



Kosovo Business Finance (KBF) Project

Quarterly Report

USAID Contract No.
167-C-00-01-00106-00

Submitted by:
Deloitte Touche Tohmatsu Emerging Markets

Submitted to:
USAID

September 1 – November 30, 2002



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1.0 EXECUTIVE SUMMARY

The Kosovo Business Finance project has been in operation for over one and a half years. Since the initial start of the project, much progress has been made to realize the project goals and objectives. This report summarizes our activities and overall progress for the quarter of September 1 – November 30, 2002. It is provided in accordance with the Section C, Benchmarks, and Section F.4, Technical Reports, of the Contract for Services No. 167-C-00-01-00106-00 (“the Contract”).

1.1 Project Background

On 10 May, 2001 Deloitte Touche Tohmatsu Emerging Markets, Ltd. (DTTEM) and the United States Agency for International Development (USAID), through its Regional Contracting Office (RCO), signed contract 167-C-00-01-00106-00 for the implementation of the Kosovo Business Finance Project (“KBF” or “the Project”). The KBF is the second component of the Kosovo Employment Generation Program (“KEG”) under implementation by the USAID/Kosovo Mission.

The purpose of the KBF is to:

1. Support the recovery and revitalization of small and medium enterprises (SMEs) in Kosovo by providing a quick response SME credit facility (“the Loan Production Unit” or “LPU”);
2. Establish a full-service bank (“the Bank”) to mobilize deposits and provide other financial services to SMEs in Kosovo; and
3. Provide technical assistance to develop the financial analysis and management capability of bank professionals locally to assure post-Project sustainability.

The KBF will support USAID/Kosovo’s Strategic Objective 1.3 - Establishment of a Market-Oriented Economic Policy and Institutional Framework. The explicit focus of the program will be on stimulating employment and increasing private investment in the SME sector, thereby supporting the rapid and sustainable recovery of living standards for the Kosovar population.

1.2 Progress Summary

The following points summarize the progress achieved during this period for the American Bank of Kosovo and the SME Loan program:

Bank Activities

Deposits gathered: By November 30, 2002, ABK reached a total deposit level of over 40 million Euros and expects to have the second largest market share for deposits in Kosovo within the next month.

Business Development: An aggressive marketing campaign has been implemented to increase the deposit levels of the ABK. It included personal sales calls, newspaper, TV and radio advertisements, telemarketing, sponsorships, handbills and brochures, and cross selling of all bank products. In October, an incentive program was implemented for branch staff to bring in accounts of greater than 10,000 Euros.

Emphasis on high-quality customer service: During this quarter, an independent customer service survey was conducted at all branches. The results of the survey performed show that the service provided at ABK rate 'excellent.'

ATM Implementation: During this period, the team focused on finalizing the installation and testing of the ATM's by working with the necessary organizations in order to organize the ability to provide these services. Staff training on ATM machines and transaction processing also took place.

Launch Visa Card Capabilities: The ABK is working with VISA's Business Development Department on VISA card implementation. The best estimate is that the "migration date" (go live date) will be mid-January if everything goes perfectly. We will know a lot more once ABK receives an implementation schedule from Visa.

Expand ABK branches: ABK now has a network of 16 branches/sub-branches and is the only bank servicing the Serbian enclaves and North Kosovo. In addition, UNMIK has constructed a branch facility and ABK will provide a teller and account representative to process onsite transactions. This additional branch will be opened as of December 1, 2002.

Audit of Net Asset Value of ABK: An independent internal audit was conducted by PriceWaterhouseCoopers (PwC) to confirm the book value of ABK as of August 30, 2002. Results of the financial and operations review conducted by PwC were positive and although the team has some work to do, no significant issues were identified.

Continued negotiations for sale of ABK shares to Reiffeisen Zentral Bank (RZB): During this quarter, the team worked closely with USAID, RZB and legal counsel to finalize the sales contract and terms in order to sell a majority share of ABK to RZB

Lending Unit Activities

Loans approved: During this quarter, a total of 407 new loans were approved by the credit committee. Since project inception, the credit committee has approved 944 loans for a total outstanding portfolio of 12.6 million Euros.

Loans disbursed: A total of 7.47 million Euros has been disbursed to borrowers during this quarter, for a total of 19.6 million Euros disbursed to borrowers since project inception.

Loans in arrears: According to the credit administration team, as of November 30, there were fourteen loans in arrears (more than 30 days past due) on all or a portion of their payments. These 14 loans represent 3.86% of the total value of loans outstanding. Principal payments in arrears represent 2.51% of the total loan portfolio.

1.3 Outstanding Issues and Concerns

We will continue to work with USAID on a daily basis to inform of important issues, concerns, and/or developments that arise in the course of our work. In addition to updates during the period, there are more general issues and developments that we would like to highlight in this report that may have a bearing on performance and/or give rise to new challenges in the future. These are summarized as follows and explained further in Section 6 of this report.

Deposit Targets: Deposit mobilization is not occurring as rapidly as previously expected because the overall deposits in the banking system in Kosovo are stagnant. All deposit growth requires gaining market share at the expense of competing banks. This is a difficult task but one that the ABK has confronted. As a result, ABK's deposit base has steadily expanded and market share has been grown faster than any other bank in Kosovo, but the result is far less than the project targets.

Obligated Funds: As expenses approach the total obligated amount for the project and there are no more funds expected until March 2003, the project must rely on proceeds from the sale of the bank for future funding until more money is allocated to the project by USAID.

Indemnification Agreement from USAID to Deloitte: In order to move forward with the sale of the bank, it is important for the indemnification agreement to be incorporated into the final sales documents between KBFF and RZB.

2.0 MANAGEMENT OF THE ABK

As part of the Kosovo Business Finance Project, the team was required to establish and effectively manage a full-service bank (“the Bank”) to mobilize deposits and provide other financial services to SMEs in Kosovo. This section will provide an overview of the progress made in the management and growth of this bank during the quarter.

2.1 Business Development

The mission of the American Bank of Kosovo (ABK) is to promote Kosovo’s long-term economic development by profitably providing a full range of needed financial services to small and medium-sized enterprises throughout Kosovo. The team continues to pursue this mission by offering high-quality banking service to all of ABK’s business and retail customers. In line with the mission, the main goal of ABK is to be Kosovo’s leading full-service commercial bank, managed to international standards and serving all segments of the Kosovo economy.

The ABK team is aggressively pursuing the targets set by USAID for deposit growth. The sales team continues to work closely with NGO’s, large and international organizations to ensure that they are receiving the best possible service at ABK. Additionally, an intensive marketing campaign targeted at the largest entities in Kosovo continues to be conducted by the Branch Marketing Officers in each of the main branches and by the Business Development Associates in Prishtina. Lending Officers also cross sell banking services to their SME loan clients and representation by both the lending and sales teams will be present at all relevant trade fairs throughout Kosovo. Various advertising campaigns continue in both international and domestic editions of a Kosovar newspaper to increase awareness of bank services and to highlight international and domestic transfer capabilities.

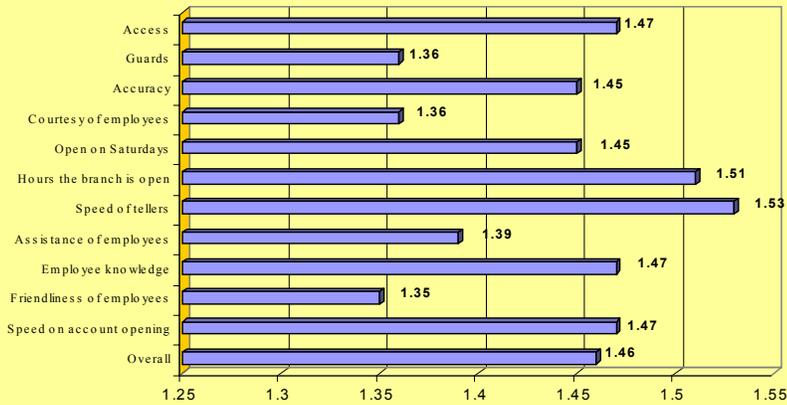
Customer Service

In order to fulfill one of the main goals of the project, the team has focused on improving the customer service levels at all ABK branches. Intensive customer service training continues to take place for all staff having any interaction with ABK customers. Detailed training on position functions and procedures was also provided for all job areas in order to ensure that the staff was knowledgeable enough to answer most potential questions posed by ABK customers.

The business development team worked with a local company in Kosovo to design and administer a customer service survey that was implemented at all branches in October. The customer surveys results were tabulated in November for inclusion in this report. Based on the assessment, it was determined that the respondents rated ABK’s services to be ‘Highly Positive’. In fact, all factors measured by the survey received a rating between ‘Superior’ and ‘Good’. This rating fulfills the benchmarks set under the customer service factor to receive a rate of ‘Good’ on an independent customer survey. The chart below shows the ratings across several factors surveyed.

Assessment of Bank Services

(average score, from 1 superior - 5 unacceptable)

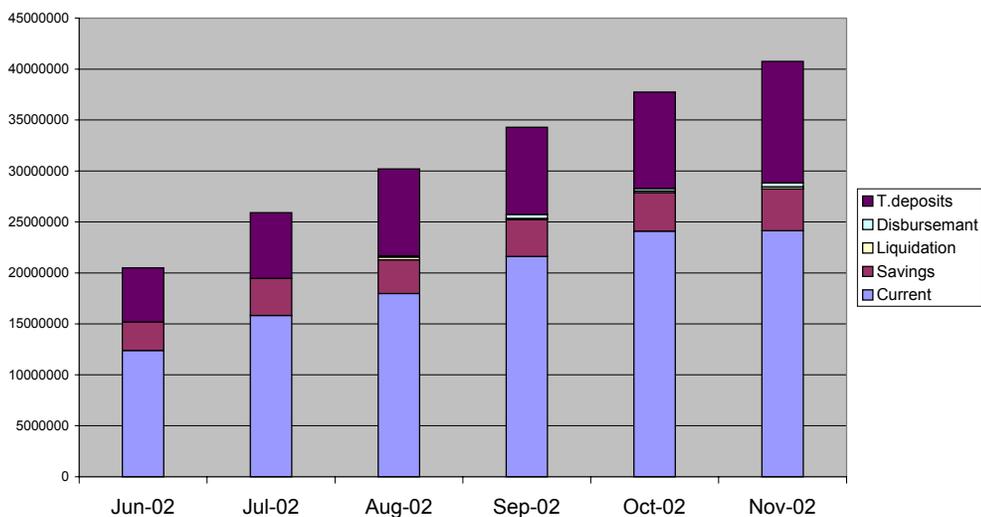


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Level of Deposits

Despite a stagnant growth rate in the overall deposit level at all banks in Kosovo, by November 30, 2002, ABK has continually increased its deposit level to increase the deposit level during the quarter by over 5 million Euro, gathering a total of over 40 million Euros, with several more deposits expected before the end of the year. It is predicted that ABK should have the second largest market share in Kosovo by the end of the calendar year. The chart below provides a detailed view of the deposit trends throughout the month of November.

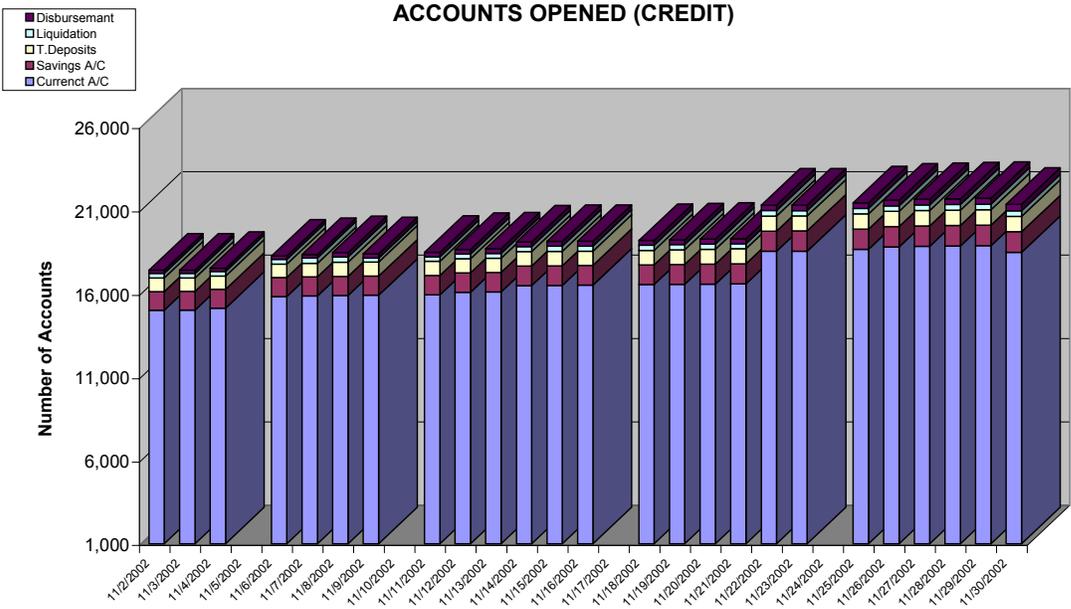
Deposit Amount



Due to the current situation in the banking system in Kosovo, all deposit growth at ABK must result from gaining market share at the expense of competing banks. This is a difficult task, but, as mentioned above, the team has developed several programs to continue the successful growth in the deposit levels at ABK.

Number of Customer Accounts

ABK has also continued to experience growth in the total number of customer accounts opened since the bank opened. The following chart shows that, the number of accounts currently held opened at ABK has increase by approximately 4,000 in November (9,000 new accounts during the quarter) resulting in over 21,000 credit related customer accounts.



New Products

ABK offers a full range of deposit products, money transfer services, pension payments, welfare payments, payroll processing services and a basic cash management system to larger companies that have operations throughout Kosovo. The Bank also has an active SME lending program and is the only bank in Kosovo that allows customers to maintain accounts in any of four currencies. A new product that has recently been introduced is Bank Guarantees. These are being offered on a limited basis to selected clients. Another product being developed is Documentary Credit (also known as Letter of Credit). This product is not yet being offered to the customers, as we are awaiting final approval of LC business development from the management. There is substantial demand for these products from the business community. Mortgage and Consumer Credit is in various stages of development. Each of the new products requires developments in the accounting system if the products are to be offered on a wide-scale basis.

Evaluation of current products and pricing

A Product Pricing Committee was formed to systematically review all ABK financial products and determine that product prices are competitive in the marketplace and profitable for the bank to offer.

ATM Implementation

ATM machines have been installed in 5 branches (Prishtina, Peja, Prizren, Gjakove and Ferizaj). The Banknet satellite link with Euronet in Budapest, Hungary has been successful and all of the branches are connected with leased line communication. Policies and procedures for the internal and external use of the ATM system have also been established. Work at ABK continues to be focused on programming the interface between Euronet and GLOBUS, installing and testing the Euronet processing software and procedures, hiring staff to manage and reconcile ATM transactions and training staff on ATM machines and transaction processing. The ABK's debit cards and pin mailers for the Prishtina branch have been ordered through Austria Card in Vienna, Austria and were delivered in late November. Cards and PIN mailers for the rest of the branches will be ordered during the second half of December.

Launch Visa Card Capabilities

The ABK is working with VISA's Business Development Department on VISA card implementation. VISA assigned a BIN number in late November and then VISA's implementation department will review our project and determine whether or not they will accept it. Assuming it is accepted, ABK's project will be assigned a Project Manager who will then send an implementation plan with detail tasks and target dates. We have requested a VISA Settlement Account to be opened at RZB. The best guess is that the "migration date" (go live date) will be late January if everything goes perfectly. We will know a lot more once a Project Manager is assigned and ABK receives an implementation schedule.

Establish SWIFT Access

ABK has been certified and trained for processing SWIFT transactions at the next SWIFT entry date, which will be December 6, 2002.

2.2 Branch Network

ABK's mission is to be the leading provider of financial services in the country. Including the headquarters branch in Prishtina, the ABK now has 16 locations serving the citizens of Kosovo.

ABK branches and sub-branches can be found in the following locations:

Branches: <ul style="list-style-type: none">• Prishtina• Ferizaj• Prizren• Mitrovica• Gjilan• Gjakova• Peja	Sub-branches: <ul style="list-style-type: none">• Shtpce• Zvecan• Kaqanik• Dragash• Malisheva• Vushtri• Kamenica• Gracanica• N. Mitrovica• UNMIK Headquarters
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Possible new branches

Prishtina UNMIK administration headquarters have each requested that ABK provide cashiers at their offices. In order to provide banking services and facilitate the payroll at the UNMIK Administrative compound, the ABK decided to open an on-site branch. UNMIK has constructed the branch facility and ABK has provided the teller and account representative to process on-site transactions. This branch was opened and is operational as of December 1, 2002.

Staffing

During the month of September, evaluations were conducted for all ABK branch employees who were working under a probationary contract. Several employees were dismissed, based on performance, in order to arrive at the ideal configuration for the branches based on level of business and demand for services. In order to meet the project goal of promoting local Kosovar employees into management positions, ABK employees have been evaluated by an internal committee, consisting of the members of the management team at ABK, to fill the Branch Manager positions. The final selections were made in November

2.3 Bank Operations

Management of the ABK is responsible for the design, implementation and maintenance of internal policies and procedures that provide adequate levels of protection of the assets and records. Management is also responsible for the definition of adequate levels of protection in

terms of control objectives and for ensuring that these objectives are achieved by the control procedures in place.

In the area of bank operations, the team completed two major tasks during the quarter. The first was the successful opening of 6,000 new pension accounts in the small remote offices in the Serbian territory. The second was hiring and training staff to manage and reconcile ATM card transactions. Private label debit cards will be introduced by early December and VISA card processing is expected to be introduced in late January/early February.

2.4 Finance Department

Although there has been much progress made at the ABK in the areas of operations and controls, as noted in the chart below, the financial performance of the ABK is not quite at the level that was projected in the budget. This is due, in part, to unforeseen delays in the release of new products and services and the overall declining deposit trends seen in the banking industry to date. During the next quarter, the team will maintain a strong focus on driving up the financial performance of ABK by increasing revenues, through the offering of new products and services to its customers and decreasing bank expenses through cost cutting measures.

Income Statement for the period ended 30 November 2002

	<u>Notes</u>	Oct 02	Nov 02	YTD Actual 02	YTD Budget 02
INTEREST INCOME					
Loans	(1)	105,991	97,368	528,139	790,000
Investments	(2)	55,369	51,699	314,712	561,000
Total interest income		161,360	149,067	842,851	1,351,000
INTEREST EXPENSES					
Savings Accounts	(3)	7,571	8,061	54,035	
Time Deposits	(4)	18,496	24,560	146,532	
Total interest expenses		26,067	32,621	200,567	365,000
NET INTEREST INCOME		135,293	116,447	642,285	986,000
Provisions for Loan Losses					
Capital	(5)	128,212	69,423	568,175	210,000
Interest	(6)	0	0	0	
NET INTEREST INCOME AFTER PROVISIONS		7,081	47,024	74,110	776,000
NON INTEREST INCOME					
Account service fees		0	1,383	1,595	
ATM Fees		0	0	0	
Cash Withdrawal Fees		2,076	1,298	33,270	
Corporate Collection Fees		18,221	9,945	49,189	
Corporate Payment Fees		53,332	10,167	145,344	
Foreign Exchange Commissions		435	(87)	33,807	
Trade Finance Commissions		0	100	1,403	
Transfer Commissions		27,676	26,660	230,020	
Travelers Cheques		0	0	0	
Other Fee and Commission		42	518	1,209	
Total non - interest income	(7)	101,782	49,984	495,836	590,000
NON INTEREST EXPENSES					
Salaries & Benefits	(8)	208,203	227,588	1,174,193	1,014,000
Premises & Equipment Expenses	(9)	108,952	96,469	759,878	772,000
Other non-interest expenses	(10)	372,219	376,194	2,028,502	2,044,000
Total non-interest expenses		689,374	700,252	3,962,574	3,830,000
NET OPERATIONAL INCOME / (LOSS)		(580,511)	(603,245)	(3,392,628)	(2,464,000)
NET GAINS FROM FOREIGN CURRENCY REVALUATIONS		22,596	14,881	136,587	
TAXES	(11)	0	0	4,388	5,000
NET INCOME / (LOSS)	(12)	(557,915)	(588,363)	(3,260,429)	(2,469,000)

A review of ABK operations and financials was performed during the period 16 September 2002 to 27 September 2002 and covered operations of the Bank for the period 1 January 2002 to 27 September 2002 (“the period”). The report covered solely the operations of the Bank for the period from 1 January 2002 to 27 September 2002. In accordance with the project benchmarks, at the presentation of the findings by PwC, it was determined that the current accounting system is functional for the demands of the ABK and that it is improving. It was also determined that there are also no significant problems with ABK risk management or other bank system, thereby satisfying these factors set for this evaluation criteria.

2.5 Reiffeisen Zentral Bank (RZB)

Raiffeisen Zentral Bank (RZB) is one of Austria's two leading banks. It has corporate banking, retail and other services throughout Austria. RZB considered Central, Eastern and Southeastern Europe as core banking markets in its business strategy. They have successfully opened and operated banking subsidiaries in Romania, Bulgaria, Poland, the Czech Republic, Slovakia, Hungary, Poland, and Ukraine, and have recently established banks throughout former Yugoslavia. RZB has expressed an interest in a potential future investment in the ABK by purchasing 76% shares of ABK.

Since this initial visit in March 2002, much activity has occurred with respect to the sale of a portion of the ABK. RZB decided that it would be interested in purchasing 76% of the shares of ABK, signed a draft purchase agreement and has visited with the team in Prishtina and in Vienna several times. The Deloitte/ABK team will continue to work closely with USAID, RZB and legal counsel to support the sale of the ABK as needed during this period, specifically in the area of drafting the final sales documents. Currently, all sales documents are going through a final review by the legal advisors for USAID, RZB and Deloitte. Final discussions and closure of the sale is expected to take place in early December 2002.

3.0 OPERATION OF THE LENDING UNIT

In the lending unit, the team continues to pursue the aggressive benchmarks that have been set by USAID for Year 2 of the project. The following section provides an overview of the activities in the credit administration and lending units during the period.

3.1 New Lending Products Development

With the success of the SME loan program during the first year of the KBF project, the lending team has begun looking at development of several new loan products to release in the Kosovar market. Below is a sample of the different programs currently under consideration.

Agricultural Loan Program

Although ABK has not had a specific Ag Sector Loan Program until recently, the SME Lending Program includes the agriculture sector and about 34% of the total number of loans disbursed consists of agriculture industry loans. The expectation is for the agricultural sector loans to continue to be a significant portion of the new loan portfolio.

Employee Automobile Loan Program

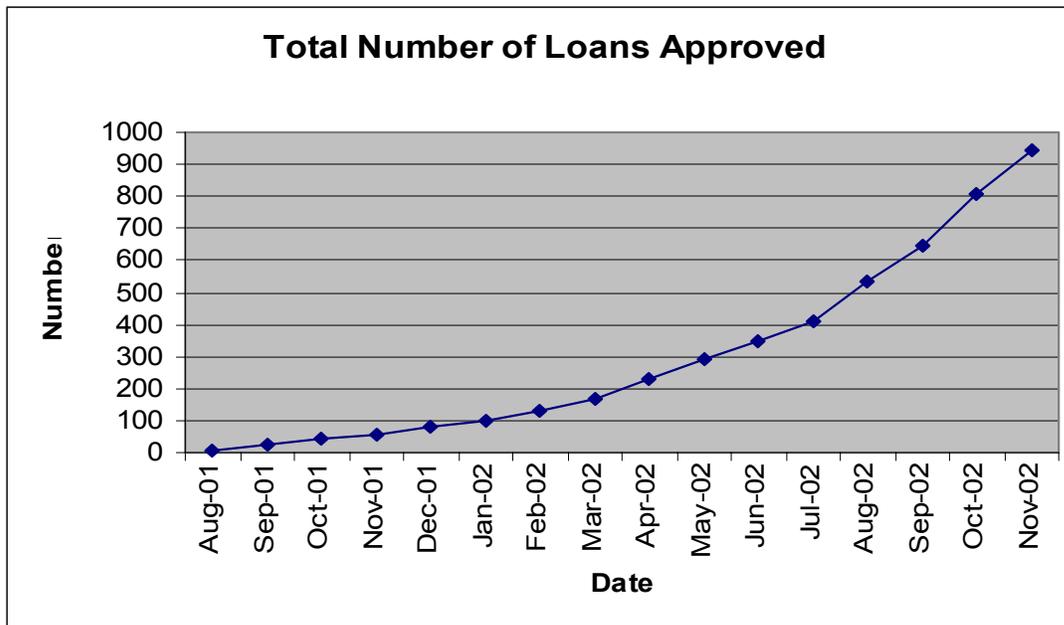
An employee auto loan program was developed and is pending ABK board approval. The intent of the program is to provide a benefit for auto purchase to employees that would benefit the ABK by helping to ease the transportation shortage for business purposes. This loan product can be expanded to include consumer loans to selected groups of private individuals who have steady employment and whose employers provide their payroll through the bank.

Home Improvement Loan Program

This program is still under development and is awaiting finalization of the new mortgage law, which has been passed but not signed into law. . The preliminary review of the proposed law shows it to be favorable to banks and lending institutions while maintaining consumer rights.

3.2 Lending Activity

The Lending Unit approved 412 SME loans during this period, bringing the project-to-date loan approvals to 944 loans for a total outstanding portfolio of 12.6 million Euros. The chart below details the number of loans approved by the credit committee since the KBF project began lending in August 2001.



The average loan size in the KBFF/ABK portfolio is approximately 25,000 Euros for a term of approximately 10 months. The average new loan amount is slowly increasing, as is the average term, which is about 11 months for new loans. All closing activities (e.g. signed loan agreements, collateral filing, etc.) were finalized on a total of 690 loans to-date resulting in 19.6 million Euros disbursed to ABK borrowers.

Employment Generation

As of November 30, 2002, KBF project/ABK financing will result in the direct creation of 2,926 new jobs or one job for approximately every 7,926 Euro of loan volume. If we use the figure of 5,000 DM (or approximately EURO 2,500) in loans disbursed equates to one new job (as stated in the KBF RFP), then the number of jobs created is 9,200 (23.1 million EURO disbursed as of November 30 divided by 2,500).

Targeted Lending

In accordance with the Project goals for employment generation and economic stimulation, the lending priority is to finance businesses engaged in labor-intensive manufacturing and production activities. Of the 944 loan applications that were approved by the project, 74.4% are in the manufacturing/production industry sector, 12.1% are in the service industry sector and 13.6% are engaged in pure trade. A detailed breakdown of the loan portfolio by industry sector is shown below.

KOSOVO BUSINESS FINANCE FUND
Industry Concentration Report
 As of November 30, 2002

Industry Sector	Amount		# of loans	
		%		%
1. Manufacturing+Product	17,075,414.68	73.7	702	74.4
Manufacturing/ Wood	4,069,324.19	17.6	152	16.1
Metal Fabrication	755,943.03	3.3	34	3.6
Glass Production	143,500.00	0.6	10	1.1
Textile/ Aparrel	595,033.41	2.6	39	4.1
Printing/paper products	705,322.54	3.0	29	3.1
Hygienic Production	286,580.87	1.2	10	1.1
Plastics	922,995.99	4.0	36	3.8
Pharmaceuticals	152,677.51	0.7	6	0.6
Soft Drinks products	282,467.95	1.2	11	1.2
Food	3,174,589.96	13.7	127	13.5
Milling Plant	610,566.41	2.6	20	2.1
Construction	2,954,967.39	12.7	116	12.3
Electrical	305,532.75	1.3	6	0.6
Farm/Fish, Eggs	1,489,690.00	6.4	82	8.7
Other	626,222.68	2.7	24	2.5
2. Trade	4,093,745.75	17.7	128	13.6
Fertilizer distribution	137,484.21	0.6	3	0.3
Food distribution	387,016.27	1.7	7	0.7
Retail	3,569,245.27	15.4	118	12.5
3. Services	2,010,953.58	8.7	114	12.1
Hotel/Restaurants	665,967.94	2.9	35	3.7
Professional services	1,344,985.64	5.8	79	8.4
Total	23,180,114.01	100.0	944	100.0

The lending team focuses on visiting clients within Prishtina as well as throughout all of Kosovo, including the Serbian enclaves. Of the 944 loans approved, 17.7% are to borrowers within the Prishtina municipality, 13.5% in Prizren, 7.0% in Ferizaj and 4.8% in Mitrovica municipality. Lending activity in the minority regions of Kosovo has been one of the priorities of the lending team, as is evident by the increased number of loans generated in these areas. Also, due to the extensive branch network of ABK, the lending team is now able to provide better services to the companies outside of Prishtina. Therefore, it is expected that the Geographic Concentration for loans will change slightly over the course of the next several months. The following chart shows a detailed breakdown of the geographic concentration for all loan clients throughout Kosovo.

Geographical Concentration Report

As Of: November 30, 2002

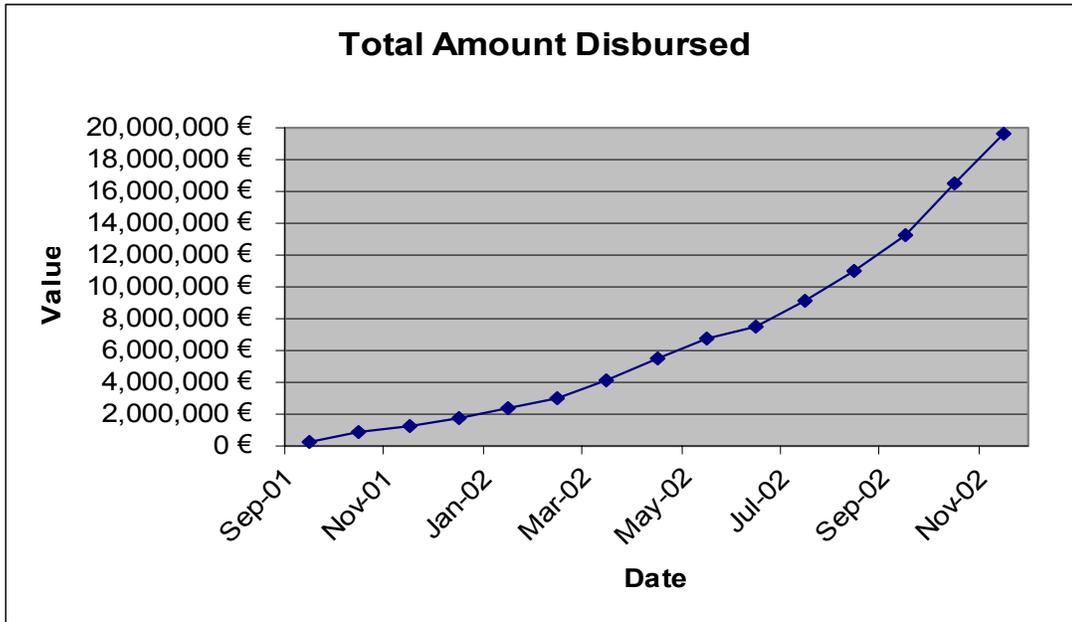
Municipality	Amount		# of loans	
		%		%
Decan	386,160.99	1.7	19	2.0
Dragash	40,000.00	0.2	2	0.2
Drenas	429,864.59	1.9	23	2.4
Ferizaj	1,556,221.83	6.7	66	7.0
Fushe Kosove	219,013.79	0.9	13	1.4
Gjakove	1,586,698.11	6.8	82	8.7
Gjilan	1,589,010.05	6.9	59	6.3
Graqanica	8,000.00	0.0	2	0.2
Istog	751,532.53	3.2	33	3.5
Kacanik	59,000.00	0.3	4	0.4
Klina	174,000.00	0.8	5	0.5
Kamenice	178,700.00	0.8	8	0.8
Kijeve	100,000.00	0.4	2	0.2
Leposaviq	175,992.00	0.8	18	1.9
Leshak	20,500.00	0.1	4	0.4
Lipjan	646,532.54	2.8	24	2.5
Mallsheve	150,372.63	0.6	10	1.1
Mitrovice	720,803.55	3.1	45	4.8
Obiliq	20,000.00	0.1	1	0.1
Peje	2,173,356.95	9.4	87	9.2
Podujeve	579,962.88	2.5	26	2.8
Prishtine	6,604,017.63	28.5	167	17.7
Prizren	3,132,114.70	13.5	133	14.1
Rahovec	192,125.84	0.8	9	1.0
Shtime	182,484.21	0.8	4	0.4
Skenderaj	163,008.13	0.7	11	1.2
Strpce	115,000.00	0.5	12	1.3
Suhareke	299,450.84	1.3	14	1.5
Viti	213,495.00	0.9	15	1.6
Vushtrri	280,895.22	1.2	14	1.5
Vrelle	90,000.00	0.4	1	0.1
Zvecan	237,000.00	1.0	20	2.1
Zubin Potok	104,800.00	0.5	11	1.2
Total	23,180,114.01	100.0	944	100.0

3.3 Credit Administration

During the quarter, the credit administration department continued the on-going production of all new loan contracts, security filings, disbursements, and monitoring activities. The team also worked closely with the PwC audit team to provide all the necessary information for the completion of the audit of ABK.

Disbursements

As noted in the following chart, a total of 19.6 million Euros has been disbursed to ABK borrowers since the beginning of the KBF project, with further disbursements of approved loans occurring on a daily basis. During the quarter, the team disbursed a total of 8.2 million Euros.



3.4 Portfolio Performance

All borrowers are required to make monthly repayments. As of November 30, 2002, there were fourteen ABK loans and 5 KBF loans that were more than 30 days past due on all or a portion of their payments. As detailed in the chart below, these loans represent an arrears rate of 2.51%, with a principal outstanding on the loans in arrears totaled at 317,436 Euros. The total portfolio at risk of 488,244.68 Euros represents 3.86% of the total loan portfolio.

**Past due report
(as of November 30, 2002)**

	# Loans Outstanding	%	€ Amount	%
Outstanding Portfolio	690	100.00%	€ 12,660,672.77	100.00%
Current	671	97.25%	€ 12,343,236.51	97.49%
Loans in arrears	19	2.75%	€ 317,436.26	2.51%
Outstanding at risk	19	2.75%	€ 488,244.67	3.86%

The estimated value of collateral that was pledged and filed on the loans in arrears is 4-to-18 times greater than the loan amount. Therefore, the loans appear to be adequately secured, but the

KBF project security position is only valuable to the extent that the Municipal Courts recognize contractual rights to acquire the property through foreclosure actions. The attitude of the courts differs by municipality, with some courts being very understanding of the KBF project/ABK contractual rights and others appearing to be obstructionary.

3.5 Staff Development and Training

It is the goal of the project to develop Kosovar citizens into credit and banking professionals that can assume the roles of Loan Officers, Credit Managers and Branch Supervisors within the organization. Job training occurs each workday in all departments since the employees continue to work directly with senior management in the activities related to their specific tasks. In the lending unit, lending associates work with their respective Loan Officer/Senior Manager on originating, disbursing, and monitoring SME loans. Listed below is the classroom training that took place during the quarter.

KOSOVO BUSINESS FINANCE FUND

Training Schedule Report
As of November 30, 2002

DATE	TITLE	DESCRIPTION
October 12	GPS training and Team Building	GPS training, team building, deposit mobilization and progress towards targets.
October 26	Bank Policies and GPS training	Bank policies, GPS training, deposit mobilization and progress towards targets

4.0 PROJECT MANAGEMENT

Project management staff continued to support the Kosovo Business Finance project from Washington DC as needed. Veronica Gilbert, Project Manager, went to Kosovo in November to assist in finalizing the documents for the sale of ABK shares to RZB, attend the Audit review for ABK presented by PwC, and to work with the team to address several other issues. One of the main focuses during this period was on identifying a permanent CEO for the ABK. Short-term technical assistance needs were addressed along with several other budget related and project management issues. The following is a summary of some of the major project management issues that were addressed during the quarter.

4.1 Staffing

As mentioned above, the project management team continued to maintain a strong focus on the recruitment of a CEO for the ABK. Two candidates visited USAID/RZB personnel in Austria to conduct final interviews. It is expected that the team will have selected the ideal candidate for the position by December.

Assistance was provided through project management staff, legal advisors, and a transaction specialist, in the preparation of the final sales agreement to be discussed with RZB upon their arrival in Kosovo.

Finally, interviews were conducted to identify a new MIS advisor for ABK. Peter Glibbery's assignment will be ending in mid-December and a replacement is needed. Two potential candidates were interviewed and brought to Kosovo for further discussions. Ilse Schuster was identified as the top candidate and will begin work in December in order to ensure a smooth transition.

4.2 Budget

A project budgeting system has been developed that will track the budget across various cost categories for the project. In the table below, the actual expenses incurred to date are outlined. According to the chart detailing a comparison of actual costs to the budget for Year 2 of the project, it appears that, to date, the burn rate is at approximately 55.1% of budgeted costs. Every subsequent monthly report will include the latest budget data as per the requirements of USAID.

Estimated Kosovo Business Finance TA (CLIN 1)

	Year 2 Budget (5/10/2002-5/10/2003)		Estimated				Estimated Cumulative Amount	Burn Rate
	Year 2	Quarter 1	September (through 9/21)	October (through 10/19)	November (through 11/16)	December (through 12/14)		
Salaries	\$ 1,210,998.00	\$ 345,837.57	\$ 76,290.12	\$ 75,169.34	\$ 69,909.21	\$ 75,000.00	\$ 642,206.24	53.0%
Fringe	\$ 124,258.00	\$ 36,484.31	\$ 7,884.95	\$ 8,107.78	\$ 8,475.13	\$ 8,000.00	\$ 68,952.17	55.5%
Overhead	\$ 1,010,395.00	\$ 290,682.89	\$ 63,723.05	\$ 62,835.84	\$ 59,325.45	\$ 65,000.00	\$ 541,567.23	53.6%
Travel	\$ 192,500.00	\$ 63,390.43	\$ 9,930.94	\$ 4,192.29	\$ 7,584.85	\$ 5,000.00	\$ 90,098.51	46.8%
Allowances	\$ 684,250.00	\$ 172,517.43	\$ 47,950.20	\$ 43,657.77	\$ 42,360.84	\$ 45,000.00	\$ 351,486.24	51.4%
Other Direct Costs	\$ 678,609.00	\$ 219,303.68	\$ 43,677.01	\$ 69,908.40	\$ 22,800.95	\$ 40,000.00	\$ 395,690.04	58.3%
Subcontractors	\$ 1,180,000.00	\$ 316,070.11	\$ 260,688.57	\$ 39,424.85	\$ 83,571.94	\$ 50,000.00	\$ 749,755.47	63.5%
General & Administration	\$ 406,481.00	\$ 115,536.80	\$ 40,811.59	\$ 24,263.70	\$ 23,522.27	\$ 23,040.00	\$ 227,174.36	55.9%
Base Fee	\$ 185,055.00	\$ 31,194.92	\$ 11,019.13	\$ 6,551.20	\$ 6,351.01	\$ 6,220.80	\$ 61,337.06	33.1%
Totals	\$ 5,672,546.00	\$ 1,591,018.14	\$ 561,975.56	\$ 334,111.17	\$ 323,901.65	\$ 317,260.80	\$ 3,128,267.32	55.1%

With regards to obligated funds for the KBF project, as discussed with USAID during the budget modification period, Deloitte has expended the total amount obligated for CLIN 1 by December 2002. In coordination with USAID, Deloitte has set up a system to have the proceeds from the sale of shares of ABK to RZB cover any project related costs, until more funds are obligated by USAID. Below, is the burn rate for this period in relation to the amount of funds obligated.

	Total Obligated (thru 12/14/02)	Total Expended (thru 12/14/02)	Burn Rate (thru 12/14/02)
Clin 1	\$ 6,669,310.00	\$ 6,819,357.50	102%
Clin 2	\$ 5,000,000.00	\$ 5,000,000.00	100%
Clin 3	\$ 4,098,690.00	\$ 4,098,690.00	100%
Total Obligated	\$ 15,768,000.00	\$ 15,918,047.50	101%

4.3 Contract Administration

During this quarter, Contract Modification 10 was issued to revise the Award Fee Plan in accordance with the issuance of Modification 9. Award Fee Evaluation Period 3, and all remaining evaluations during the course of this project, will adhere to this new plan.

4.4 Subcontractors

For the Kosovo Business Finance Project, Deloitte has worked with Deloitte Touche Central Europe (DTCE), Rabobank International Advisory Services (RIAS) and IMCC to deliver technical assistance. During this quarter, all local employees, previously employed by DTCE, were transferred over to the ABK payroll. Therefore, the involvement of Deloitte Touche Central Europe has decreased in this capacity on this project. RIAS role has also decreased during this quarter, while IMCC continues to provide support in the credit administration department.

Further support may be needed by the subcontractors in terms of short-term technical assistance in future quarters; however, these needs have not yet been defined. Support in other areas will be discussed in future reports.

5.0 OUTSTANDING ISSUES AND CONCERNS

We will continue to work with USAID on a daily basis to inform of important issues, concerns, and/or developments that arise in the course of our work. In addition to updates during the period, there are more general issues and developments that we would like to highlight in this report that may have a bearing on performance and/or give rise to new challenges in the future. Below is a short discussion of some of the major issues and concerns during the month of November.

Deposit Targets: Deposit mobilization is not occurring as rapidly as previously expected because the overall deposits in the banking system in Kosovo are stagnant. All deposit growth requires gaining market share at the expense of competing banks. This is a difficult task but one that the ABK has confronted with incentive programs for new accounts, waiver of in-coming transfer fees, reimbursement to customers of other banks' transfer charges to an ABK account, a fast track program for large business customers and offering individualized product and services for very-large high potential clients. As a result, ABK's deposit base has steadily expanded and market share has grown faster than any other bank in Kosovo. However, the result is far less than the project targets.

Obligated Funds: During the last few months, there were many discussions with regard to a project budget modification and obligated funding in light of items such as revised project benchmarks; the integration of KBFF into ABK; the use of ABK deposits for SME loans; and USAID provision of funds for bank capital to undertake certain ABK initiatives and still meet capital adequacy requirements. Transfers from one CLIN to another were made and it was noted by USAID and DTTEM during discussions that funding obligated for CLIN 1 (to cover technical assistance and related costs) would only be sufficient to cover projected CLIN 1 expenditures until around December 2002. While this was the understanding between both parties, it was not documented in the final budget modification issued (Contract Modification No. 9). Since expenses are nearing the total obligated amount for the project and there are no more funds expected until March 2003, the project must rely on proceeds from the sale of the bank for future funding until more money is allocated to the project by USAID.

Indemnification Agreement from USAID to Deloitte: In order to move forward with the sale of the bank, it is important for the indemnification agreement to be incorporated into the final sales documents between KBFF and RZB. The team will continue to work closely with USAID, RZB and all related parties to ensure that an agreement is reached in the sale of the bank shares.

6.0 WORK PLAN FOR NEXT QUARTER

The following section provides a brief overview of the areas of focus for the KBF project team during the month of December.

Assist in finalizing negotiations for sale of ABK shares to RZB, as needed: During the month of November, the team will continue to work closely with USAID and RZB to finalize the sales documents in order to close the sale of ABK shares.

Work on improving ABK's financial position: Develop a revised strategy for operations so that the actual results are more aligned with the forecasts. The team will target breakeven for ABK in 2003.

Manage the ABK branches: The ABK management team will continue to oversee the branch network to ensure smooth operations. It is crucial over the next few months for the team to maintain a strong focus on the management, training and improvement of all operations in order to maintain a high level of customer satisfaction at all ABK branches.

Finalize selection of ABK CEO: The top candidates for the CEO position have been identified and interviewed. A final decision is expected in December.

Transition new MIS manager: As Peter Glibbery's assignment ends in December, a new MIS manager has been recruited. She will begin working with Peter in December in order to ensure a smooth transition.

Planning session with RZB: In preparing for the purchase and daily management of ABK, Jeff Millikan, of RZB, will lead an all-day planning session with senior management of ABK, USAID project managers and the Deloitte KBF project manager.

Continued emphasis on the ABK marketing program: During the month of November, the New Business Development manager and all bank employees will continue to work towards increasing the level of deposits at ABK. Corporate accounts will continue to be aggressively pursued.

Continue internal improvements based on final audit report: The report that was prepared by PwC on the internal review of the ABK in September has been distributed to each department head to address the identified control weaknesses and operational deficiencies noted.

Implement ATM network: The team will continue to aggressively pursue the launch of the ATM network. Paul Coenen, an ATM specialist, is expected to return to Kosovo to assist the team in setting up the network.

Complete Financial year-end: Working with IT and Globus consultants to prepare for the financial year-end and implement a new chart of accounts.

Continue Globus modifications: Globus consultants on site to complete as much as possible of the set up procedures. This includes exception reports, pricing “look up” tables and condition groups, as well as working towards resolving the unbalanced position.