



*cutting through complexity*

## Cross-Country Comparative Research on Credit Effective Interest Rates

National Bank of Georgia

11 March 2014

A photograph of a classical bank building facade. The word 'BANK' is carved in large, raised letters on a stone lintel above the entrance. Above the lintel is a decorative cornice with square blocks. A flower box filled with yellow and white flowers sits on the ledge below the cornice. A semi-circular window with a metal frame is visible above the flower box. The building is made of light-colored stone or concrete. A blue diagonal graphic overlay covers the left side of the image.

BANK

# Introduction

Incorporating the results of the cross-country comparative research on credit effective interest rates conducted by KPMG for National Bank of Georgia during December 2013 – January 2014.

The banking products under review included:

Product	Amount (USD) (equivalent in NC/FC)	Maturity (years)
<i>Fixed rate mortgage credits</i>	50,000	10
<i>Floating rate mortgage credits</i>	50,000	10
<i>Consumer credits (pledged)</i>	10,000	3
<i>Consumer credits (non-pledged)</i>	1,500	2
<i>Credit cards</i>	600	n/a
<i>Corporate credits for capital investments</i>	1,500,000	5
<i>Corporate credits for working capital</i>	600,000	2.5
<i>SME credits for capital investments</i>	300,000	5
<i>SME credits for working capital</i>	150,000	2.5

Initial screening of the in-scope products included leading banks of 11 countries, including Georgia

Country	Banks
Georgia	Bank of Georgia
	TBC Bank
Armenia	Ameriabank
	ACBA Credit Agricole Bank
	HSBC Bank Armenia
Azerbaijan	International Bank of Azerbaijan
	Standard Bank
	Xalq Bank
Kazakhstan	Bank CenterCredit
	BTA Bank
	Halyk Bank Kazakhstan
Moldova	Moldova Agroind
	Victoriabank
Poland	Bank Pekao
	PKO Bank Polski
Romania	BCR
	BRD
Russia	Sberbank
	VTB Group
Serbia	Banca Intesa a.d. Beograd
	Komercijalna banka a.d. Beograd
Turkey	Türkiye İş Bankası
	Ziraat Bankası
Ukraine	Oschandbank
	Privatbank

The criteria of selection

- ❖ The overall banking sector compatibility with the Georgian banking sector
- ❖ The number of the credit products under review that are offered by the bank
- ❖ The availability of information on each credit product under review

The final list of comparator banks included the following leading banks from 5 countries.

Country	Banks
Armenia	Ameriabank
	ACBA Credit Agricole Bank
	HSBC Bank Armenia
Azerbaijan	International Bank of Azerbaijan
	Standard Bank
	Xalq Bank
Kazakhstan	Bank CenterCredit
	BTA Bank
	Halyk Bank Kazakhstan
Poland	Bank Pekao
	PKO Bank Polski
Serbia	Banca Intesa a.d. Beograd
	Komercijalna banka a.d. Beograd

- ❖ On-desk research of the official websites of the selected banks;
- ❖ E-mail contact with the representatives of the selected banks;
- ❖ Direct contact with the representatives of the selected banks via phone.
  
- ❖ Average Exchange Rates for the period of 01 January to 01 December 2013 were taken as a basis
- ❖ The following Interbank reference rates were considered as of 20 December 2013:
  - 3M Wibor
  - 3M Euribor
  - 6M Euribor
  - 6M Belibor
  
- ❖ Refinancing rates were taken as of 01 December 2013 (Georgia, Armenia, Kazakhstan)

$$\sum_{k=1}^{k=m} \frac{A_k}{(1+i)^{t_k}} = \sum_{k'=1}^{k'=m'} \frac{A'_{k'}}{(1+i)^{t_{k'}}$$

$k$  – credit amount withdrawal serial number

$k'$  – credit payment serial number

$A_k$  – amount of the  $k$  th order withdrawal

$A'_{k'}$  – amount of the  $k'$  th order payment

$m$  – total number of withdrawals

$m'$  – total number of payments

$t_k$  – time interval, expressed in years or fractions, between the first withdrawal and the next withdrawals,  $k=1, \dots, m$

$t_{k'}$  – time interval, expressed in years or fractions, between first payment and following payments,  $k'=1, \dots, m'$

$i$  – effective interest rate

- ❖ *The concept of the effective interest rate and the methodology of its calculation of the selected countries are similar to that of Georgia*
  
- ❖ *The financial expenses that should be considered in the calculation of the effective interest rate are as follows:*
  - ✓ Payments of the principal amount and the accrued interest
  
  - ✓ Bank service fees
  
  - ✓ Commissions, credit withdrawal charges
  
  - ✓ Mandatory insurance fees
  
  - ✓ Property valuation charges
  
  - ✓ Fees defined by state, such as notary fees, credit bureau fees, pledge registration charges, etc.
  
  - ✓ All other expenses that are mandatory for obtaining the credit product.



# **Analysis of Banking Products**

- ✓ Polish and Serbian banks do not offer any type of mortgage at fixed rates
- ✓ Azeri banks do not provide fixed rate mortgages in foreign currency (FC)
- ✓ One of the Georgian banks does not provide the product in national currency (NC)

#### Weighted average nominal and effective interest rates by country

	Nominal Rate (NC)	Effective Rate (NC)	Nominal Rate (FC)	Effective Rate (FC)
<b>Georgia</b>	15.0%	16.9%	12.5%	14.4%
<b>Armenia</b>	16.3%	18.2%	13.4%	14.8%
<b>Azerbaijan</b>	10.5%	12.4%	-	-
<b>Kazakhstan</b>	12.4%	13.4%	12.4%	13.4%
<b>Poland</b>	-	-	-	-
<b>Serbia</b>	-	-	-	-

#### Common expenses

- ✓ *Credit commission fee*
- ✓ *Insurance fees*
- ✓ *Collateral registration charges*

#### Expenses not incurred in Georgia

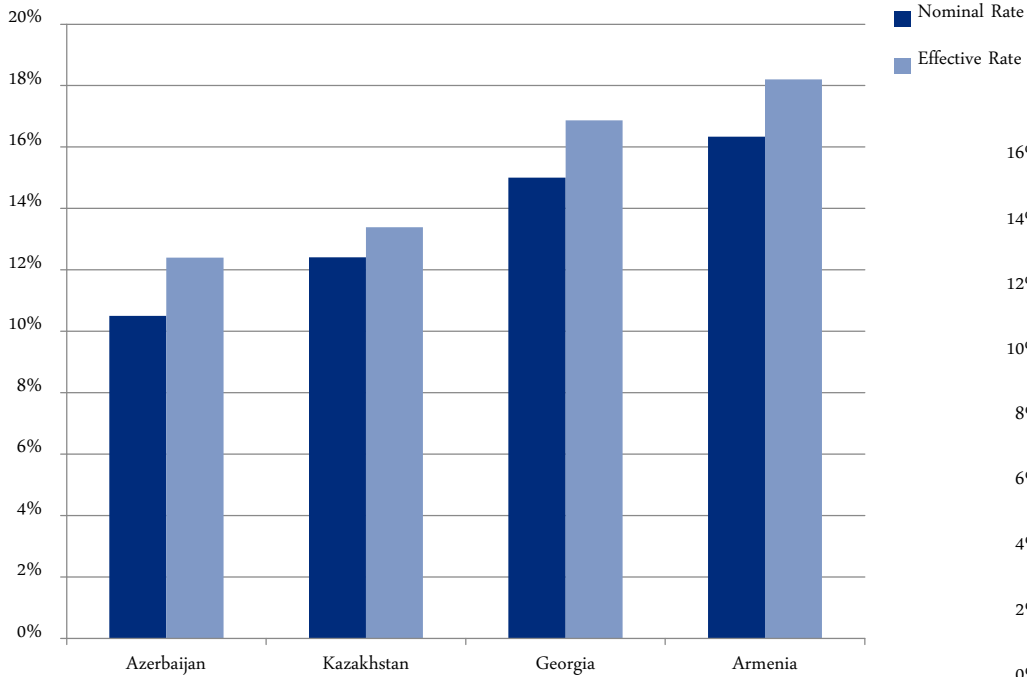
- ✓ *Collateral valuation charges*
- ✓ *Notary fees*
- ✓ *Annual customer account service fees*

#### *Loans with special terms:*

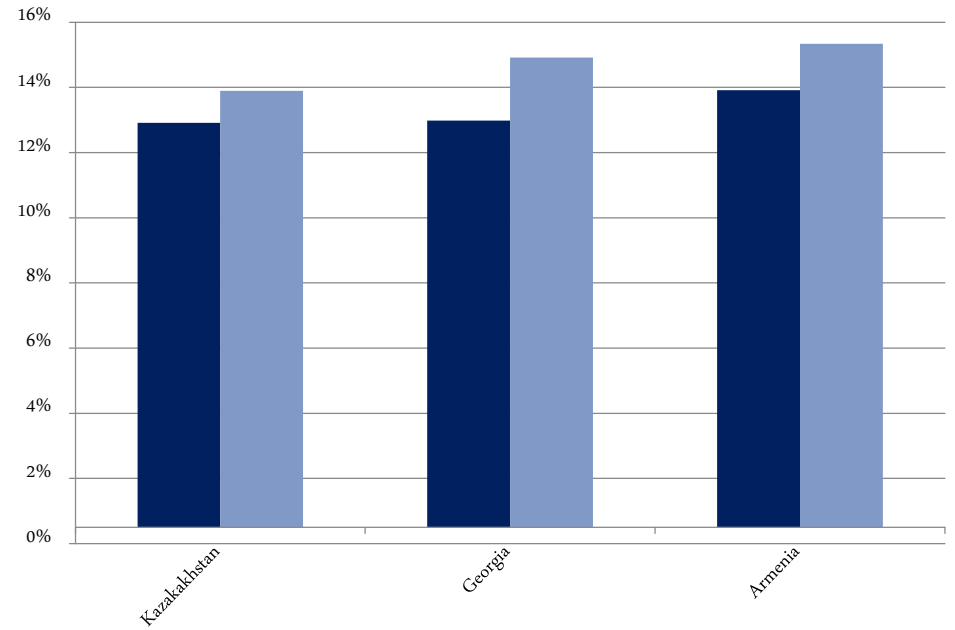
Armenian bank ACBA Credit Agricole provides mortgage credits to young families at privileged terms that are subsidized by the Republic of Armenia (RA) Finance Ministry.

Weighted average nominal and effective interest rates by country

*NC credits*



*FC credits*



- ❖ The floating rate mortgage credits are not popular in the banking sector of Armenia, Azerbaijan and Kazakhstan
- ❖ In Poland and Serbia mortgage credits are provided only at floating rates
- ❖ Mortgage credits at floating interest rates are not provided by any top 5 Azeri bank
- ❖ The floating mortgages are not provided in foreign currency by the Georgian banks, the Kazakh comparator bank and one of the comparators in Poland
- ❖ The floating rates are linked to the refinancing rate defined by the central banks of each respective country in case of Georgia, Armenia and Kazakhstan
- ❖ In Poland and Serbia the rates are linked to the interbank reference rates, such as Euribor, Wibor and Belibor

Weighted average nominal and effective interest rates by country

	Nominal Rate (NC)	Effective Rate (NC)	Nominal Rate (FC)	Effective Rate (FC)
Georgia	7.4%	8.8%	-	-
Armenia	10.5%	11.6%	11.3%	12.5%
Azerbaijan	-	-	-	-
Kazakhstan	13.5%	15.5%	13.5%	15.5%
Poland	5.5%	7.0%	3.9%	6.3%
Serbia	8.9%	10.4%	5.8%	6.9%

Common expenses

- ✓ *Credit commission fee*
- ✓ *Insurance fees, both for borrower's life insurance and the insurance of the collateral*
- ✓ *Collateral registration charges*

Expenses not incurred in Georgia

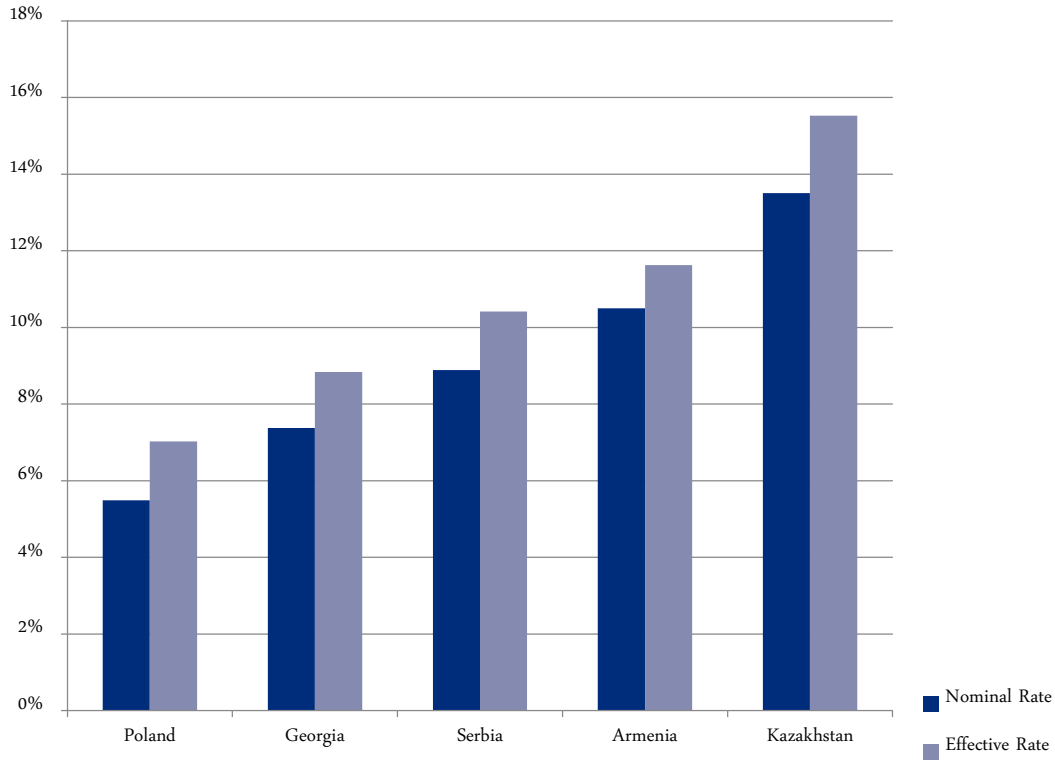
- ✓ *Mandatory fixed insurance charges*
- ✓ *Pledge valuation charges*
- ✓ *Notary fees*
- ✓ *Credit Bureau query charges*

*Loans with special terms:*

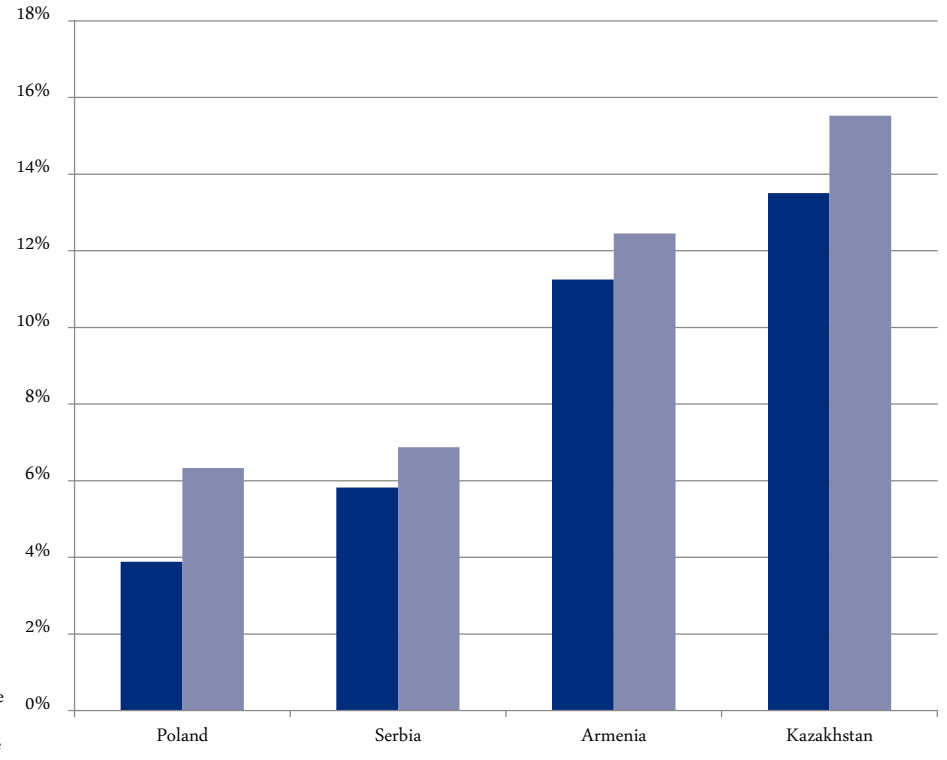
The Serbian banks provide mortgage credits insured at the National Mortgage Insurance Corporation (NMIC) founded by the Serbian Government.

Weighted average nominal and effective interest rates by country

*NC credits*



*FC credits*



- ❖ Armenian comparators do not offer pledged consumer credits in foreign currency
- ❖ Polish comparators do not offer pledged consumer credits in foreign currency

Weighted average nominal and effective interest rates by country

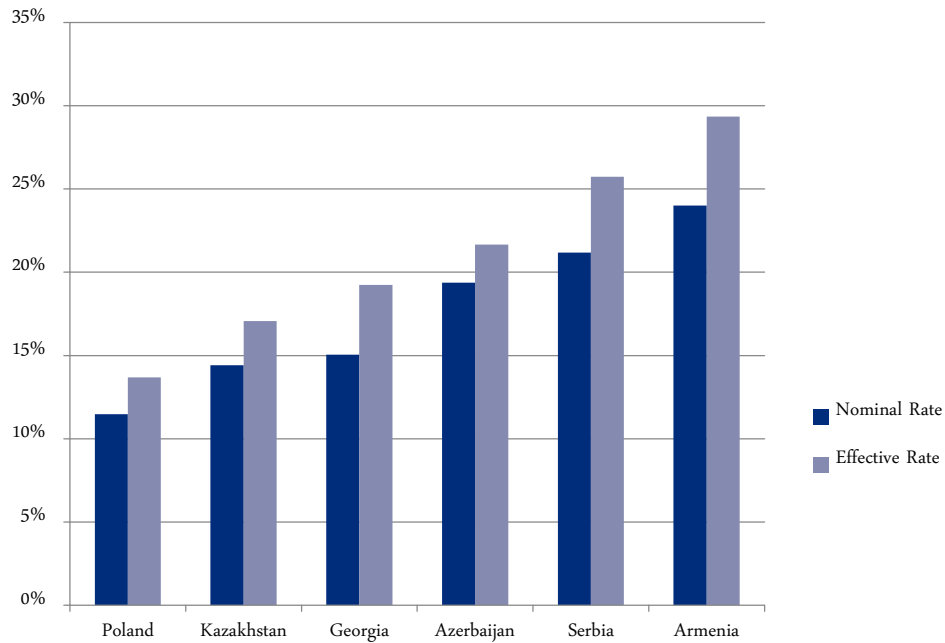
	Nominal Rate (NC)	Effective Rate (NC)	Nominal Rate (FC)	Effective Rate (FC)
<b>Georgia</b>	15.1%	19.2%	15.1%	19.2%
<b>Armenia</b>	24.0%	29.3%	-	-
<b>Azerbaijan</b>	19.4%	21.7%	19.0%	20.9%
<b>Kazakhstan</b>	14.4%	17.1%	14.4%	17.1%
<b>Poland</b>	11.5%	13.7%	-	-
<b>Serbia</b>	21.2%	25.7%	16.5%	19.9%

Expenses to be considered

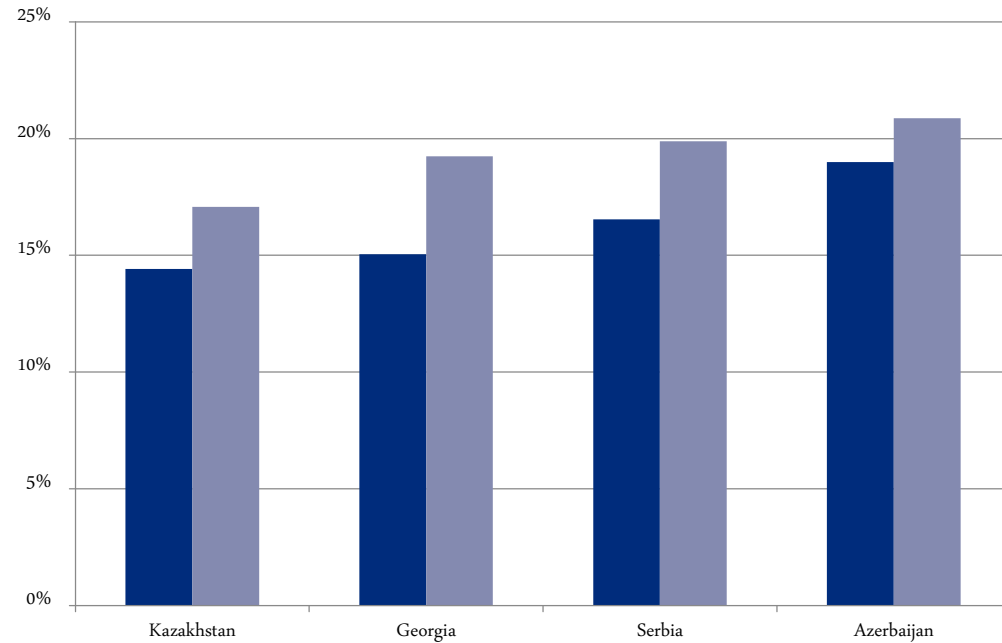
- ✓ *Credit commission fees are common in all comparator countries*
- ✓ *Insurance fees are considered non mandatory, hence they are not considered in the calculation of the effective interest rates*
- ✓ *Other expenses, if such exist, mainly relate to the credit processing fees and credit bureau query fees*

Weighted average nominal and effective interest rates by country

*NC credits*



*FC credits*





- ❖ The interest rates and financial expenses do not significantly vary from the pledged consumer credit products, so as:
  - The Georgian and Armenian banks provide non-pledged and pledged consumer credits at the same rates and terms
  - In case of other banks, the non-pledged consumer credits are offered at slightly higher interest rates
- ❖ The non-pledged credits are not offered by the Armenian and Polish comparators in foreign currency

**Weighted average nominal and effective interest rates by country**

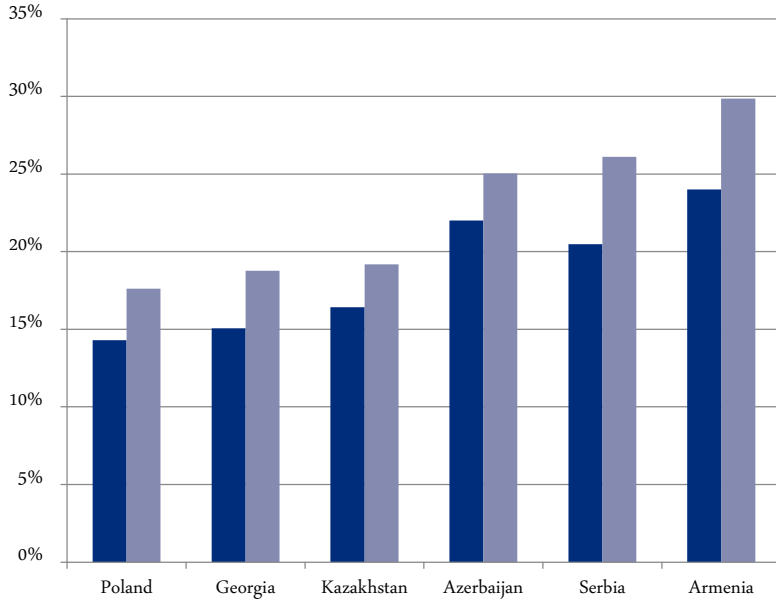
	Nominal Rate (NC)	Effective Rate (NC)	Nominal Rate (FC)	Effective Rate (FC)
<b>Georgia</b>	15.1%	18.8%	15.1%	18.8%
<b>Armenia</b>	24.0%	29.9%	-	-
<b>Azerbaijan</b>	22.0%	25.0%	22.0%	24.6%
<b>Kazakhstan</b>	16.4%	19.2%	-	-
<b>Poland</b>	14.3%	17.6%	-	-
<b>Serbia</b>	20.5%	26.1%	15.3%	19.6%

**Expenses to be considered**

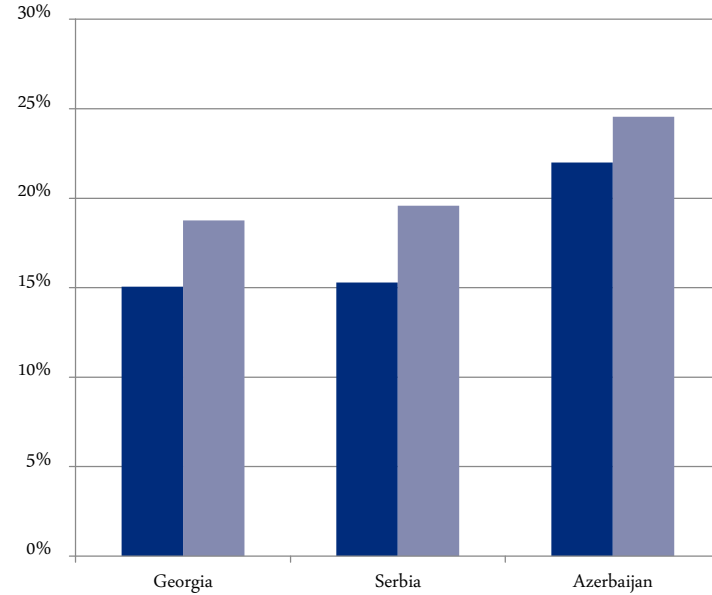
- ✓ *Credit commission fees are common in all the comparator countries*
- ✓ *Other expenses, if such exist, mainly relate to the credit processing fees and credit bureau query fees*

Weighted average nominal and effective interest rates by country

*NC credits*



*FC credits*



- ❖ The comparator banks do not differentiate the nominal interest rates for credit card used for cash or trade operations
  - In Georgian banks the usage of the credit card in cash operations has much higher interest rate compared to trade operations
  - In case of the comparators, the difference is reflected in the disbursement fees.

#### Weighted average nominal and effective interest rates by country (cash operations)

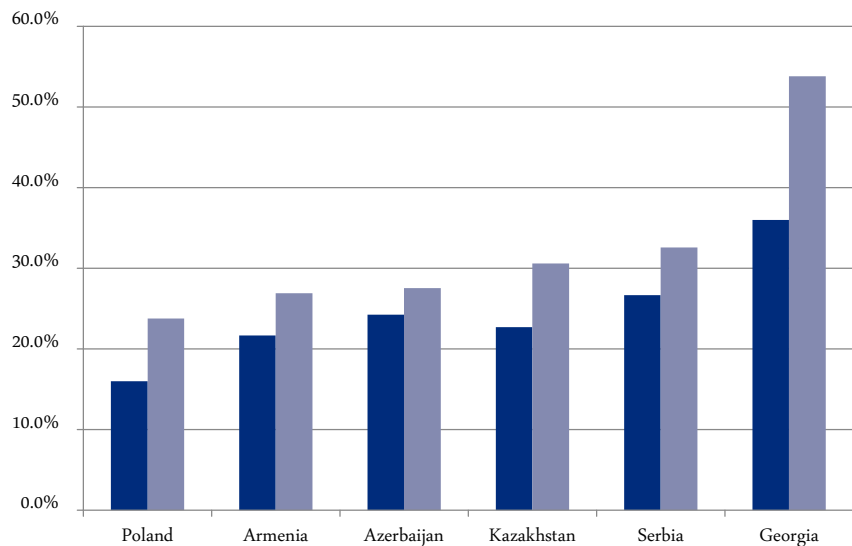
	Nominal Rate (NC)	Effective Rate (NC)	Nominal Rate (FC)	Effective Rate (FC)
Georgia	36.0%	53.8%	20.3%	30.4%
Armenia	21.7%	26.9%	20.5%	25.5%
Azerbaijan	24.3%	27.5%	24.3%	27.5%
Kazakhstan	22.7%	30.6%	22.7%	30.6%
Poland	16.0%	23.8%	-	-
Serbia	26.7%	32.6%	21.1%	25.6%

#### Weighted average nominal and effective interest rates by country (trade operations)

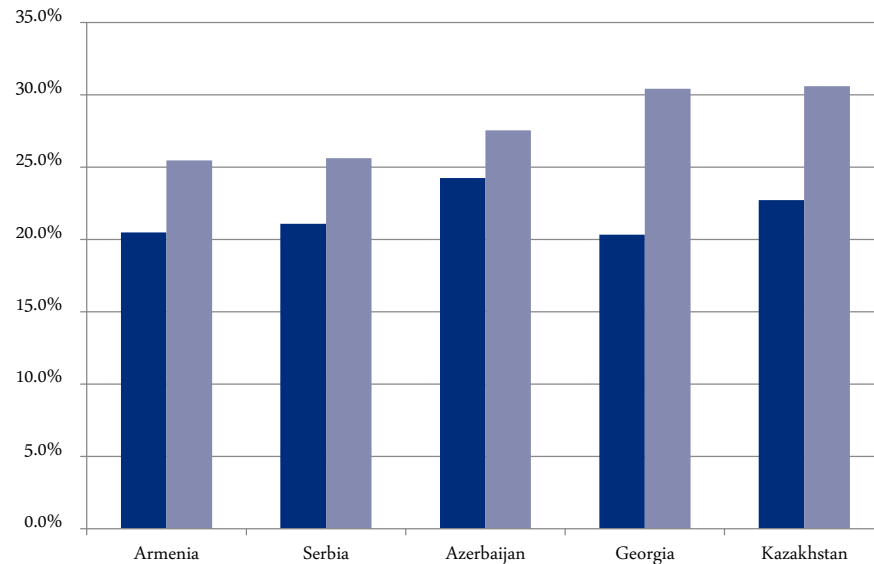
	Nominal Rate (NC)	Effective Rate (NC)	Nominal Rate (FC)	Effective Rate (FC)	
Georgia		19.1%	20.9%	11.3%	12.4%
Armenia		21.7%	24.0%	20.5%	22.6%
Azerbaijan		24.3%	27.1%	24.3%	27.1%
Kazakhstan		22.7%	25.3%	22.7%	25.3%
Poland		16.0%	19.1%	0.0%	0.0%
Serbia		26.7%	31.8%	21.1%	24.8%

Weighted average nominal and effective interest rates by country (cash operations)

*NC credits*



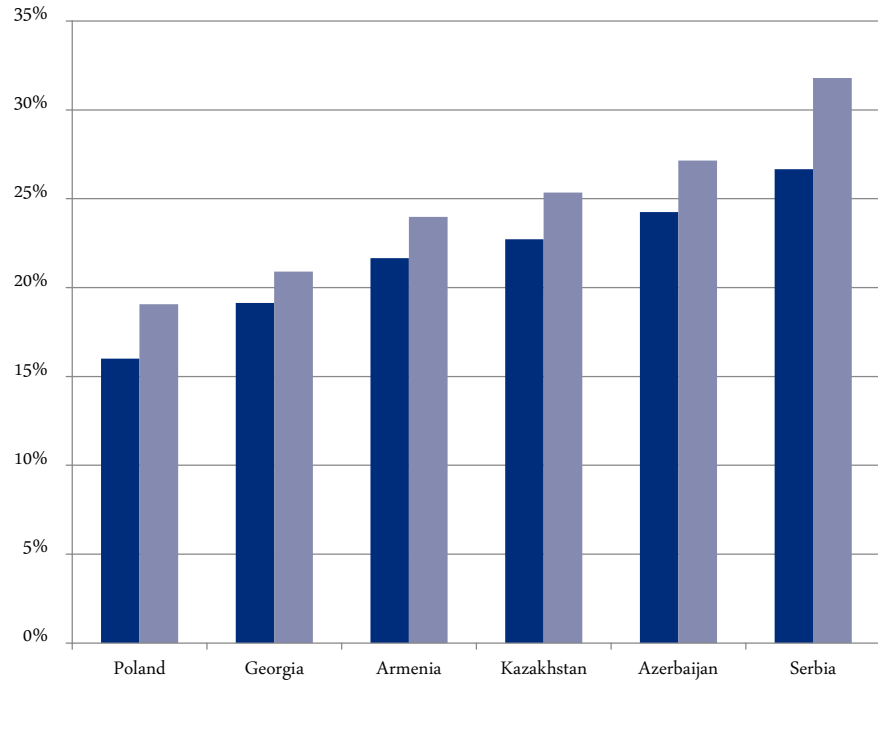
*FC credits*



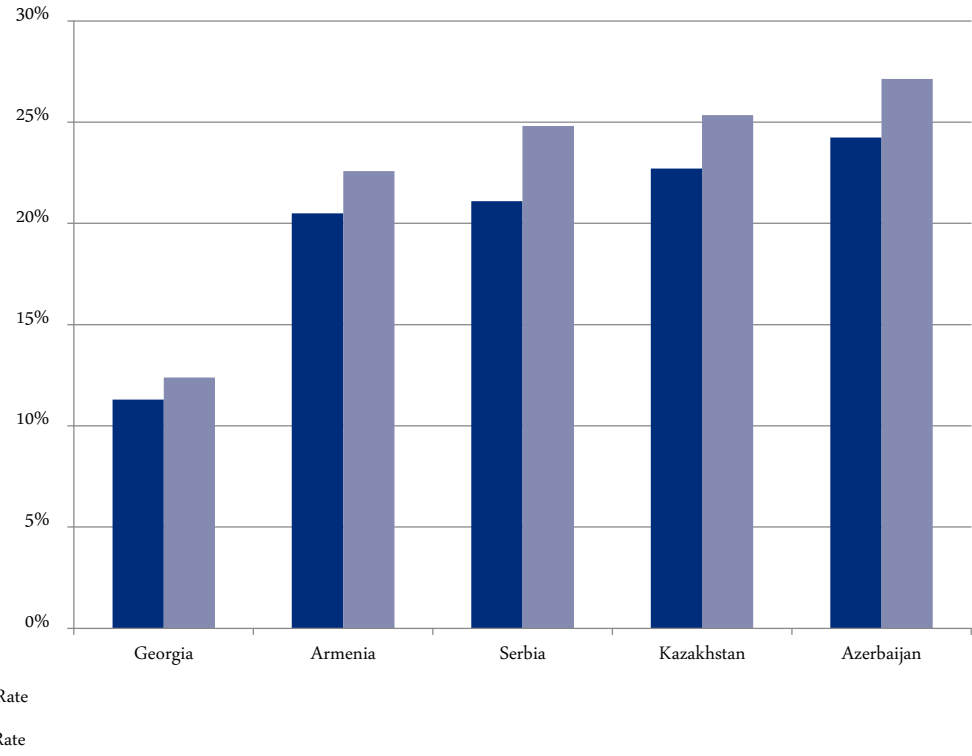
■ Nominal Rate  
■ Effective Rate

Weighted average nominal and effective interest rates by country (trade operations)

*NC credits*



*FC credits*



- ❖ Standard Bank (Azerbaijan) and BTA Bank (Kazakhstan) do not provide any indicative interest rates and estimates on other terms and conditions.

### Weighted average nominal and effective interest rates by country

	Nominal Rate	Effective Rate
Georgia	11.0%	11.8%
Armenia	14.7%	16.2%
Azerbaijan	18.0%	19.6%
Kazakhstan	12.5%	13.3%
Poland	6.3%	7.2%
Serbia	6.9%	7.7%

### Expenses that should be considered in the effective interest rate calculation:

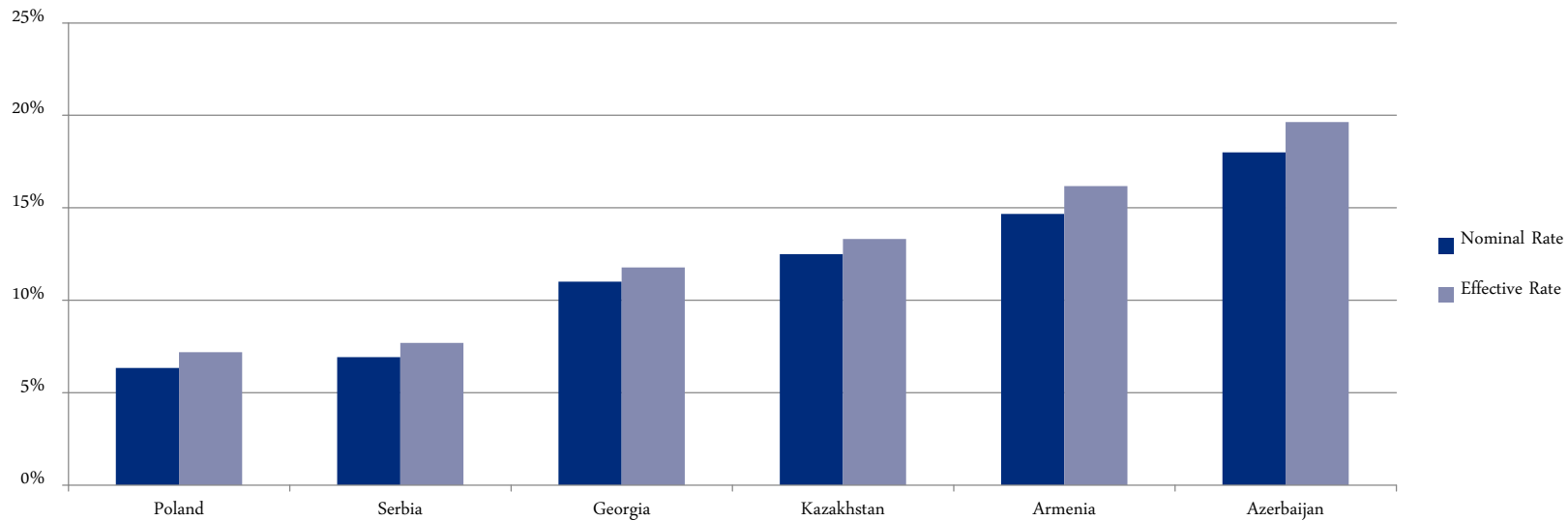
- ✓ *Credit commission fees are common in all comparator countries*
- ✓ *Valuation fees (business or property that serves as a collateral), for which we could not obtain any estimates from banks, since they can be indicated only with regards to a particular object/business*

### Loans with special terms:

- Ameriabank (Armenia) provides special corporate credits for the renewable energy sector. The credit is financed by the projects of International Finance Corporation (IFC) and FMO Entrepreneurial Development Bank.
- The Serbian bank Komercijalna Banca provides agricultural credits for purchase of new agricultural machinery with the guarantee, as well as agricultural credits for local economic development in the Balkans.

Weighted average nominal and effective interest rates by country

*FC credits*



Weighted average nominal and effective interest rates by country

	Nominal Rate	Effective Rate
Georgia	11.0%	11.9%
Armenia	14.7%	16.6%
Azerbaijan	15.8%	17.2%
Kazakhstan	12.5%	13.3%
Poland	6.3%	7.8%
Serbia	13.6%	15.6%

Expenses that should be considered in the effective interest rate calculation:

- ✓ *Credit commission fees are common in all comparator countries*
- ✓ *Valuation fees (business or property that serves as a collateral), for which we could not obtain any estimates from banks, since they can be indicated only with regards to a particular object/business*

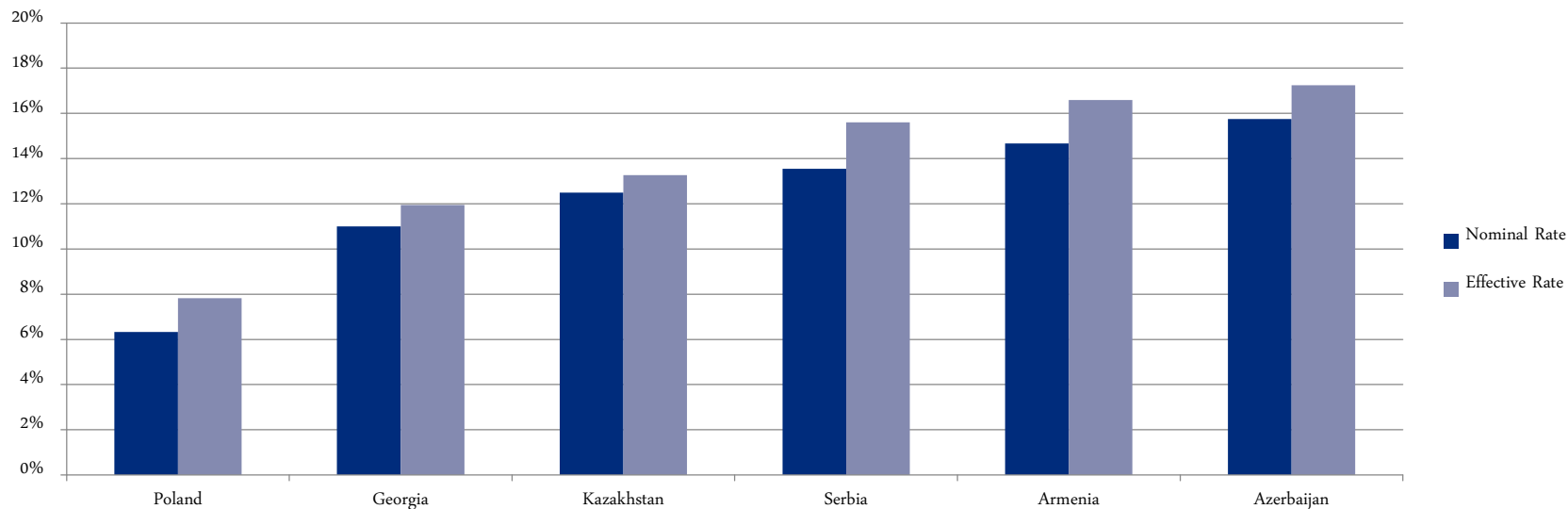
*Loans with special terms:*

➤ Banca Intesa provides loans for investments and durable working assets from the credit line of European Fund for Southeast Europe (EFSE) on the basis of the framework agreement for the assignment of individual loans signed with EFSE, as well from the Fund for Local Economic Development in the Balkans (LEDIB) based on an agreement with the Kingdom of Denmark.



Weighted average nominal and effective interest rates by country

*NC credits*



- ❖ Standard Bank (Azerbaijan) and BTA Bank (Kazakhstan) do not provide any indicative interest rates and estimates on other terms and conditions.

### Weighted average nominal and effective interest rates by country

	Nominal Rate	Effective Rate
Georgia	12.0%	12.8%
Armenia	15.2%	16.9%
Azerbaijan	18.0%	19.6%
Kazakhstan	16.5%	18.4%
Poland	4.2%	4.9%
Serbia	10.9%	12.1%

### Expenses that should be considered in the effective interest rate calculation:

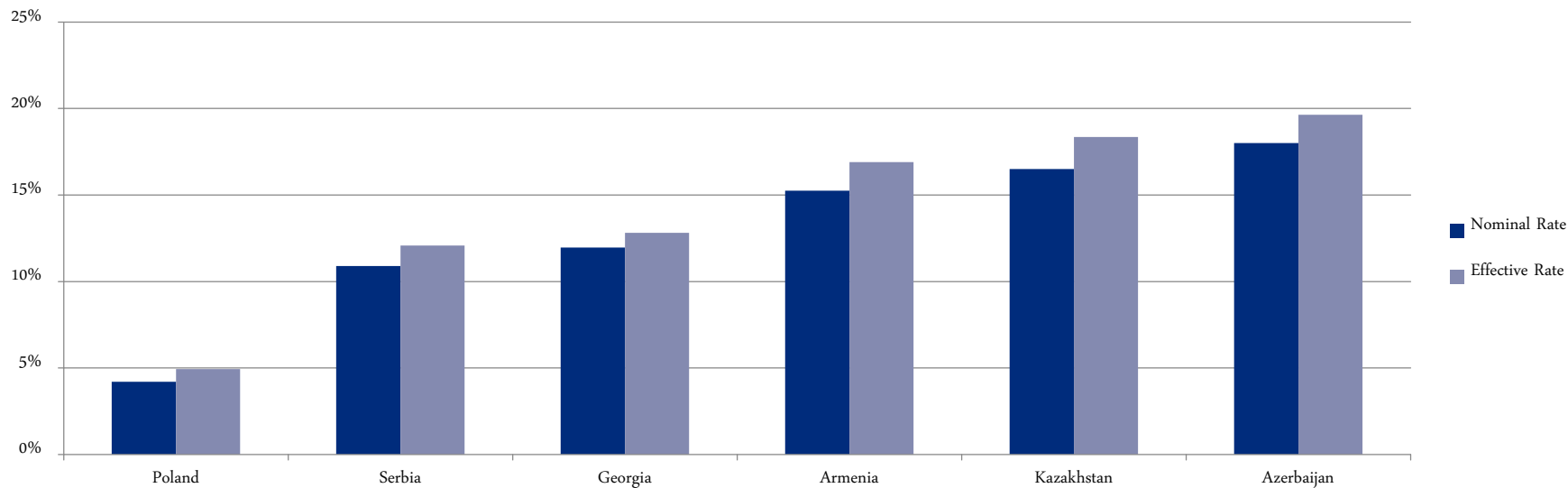
- ✓ *Credit commission fees are common in all comparator countries*
- ✓ *Valuation fees (business or property that serves as a collateral), for which we could not obtain any estimates from banks, since they can be indicated only with regards to a particular object/business*

### Loans with special terms:

- Banca Komercijalna: loans from the Credit Line of the Italian Government and from the credit line of the EBRD Credit Line for financing the purchase of equipment, technologies, services, spare parts and industrial licenses of the SME.
- Halyk Bank: loans from the fund of DAMU Entrepreneurship Development Fund JSC for capital expenditures of SME.
- BTA Bank: loans financed by the Business road map 2020 program within the frameworks of the Decree of the Government of the Republic of Kazakhstan to support particularly new business initiatives.
- Bank Pekao: loans for SMEs with free of charge guarantees of the European Investment Fund (EIF) provided under the European Community's Competitiveness and Innovation Framework Program.

Weighted average nominal and effective interest rates by country

*FC credits*



- ❖ Standard Bank (Azerbaijan) and BTA Bank (Kazakhstan) do not provide any indicative interest rates and estimates on other terms and conditions.

### Weighted average nominal and effective interest rates by country

	Nominal Rate	Effective Rate
Georgia	13.0%	14.2%
Armenia	15.8%	18.1%
Azerbaijan	15.8%	17.2%
Kazakhstan	16.5%	18.8%
Poland	4.2%	5.6%
Serbia	17.9%	20.9%

### Expenses that should be considered in the effective interest rate calculation:

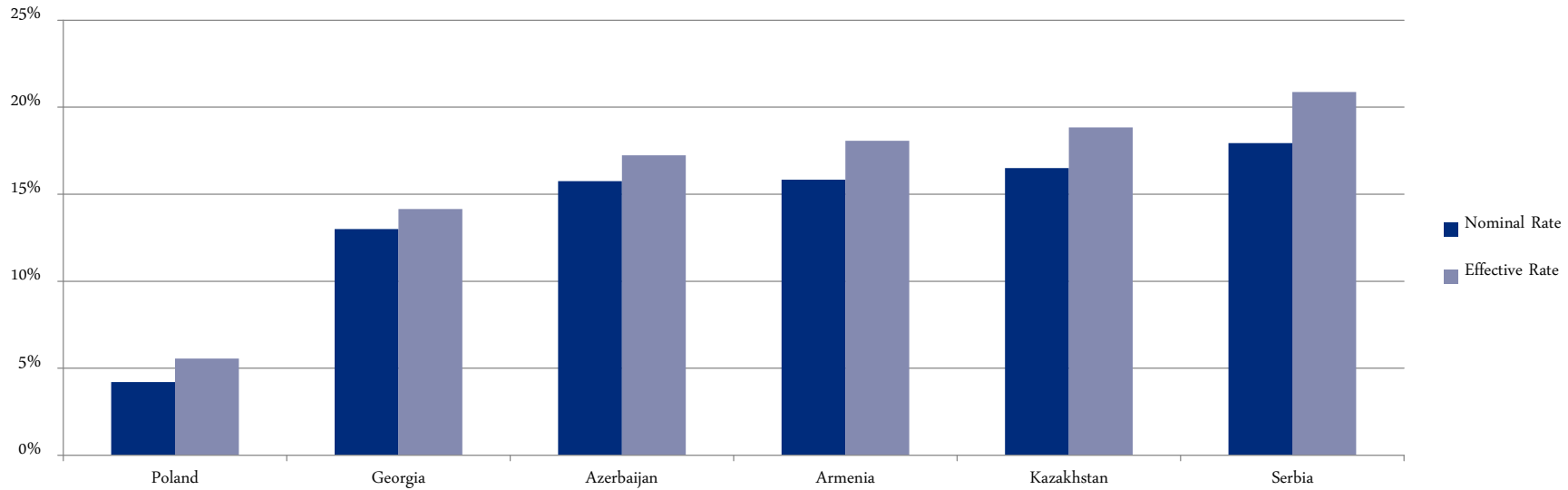
- ✓ *Credit commission fees are common in all comparator countries*
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- Bank Pekao: loans for SMEs with free of charge guarantees of the European Investment Fund (EIF) provided under the European Community's Competitiveness and Innovation Framework Program.

Weighted average nominal and effective interest rates by country

*NC credits*



Q&A

*Georgia*

Client name	Service description
JSC TBC Bank	Senior Management Remuneration System review
JSC TBC Bank	Tax advice
ProCredit Bank	
IS Bank	
Basis Bank	Audit of Financial Statements

*Armenia*

Client name	Service description
International Undisclosed Bank	Pre-investment due-diligence to International Bank in its acquisition of an Armenian bank.
Anelik Bank CJSC	IT Advisory services
Inecobank CJSC	HR Advisory Services
Converse Bank CJSC	Developing a marketing plan for attracting corporate customers.
Armimpexbank CJSC	Development and implementation of “a one window” system.
Byblos Bank Armenia CJSC	Study of the commercial and retail lending market of Armenia.
Ardshininvestbank CJSC	Development and implementation of “a one window” system.



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**Thank you!**

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