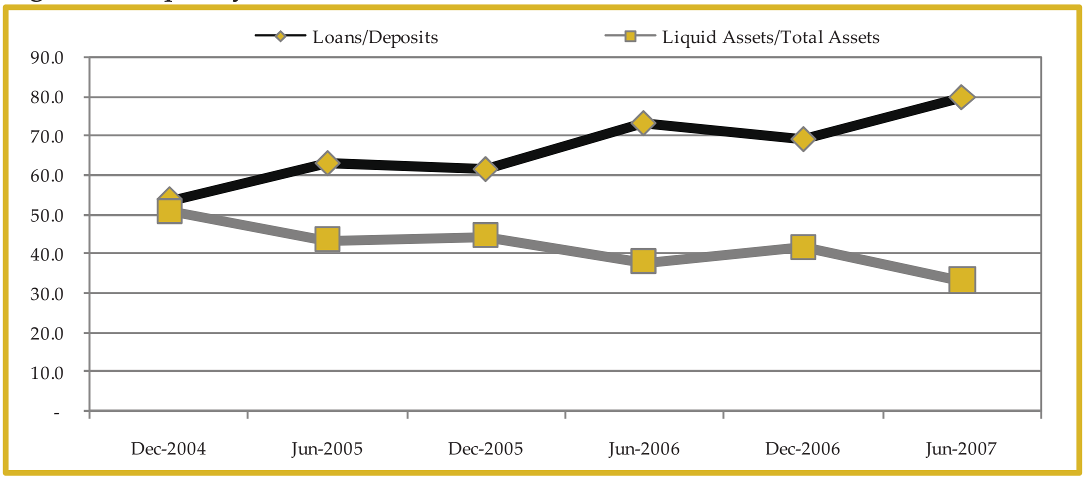
Source: Central Banks in respective countries CBAK (2007)
Note: Data for Albania, Bosnia and Herzegovina, FYROM, Montenegro, and Serbia are as of December 2006, whereas for Croatia as of June 2006.
Note: For Montenegro and Serbia we use ROA and ROE.

On Average, Kosovo banking sector recorded more favorable results than banking sectors in other countries of the region, also with regard to NIM, which stood at 6.7% for banking sector in Kosovo against the average of 4.4% in the region.

3.3.3. Liquidity and Solvency

Liquidity of banking sector continued to decline over the first half of 2007 both, in terms of loans to deposits ratio, and the share of liquid assets to total assets. Due to a faster growth in loans extended by the banking sector than in deposits received, the ratio of loans to deposits reached 79.9% in June 2007 from 73.0% in June 2006. Loans to deposits ratio increased in June 2007 despite a decline in this ratio in December 2006 when this ratio accounted for 68.9%.

Figure 21. Liquidity indicators, in %

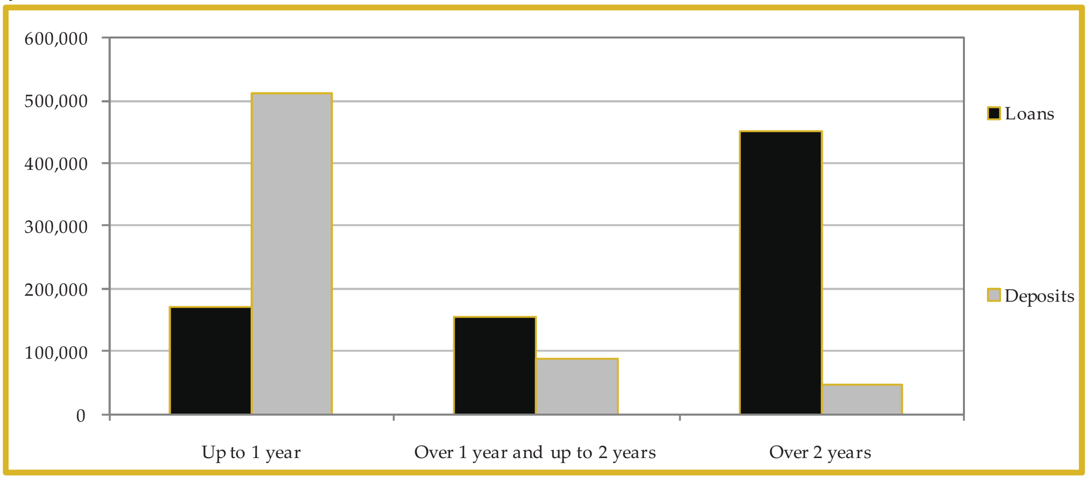


A less favorable liquidity position in June 2007 is also shown by the share of liquid assets (cash, balances with CBAK, balances with banking sector, and securities) to total assets of the banking sector. This ratio declined to 33.2% in June 2007, a decline of 4.6pp compared to one year ago. The decline in the share of liquid assets to total assets can partly be explained by the decline of securities and balances with commercial banks as a share to total assets, while on the other hand, there is an increase in the share of loans to total assets of the banking sector. Moreover, within loans there is a continuous shift from shorter to longer term loans.

The continuous increase of longer term loans on one hand, and persisting low level of long term deposits on the other hand, may pose another liquidity risk deriving from the maturity mismatch between loans and deposits (Figure 22). The highest maturity mismatch stands for loans and deposits with maturity over 2 years followed by those with maturity over 1 year and less than 2 years, where loans exceed deposits by euro 405.8 million and euro 67.1 million, respectively. The opposite situation stands for loans and deposits with maturity up to 1 year, where deposits exceed loans by euro 339.5 million, an amount that can be used to fulfill the gap in other maturities (Figure 22). On the other hand, core deposits[7] composed 80.9% of total deposits in June 2007, indicating a relatively favorable liquidity position in the Kosovo banking sector with regard to this indicator. The ratio of 80.9% implies that the largest share of deposits is spread to smaller depositors.

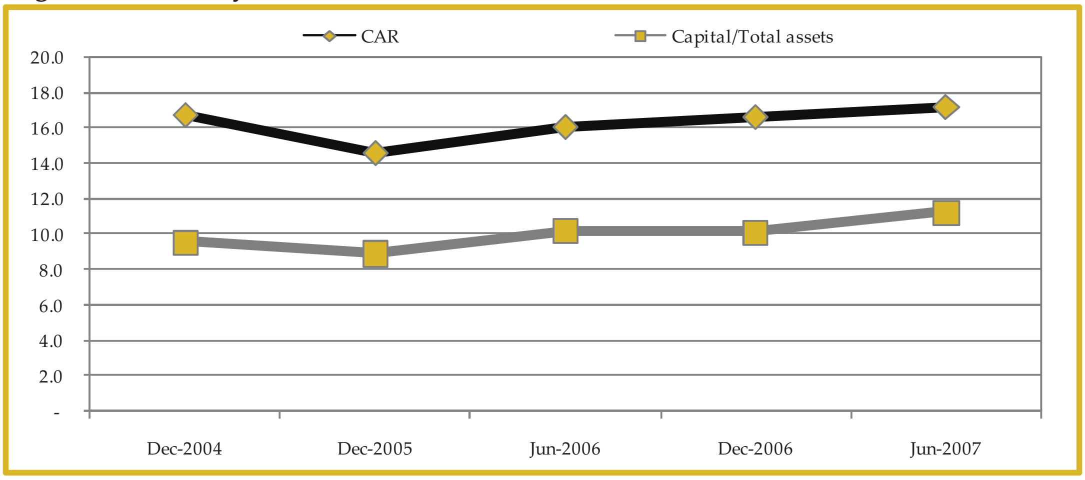
[7] Excluding depositors with more than 5% of total deposits.

Figure 22. Maturity mismatch between loans and deposits (excluding transferable deposits), as of June 2007, in EUR thousands



Regarding solvency, banking sector showed favorable results with a Capital Adequacy Ratio (CAR) of 17.3% (16.1% in June 2006), which is well above the minimum of 12.0% required by the banking sector regulator. CAR increased due to a faster growth in capital compared to the risk weighted assets. The level of 17.3%, recorded in June 2007 represents the highest level of CAR attained since year 2003. Taken banks individually, all banks recorded a CAR higher than the minimum required, whereas smaller banks appear to have a higher CAR than larger banks.

Figure 23. Solvency indicators, in %

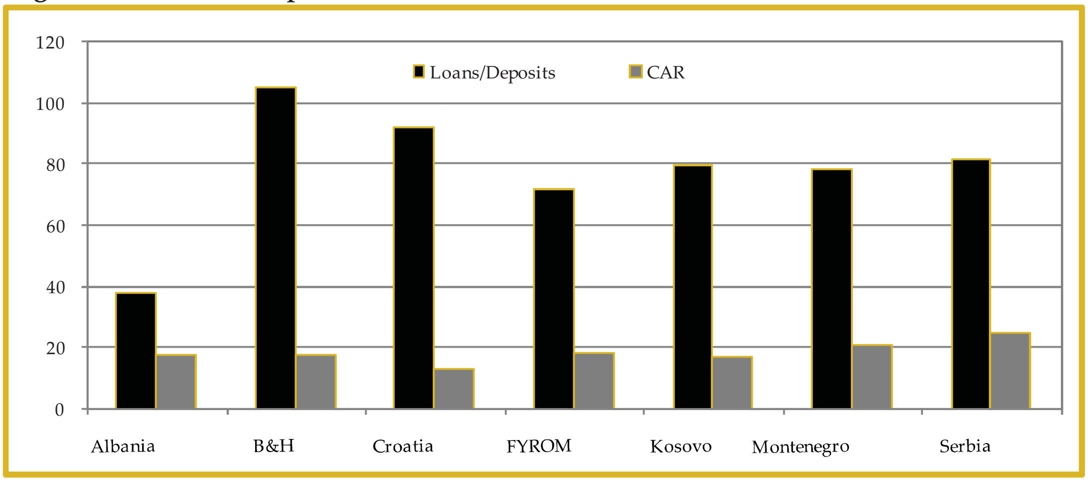


Improvement in the solvency of the banking sector is shown also by the increase in the share of banking sector capital to total assets. Due to a faster increase in the banking sector capital than assets, capital to total assets ratio reached 11.3% in June 2007, an increase of 1.1pp compared to June 2006.

Box 4. Banking sector liquidity and solvency – Comparison with SEE countries

Compared to region countries, Kosovo stands in a relatively favorable position also with regard to banking sector liquidity, which in our case is measured by loan to deposit ratio. Kosovo banking sector recorded a loan to deposit ratio of 79.9% that is slightly higher than the average recorded in the region that stood at 78.0%. Taken by individual countries, the highest ratio is recorded in Bosnia and Herzegovina (105.3%), whereas the lowest is recorded in Albania (37.8%).

Figure 24. Loans to Deposits ratio and CAR in SEE, in %



Source: Central Banks of respective countries, CBAK (2007)
Note: Data for Albania, Bosnia and Herzegovina, FYROM, Montenegro, and Serbia are as of December 2006, whereas for Croatia as of June 2006.

In terms of CAR, with 17.3%, Kosovo banking sector ranks below the average CAR recorded in the region that stood at 18.8%. The highest CAR was recorded in Serbia (24.7%), while the country with the lowest CAR was Croatia (13.2%).

4. Other Financial Corporations

4.1. Insurance Companies

Insurance market continued to grow in 2007, while all companies are still dealing only with non-life insurance services. Compulsory insurance and TPL policies remain the main activities offered in the Kosovo insurance market. Foreign companies hold the largest market share in the sector, accounting for 73.0% of total insurance companies assets. Apart from the change in the number of companies, the ownership structure changed as well. With the change in ownership of Dukagjini insurance company, the number of foreign companies increased to 6 in June 2007, and the remaining 3 are domestic companies. The share of three largest companies assets to total insurance companies assets declined to 51.9% in June 2007 from 56.0% in June 2006.

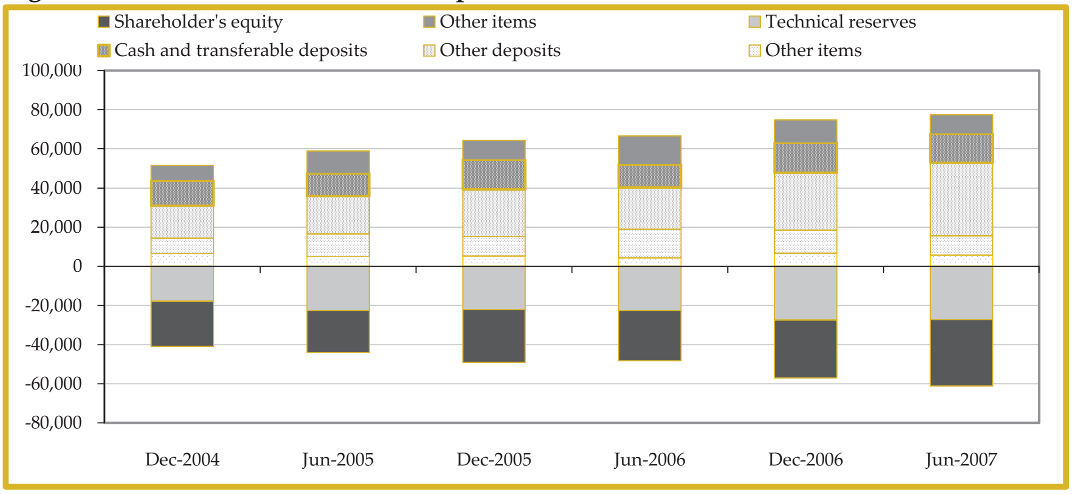
Table 7. Insurance companies number, asset size and ownership

Description	Dec-2004	Jun-2005	Dec-2005	Jun-2006	Dec-2006	Jun-2007
Total number of insurance compani	**7**	**7**	**8**	**8**	**9**	**9**
Largest insurance companies	**3**	**3**	**3**	**3**	**3**	**3**
Domestic	0	1	1	1	1	1
Foreign	3	2	2	2	2	2
Other Insurance Companies	**4**	**4**	**5**	**5**	**6**	**6**
Domestic	2	1	1	1	2	2
Foreign	2	3	4	4	4	4
Total assets of insurance companies	**43,797**	**47,520**	**54,423**	**54,691**	**62,971**	**67,640**
Largest insurance companies	24,679	26,526	28,234	30,650	32,152	35,079
Other	19,118	20,994	26,189	24,041	30,819	32,561

The annual growth of total assets of the insurance companies was 29.5% in June 2007, compared to an annual decline of 7.5% in June 2006 against June 2005. Assets of the three largest insurance companies grew by 14.4% in June 2007 over June 2006, while other companies grew by 21.7%. Since June 2005, Kosovo insurance market has attracted not only opening of new companies (Sigma, Croatia and SigKos) but also attracted investments in the existing Kosovo insurance companies, affecting the ownership structure of the market (Sigal-Drini and Dukagjini).

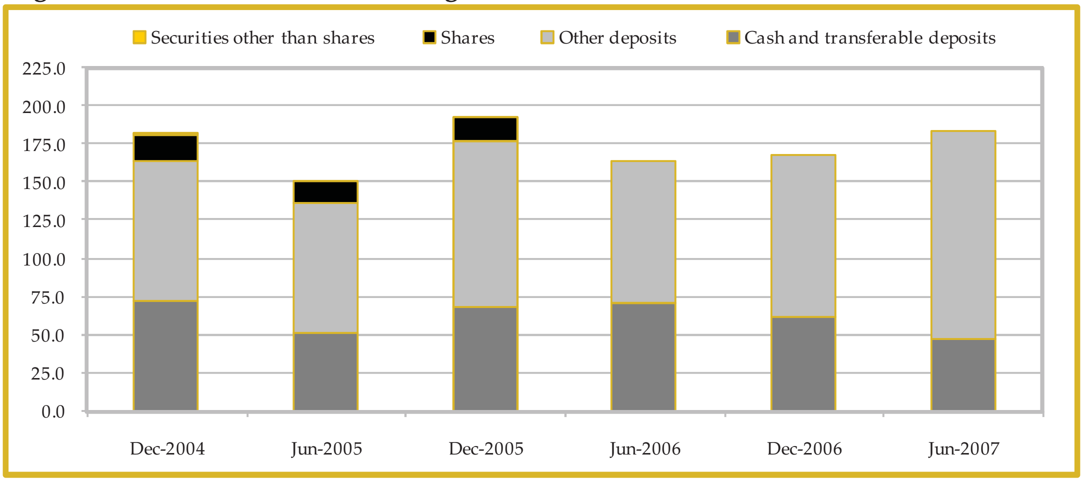
The insurance companies assets are mainly composed from other deposits (time and saving), which account for 55.1% of total assets as of June 2007 (39.8% in June 2006). Despite an annual increase of 26.8% in volume, cash and transferable deposits declined as a share to total assets by 5.9pp, standing at 21.7% in June 2007 (Figure 25). The share of other items and fixed assets to total assets decreased by 9.1 pp and 0.3 pp respectively, accounting for 14.5% and 8.6% of total assets, respectively, in June 2007.

Figure 25. Structure of insurance companies balance sheet, in EUR thousands



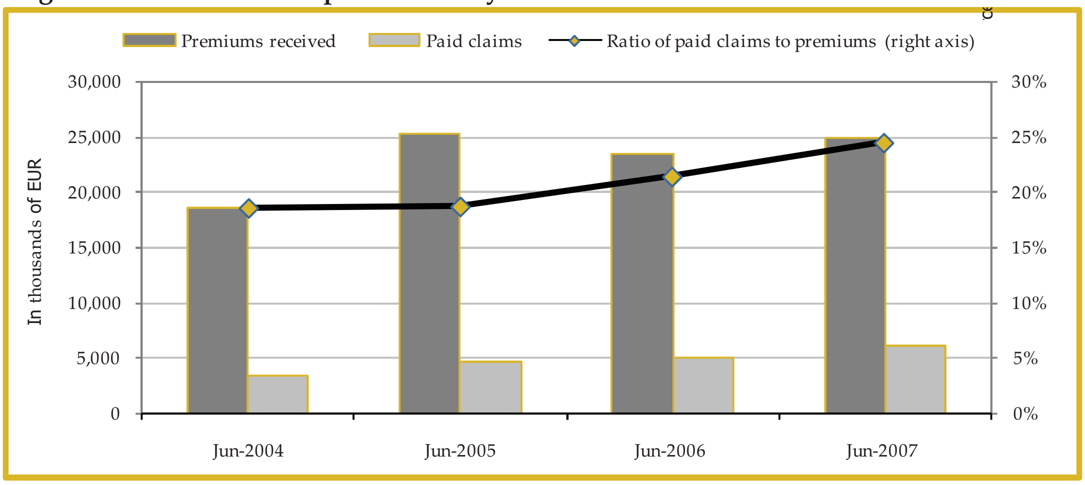
The liabilities side remains dominated by shareholders equity and technical reserves. Growing annually by 1.5pp in June 2007, the shareholder equity accounted for 50.2% of total insurance companies liabilities. Technical reserves decreased by 2.6pp compared to June 2006, representing 40.4% of total liabilities in June 2007. As Figure 26 shows, a large share of technical reserves is covered by cash and deposits (total deposits), which jointly account for the largest share of total assets (76.8%).

Figure 26. Technical reserves coverage, in %



Technical reserves grew faster in June 2007, recording an annual increase of 16.2% compared to 3.6% in June 2006. Claims reserve grew annually by 33.8% (8.0% in June 2006), while unearned premiums grew annually by 7.1% (1.4% in June 2006). Although decreased by 5.0pp, unearned premiums still account for 61.7% of total technical reserves, while claims reserve account for 39.1% of total technical reserves. The largest item within claims reserve are settled claims but not paid, which account for 74.6% of total claims reserve. Incurred But Not Reported (IBNR) claims accounted for 12.8% whereas known claims but not yet settled accounted for 12.6% of total claims. A large annual increase occurred in known claims but not yet settled which grew by 160.3%. Unlike settled claims but not yet paid which grew by 40.0% in June 2007 over June 2006, IBNR recorded an annual decrease of 22.8%.

Figure 27. Insurance companies activity



Amounting at euro 24.9 million, premiums received grew annually by 5.8%. Paid claims on the other hand grew by 20.9%, amounting to euro 6.1 million in June 2007, indicating an increase of 24.5% in the ratio of paid claims to premiums (Figure 27). TPL policies accumulated 75.1% of the total premiums received, marking an annual increase of 3.3%. In the category of claims paid, TPL again represent the largest category with 89.9% (annual increase of 19.9%).

4.2 Pension Funds

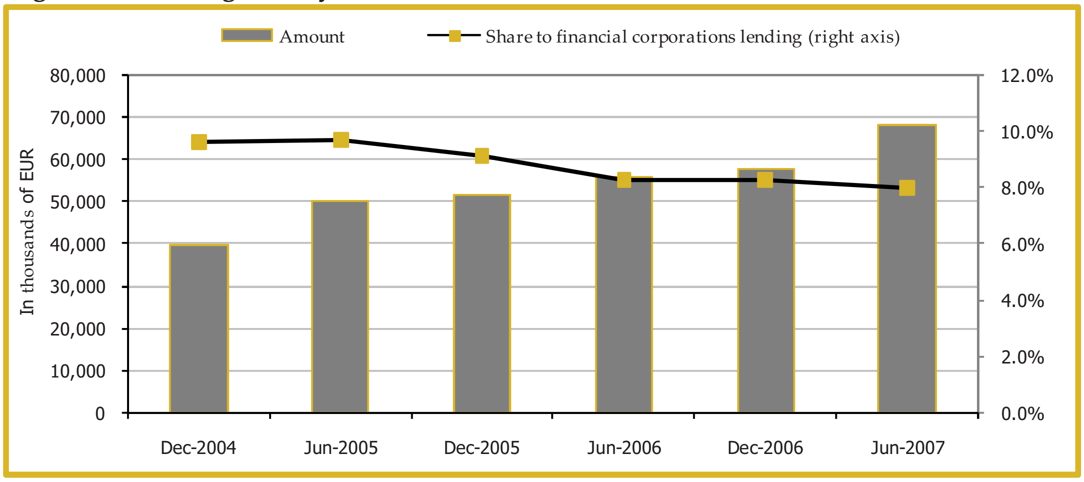
Pension funds assets amounted at euro 10.2 million in June 2007, recording an annual decrease of 7.0%. These funds are organized as supplementary scheme that some employers on voluntary basis pay pension for their employees. Concerning the mandatory schemes, there are two companies where Kosovo employees and employers can pay pension contributions. Namely, they are Kosovo Pension Saving Trust (KPST) and Slovenian-Kosovar pension fund.

Growing by 48.5% over June 2006, the KPST fund accumulated an amount of euro 266.5 million in June 2007. The KPST funds are mainly invested outside Kosovo (98.4%), whereas only 1.6% of total KPST funds are deposited in Kosovo. These investments are mainly in mutual funds investments (63.8% of total pension fund assets), as well as in bonds (34.6% of total assets). Slovenian-Kosovar pension fund is licensed in November 2006 which in terms of asset size is much smaller than KPST. Nevertheless, in June 2007 its assets amounted at euro 297.5 thousand. Concerning the contributors, while the number of contributors in the KPST in June 2007 was around 237 thousand, the Slovenian-Kosovar Pension fund numbered 654 contributors.

4.3 Other Financial Intermediaries

Growing by 22.4% in June 2007 over June 2006, assets of OFI amounted at euro 68.4 million (euro 55.8 million in June 2006). Currently, there are 16 MFI operating in Kosovo, and their main funding remains the external donations. These institutions mainly lend to the micro businesses sector and partially to households.

Figure 28. Lending activity of Other Financial Intermediaries



Falling by 0.3pp, the share of OFI loans to total financial sector loans decreased from 8.3% in June 2006 to 8.0% in June 2007. However, in volume, OFI loans recorded an annual growth of 24.9%, reaching euro 68.4 million in June 2007. The number of extended loans by OFI reached around 40 thousand in June 2007 from 33 thousand in June 2006. The average amount of loan granted by OFI in June 2007 was euro 1.7 thousand that represents an annual decrease of 1.9%.

4.4. Financial Auxiliaries

Financial auxiliaries (FA) are composed mainly from the exchange bureaus and money transfer agencies. The money transfer agencies are dealing mainly with the money transfer of Kosovo Diaspora. About 90.0% of incoming transfers through money transfer agencies in Kosovo are remittances, proving to be very important institutions having into consideration the fact that remittances represent one of the main items in the Kosovo economy.

Table 8. Money Transfers among Financial Auxiliaries, in EUR thousands

Description	Jun-2004	Jun-2005	Jun-2006	Jun-2007
Outgoing	7,690	7,512	8,004	8,810
Incoming	81,950	77,882	84,924	94,403

Following an annual growth of 11.1%, the amount of money transferred (incoming and outgoing) through FA amounted at euro 103.2 million in June 2007. Incoming transfers through FA represents 11.0% of total incoming transfers through financial system in Kosovo, and shows increase by 11.2% when compared on annual basis. The outgoing transfers through FA amounted at euro 8.8 million. Although increased by 10.0% in June 2007 over June 2006, they account for only 1.0% of total outgoing transfers through the financial system.

5. NOTES ON METHODOLOGY

Figure 1. Number of individual financial corporations (excluding CBAK)

The figure shows types of financial corporations licensed from CBAK, and operating in Kosovo. Terminology used in the figure is based on the "Manual on Monetary and Financial Statistics" IMF 2000. CBAK as institution is not included in the presentation. Source for the number on individual types of financial corporations is supervision directorate.

Figure 2. Structure of the financial sector in Kosovo (excluding CBAK)

Figure 2 is compiled using consolidated balance sheet of all financial corporations except CBAK. Removing all their capital and non-capital links (consolidated figure) between the financial corporations, the ratio of each type of financial corporations to total assets of the financial sector in Kosovo is presented. Source for the data are Statistical Bank Report, and supervision directorate of the CBAK.

Figure 3. Financial corporation's domestic claims

The figure shows net claims of financial sector on three sectors: external, fiscal and real.
Net claims on external sector are net foreign assets (NFA) of financial sector. Net foreign assets are claims on nonresidents less liabilities to nonresidents. Net claims on fiscal sector are claims on central government (which is zero in Kosovo case, since CBAK has no mandate to extend any kind of credit to government) less the liabilities to local and central government represented by their deposits in CBAK. Net claims on real sector are claims on real sector (mainly loans extended to real sector) less the liabilities to real sector consisting mainly of their deposits in financial sector.
Schedule Financial Corporations (FC) Survey is the source for the data on net claims of financial sector.

Table 2. Market share (in %) and HHI concentration (points)

The concentration of assets, loans and deposits for the each bank is calculated using the formula of HHI.
This formula is calculated as follows:

$$HHI = \sum_{i=1}^{n} \left[\frac{Assets_i}{Total\ banking\ sector\ assets} * 100\right]^2$$

$$HHI = \sum_{i=1}^{n} \left[\frac{Loans_i}{Total\ banking\ sector\ loans} * 100\right]^2$$

$$HHI = \sum_{i=1}^{n} \left[\frac{Deposits_i}{Total\ banking\ sector\ deposits} * 100\right]^2$$

Where *i* represents the number of banks. The HHI is calculated by squaring the market shares of each bank and then summing the results. Schedule Balance Sheet (BS) is the source for the data on the amounts of assets, deposits, and loans.

Figure 5. Structure of banking sector assets

The figure presents each item (category) of assets in volume and their share in total assets for the particular period. Schedule BS is the source for the data on the amount of assets for the banking sector in Kosovo.

Figure 7. Loans by sector

The sectoral diversification of the loan exposure is presented by the type of beneficiaries such as non-financial corporations and households. The share of loans for each category in total banking sector loans is calculated and presented by bars in the figure. The schedule BS/LBM (Loans by Maturity) is the source of loans by institutional sectors.

Figure 8. Loans by economic activity

The figure shows the industrial diversification of loan exposure during the course of June 2006 and June 2007. Total loans extended by industrial sector of each bank are added up and then the share of loans extended to each industry in total loans extended is calculated for each year. Schedule BS/LBI (Loans By Industry) is the source of data for the amounts of loans extended.

Figure 9. Loans by maturity

The maturity structure of loans is reported for the period 2004-June 2007 for the total banking sector in Kosovo. Loans are split up by their maturity and presented by bars which represents their shares in total loans, whereas the line corresponds to the total banking sector loans presented in volume. Schedule BS/LBM (Loans by Maturity) is the source of data for the maturity structure of loans.

Figure 10. Share of NPL to total loans

The figure presents the ratio of non-performing loans (NPL) to total loans of the banking sector. NPLs are considered to be consisted of two categories of loans: doubtful (90 days past due) and loss loans (180 days past due). Supervision Directorate provides the data on the level of NPLs for total banking sector, while schedule BS is the source for total loans of banking sector.

Figure 13. Banking sector liabilities

The calculation of banking sector liabilities is made in the same manner as the calculation of assets. Each category of the liability side of balance sheet is stated in volume, presented by a bar in the figure. Schedule BS is the source of data on the amount of the liability side of total banking sector balance sheet.

Figure 14. Deposits by sector

The distribution of deposits is presented with charts for the period 2004-June 2007, on the semiannual basis. The deposits of each sector for each bank are added up and thus calculated as a share in total deposits in banking sector.

Figure 15. Deposits by maturity

The maturity structure of deposits is reported for June 2006 and June 2007 for the total banking sector in Kosovo. Deposits are split up by their maturity and presented by slice-bar which represents their shares in total loans. Schedule BS/DBM (euro and Non-euro Deposits by Maturity) is the source of data for the maturity structure of loans.

Table 5. Banking sector income statement

Each category of the income statement is summed up for the total banking sector. Schedule IS (Income Statement) is the source of the data on the amounts of income statement items for the banks.

Figure 16. Structure of banking sector income

The figure plots the structure of the particular component of income for the total banking sector. It shows the amounts of each component of the income structure to the total income presented by bars. The Schedule IS the source of data on the banks' income.

Figure 17. Structure of banking sector expenditure

Same as in the previous figure, the structure of expenditures for the total banking sector is plotted, with each component of interest expenditures, non interest expenditures, and the general and administrative expenses presented by bars. The bars in the figure show the volume of each expenditure component. Schedule IS is the source of data on the expenses of banking sector.

Figure 18. Profitability indicators

Return on Average Assets (ROAA)
The ratio between the after-tax profit and the average assets is calculated for total banking sector. First, the after tax profit for each bank recorded for the particular period is added up for all banking sector, than the banks' assets are added up for all banks. Then the amounts thus calculated are divided and multiplied by 100. The total average assets are calculated as the average of the monthly total banking assets for the particular year. Schedule IS is the source of data for the profit after tax whereas BS is the source for the amount of assets for the banking sector.

Return on Average Equity (ROAE)
The ratio between after tax profit and average equity is calculated for total banking sector. First, the after tax profit for the particular period is added up for total banking sector. Then the average equity is calculated and added for total banking sector. The summed amounts are thus divided and multiplied by 100. The average equity is calculated as the average of the monthly total banking equity for the particular year. Schedule IS is the source for data on the banks' profits and schedule BS is the source for data on equity.

Figure 19. Efficiency indicators

Net Interest Margin
The ratio between the difference of interest income with interest expenditures, and the average assets is calculated for total banking sector.

The total average assets are calculated as the average of the monthly total banking assets for the particular year Schedule IS is the source for data on the banks' interest income and interest expenditures and schedule BS is the source for the amount of assets for the banking sector.

Cost inefficiency

The ratio between the general and administrative costs and the total assets is calculated for total banking sector. Schedule IS is the source for data on the banks' general and administrative costs and schedule BS is the source for the amount of assets for the banking sector.

Figure 21. Liquidity indicators

Each bank ratio between liquid assets and total assets is calculated as follows. First, liquid assets of each bank are added up; second total assets for each bank are added up. The sum of liquid assets of total banking sector and total assets are expressed as a ratio.

Liquid assets are calculated as the sum of the cash, balances with CBAK, accounts with other banks, placements abroad and security investments. Schedule BS is the source for data on liquid assets and for total assets for each bank.

Loan to deposit ratio

The ratio between loans granted and customer deposits received is calculated as follows. First, total loans granted by each bank are added up for the particular period. Second, the customer deposits received for each bank are added up for the specific period. The totals then are expressed as a ratio and multiplied by 100. Schedule BS/LBM is the source for the data on loans granted whereas schedule BS/DBM is the source for the data on deposits.

Figure 23. Solvency indicators

Capital Adequacy Ratio (CAR) for total banking sector is calculated as follows. First, capital of each bank is added up to total capital of banking sector; second risk-weighted assets (RWA) of each bank are added to total banking sector RWA. Then, the ratio between the capital and RWA is calculated for total banking sector. Supervision Directorate provides the data on capital and RWA.

Table 7. Insurance companies number, asset size and ownership

The table on insurance companies assets illustrates the comparison between categories of the companies based on the size of the number, asset size and ownership. Apart from that, there is distinction regarding the ownership criteria. Thresholds used are based on functional approach. The source of data is balance sheet of insurance companies reported to the insurance companies supervision department of the CBAK.

Figure 29. Lending activity of other financial intermediaries

Except commercial banks, also other financial intermediaries, known as micro financial institutions, are lending to the domestic economy, mainly to the households. Using the data from banking supervision department, in the figure 29 is presented the outstanding amount of their loans to the domestic economy, and the share of their lending to total loans extended from financial sector.

6. LIST OF FINANCIAL CORPORATIONS IN KOSOVO

Banking sector

(As of June 2007)

PROCREDIT BANK

Address:	Skenderbeu Street, Pristina
Phone:	++381 38/ 240 248
Fax:	++38138/ 248 777
E-mail:	info@procreditbank-kos.com
Website:	www.procreditbank-kos.com

Balance Sheet

(Outstanding amounts, end of period, in EUR thousands)

Assets	Amount	Liabilities	Amount
Cash on hand and balances with CBAK	62.618	Balances from other banks	4.008
Securities	46.581	Costumer deposits	414.355
Deposits and placements with commercial banks	39.960	Borrowings	...
Net loans to non-financial institutions	301.977	Other liabilities	18.262
Fixed assets	10.915	Total liabilities	436.625
Other assets	6.762	Equity	32.187
TOTAL ASSETS	**468.812**	**TOTAL LIABILITIES**	**468.812**

BANKA E RE E KOSOVËS

Address: Mother Teresa No. 49, Pristina

Phone: ++381 38/223 976

Fax: ++381 38/225 871

E-mail: brk-bank@brk-bank.com

Website: www.brk-bank.com

Balance Sheet

(Outstanding amounts, end of period, in EUR thousands)

Assets	Amount
Cash on hand and balances with CBAK	9.688
Deposits and placements with commercial banks	23.756
Net loans to non-financial institutions	30.208
Fixed assets	556
Other assets	708
TOTAL ASSETS	**64.916**

Liabilities	Amount
Costumer deposits	48.892
Borrowings	...
Other liabilities	2.073
Total liabilities	55.236
Equity	9.680
TOTAL LIABILITIES	**64.916**

BANKA PËR BIZNES

Address: UÇK Street, no.41, Pristina

Phone: ++381 38/ 244 666

Fax: ++38138/ 243 656, 243 657

E-Mail: hq@bpb-bank.com

Website: www.bpb-bank.com

Balance Sheet

(Outstanding amounts, end of period, in EUR thousands)

Assets	Amount
Cash on hand and balances with CBAK	12.214
Deposits and placements with commercial banks	2.240
Net loans to non-financial institutions	21.312
Fixed assets	800
Other assets	1.189
TOTAL ASSETS	**37.755**

Liabilities	Amount
Costumer deposits	30.418
Borrowings	31
Other liabilities	1.159
Total liabilities	31.608
Equity	6.147
TOTAL LIABILITIES	**37.755**

BANKA EKONOMIKE

Address: UCK Street No. 5, Pristina

Phone: ++381 38/248 997

Fax: ++381 38/229 253

E-mail: -

Website: www.bankaekonomike.com

Balance Sheet

(Outstanding amounts, end of period, in thousands EUR)

Assets	Amount
Cash on hand and balances with CBAK	7.700
Deposits and placements with commercial banks	20.984
Net loans to non-financial institutions	25.779
Fixed assets	1.450
Other assets	463
TOTAL ASSETS	**56.376**

Liabilities	Amount
Costumer deposits	44.602
Borrowings	...
Other liabilities	668
Total liabilities	45.270
Equity	11.106
TOTAL LIABILITIES	**56.376**

RAIFFEISEN BANK OF KOSOVO

Address: UÇK Street 51, Pristina

Phone: ++381 38/ 226 400, 401

Fax: ++38138/ 226 408

E-mail: info@raiffeisen-kosovo.com

Website: www.raiffeisen-kosovo.com

Balance Sheet

(Outstanding amounts, end of period, in thousands EUR)

Assets	Amount
Cash on hand and balances with CBAK	43.492
Deposits and placements with commercial banks	92.947
Net loans to non-financial institutions	270.408
Fixed assets	3.995
Other assets	5.089
TOTAL ASSETS	**415.932**

Liabilities	Amount
Balances from other banks	16.696
Costumer deposits	340.454
Other liabilities	8.945
Total liabilities	366.095
Equity	49.837
TOTAL LIABILITIES	**415.932**

KASABANK

Address: Rexhep Luci No. 5, Pristina

Phone: ++381 38/246 180

Fax: ++ 381 38/543 699

E-Mail: -

Internet: www.kasabank.com

Balance Sheet

(Outstanding amounts, end of period, in thousands EUR)

Assets	Amount
Cash on hand and balances with BPK	17,075
Deposits and placements with commercial banks	31,199
Net loans to non-financial institutions	72,572
Fixed assets	4,945
Other assets	1,920
TOTAL ASSETS	**127,711**

Liabilities	Amount
Balances from other banks	...
Costumer deposits	102,834
Borrowings	3,167
Other liabilities	5,030
Total liabilities	111,031
Equity	16,680
TOTAL LIABILITIES	**127,711**

Insurance Companies

DARDANIA
Pristina
Mother Teresa str.

DUKAGJINI
Pristina
Bulevardi i Dëshmorëve str.

KOSOVA E RE
Pristina
Fazli Graiqevci str. No.5

SIGURIA
Pristina
Qamil Hoxha str No.15

INSIG - Tirana
Branch "INSIG"
Pristina
Pejton str. No.4

SIGAL - Tirana
Branch "Sigal - Drini"
Pristina
Vellusha e Poshtme str. No.16

SIGMA - Tirana
Branch "SIGMA"
Pristina
Pashko Vasa str.

CROATIA OSIG.
Pristina
Str.Fehmi Agani, str. No 69, D/1-2

SIGKOS
Pristina
Str.Sylejman Vokshi,Pallati i Kuq,Hyrja B,nr.1.

Pension funds

KPST
Pristina
Zenel Salihu str. No.25

Fondi Slloveno – Kosovar i Pensioneve
Pristina
Nenë Tereza str. No.33

Other financial intermediaries

ABU
Pristina
Mustafa Kruja nr, 77

VLLESA CO
Suharekë
Brigada nr, 123

FINCA Kosovo
Prizren
Rrasat e Kosharës str No 23.

KEP Kosovo
Pristina
Bedri Pejani str. No.4

Beslidhja
Pristina
Agim Ramadani str. No.25

Agency for Finance in Kosovo
Pejë
M.Popoviq str. No.150/3 67/A

BALKANACTIE
Shtime
Tirana str.

START
Drenas
Rasim Kiqina str. No. 5

Kosovo Grameen – Missione Arcobaleno Microcredit Fund

Pejë
Marshal Tito str. No.122

CORDAID
Gjakovë
Nena Terezë str.

Atlantic Capital Partners
Pristina
UCK str No.12.

MFI – Qelim Kosovo
Gjakovë
UCK str. No 5.

KosInvest /World Vision
Podujevë
"Qyteza Pejton" 2A-2, Prishtin**ë**

KREDITIMI RURAL I KOSOVES
Pristina
Procredit Bank Building 3rd Floor

PERSPEKTIVA 4
Klinë
Lidhja E Prizrenit str.

MESHTEKNA
Dragash

Islamic Word Committee
Podujevë
Skënderbeu no.266

KLM Enterprises
Pristina
Gustav Majer str. No.19

DMTH Money Gram
Pristina
Ahmet Krasniqi str. No.7

PTK
Pristina
Ahmet Krasniqi str. No.7

Financial auxiliaries

ProCredit Bank Western Union
Pristina
Skenderbeu str.

Raiffeisen Bank Western Union
Pristina
UCK str. Nr.51

Unioni Financiar Pristina
Pristina
Pejton, Perandori Justinian str. No.1E

Euro-Cufa
Pristina
Vushtrria str. No.43

Euro
Pristina
Vushtrria str. No.43

Ari
Pristina
Sheshi i Republikës str. No.2

Monedha
Prizren
Sheshi i Lidhjes se Prizrenit str. No.5

Beni
Gjilan
Adem Jashari str. No.28

Euro-B
Drenas
Lagja e re str. No.2

Prizreni
Prizren
Mehmet Pasha str. No.8

NBS
Pristina
Vushtria str. No.45

AGIMI
Ferizaj
Zenel Hajdini str.

GIPA
Pristina
Vushtrria str, No 2

XENI
Ferizaj
Dëshmorët e Kombit str.

INDRITI
Pejë
Eliot Engel str.

AGONI
Ferizaj
Dëshmorët e Kombit str.

XIMI
Ferizaj
Dëshmorët e Kombit str.

VALUTA
Pejë
Qarshia e Gjatë str.