



Financial Institutions Involved in the Bankruptcy and Liquidation Process in Kosovo

Naim Spahiu¹

Law Faculty, University of Prishtina Hasan Prishtina, Kosovo

DOI: 10.26417/ejme-2019.v2i2-71

Abstract

In modern states, economic system of state it function through financing institutions. So, financing system plays an important role in business and economic activities. Bankruptcy and liquidation process in finance sector in Kosovo has intended avoiding the failure of the economic enterprise and its one of the important cases in finance direction. Therefore, studies of this form shows a big interest from scientific researcher in our state and wider. This paper is focused in bankruptcy and liquidation process of finance institutions, studying the most important elements of bankruptcy and liquidation process in our place and region. Research model gives a visual describe of research and this topic elaborates very well. Financing institution are registered and licensed from CBK and it consisting of: Banks, Pension Funds, Insurance Companies, micro financial institutions and other nonbank financial institutions. Central Bank of Kosovo (CBK) has executive responsibilities for licensing/ registering and monitoring financial institutions such as: banks, insurance company, pension funds, micro financial institutions, nonbank financing institutions and other legal subjects that exercising financial activity with Kosovo legislation. As the bankruptcy process starts early, by taking signals from financial indicators, research preliminarily does actual evaluations of finance statements of financial institutions. The purpose of this paper is to give general frame of bankruptcy and liquidation of financial institutions in Kosovo. Financial performance measurement which is thought to be a model of performance is limited with CAMEL model for banks and Dupont model for other financial institutions. Excepted of those, research is a subject of only financial institutions in Kosovo, so it could not be generalized.

Keywords: bankruptcy, liquidation, financial institutions, process.

¹ Ph.Dc. Naim SPAHIU, Law Faculty, University of Prizren, Prizren, Kosovo,

1. Introduction

The bank is enterprise with business specific, which are regulate with action, the practice and specific provision. Bank is special system financial monetary-creditor institution, with it takes and giving credit in professional way, and with the intermediation in the flow of competent payments¹. Dr. Felkx SOMARY (Swiss), on his write "political bank" which is published on Thubingen in 1934 cites: Bank is an institution, the main work is taking credits in money form. Somary accesses bank function not from the aspect of giving loan but from the aspect of loading with bank debt that it means from the way of funds mobilization².

Today, banks leads "market money" but at the same time they are producing industry.

Every loan repaid reduce quantity of money on the market but at the same time it increase wealth of banks. Banks has an important role because they orient money on their direction they need to have and to not forgetting and their contribution on the state economy³.

Kosovo Banks serves citizens and businesses of Kosovo offering a wide range of financial services.

Kosovo's banks make it possible for businesses to start and expand their activities, to increase their employment and to offer better services to their clients.

Also, banks help familiar economy to realise their goals making possible to finance their living, to finance their education or to afford other needed costs⁴. Kosovo's Banks also empower society through their charity activities and financial support for important project of society. Banks sector also have taken good initiative last years to support increase of children capacity and youth though financial education. Today, in Kosovo operate 10 (ten) commercial banks and they have 67.5% of total assets of financial sector. Products and their services include bank account, local and international payment, bank cards, bank guarantees, credit letter, e-banking. Access to this bank services enable actually though 233 branches and nines, 500 ATM and 12.303 POS and 228.745 e-banking account⁵.

The bank is created on the base of system that it has for the goal to obtain with monetary provisions, saving of costumer savings and lending for financial goals. Her services offer through an agency network. Over time and fast development of technology it is showing more new opportunity of action⁶. The bank it takes savings, credit giving, payment intermediation in society and economy. **The Word of the**

¹ Prof Dr. Gazmend LUBOTENI, Banks and Banking Business, page 6, Prishtinë 2013.

² Sabahudin KOMONI: Financat, Text entity and learning tools of KSA of Kosovo, Prishtinë 1985, pg. 124

³ <https://sq.wikipedia.org/wiki/Banka>

⁴ <https://www.bankassoc-kos.com/Al/sektori-bankar/> (Last updates: June 2018)

⁵ <https://www.bankassoc-kos.com/Al/sektori-bankar/> (Last updates: June 2018)

⁶ <https://sq.wikipedia.org/wiki/Banka>

Bank, supposed from Italian word “**banco**” where in translating it will shows a set up stall, and on his history it started as it below: where this job done “**thesauri**”. Nowadays it is using expression “**thesauri**” where it has notion of some fast instrument collection jobs or bank production. **First function was exchange**, or the replacement of various to then metal coins with different weights and quality.

Center Bank of Kosovo (CBK) is responsible for bank licensing. CBK regulate publish the list of banks where operate in Kosovo¹.

2. Branches of foreign banks on Kosovo

Commercial banks in Kosovo have various stock structure. Eight of them are banks with foreign capital and two of them with local capital². On the base of law for banks: Banks we call the person who is organised, it has own seat and it has license to engage in bank activities in any other jurisdiction except of Kosovo³. While based on the regulation of CBK for licensing of Banks and foreign Bank branches in Kosovo, **Article 2point b**, it said: *Branches of foreign banks* - is a person who is organised and licensed from CBK, to perform bank activities in Republic of Kosovo, but the mother bank that it has their main headquarter and it hold license to perform banks activities in other jurisdiction out of Republic of Kosovo⁴, which is the responsibilities of CBK to give licensing, CBK has exclusive responsibilities to give license for every bank and enrollment of all Microfinance Institution and non-bank Microfinance Institution for issuing permits of the foreign banks regarding the establishment of representative offices. A central register is kept by the CBK for inspection from the public which it register every Financial Institution, the name, address of central directorate and benches and actual copies of the founding act or similar documentation of foundation and bylaws act⁵.

All of foreign banks that develop business in Kosovo where they work in base of Regulation for licensing of banks and branches of foreign bank in Kosovo designed by the board of CBK on December 2012.

1. The abovementioned regulation lays down the conditions, requirements, the procedures and deadlines to be followed for applying and granting a license to a bank and/ or a branch of a foreign bank;
2. This regulation will apply to all applicants for a license from the CBK to engage in banking activity in the Republic of Kosovo.

¹<https://bqk-kos.org/?id=20>

²<https://www.bankassoc-kos.com/Al/sektori-bankar/> (Last updates: June 2018)

³Law No. 04/L-093 for Microfinance Institutions Banks and Non-banks finance institutions pg. 3.

⁴CBK regulation for licensing of Banks and foreign Bank branch in Kosovo 2012,

⁵Law No. 04/L-093 Microfinance Institutions Bank and Non-Bank institution financing. 4.

Article 7 of regulation said:¹ 1. When a foreign bank apply for establishment of a branch in Kosovo, the conditions will be the same for local banks. CBK will appreciate the resilience of shareholders and the group as a whole, especially when the mother banks it isn't main bank on the group. But except of this, as it looked with Article 7 of Law for banks, CBK will looking for evidence to prove that supervisor of mother bank it hasn't any opposition for this proposal.

Also CBK must be convinced that the banking group, part of the new bank will be is subject to effective consolidated supervision.

3. On the case when the foreign bank apply for licensing establishing of her branch in Kosovo, CBK requires from the supervisory authority of the jurisdiction of the mother bank:

A proof that the applicant is a well-organized institution and possesses a valid license of the institution for receiving deposits;

Additional information about the final bank's examination within a hundred and eighty (180) last days, indicating that the level of capital, asset quality and liquidity ratios are assessed by that authority at least with a satisfactory level rating;

That the applicant is not subject to remedial measures or under an early warning program set by the supervisory authority;

That the branch establishment and its activities in Kosovo are allowed without any predetermined condition;

4. In the case of applications for a license for branches of foreign banks, a security letter addressed to the CBK by a foreign mother bank will be required, by which it is recognized the legal obligation of the foreign bank to pay all its liabilities foreign bank branch in Kosovo.

5. Article 17 of the Law on Banks requires any foreign bank operating with one or more branches in Kosovo to uphold the demands of Kosovo residents higher than its obligations to residents of Kosovo. CBK determines the level of claims requirements on residents of Kosovo depending on the branch's assessment on an individual basis.

6. CBK has the right to request a foreign bank operating through its branch in Kosovo to return its branch to a subordinate subject in accordance with Article 12 of the Law on Banks.

7. If, according to the CBK's assessment, the foreign bank's branch is acting contrary to the interests of its depositors, CBK has the right to withdraw a foreign bank license to act as a branch and block the equivalent capital deposit.

¹CBK- Regulation for bank and foreign bank licensing in Kosovo, pg. 3,4. December2012 (based on article 3 of Law no. 04/L- 093 for banks, microfinance institutions and non-bank finance institutions (On below: Law for banks),

8. In cases where a foreign bank establishes two or more branches in Kosovo, one of the branches should be designated as the main administrative center of the bank. Regulatory Reports will be sent to the Consolidated CBK, including all details of the branches of a foreign bank in Kosovo¹.

3. Microfinance Institution in Kosovo

Financial Institutions All Banks, Non-Bank Financial Institutions and Microfinance Institutions that are Regulated by Law². In Kosovo there are 14 microfinance institutions, with over 110 branches. Their activity is the provision of loans and the provision of a limited number of financial services for micro and small legal entities. Mainly, they are focused on granting loans to agriculture³.

For economic affairs experts, these institutions are safe, as they do not accept deposits, but only have their bids. In general microfinance institutions are organizations that provide small loans to low-income individuals or household businesses. The majority of microfinance institutions operating in Kosovo are members of the Association of Microfinance Institutions of Kosovo (AMIK), which was established in 2012. The AIMK supports the development of micro-entrepreneurial programs to assist small entrepreneurs in starting, stabilizing and expanding business.

AIMK coordinates activities such as joint training, mutual visits between other MFIs established in the region, and other activities as required by member institutions.

The aim of the AIMK is to become the leading association of microfinance institutions in the region. Below is a brief description of the microfinance institutions currently operating in Kosovo, most of which are AMIK members.

Microfinance Institution in Kosovo are listed below as well based on the activities:

Timi Invest- and offers individual loans for home businesses and small businesses. START which offers loans for agriculture, handicrafts and trade;

Perspective 4 offer loans for, agriculture, handicrafts and trade;

Meshtekn provides lending to the village, lends to individual businesses, manufacturing, trade, agriculture;

Kosovo's Rural Credit provides lending to the village, lend to small businesses, agriculture and individuals;

¹CBK- Regulation for licensing of banks and foreign branch bank in Kosovo, pg. 1. December 2012(Article 3 of Law no.04/L-093 for banks, Microfinance institutions and non-bank finance institutions(on below: Law for banks),

²Law for microfinance institutions bank and non-bank finance institutions, No. 04/ L-093 12 April 2012, Prishtinë.

³<https://www.evropaelire.org/a/24930983.html>

Kosova Aid and Development offers small loan for businesses, loans for trade, produce and agriculture;

Kosinvest World Vision offers group loan solidarity, individual business loans, agricultural loans;

GMAMF offers loans for agriculture, livestock and trade;

KEP TRUST-i offers solidarity loans, individual loans and village bank;

FINCA offers group loans, individual and business loans, home improvement loans and rural loans¹.

3.1. Non-bank financial institutions

Non-Bank Financial Institutions (NBFI) provide specialized financial services to clients, such as loans, leasing and mortgages. Below is a brief explanation of the products and contact details for non-bank financial institutions in Kosovo².

Non-Bank Financial Institutions (NBFI)- is a legal entity that is neither a bank nor a microfinance institution licensed by the CBK under this law to engage in one or more of the following activities: granting loans, borrowing and leasing contracts - leasing signing, trading, mediating or distributing securities, acting as an investment company or investment advisor or providing other financial services such as foreign exchange; credit cards; factoring, guarantees, or other financial, training, training, advisory and operational services as well as other activities as determined by the CBK³;

3.1.1. Insurance companies and insurance intermediaries

Insurance companies in Kosovo are organized in a united association called the Kosovo Insurance Association (KPS). KPS is established in 2002 after the agreement of representatives of licensed insurance companies in Kosovo⁴.

The aim of the association is to improve the insurance industry in Kosovo, assist in stabilizing the insurance market and provide training to member company staff⁵.

More information can be found on the website KPS.

The insurance companies in Kosovo are listed as follows on the basis of the following activities:

Security was established in June 2000. Security provides third-party liability insurance, casco insurance, personal, property, home security, and building risk.

¹<http://www.itg-rks.com/sq/Institucionet-mikrofinanciare>, 16.07.2018

²<http://www.itg-rks.com/sq/Institucionet-financiare-jobankare> 16.07.2018

³Law No. 04/ L-093 for microfinance institutions bank and non-bank finance institutions, 12.04.2012, Prishtinë.

⁴<http://www.itg-rks.com/sq/Kompanite-e-Sigurimit>

⁵<http://www.itg-rks.com/sq/Kompanite-e-Sigurimit>

Sigkos was established in 2006 as a private insurance company by two local businessmen. SIGKOS provides insurance for vehicles, casco, personal, health, property, liability, all contractual risks, all construction hazards, cash in cash and cash in transit.

Sigma Vienna Insurance Group - was established by the Insurance Supervisory Commission decision in February 1999 as the first insurance company in Albania.

Sigma was licensed to work in Kosovo in November 2004. In September 2007, Sigma became part of Vienna Insurance Group. Sigma provides property, vehicle and health insurance coverage. Sigal Uniqa Group Austria Kosovo: SIGAL operates in Kosovo since October 2003. SIGAL provides health insurance, life insurance, vehicles, property, financial guarantees, engineering, liability, agriculture, marine, aviation and transport of products. Kosova e Re is the successor of the company "Kosova". Founded in 1974, it is the oldest insurance company in Kosovo.

In 2002, New Kosovo received a permanent license from the Central Bank of Kosovo.

New Kosovo offers personal insurance, guarantees, property and vehicle insurance. INSIG Kosovo established in 1991 by the Government of Albania. In March 2000 INSIG-Kosovo was licensed to work in the Kosovo market as a subsidiary of INSIG-Albania. Insig- provides health, property, and liability insurance. Illyria was licensed and started working in February 2002. The company is part of the Sava Re Group. ILLYRIA offers health insurance for vehicles and property.

GRAWE ELSIG is part of the Austrian financial group GRAWE.

The company was established in 2008. The company offers insurance of vehicles, from accidents, property, health, guarantees and liability insurance. Dardania entered the insurance industry in 2002 through a temporary license issued by the United Nations Mission in Kosovo (UNMIK). Later in 2002, Dardania received a permanent license from the Central Bank of Kosovo. Dardania offers insurance for accidents, health, home, vehicles and property. Croatia Sigurimi sh.a is a branch of Croatia Osiguranje headquartered in Croatia.

Croatia Insurance was established in 2005. CROATIA Insurance provides Casco insurance, transport of healthcare products and vehicles¹.

3.1.2. Pension funds

A pension fund is defined as a pool of assets purchased through participatory contributions created to generate sustainable growth over long-term periods, with the sole purpose of financing the contributors' pensions when they reach retirement age².

¹<http://www.itg-rks.com/sq/Kompanite-e-Sigurimit>

² Investopedia – www.investopedia.com

Pension funds emerged and developed later than the insurance companies, with a strong development they had in the post-World War II period. While in insurance companies insurance policies are contracted on an individual basis, pension funds have to do with the pension insurance of employees in large companies, on a collective basis¹

Pension funds are financial institutions that develop their business activity on the basis of contractual insurance, and can count on the support in the assigned revenues in their logs on a monthly basis. These monthly income in their accounts based on pension insurance contracts constitute appropriate circumstances for the program of financial potential of funds and their adequate investment in understanding the formation of the optimal structure of the securities portfolio². Pension funds, through investments made, are shareholders of a large number of large companies and can be very important investors of capital markets.

Therefore, based on the overall value of the investments that these funds make, they are rated as the largest institutional investors in the globe, and that based on the activities carried out, they are going through hedge funds, pension companies and foreign exchange reserves.

The Kosovo Savings Pension Fund (KPST) is an independent and non-profit public institution, established by the Assembly of the Republic of Kosovo. KPST is eligible according to the defined contribution pension model, which means that each contributor saves the pension in a pension log. KPST is an institution established in December 2001 and started its activity in August 2002 to administer and manage the obligatory pension (and voluntary) contributions of Kosovo employees. The KPCC General Activity is regulated by the Assembly of Kosovo (MA). KPST is committed to maintaining and investing pension contributions saved by Kosovo citizens during the employment relationship, pension funds were characterized by a positive performance in 2017. The total value of the pension sector's assets reached 1.65 billion euros, a significant increase in assets of 16.0% in 2017, mainly as a result of the increase realized by new contributions and the increase in return on investment.

The pension sector almost doubled the return on investment reaching 103.1 million euros in 2017, unlike the return of 65.3 million euros in 2016³.

3.1.2.1. Pension sector in Republic of Kosovo

Pension sector on 2017 year characterized with asset increase from 16.0%.

General value of assets of pension sector reached to 1.65 million euro, where this it done as a second biggest sector on finance sector with 27.9% of assets (figure 1.).

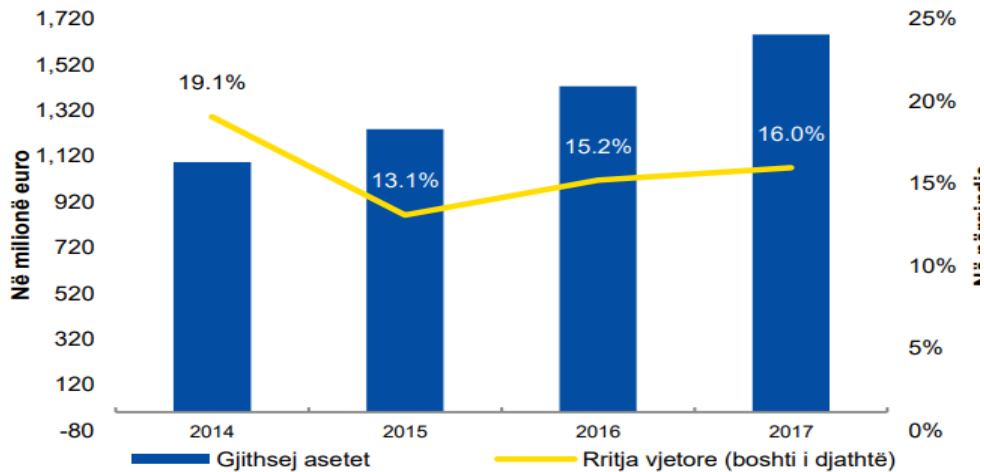
¹ Fadil GOVORI: Finance, 2010, Fq. 125

²There.

³ Annual report of CBK pg. 15, 2017 PRISHTINË, June 2018

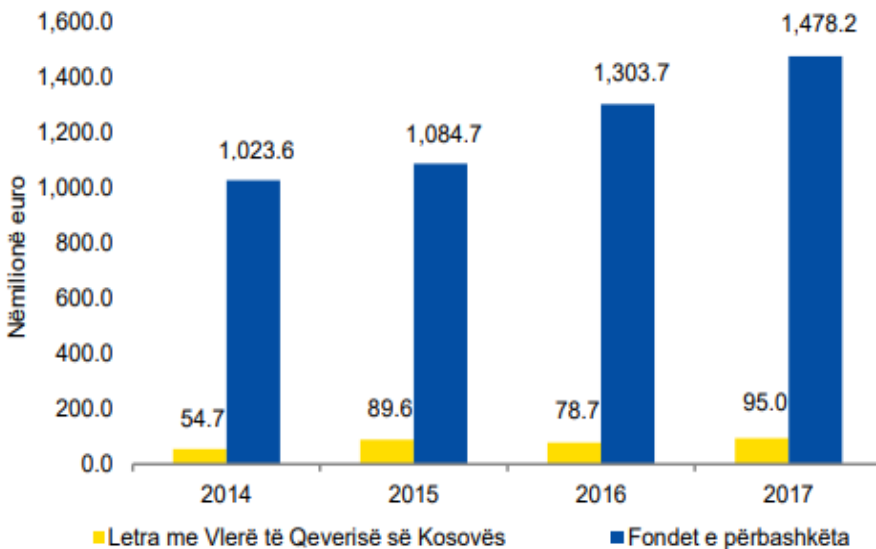
On this contribute increases gives increase in contributions received from both funds and return on investments from the Kosovo Pension Savings Trust (KPST)¹.

Figure 1. Pension assets sector, in million euro



Source: (Annual Report of CBK 2017 Prishtinë, June 2018)

Figure 2. FKPK investment



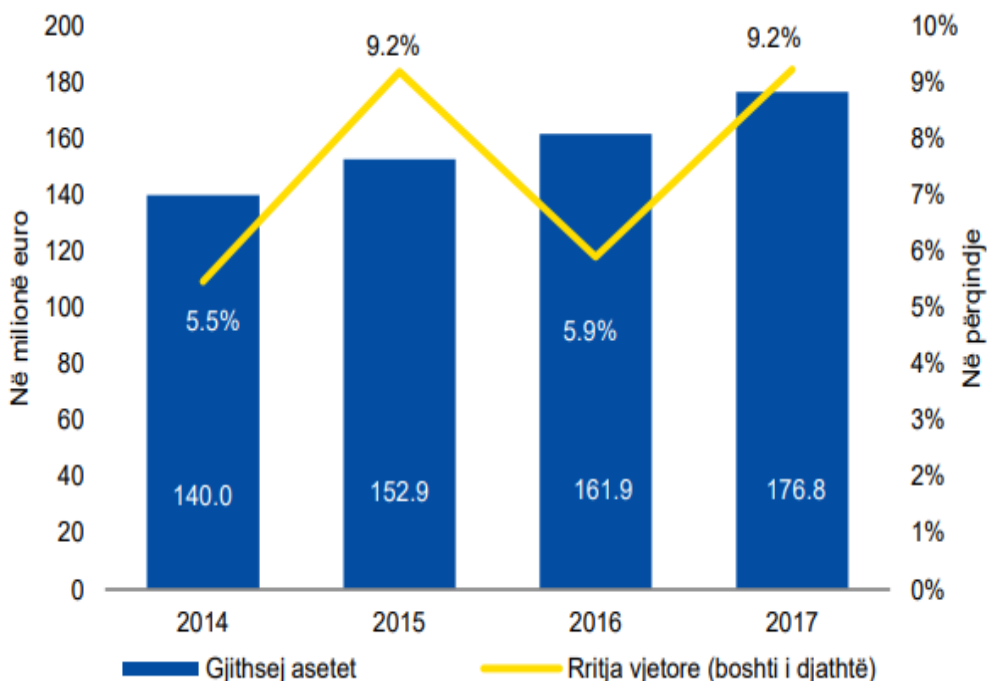
Source: (Annual report of CBK 2017 Prishtinë, June 2018)

¹ Annual report of CBK PG. 40, 2017 PRISHTINË, June 2018

The value of contributions received from the pension sector amounted to 160.3 million euros (152.0 million euros in 2016), representing an annual growth of 5.4%. The Savings Value of the Kosovo Pension Savings Trust (KPST) amounted to 159.8 million euros. The pension sector almost doubled the return on investment reaching 103.1 million euros, unlike the return of 65.3 million euros in the previous year. KPST realized a positive return on investment of 102.6 million euros, which consists of 99.5% of the assets of the pension sector, marked an increase of investments in Kosovo Government securities at the level of 20.8%, while investment in mutual investment funds, which are abroad, recorded an increase of 13.4% (figure 2).

The pension insurance sector - The insurance sector today represents about 3.0% of total financial system assets, in December 2017 recorded an annual growth of assets of 9.2% and amounted to 176.8 million euro (figure 3). One of the main contributors to asset growth was the increase in liquid assets, ie cash held in commercial banks, which has the highest share in the assets structure of insurance companies.

Figure 3. Insurance assets sector

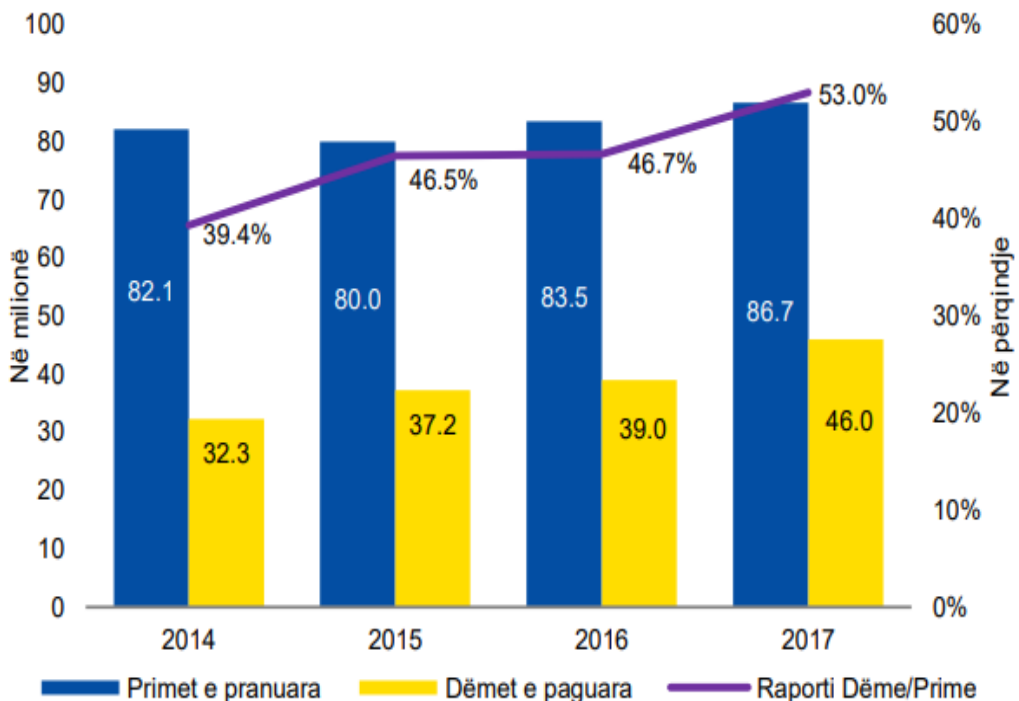


Source: (Annual report of CBK, 2017 Prishtinë, June 2018)

Non-life insurance, which at the same time has the highest share of total sector assets (87.8%), recorded an annual growth of 6.7% in 2017. Meanwhile, "life" insurance,

which is the remainder of the assets, recorded an annual growth of 31.5%¹. During 2017, the value of premiums written by insurance companies amounted to 86.7 million euros, an annual growth of 3.9%. The written premiums structure is headed by non-life insurance premiums, which represent 97.1% of total written premiums. Their value during this period of 84.2 million euros is 4.1% higher than in 2016. While the premiums written by insurance were 2.5 million euros representing a lower value by 3.4%.

Figure 4. Written premiums and paid damages



Source: (Annual report of CBK, 2017 Prishtinë, June 2018)

Damages paid by the insurance sector, including damages to insurance companies and the Kosovo Security Bureau (KSB), marked a significant annual increase of 17.8% in 2017 (an increase of 4.9% in 2016). The higher growth of claims paid during this period, in addition to the smaller increase in written premiums, resulted in an increase in the ratio of total damages paid to written premiums (figure 4)².

Insurance sector performance: The insurance sector closed this year with a positive financial result, unlike the previous year. Net income from insurance premiums in 2017 recorded an annual growth of 4.7%, while in the same period expenditures were

¹There

² Annual report of CBK, page. 42, 2017 PRISHTINË, June 2018

characterized by an annual decline of 7.1%, and the incurred damages recorded a significant annual decline of 47.1%. As a result of revenue growth versus the sharp decline in expenditures and damages, the insurance sector recorded a profit of 6.4 million euros. Measures taken by the CBK through the entry into force of the Regulation on the sale of compulsory motor liability insurance and the management of insurers' expenses at the beginning of 2017 have resulted to be effective in reducing and limiting expenditures by taking into account the decline significant expenditures of the entire insurance sector during this year. Also, the positive financial result realized during 2017 was also affected by the increase in the payment of damages by some non-life insurance companies and the change of secondary legislation of the CBK in accordance with legal requirements regarding the Regulation of the Compensation Fund. These steps have contributed to the reduction of technical reserves, resulting in lower costs and consequently in profitability.

The annual growth of cash and cash equivalents of 8.3%, coupled with the 5.7% drop in technical reserves of the insurance sector contributed to the improvement of the liquidity level. The ratio between cash and cash equivalents to reserves increased to 104.3% in 2017 from 90.7% in 2016, and the ratio between cash and cash equivalents to total liabilities increased to 91.3% (83.1% year 2016)¹.

Conclusion

The purpose of this paper is to do evaluation of financial performance of financial institutions in Kosovo, to see if those institutions risking to go bankrupt. To do this research with financial institutions are selected *bank sector*, pension funds and insurance companies. The reason of choosing these is that banks represent 66% of financial activities according report of CBK for 2017 year and 27,7% pension funds.

So, banks and pension funds, together, represent over 90% of financial sector in Kosovo.

Therefore, we can say that financial sector in Kosovo represents from banks to a great extent and pension funds. Then, these are selected insurance companies for research, as institutions that immediately after the banks and pension funds.

From banks, are selected Ekonomik Bank of Kosovo, National Commercial Bank, Bank for Business, NLB Bank, Raiffeisen Bank and TEB Banka, and from funds are selected two funds which operated in Kosovo, **Kosovo Pension Saving Trust** and Pension funds Sllovenian-Kosovar, and from fifteen insurance companies are selected companies as Elsig, Eurosig, Illyria, Illyria life, Dukagjini, Prisig, Sigal Uniqa Group and Sigkos.

Selected process is based on availability annual financial reports online. After of selected of these institutions, financial reports are reviewed for last of three years,

¹ There

2017, 2016 and 2015. From these financial reports, are taken financial indicators by using CAMEL model for banks and eleven financial indicators and using DuPONT system for pension funds and insurance companies with five financial indicators.

CAMEL model is a very good model for evaluating performance of banks and it used in a lot of cases like ours. Financial indicators of CAMEL model show for a good average performance of all banks in Kosovo. Banks in Kosovo are managed very well and they have fulfilled all their obligations. None of the banks are not evaluated to have low performance or doubtful and this means that banks are performing very well and they are far away of bankruptcy.

Recommendation

Based on the results obtained, below recommendation will be take considering:

Despite that financial indicators shows good financial performance of the banks and it shows studied are far away of bankruptcy and liquidation, however, there were significant statistical difference between banks. These banks should be careful that their report should not fall below the recommendation values according the best bank practice.

Generally, banks such as BEK, BKT, BPB and NLB have poorer capital adequacy ratios and should be careful not to diminish this ratio.

An important case we can see about banks performance is asset quality report.

Despite that the banks year by year they work in minimizing of coefficients of quality assets, they are again found on the accepted criterion according best bank practice, that for non-performing loans to total loans and to total capital is suggested to be below 1%, while the loan loss provisioning coefficient is suggested to be below 3%.

All banks, should work in this direction, that these three indicators to approximate to these values, by keeping lower rates of non-performing loans and provision for losses.

Regarding the financial funds, there is a different performance compared to the banks.

First of all, it can be noticed that the Slovenian-Kosovar Pension Fund has a higher profit margin compared to the Kosovo Pension Savings Trust, however other reports present a more positive performance for the Kosovo Pension Savings Trust.

Pension funds should be care to save actual financial position. KPSF should have attention to the profit margin, as year-to-year fluctuations point to a destabilization of profit.

As well, and back norm of assets (ROA) and back norm of capital (ROE) should be managed nearly, as high movements presents for a stability of these reports, while KPSF despite the lower values of these reports, there was a more stable stability.

So, KPSF should control base and customer portfolio and carefully manage their accounts.

In the end, studied insurance companies in this paper, shows non stable statement of financial sector.

Insurance companies should see their financial stable nearly and considering showed information in financial statements, which often tell us for negative value reports.

It can be noticed that most insurance companies have operated at a loss and have overcome negatively negative values from year to year.

So, we are talking about instability, different from banks and pension funds.

Excepted this, all other reports shows extreme crossing year by year, or continuation negative statement. Therefore, insurance companies should be managed nearly and with carefully, offering their customers safety services, beneficiary and reliable, to increase customer portfolio, that ensure them a statement profit, reasonable back of assets and capital and a continuity in the future.

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