

Full length research paper

Financial performance banking sector in Kosovo

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The purpose of this study is to classify the commercial banks in Kosovo in cohesive categories on the basis of their financial characteristics revealed by the financial ratios. A total of five commercial banks were financially analyzed, and simple comparative was used to estimate the impact of asset management, operational efficiency, and bank size on the financial performance of these banks. The study found that the bank with higher total capital, deposits, credits, or total assets does not always mean that it has better profitability performance.

Key Words: Banking; Data envelopment analysis; Kosovo banking sector; Ratio Analysis; Current Ratio; Quick Ratio

JEL Classifications: ROA, ROE,

INTRODUCTION

The banking sector is considered to be an important source of financing for most businesses. The common assumption, which underpins much of the financial performance research and discussion, is that increasing financial performance will lead to improved functions and activities of the organizations. The subject of financial performance and research into its measurement is well advanced within finance and management fields. It can be argued that there are three principal factors to improve financial performance for financial institutions; the institution size, its asset management, and the operational efficiency. To date, there have been published studies to explore the impact of these factors on the financial performance, especially the commercial banks.

This study proposes that there are measurable linkages among bank's size, and the financial performance. The purpose of this study is to analyze the financial data of Kosovo for commercial banks for the financial periods 2006-2012. In addition, to examine the relationships among measures such as bank's size, operational efficiency, asset management, return on assets (ROA), interest income, and return on equity (ROE) and to discuss their impact on the bank's performance. Financial analysis is used to examine the differences in performance among commercial banks in

Kosovo, and the banks are ranked based on their financial measures and performance for each bank.

Therefore, the objectives of this study are to classify the commercial banks in Kosovo on the basis of their financial characteristics as a guide line for future development, and to assess their financial performance. In order to evaluate the internal performance of a commercial bank, financial indicators are constructed from the bank financial statements. Financial ratios like ROA, ROE, Current Ratio, Acid Test, and compare Loan Banks and Loan Costumer, Deposit Banks and Costumer, Capital and Total Assets. Also, measures as assets size, and the interest income size are used to assess the performance of a commercial bank. However, it is hypothesized for this study that there exist positive correlations among return on assets, asset management, operational efficiency, bank size, and the interest income size.

In addition, there exists an impact of asset management, operational efficiency, and the bank's size on the financial performance of the bank. Thus, this study is organized as follows: the next section following the introduction discusses the relevant literature. The third section defines the banking sector in Kosovo. Methodology of the study is described in the fourth section. The fifth section provides details of the results

and analysis of the available data, and the final section presents the main conclusions.

The Literature Review

Financial analysis involves the use of various financial statements. These statements do several things. First, the balance sheet summarizes the assets, liabilities, and owners' equity of a business at a moment in time, usually the end of a year or a quarter.

Generally, the financial performance of banks and other financial institutions has been measured using a combination of financial ratios analysis, benchmarking, measuring performance against budget or a mix of these methodologies (Annual Report, 2006-2010). The financial statements of corporations in Kosovo that are published commonly contain a variety of financial ratios designed to give an indication of the corporation's performance.

Financial (statement) analysis, the art of transforming data from financial statements into information that is useful for informed decision making. Fundamentals of Financial Management James C. Van Horne and John M. Wachowicz, Jr (2008)

As is known in accounting literature, there are limitations associated with use of some financial ratios. In this research, however, ROA and ROE ratio with interest income size are used to measure the performance of commercial banks in Kosovo. Asset management, the bank size, and operational efficiency are used together to investigate the relationships among them and the financial performance. Simply stated, much of the current bank performance literature describes the objective of financial organizations as that of earning acceptable returns and minimizing the risks taken to earn this return. There is a generally accepted relationship between risk and return, that is, the higher the risk the higher the expected return. Therefore, traditional measures of bank performance have measured both risks and returns.

The increasing competition in the national and international banking markets, the change towards monetary unions and the new technological innovations herald major changes in banking environment, and challenge all banks to make timely preparations in order to enter into new competitive financial environment. They used in their study a multi criteria methodology to classify Kosovo banks according to the return and operation factors, and to show the differences of the bank's profitability

and efficiency between small and large banks.

Another individual research Jens Bastian (2003) the leading hypothesis is that apart from specific economic and the perspective of economy of Kosovo will reduce public debt.

George and Ioanis (2005) the argued the banking sector development plays an integral and pivotal role in the successful in an economy.

Kyriaki (2008) in his paper aimed to examine the determinants of performance of Greek banks during the period of EU financial integration (1990-2002). Most developing countries have been taking different plans and strategies to their financial sectors. The financial sector in Kosovo has started recently as a part of their overall economic plans and growth. Commercial banks are the most dominant financial institutions in any country.

The Banking Industry in Kosovo

Services Organizations in general and financial services in particular are considered to be the key factor for growth and success of projects in both industrial and developing countries. However, the commercial banks take pride in offering customers a full range of superior international banking services inside and outside of Kosovo. The major objective for Kosovo commercial banks is to concentrate on trade services and cash management. In fact, Kosovo has always had a nation-wide development policy that was careful to achieve a wider geographic distribution of investment to ensure that all the different regions in Kosovo could share the benefits and any gap in the standard of living could be narrowed.

STUDY METHODOLOGY

To accomplish the research objectives, the data for this study was gathered from the bank's financial statements as published in the Kosovo Shareholder Guide (2006-2012). The annual data for all Kosovo commercial banks during (2006-2012) are used for calculating key financial ratios in order to assess the performance of the banks. In addition, another source of data was through reference to the library and the review of different articles, papers, and relevant previous studies. This study uses a descriptive financial analysis to describe, measure, compare, and classify the financial situations of commercial banks in Kosovo.

Financial performance is the dependent ratio for five banks, and measured by return on assets (ROA), return on equity (ROE) and the interest income size. The independent variables of this study are the following:

- The Bank Size measured by the total assets of the bank.
- Asset Management measured by asset utilization ratio (operational income divided by total assets)

In order to classify the Balkan Countries commercial banks, this study uses the major banking activities and is comprised of total deposits, total credits, total assets, total shareholder equity and return on equity.

RESULTS AND ANALYSIS

Comparisons of the bank's deposits, credits, assets, owners' equity, ROE, and ROA

Table (1) and figure (1) show total deposits for all the domestic commercial banks through 2006-2010, and provides the growth rate of deposits based on 2006 as base year. The average of total deposits for commercial Bank was 1,471,000,000.00 billion euro with very high growth rate 74.13% in year 2012 comparing with year 2006.

Furthermore, table (1) indicates that growth rates of Bank of Economy the growth rate is 227, 27% after this is Private Bank for Business where the percent is 76.57%. To rank the banks based on their average total deposits, Procredit Bank is considered to be number one, bank is number two, and Raffaisen Bank, and TEB Bank is number three, four, and five respectively as shown in table (1).

Table (1.1) and figure (1.1) report total credits, growth rate of credits, and the average of total credits during 2006- 2012 for each five banks. As shown in this table, Raffaisen Bank is the lowest credits growth rate in 2012 comparing with credits in 2006.

It is clear from table (1.1) that Bank of Economy is the highest average of total credits, and BE bank is the lowest one. However, the bank with highest growth rate of total credits during the period does not always mean having high average of total credits. Based on the average total credits of the listed banks in table (1.1), rank of the banks will be as: PCB is the first; RBKO is the second, and TEB, BPB.

From table (1) and (1.1), customer deposits growth in 2012 for those commercial banks has lagged behind the expansion of the loan portfolio. The combined deposits of these banks increased by 2% in 2012 in report with 2011 but the deposits are falling for every year, while net credits rose by 2.13%. This shows

that the decline of economic growth and decrease of deposits and increases the level of demand for one.

Table (1.2) and figure (1.2) illustrate for the listed banks, the total assets for each bank in the period 2006-2012, and shows also the growth rate in assets and the average of total assets. It's clear from table (1.2) that Bank of Economy bank got the lowest growth rate in its total assets 10.41%. On the other hand, TEB bank realized the highest growth rate in its assets (40.28%).

Ranking of the banks based on their average total assets is showed that Procredit Bank to be number one and Private Bank for Bussines bank is the last one in the total assets ranking. It's clear also from table (1.2) that Raffaisen Bank is ranked in the second position.

According to table (1.3) and figure (1.3), Raffaisen Bank shows the highest growth in value but in the percentage it isn't the first but its total shareholders' equity in value in year 2012 is 241 million euro which are comparing with its owners' equity in year 2006 which was 106 million euro.

As mentioned in table (1.3) Raffaisen Bank is ranked to be number one even it has low growth rate in its equity comparing with other banks.

The return on equity (ROE) is considered to be one of the profitability performance ratios. It shows a higher value for PCB bank when compared with other listed banks in table (1.4).

The average ROE ratio is 16.36% for Raffaisen Bank while Private Bank for Business got average ROE 9.8 during the period (2006-2012). The ROE is net profit after taxes divided by total owners' equity. It reflects the bank management's ability to generate net profits from using the owners' equity as one of the financial sources.

The return on assets (ROA) is financial ratio used to measure the relationship of profits or earnings and total assets. (ROA) measure assesses the profitability performance of total assets, and could be treated as measure of financial performance in this study. As it is known, this measure contains two elements, efficiency (total assets turnover), and effectiveness (profit margin). As mentioned earlier, ROA reflects the bank management ability to generate profits by using the available financial and real assets.

As shown in table (1.5), the summary of (ROA) ratios during the period of 2006-2012 for each Kosovo Bank is presented. In order to rank the banks based on this ratio, Procredit Bank is the first one, it has an average of ROA 2.13%. The second position is for Rafaisen Bank with ROA equals to 2.11%, and the last position is belonged to TEB bank 1.10%.

In order to summarize the classification of the banks based on rank of their activities and profitability ratios, table (1.5) contains ranks of the positions for these banks. As it is shown in this table, rank of bank Rafaisen and Procredit Bank are the first position in total deposits, total credits, total assets, and total shareholders' equity. Further, it is in the fourth

Table 1: Total Deposits in Commercial Banks in Kosovo (Value are in million €)

Balance Sheet	2012	2011	Change (%)	2011	2010	Change (%)	2010	2009	Change (%)	2009	2008	Change (%)	2008	2007	Change (%)	2007	2006	Change (%)	Growth Rate (%)	Average
Raffaisen Bank	468.1	518.9	-9.79	518.9	550.2	-5.69	550.2	547.8	0.44	547.8	495.2	10.62	495.2	395.8	25.11	395.8	310	27.68	51.00	482
Procredit Bank	699	689	1.45	689	676.2	1.89	676.2	638.3	5.94	638.3	569.5	12.08	569.5	492.1	15.73	492.1	399.1	23.30	75.14	608
TEB Bank	272	199	37	199	193.2	3.00	193.2	182.7	5.75	182.7	175.9	3.87	175.9	171.1	2.81	171.1	156.9	9.05	73.36	195
Bank of Economy	144	140	3	140	114	22.81	114	86	32.56	86	74	16.22	74	46	60.87	46	44	4.55	227.27	93
Private Bank for Business	110	109	1	109	113	-3.54	113	85.6	32.01	85.6	79.6	7.54	79.6	77.1	3.24	77.1	62.3	23.76	76.57	94
Total	1693.1	1655.9	2	1655.9	1646.6	6	1646.6	1540.4	6	1540.4	1394.2	10	1394.2	1182.1	16	1182.1	972.3	22	74.13	1,471

* Source: Compiled from the Annual Report Commercial Bank in Kosovo, 2012-2006

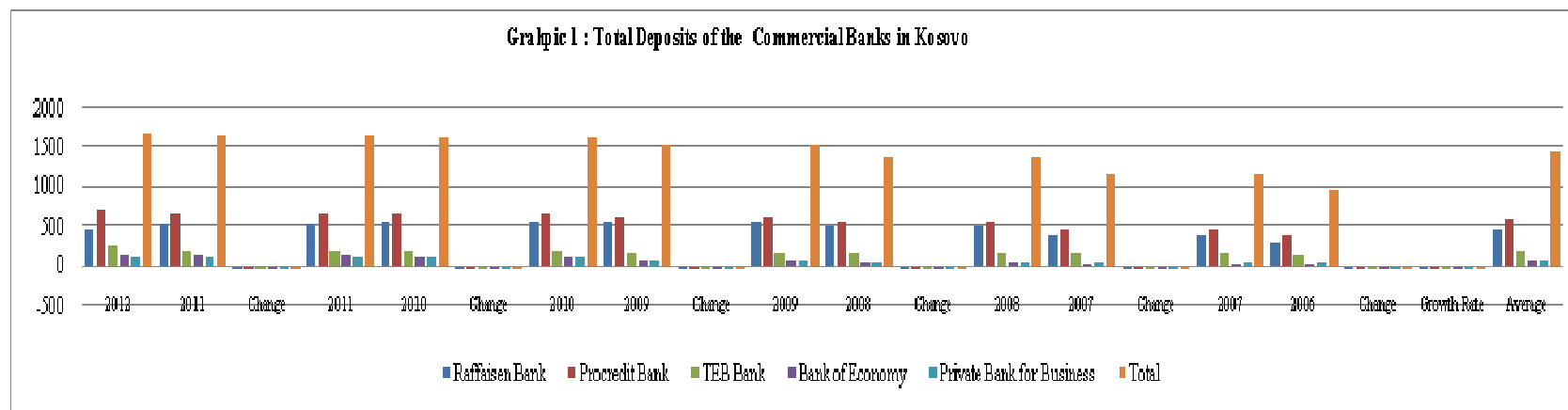
**Graphic 1:** Total Deposits of the Commercial Banks in Kosovo

Table 1.1: Total Credits from Costumer and Banks in Commercial Banks in Kosovo (Value are in million €)

Balance Sheet	2012	2011	Change (%)	2011	2010	Change (%)	2010	2009	Change (%)	2009	2008	Change (%)	2008	2007	Change (%)	2007	2006	Change (%)	Growth (%) Rate	Average
Raffaisen Bank	518.1	570.2	-9.14	570.2	530.6	7.46	530.6	527.6	0.57	527.6	517.5	1.95	517.5	427.2	21.14	427.2	337.6	26.54	53.47	490
Procredit Bank	643	652	-1.38	652	563.2	15.77	563.2	376.8	49.47	376.8	494.3	-23.77	494.3	383.2	28.99	383.2	337.5	13.54	90.52	493
TEB Bank	277	193	43.52	193	192.7	0.16	192.7	149.9	28.55	149.9	186.9	-19.80	186.9	181.4	3.03	181.4	167.8	8.10	65.08	193
Bank of Economy	135	125	8.00	125	101	23.76	101	88	14.77	88	62.3	41.25	62.3	44	41.59	44	36	22.22	275.00	84
Private Bank for Business	100	98	2.04	98	95.6	2.51	95.6	82.4	16.02	82.4	79.6	3.52	79.6	62.1	28.18	62.1	58.3	6.52	71.53	82
Total	1673.1	1638.2	2.13	1638.2	1483.1	10.46	1483.1	1224.7	21.10	1224.7	1340.6	-8.65	1340.6	1097.9	22.11	1097.9	954.1	15.07	75.36	1,345

*Source: Compiled from the Annual Report Commercial Bank in Kosovo, 2012-2006

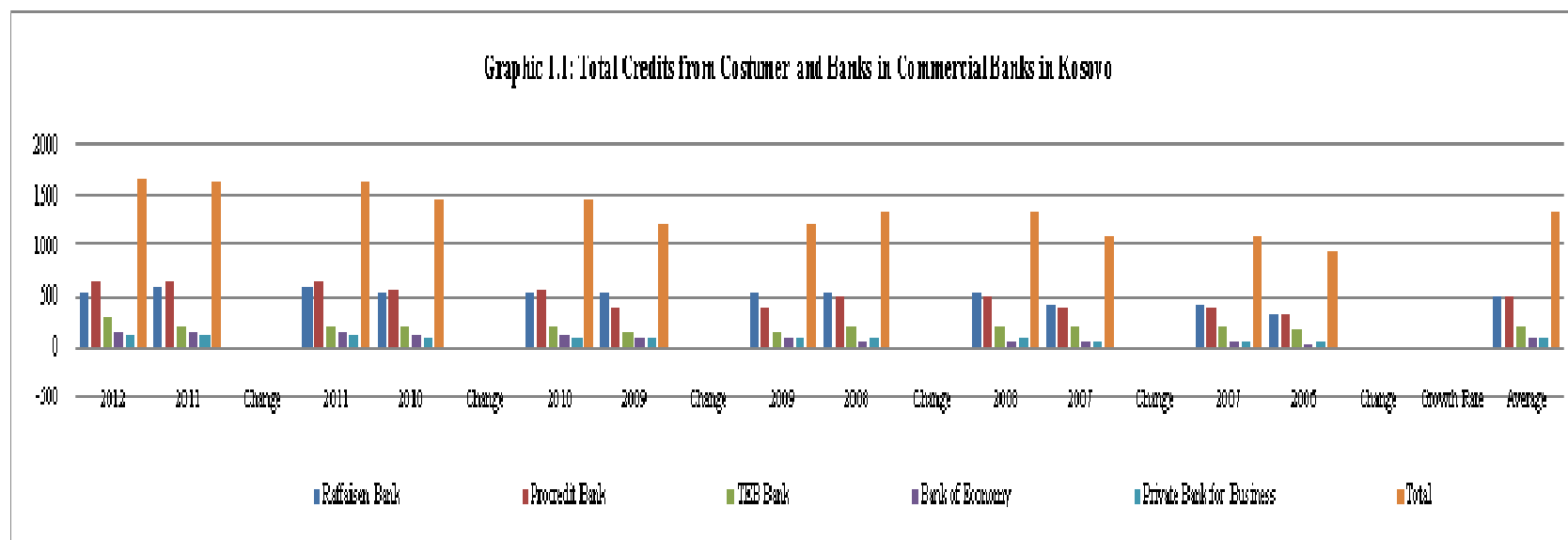
**Graphic 1.1:** Total Credits from Costumer and Banks in Commercial Banks in Kosovo

Table 1.2: Total Assets Commercial Banks in Kosovo (Values are in million €)

Balance Sheet	2012	2011	Change (%)	2011	2010	Change (%)	2010	2009	Change (%)	2009	2008	Change (%)	2008	2007	Change (%)	2007	2006	Change (%)
Raffaisen Bank	629	683	-7.91	683	679	0.59	679	682	-0.44	682	601	13.48	601	477	26.00	477	376	26.86
Procredit Bank	805	780	3.21	780	783	-0.38	783	733	6.82	733	642	14.17	642	550	16.73	550	452	21.68
TEB Bank	300	213	40.85	213	178	19.66	178	151	17.88	151	122	23.77	122	101	20.79	101	72	40.28
Bank of Economy	155	152	2.30	152	125	21.52	125	99	26.65	99	86	14.61	86	56	53.79	56	51	10.41
Private Bank for Business	123	123	-0.11	123	103	18.71	103	87	18.62	87	85	2.23	85	75	13.60	75	56	33.93
Total	2,012	1,951	3.15	1,951	1,868	4.40	1,868	1,752	6.65	1,752	1,536	14.03	1,536	1,259	22.03	1,259	1,007	25.06

Source: Compiled from the Annual Report Commercial Bank in Kosovo, 2006-2012

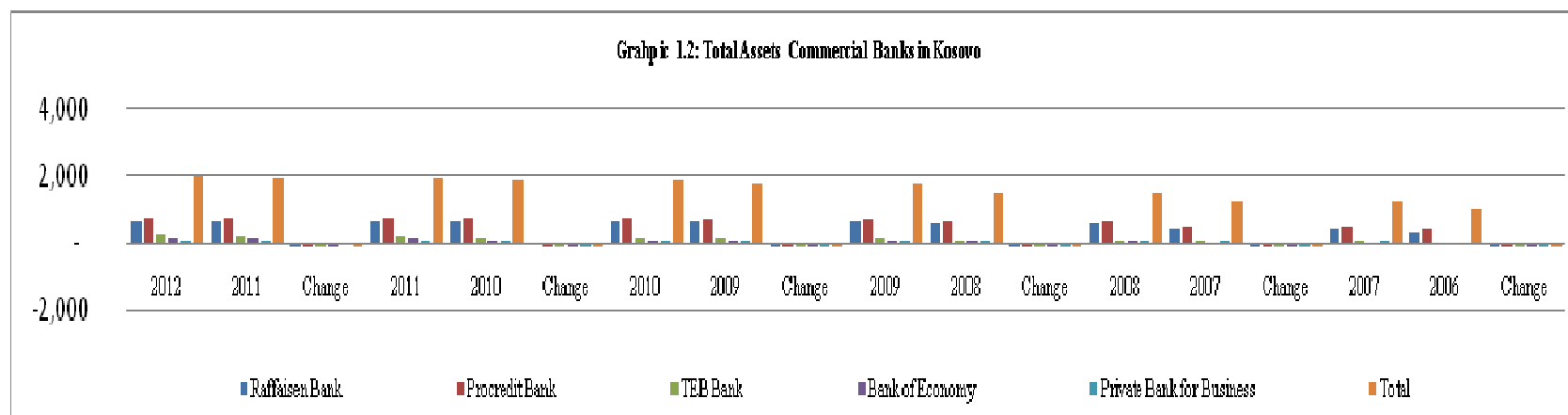
**Graphic 1.2:** Total Assets Commercial Banks in Kosovo (*Source: Compiled from the Annual Report Commercial Bank in Kosovo, 2006-2012)

Table 1.3: Total Shareholders' Equity of Commercial Banks in Kosovo (Value are in million €)

Balance Sheet	2012	2011	Change (%)	2011	2010	Change (%)	2010	2009	Change (%)	2009	2008	Change (%)	2008	2007	Change (%)	2007	2006	Change (%)
Raffaisen Bank	99	99	0.18	99	92	8.26	92	81	12.41	81	74	9.70	74	59	25.98	59	44	33.26
Procredit Bank	100	86	16.92	86	75	13.96	75	63	18.80	63	50	26.35	50	42	20.43	42	37	13.66
TEB Bank	22	16	36.71	16	14	13.67	14	12	13.93	12	11	11.93	11	11	-1.80	11	12	-8.26
Bank of Economy	12	11	0.61	11	11	1.77	11	13	-10.20	13	12	5.64	12	11	9.29	11	5	129.81
Private Bank for Business	9	10	-12.23	10	11	-7.65	11	9	18.32	9	9	4.27	9	9	-2.20	9	9	7.06
Total	241	222	8.69	222	203	9.52	203	179	13.50	179	156	14.59	156	132	18.55	132	106	23.97

* Source: Compiled from the Annual Report Commercial Bank In Kosovo, 2006-2012

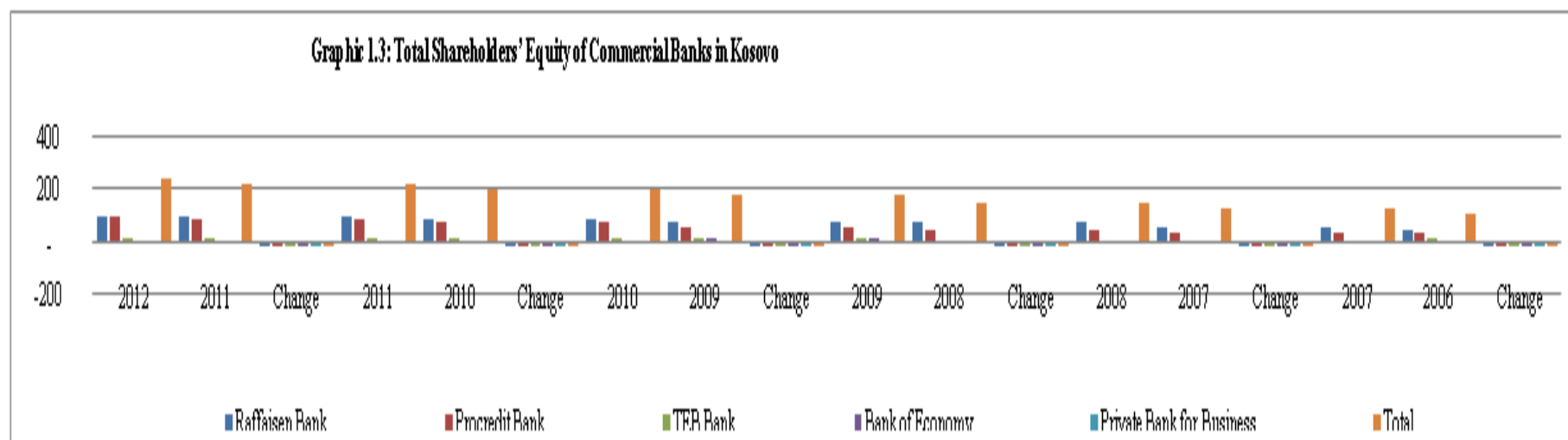
**Graphic 1.3:** Total Shareholders' Equity of Commercial Banks in Kosovo

Table 1.4: Return On Equity Ratio at the Kosovo Commercial Banks ROE

ROE	2012	2011	2010	2009	2008	2007	2006	Average
Raffaisen Bank	12,27	12,66	11,1	8,64	20,4	24,9	24,4	16,36
Procredit Bank	18,47	15,8	13,5	11,3	30,6	35,3	29,5	22,07
TEB Bank	19,7	18,7	20,0	13,6	17,3	13,8	11,0	16,30
Bank of Economy	9,9	10,1	9,8	10,1	9,6	9,4	9,2	9,73
Private Bank for Business	10,5	9,9	10,2	10,4	9,4	9,1	8,6	9,80

* Source: Compiled from the Annual Report Commercial Bank In Kosovo, 2006-2012

Table 1.5: Return On Assets Ratio At The Kosovo Commercial Banks ROA

ROA	2012	2011	2010	2009	2008	2007	2006	Average
Raffaisen Bank	1.94	1.84	1.50	1.03	2.51	3.08	2.87	2.11
Procredit Bank	1.97	1.89	1.53	1.12	2.69	2.98	2.70	2.13
TEB Bank	1.40	1.50	1.48	1.09	0.94	0.67	0.64	1.10
Bank of Economy	1.20	1.10	1.20	1.40	0.98	1.30	1.30	1.05
Private Bank for Bussines	1.42	1.45	1.30	1.10	0.87	0.79	0.72	1.00

* Source: Compiled from the Annual Report Commercial Bank In Kosovo, 2006-2012

position among other banks in its profitability performance (ROA). Contrary to Private Bank for Bussines and Bank of Economy got the last position in total deposits, total credits, total assets, and total shareholders' equity.

Ratio Analysis is used as a way of analyzing the performance of a company. It covers five major areas, namely, (i) Liquidity, (ii) Leverage, (iii) Profitability, (iv) Efficiency and (v) Market Value.

Liquidity Ratios are used to measure the short-term solvency of a company. They show the ability of the company to quickly convert its assets into cash to pay its short-term debts. The higher the ratios, the more liquid the company. As shown in Table 1.6 the summary of Ratio Analysis (Quick and Current Ratio) during the period of 2006-2012 is presented. And the highest current ratio has Raiffaisen Bank followed by Procredit Bank.

Conclusion (Recommendations)

The importance of this study may be viewed from its contribution to fill an important gap in literature. 2.

Findings of this study can add to the existing body of the literature, and can serve as a starting point on which future studies can be done.

On the practical dimension, this study may help bank decision makers to focus on the major banking activities that may increase the bank ranking and financial performance positions comparing with other banks.

Such information should help the management of commercial banks in creating appropriate financial strategies for attaining the required planned financial performance.

Data analysis of this study revealed that the ranking of Kosovo of commercial banks based on their total deposits, total credits, total assets, and total shareholders' equity is ranked as compare activity for five banks. This study examined these predictors impact on the financial performance of Kosovo commercial banks.

Finally, the study provides bank managers with understanding of activities that would enhance their banks financial performances. The results of this study imply that it might be necessary for a bank management to take all the required decisions to enhance the financial positions of the bank.

Table 1.6: RATIO ANALYSIS Liquidity Ratios: Current Ratio and Quick Ratio for Commercial Banks in Kosovo

Ratio Analysis	2012		2011		2010		2009		2008		2007		2006	
	Current Ratio	Quick Ratio	Current Ratio	Quick Ratio	Current Ratio	Quick Ratio	Current Ratio	Quick Ratio	Current Ratio	Quick Ratio	Current Ratio	Quick Ratio	Current Ratio	Quick Ratio
Raffaisen Bank	5.3	4.2	3.5	3.4	3,7	2,5	2,65	2,0	2,4	2,37	2,8	2,3	2,47	2,2
Procredit Bank	4.86	4.3	3.69	3.4	3,3	3,3	4,34	4,2	2,3	4,03	5,6	5,3	4,37	4,2
TEB Bank	2.9	2.5	2.8	2.6	2,9	2,7	2,16	1,9	2,2	0,02	1,8	1,4	0,02	1,4
Bank of Economy	2	1.4	1.6	1.2	1,7	1,0	1,68	1,1	1,6	0,99	1,7	1,0	1,68	1,0
Private Bank for Bussines	1.9	1.3	1.7	1.3	1,8	1,2	1,80	1,0	1,7	1,21	1,5	1,2	1,63	1,0

* Source: Compiled from the Annual Report Commercial Bank In Kosovo, 2006-2012

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