ProCredit Bank

How to talk to a bank

I Introduction

Dear Current and Future Users of Banking Services,

We would like to explain why we at ProCredit Bank have decided to produce and publish this brochure.

The Serbian banking market has been developing very dynamically for more than six years. Ever since 2001, when foreign banks first began offering their products, especially loans, to retail customers in Serbia, the competition has become stronger, the banks have begun offering an increasing number of services, and retail customers have started to think about new ways of improving their lives, especially by taking out loans. However, it seems that one important element is missing – educating the retail customers to enable them to better understand the banks' products and services and to be able to select the ones which are the most suitable for them.

The banking market is among the most rapidly and most successfully restructured sectors of the Serbian economy: banking services have been largely improved, banks have become more accessible to retail customers, the service provided by banks has become very professional and the banks have started, once more, to play an important role in the Serbian economy. Also, we should not overlook the very important fact that the banks have created many jobs and have offered young people an opportunity to gain employment and start their careers.

However, such rapid growth has a downside. In this flood of numerous different banking services, it seems that the products have not been presented in a forthright and comprehensible manner. The process of providing detailed explanations of the services offered has not been given the same amount of attention as the process of marketing them. Apart from the interaction occurring during the visit to the bank, almost no attention has been paid to transparent presentation and simple explanation of banking services.

All in all, the development of the Serbian banking sector over the past six or seven years has been a success story. And you should not forget that you are the most important part of that story. This brochure is the result of our desire to explain to you in more detail how banking operations work, to assist you in your communication with the banking officer and to present to you, in a simple manner, the most important aspects of taking out a loan and the importance of saving. We sincerely hope that this brochure will help you to understand what we do and how we operate, and, most importantly – how we can help you.

The employees of ProCredit Bank dedicate this short and simple brochure to you.

Your ProCredit Bank

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Dear Users of Financial Services,

All developed countries pay special attention to educating consumers about financial matters and banking services, not only as a necessary prerequisite for making economically viable decisions, but also as the means of strengthening people's confidence in the banking system. After all, both the profits and the long-term positioning of a financial institution in a particular market depend upon the level of trust. For this reason, the financial institutions supervised by the National Bank of Serbia are expected to provide information on their financial products which is transparent, easily accessible and formulated in a language comprehensible to all consumers. Such an approach on the part of financial institutions is especially important in Serbia, since our citizens have not had the opportunity to use proper services of commercial banks for a long time, or have had access only to the most basic services, over the past decade and a half.

Faced with the rapid expansion of banks and a surge in marketing campaigns, the National Bank of Serbia has recognised in a timely manner the need to provide consumers with objective information on all aspects of the use of money, which, just like any other product, has its price, which takes the form of interest. For this purpose, the National Bank of Serbia first founded its free Call Centre in October 2005. On the basis of that experience, we soon reached the conclusion that it was necessary to work on providing consumers with a broader financial education in an organised and systematic manner. For this reason, at the beginning of 2007 we established the Centre for the Protection of Financial Services Users and Market Supervision. The purpose of the Centre was to use information and education to help customers better understand and fully comprehend financial services, as well as to increase the transparency of the terms and conditions under which such financial services were being offered, all for the purpose of protecting the customers' interests and, ultimately, preserving and strengthening confidence in the financial system. The Centre has so far produced and published a number of leaflets and brochures informing the customers of the points to which they need to pay special attention when taking a decision as to whether to purchase certain financial products. Our goal is to provide adequate information on products; we do not give any commercial advice to clients, or protect them at the expense of financial institutions, but rather assist the customers when they are dissatisfied with the service rendered by any financial institution by providing mediation through the Centre. In particular, an effort is made to raise the clients' awareness of their own responsibility for the risk of investing their own assets and for their decisions.

In light of all the steps the National Bank has taken so far to improve the communication between the users and providers of banking services and products, we support the commercial banks' initiative of issuing an information brochure which familiarises customers, in a concise and easy-to-understand manner, with their rights and obligations arising from the purchase of certain financial products and services. The brochure will also contribute to both compliance with good business practice and improvement of the level of professionalism and expertise of financial institutions' employees.

Belgrade, 3 October 2007

Radovan Jelašić, Governor of the National Bank of Serbia

III About banks

What are banks and how do they operate?

There are many different definitions of a bank. However, what all definitions have in common is the fact that banks are financial institutions whose basic purpose is to receive deposits and grant loans. More precisely, it means that the bank holds clients' money for safekeeping in the form of deposits, on which it pays a certain amount of interest, and then usually invests that money by granting it to clients in the form of loans, on which it earns a certain amount of interest.

Naturally, this definition is rather simplified. Banking operations are more complex than this, but what it comes down to is this: collecting deposits and placing them in the form of loans. Why is this function so important?

At a given moment, you can entrust your money to the bank, to keep it, to save, and the bank will use that money to place it as a loan granted to a person who needs money in order to improve his/her living conditions or business operations. At another moment, the person needing a loan might be you. The point is financial intermediation: the bank keeps your money safe, paying interest in recognition of the fact that you have placed your trust in it and have given it your money for safekeeping. On the other hand, this money is placed in the form of a loan.

In a certain sense, banks thus operate much like any other company: they use resources, i.e. the deposits which they have collected, to produce a certain output, namely the loans which they grant. But the banks also provide other services. Unlike companies which are engaged in production or the provision of other services, banks have a special function within the economy: they enable money transfers, and the economy would not be able to function without banks.

All banks have business policies which guide their operations. The shareholders, who are the owners of the bank, explain the rules and guidelines for the operation of a bank in a brief and concise manner in the form of a statement on business policy, also known as the mission statement. In their business operations, the banks must adhere to the rules set forth in the statement.

Do not forget that banks are a part of the community in which they operate. They should not be viewed as a separate part of the community. In a certain way, banks become a part of your lives: they offer you their services and products, but they also actively participate in improving the quality of life in your city, town, village, neighbourhood – wherever you live.

ProCredit Bank's Mission Statement

ProCredit Bank is a development-oriented full-service bank. We offer excellent customer service and a wide range of banking products. In our credit operations, we focus on lending to very small, small and medium-sized enterprises, as we are convinced that these businesses create the largest number of jobs and make a vital contribution to the economies in which they operate.

Unlike other banks, our bank does not promote consumer loans. Instead we focus on responsible banking, by building a savings culture and long-term partnerships with our customers.

Our shareholders expect a sustainable return on investment, but are not primarily interested in short-term profit maximisation. We invest extensively in the training of our staff in order to create an enjoyable and efficient working atmosphere, and to provide the friendliest and most competent service possible for our customers.

What services do banks offer?

Banks offer different types of services and so-called banking products to customers. They can be divided into several basic groups:

- accounts (transactions)
- loan operations
- payment cards
- electronic banking.

Accounts are used for performing transactions – making domestic and international payments, the so-called money transfers. They can be used for various types of payments and foreign exchange. In a way, your accounts with a bank serve as your personal "banking ID card": by monitoring your accounts, the bank is able to see your financial status and your potential needs, and it can offer you the right solution – one which is tailored to your needs. The most commonly used accounts for private individuals include current and savings accounts.

Customers who are employed mostly use their **current accounts** to receive their salaries, but can also receive or make other payments. Current accounts can be held by students, retired people, the unemployed, entrepreneurs, agricultural producers and others, and they can be used for receiving payments, i.e. for transactions, while the companies can use them for payment operations – making and receiving non-cash payments. You may deposit funds to your current account or transfer them to the current accounts of other private individuals, but you can withdraw money only from your own account or from one which you are authorised to use. The accounts may be dedicated or non-dedicated, and in different currencies. The banks in Serbia most commonly operate with dinars, euros, US dollars, Swiss francs and British pounds.

Savings accounts provide various benefits and opportunities for accumulating funds which, after a certain period, you may use for different purposes. When you deposit your money to your savings account, the bank rewards you by adding a certain amount in addition to the amount you deposited, and this additional amount is called interest. You can find more information on interest in Section VI, *5 important things an ordinary person should know about savings*.

A **loan** is money you borrow from the bank, with a contractual obligation to repay it with interest, which in this case represents a fee for the service of lending. Loans may be obtained for a specific purpose, but overall, the reason for taking out a loan should be to improve your personal situation or living conditions in a manner which does not jeopardise your current or future financial status. The influence of a loan is much more visible when it is taken out by a company, because it provides an opportunity for expanding and developing business operations.

Payment cards take the place of cash and are associated with your current account or special card account. Debit cards are associated with your current account, and you can pay for goods and services up to the amount you have in your current account. When you pay by debit card, your current account is immediately debited. On the other hand, credit cards function in such a manner that you buy the goods whenever it suits you and pay once per month based on a pro forma invoice you receive from the bank. You can pay the entire amount of incurred debt or just a certain percentage of the debt, also known as the *revolving rate*. This rate is most commonly 5 percent of the total debt incurred in a one-month period. Interest is calculated on the outstanding debt.

Today, most banks provide **electronic banking** services, which enable you to use all services via computer, that is, via the Internet, without coming to the bank. The main advantage of this type of service is that it saves time: you can carry out all of your everyday banking business much more quickly from your home and via the Internet, instead of coming to the bank every time. A very important aspect of electronic banking is data security, guaranteed by passwords and security codes.

In what manner do banks offer their services?

A responsible bank operates in a transparent, simple and responsible manner. What does that actually mean?

Transparency in presenting the services means that all information, presented in any manner, must be in line with what the bank is actually offering. Naturally, a TV or newspaper advertisement cannot contain all the details you would receive when visiting the bank's branch, nor are they intended to provide such detailed information, but a bank must certainly avoid any messages that might be misleading or cause confusion.

Presenting information in a simple and comprehensible manner, i.e. presenting the information in such a way that everybody can understand it, and not just people familiar with banking terminology, is a hallmark of every socially responsible bank. A responsible bank will not allow itself to publish any ambiguous or incomprehensible information.

Responsible advice regarding services means that, at any given moment, the bank or the banking officer has in mind whether a certain service is appropriate for the needs of the potential customer, whether it suits him/her and whether it is the right solution for him/her. Services should not be offered in an offhand manner and automatically, but rather on an individual basis, according to the needs and financial capabilities of the individual client.

We believe that such information is best and most accurately presented by means of personal contact and that people appreciate this kind of personal contact the most. This is why the most complete information about a bank and its services is the information you receive at its branches, directly from a banking officer, who will present the bank's services in a patient and friendly manner, explaining anything that you might not understand and answering all of your questions.

However, you may also find out about banking services outside of a bank – at a shopping mall, on the promenade, in a park. When banking officers approach you, they will introduce themselves in a friendly manner and, before offering the bank's services, they will ask you about your expectations and potential needs concerning certain services. They will also try to find out information which the bank might later find useful for providing you with a service that is most suitable for you.

Apart from this direct marketing, the most common forms of marketing are radio and TV commercials, newspaper ads and, increasingly, advertising over the Internet. These forms of advertising cannot contain all the necessary information about a service, but they can provide basic information and invite you to the bank's branch, where you can obtain detailed information about the service in question.

Recommendation as a form of marketing

One of the most effective forms of marketing is word of mouth and recommendations by customers. People will recommend to their families, friends, colleagues, acquaintances and business partners a bank that provides quality services and that takes good care of its customers. This form of marketing actually represents a direct "reward " for a bank's consistent business policy, and in order for a bank to deserve such a reputation, its operations must be, first and foremost, responsible and trustworthy.

IV How do you select the right bank, the one that suits your needs?

There are currently 36 banks operating on the Serbian market. Why should you walk into one bank and not the other? What should you take into consideration when deciding which bank you will enter? What should you be interested in and what criteria should you use when deciding whether to open an account with a certain bank?

You should always compare the offers of at least two banks in order to see the differences in providing the same service. It would be ideal if you could obtain all the services you need at one bank: maintain a current account for payments, have a savings account, take out loans, send money abroad etc. However, sometimes you need to use the services of different banks, because certain banks might offer better services or lower prices for certain products. In this case, you must know your priorities, i.e. what is important to you in doing business with a bank.

We would advise you to view one bank's range of products and services as a whole and ask yourself: **What can I obtain at one bank?** If a bank can provide most of what you need at a level of quality you are satisfied with, then try that bank. If you are using one service at one bank and, for example, apply for a loan at another, it might complicate matters for you and waste your time, and most likely you will pay more for the banks' separate services. If you use several services or products at one bank, you will most probably be offered better terms. This is why you should consider every bank's product range as a whole and ask yourself: What other products or services can I use if I obtain a loan from this bank or if I entrust my money to it?

Below, we draw your attention to some general criteria which are important for selecting a bank with which you will open and maintain an account, from which you will obtain a loan or where you will use other services. We would like to emphasise that these are only general criteria, and if you have any special requirements, it is best to speak to banking officers in any branch.

Security and trust

Banks are trustworthy institutions. You give your money to the banks because you trust that it will be safe there. It is the right thing to do.

What makes banks secure and trustworthy institutions? The answer is responsible banking operations, which are mostly reflected in the fact that the bank invests your money in secure businesses in order to assist the development of the economy or promote entrepreneurship, while seeking to reduce the risk of such investments – which it makes using your money – to a minimum. Clients should be informed about where the bank's money, i.e. its capital and customers' deposits, goes. The banks can fulfil this obligation by providing transparent information to the public, which is one of the key elements of trust.

Also, trust is built by customer care. A trustworthy bank is a bank that takes care of its customers' needs and does not provide services at any cost, just so that it can increase its profits. Bank employees who know their jobs and who perform them in a professional manner convey an impression of security and trustworthiness. The employees of a bank play an important role in customer care.

Moreover, banks are highly protected institutions in terms of physical security as well. Remote surveillance of the branches is enabled by a system of cameras and other devices directly linked to the police. And, finally, a bank is a secure place to keep funds because, even in the event that a robbery does take place, all funds held with the bank are insured against loss by law.

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The security of your information is protected by a modern, state-of-the-art information system.

A trustworthy bank

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Accessibility

This primarily means physical accessibility. Depending on your needs and routine, whether you visit the bank regularly or only on an occasional basis as needed, the fact that a bank is in your neighbourhood can be decisive in selecting it. If you do not visit the bank every day, then it does not have to be near your home. In this case, you will plan your time and visit the bank on your way.

In order to enable a quick and effortless visit to the bank, the area surrounding the entrance should be easily accessible. Can the bank be accessed from the street, or is it located within another building? Does the bank have a parking lot for the customers? Is the bank located downtown, in an area with heavy traffic, or at the outskirts of the city? Is it visible, i.e. can it be found easily? You should decide for yourself what suits you most.

Apart from physical accessibility, the accessibility of information is also a very important factor. If you have to wait a long time to obtain information or you are experiencing difficulties in finding out what you need to know, it means that the bank's information system is complicated. Remember: You have the right to receive the information you desire, about your account, loan or any other service you are using or intend to use, in any branch at any given moment.

Speed

According to most surveys, one of the most important criteria for satisfaction when using a service of a bank is the speed. Speed enables the customers to save something they find very important – their time. And if almost no waiting is involved, as is the case at our banks, it saves something else as well: customers' nerves!

The speed of bank's services has a financial aspect too. The longer it takes for a process to be completed and the more time it takes for a job to be done, the higher the price. Therefore, it is not only in the interest of the customers, but also of the banks, to keep the processes quick and efficient.

Speed, along with the price of services and products, is one of the decisive criteria.

Price

Every bank must achieve an ideal balance between price and customer satisfaction.

The services and products that the banks offer to their customers are provided at a certain price. The price is set based on several criteria, the most important being: risk, the price of the resources spent, and service speed and quality. The main fees you are likely to pay are those associated with loans (the interest charged on the loan, above all, plus the commission for loan approval and other fees calculated as a part of the effective interest rate) and those charged for maintaining current accounts, buying and selling foreign currency, money transfers, payment cards etc.

The price should not be the decisive factor in selecting a bank you will do business with. You should be suspicious of unrealistically low prices for banking services and products, especially where loans are concerned, because, almost always, there will be some additional hidden costs. And you should always be aware of exactly how much a certain service or product will cost you.

Transparency

A responsible bank always strives to explain its services clearly and make them as understandable as possible while, at the same time, avoiding unrealistic messages. A bank's entire operations should be completely transparent, which means that the bank can provide you with complete information at any time about anything you wish to know. In this sense, transparency means that you can access all information at any time, i.e. a bank should make its information as accessible as possible.

A very important aspect of a bank's overall transparency in its operations is its internal transparency. Mutual trust and respect between the colleagues is the principle which is applied to customers as well. Information should always be accessible within the bank's system, because it enables smooth communication between colleagues, which ultimately leads to more efficient service.

Professionalism and service quality

Today, these two criteria are taken as given. If you suspect that the employees of a bank are unprofessional or the service quality is low, you are unlikely to even enter the bank. But what does being professional actually mean?

Being professional is primarily associated with competence. Professional employees are those who are able to answer your every question quickly, at the same time offering a service or a product adapted to your needs in a friendly and reassuring manner. Every serious bank invests substantially in its employees' training, making sure that they know their jobs and are aware of current developments in their field.

When we refer to the quality of service, we are talking about a set of criteria which can make a service or product better: price, processing times, special terms and conditions associated with the service. In addition, a very important criterion is the suitability of service. If the service fails to suit your requirements and needs, if it is inflexible and general and is automatically applied to all cases, then it is not a quality service. Every bank offering a quality service must ensure that it is adapted, as much as possible, to the needs of individual customers.

Employee friendliness

A banking officer who, regardless of the pressure he/she is under or his/her workload, is cheerful and smiling, speaks patiently with the customers and listens to them, and does not look like he/she just wants to finish the job as soon as possible, can be considered a friendly employee. Friendliness does not only imply that the employee should be constantly smiling, nodding and speaking in an even tone of voice. Friendliness primarily means understanding the customer, being patient and being ready to assist the customer by making an additional effort. Friendliness means that the employee will not give up when the first problem or obstacle in communication with the customer occurs. To a certain extent, friendliness is a personal trait, but it is also largely influenced by the culture defined and maintained at the bank and reflected in the communication between the employees.

Understandable services and products

You have seen the bank's new advertisement promoting savings and you have come to the bank to find out more about the special terms and conditions. Since it is only natural that an advertisement cannot contain all information, given that it is only a general statement which does not reflect your own needs and requirements, you need additional information which will eventually convince you to deposit your hard-earned money in a certain bank.

The banking officer gives simple answers to your questions and you cannot believe it because you expected to hear complicated and incomprehensible banking terms. You are amazed and you think that it all seems very simple and understandable.

Well, it is!

Banking operations are complex and sometimes complicated. However, a responsible bank and its friendly and professional employees should try to explain the services and products to the customers, no matter how complicated they are, in a simple and comprehensible manner and, what is more important, they need to make sure that the customers have understood what they were told. Everything can be explained; all it takes is a little extra effort.

Efficient banking operations

No one likes paperwork and bureaucracy! The operations of a bank are bureaucratic to a certain extent, due to the regulations to which banks must adhere, and one cannot avoid it. Banks are large institutions which handle money, and that means that they must conduct their operations on the basis of formal procedures and processes which provide security for the customers. However, there is still room for banks to decide if they wish to become institutions which focus on filling out and processing a large quantity of forms, or institutions that mainly rely on personal contact and direct conversation with their clients in order to better understand them and only then, eventually, fill out a document or two.

Formalised operations imply a certain attitude toward the clients on the part of the employees. Any kind of standardisation within the bank may seem like inflexibility, even unfriendliness; it could even put off current or potential clients, and therefore, no bank would want to make such an impression.

However, there are ways to minimise formal procedures so that they no longer burden the clients, and not only the clients, but also the bank's employees. One document can take the place of several, processes can be sped up, and employees can become more efficient. The degree of bureaucracy in a bank's procedures is an important criterion, especially because it affects the speed of services.

Automated banking services

If you can receive an account statement in 2 minutes from a machine providing this service, or if a bank offers you a chance to deposit a large amount of money within 2 minutes at a machine that automatically counts the money, rather than involving the teller – it will certainly influence your decision. Automated banking services can be viewed as the opposite of formal, bureaucratic procedures; they simplify and accelerate banking transactions, making the bank's services more convenient to use. However, a bank should take a reasonable approach to introducing automation, because with some operations, such as loan disbursement, personal contact is the only way to assess the customer correctly and provide him/her with the appropriate service.

V 10 important things an ordinary person should know about loans

Loan disbursements are based on a reciprocal relationship: the bank lends you the money today and you have to repay it with interest tomorrow. It sounds simple. In this section, we will explain what it is most important for you to know when deciding whether to take out a consumer loan. You will be able to see the difference between a loan with a positive impact and a loan that can increase your indebtedness even more.

Loan disbursements, or more precisely the interest that customers pay on the amounts borrowed from the bank, are the banks' most important sources of income. There is nothing bad about a bank's approving a loan to you, but it is bad if a bank approves a loan that will not solve your problem, but rather will cause you to become overindebted. That is not the purpose of loans.

1. What is a loan?

A loan is money which you borrow from the bank, with a contractual obligation stating that you will pay it back with interest, which represents a fee for the service of lending.

Credit standing

Your credit standing is your ability to repay a certain loan amount within the agreed period. It is determined primarily on the basis of your monthly income, regularity of income and previous outstanding debts; the household and family situation is also taken into consideration. A customer's credit standing is not important only to the bank. It primarily serves as an indicator of your ability to pay back the loan. Every responsible bank will first talk to you in order to determine the purpose of the loan you are applying for and to check whether it is justifiable. Naturally, the bank cannot decide for you whether you should take out a loan or not, in the event that you meet all the requirements, but a responsible bank must consider all motivations for, and possible consequences of, your signing of a loan agreement.

2. What types of loans are available to you?

When you wish to buy new furniture, home appliances etc., the loan that will suit you the most will be the so-called instalment loan or **consumer loan**. This is a loan intended for private individuals and it is most commonly offered in amounts up to EUR 5,000 in dinar equivalent. In Serbia, these loans may be extended in dinars, but they are usually indexed in euros, meaning that their value is expressed in euros and the loan is disbursed in dinars.

There are different types of consumer loans: cash and non-cash loans, loans with a specified purpose and loans without a specified purpose. Non-cash consumer loans are usually used to purchase goods on the basis of an invoice; here the amount of the approved loan is transferred, by a non-cash transaction, directly to the account of the store in which you are purchasing the goods. Cash loans are paid into your current account or a dedicated loan account, and you may withdraw the funds in cash. A loan with a specified purpose is one for which the specific purpose must be stated in the loan application, and the funds may not be used for any other purpose. In the case of loans without a specified purpose, the funds may be used for any purpose.

One quick solution for your short-term financing needs is an overdraft. An overdraft is the possibility of withdrawing a certain amount of money, up to a limit previously approved by the bank, even when you have no money in your current account. This amount is usually based on your monthly salary, minus any loan obligations or credit card debt, and is approved in accordance with your credit standing. For approval of an overdraft, all you need is an application, a Credit Bureau report and, usually, one promissory note. An overdraft is usually approved for a one-year term, although it may be approved for a shorter period as well.

The interest rate applied to the overdraft is calculated on the basis of the daily balance, which means that interest is calculated only on the amount by which you are overdrawn. Since the interest rate on an overdraft is rather high, it should be used only in a situation when you need to buy something today, knowing you will have an inflow of funds into your account within the next couple of days. It should not be used for purchasing consumer goods, and you should avoid consistently running the overdraft up to the maximum limit.

Apart from consumer loans, banks also extend other types of loans to private individuals, such as **housing improvement loans, housing loans, energy efficiency loans, loans for purchasing vehicles** etc. All of these loans are approved on the basis of your monthly salary, but other income is taken into consideration as well. What all of these loans have in common is that they are development-oriented: their goal is the improvement of your current living conditions, whether by means of renovation, new purchases, replacing old radiators etc. The aim of a loan is a long-term improvement in your living conditions or a long-term saving on expenses for electricity, fuel etc.

Credit cards

Take care when using credit cards – they also represent a form of loan and they can increase your indebtedness as much as a consumer loan. Pay particular attention to the credit limit which the bank has approved for you. The limit is calculated by subtracting all of your debts from the net amount of your monthly salary. You should not agree to a limit higher than your creditworthiness, even if the bank approves such a limit.

3. How does the bank obtain information about you?

The bank checks your financial status before reaching a decision on your loan application. It tries to determine whether you are capable of fulfilling, and willing to fulfil, your loan agreement obligations. The bank must use internal and external sources of information in order to verify a potential borrower's credit standing.

Every contact with the bank, i.e. with a banking officer, starts with getting acquainted and in a friendly conversation. During this interview the bank will attempt to get a thorough impression of a potential borrower. Very often, it might seem to you that you must answer a great number of questions for even the smallest loan and sometimes you are right: loan applications can be a little tedious. But a bank that wants to disburse the loan in a responsible manner must have detailed information about you, in order to avoid a situation in which you might not be able to repay the loan after a certain period.

After talking with you, the bank may also obtain information based on your current account. For a bank, a current account is a good source of information on its clients' financial habits. When analysing the current account, the bank takes into consideration the current situation on the account, as well as account turnover, especially when analysing credit standing. When looking at your account the bank can easily see the following information: turnover, suspension of payment, increased withdrawals, transfers and other data in connection with making and receiving payments. The bank can see your so-called financial discipline, i.e. your flow of income and expenses and how you use your account, and can use it to determine if you have financial responsibility and make your payments on time. It tells much about your habits.

The bank can obtain information on any debts you may already have from the Credit Bureau. The Credit Bureau is a national institution which collects information on the debts which clients have incurred in the form of loans, through leasing and through other loan operations. Banks may obtain the Credit Bureau's report only with the written consent of the person the information refers to.

Finally, though not very often, a bank may request additional information about you from other banks. As a part of the information process among the banks, other banks may also obtain information on clients' financial status, credit standing and purchasing power. Other banks may obtain information on individuals only after receiving a written approval from your bank.

The loan application

Very often, it might seem to you that you must answer a great number of questions even for the smallest loan and sometimes you are right: loan applications can be a little tedious. But a bank that wants to disburse the loan in a responsible manner must have detailed information about you, in order to avoid a situation in which you might not be able to repay the loan after a certain period.

4. How do you talk with the loan officer?

When talking to the loan officer you should speak on equal terms. Bear in mind that the bank needs you as much as you need it and that you should act as a partner, not just a client.

The course of the conversation and the final decision also depend a great deal upon your own approach and on your loan officer. This implies, among other things, that you are adequately informed and prepared for the interview. The more certain you are about what you want, the more specific will be your conversation with your loan officer, which will also save you time. The loan application process is an unavoidable one in which the bank obtains crucial information about you; it does not necessarily have to be boring and unpleasant. Loan officers are instructed to give advice, be helpful and find an appropriate solution together with you.

When talking to a bank, i.e. your loan officer, you should have no secrets. Always be sincere: if the bank notices that you are providing incorrect information, it will no longer trust you and will reject your loan application. Today, anyone can find out about the financial requirements and standard loan terms, and can compare them. Besides, loan officers are experts. It is important for you to critically analyse your financial situation together with your loan officer, who can give you practical advice.

Talk to your loan officer whenever you have the chance. Ask for advice and speak truthfully and realistically, because it is in your best interest. Feel free to ask about anything you don't understand. That is your right.

Compare offers from different banks

Take offers from different banks and compare them. Do not be dazzled by low interest rates, but find out what is behind them. Do not be ashamed to ask a great many questions – that is your right. A professional banking officer will explain everything you need to know in a transparent and simple manner. Banking officers are there for you – they are here to help you find the right solution.

5. How do you select the right loan?

Before submitting your loan application to the bank, ask yourself the following questions:

What is the purpose of your loan?

Keep in mind that the product purchased by the loan should pay for itself, i.e. the value of the goods purchased should provide some sort of benefit to you or your family, such as a solid fuel boiler which would cut energy costs over time and thus repay the loan by the amount of money saved. If you obtain a consumer loan which is mostly used to purchase consumer products, you will not achieve any long-term benefit, and this is one of the reasons why you should think twice before applying for a consumer loan.

Always start with the need: do you really need the product you wish to purchase with the loan? And do you really need a loan to buy it? It often turns out that the product you wish to buy is not necessary at the moment and that you don't need to obtain a loan, but rather can wait for the next salary or save some more money. A loan may always seem to be the quickest and most suitable solution, but this is not necessarily the case. You should bear in mind that a loan needs to be repaid and that your obligation does not end when you have purchased the desired item, but rather only when you have repaid the loan. In the meantime, the item you bought has lost much of its value, or its useful life may even have expired, or you have financed something which has long since passed, like a summer vacation.

How do you choose a loan repayment term?

If you use the loan to purchase an item with a relatively short useful life, then the loan repayment term should not exceed the useful life of the product you are buying. It is not cost-effective to obtain a loan with a repayment term longer than the useful life of the product purchased with the loan.

In addition, think closely about the shortest and the longest repayment terms you can manage. When considering this point, do not forget about your regular costs of living, as well as other short-term plans, such as trips, birthdays, regular car maintenance, dental costs etc. Adjust the repayment term to other costs, most importantly regular costs.

What loan amount do you need?

The amount of the loan can be best determined on the basis of monthly instalments. When talking to the banking officer, make sure to ask for a calculation of monthly instalments, because it will be the best indicator of your financial capacity. If you are able to pay the instalments along with your usual expenses, then you can think about applying for a loan. If you need to reconsider the contingency costs you have left room for in your home budget, think about whether the loan instalment can replace the contingencies. You may want to consider the possibility of financing the purchase not only with a loan, but also with regular income, even partly with savings.

What is your financial situation?

Compare your income with your expenses. If the balance is negative, i.e. if your expenses exceed the amount of your income, and you don't have any savings or have only a small amount, you should not be thinking about a loan. If, however, you are still thinking about a loan as means of solving your short-term financial crisis, bear in mind the following: the loan will present an additional obligation, an additional expense. You may cover your current negative balance, but you will also have additional expenses for a certain period of time. In practical terms, this means that you will replace one expense with another, with the new expense lasting even longer.

Carry out a careful analysis of your financial situation before applying for a loan. If you do apply, your income must exceed the amount of your expenses. Furthermore, your monthly instalment may not exceed 30 percent of your monthly salary.

How do you rate your job in terms of stability?

Employment on a full-time or part-time basis provides your monthly income. When applying for a loan you must know to what extent your employment is stable and for how long you can expect to have regular income. This particularly concerns those who are employed on a part-time basis and whose income is not guaranteed for every month.

Have you already obtained a loan? If so, in what amount and at what bank?

Think about your current indebtedness, because an additional loan will increase your monthly obligations and your percentage of indebtedness in relation to your monthly income. If you still decide to obtain a second loan, i.e. a parallel loan, think about the terms of that loan, ask for a lower interest rate or consider the possibility of refinancing the first loan. When deciding what to do, do not rely on the rule "longer repayment term = lower instalment", but rather try to decrease the interest rate by refinancing the loan and, thus, decrease the monthly payments. The repayment term should be the same or only slightly longer. Of course, you should take into consideration the refinancing costs charged by the bank.

Do you think you will be able to repay the loan under the terms and conditions offered?

You should definitely compare the offers of several different banks. Often, the loan terms and conditions may seem the same at first, but after a more detailed study you might find something that suits your financial situation particularly. Or maybe the opposite will happen: you may see that the advertised low interest rates are not that low after all, or that the terms and conditions which seemed to suit you perfectly at first glance are not realistic at all.

What guarantees can you offer? What guarantees do you wish to offer?

Providing security for consumer loans is not complicated and it can be presented to you as a routine procedure, as nothing serious. However, that is not entirely true. The usual security for a consumer loan (you can find more details under item 8 below, *Loan security*) is designed in such a way as to allow the bank to collect the debt at any moment if you are not making payments on time. Therefore, you should seriously consider what kind of collateral you could agree to, i.e. whether you can agree to the collateral required for a given loan or whether you instead may have some other options.

You can offer the bank a different type of collateral, one that suits you better. The bank may find that the collateral you offer is sufficient, and you may find that it is better for you to secure the loan by pledging e.g. immovables rather than by the assignment of salary. In any case – talk to the bank!

6. What are the loan costs?

One of the most important parts of the agreement refers to the interest rate. When considering the interest rates, one should know the difference between the nominal and the effective interest rate.

The **nominal interest rate** is the percentage applied to the principal amount of a loan and it represents a monthly or annual interest rate paid by the client. The nominal interest rate does not include the additional loan costs which are included in the effective interest rate.
The **effective interest rate** is a way of including all the loan (and deposit) costs in one rate. It includes all fees and costs paid for obtaining a loan (loan insurance costs, costs of processing loan applications etc.), taking into consideration the moment when they were incurred. In the case of a standard loan agreement, the effective interest rate is influenced by: the monthly nominal interest rate, fees, manner of loan repayment and repayment term. Without the additional commissions, the effective interest rate is equal to the annual nominal interest rate.

A loan may include some other costs which can also burden your budget:

- account maintenance fee,
- loan security costs,
- short-term financing costs,
- in some cases, even insurance on the outstanding amount.

When talking to the banking officer, ask for a detailed calculation which will represent total costs of the loan you wish to obtain.

Also, for every consumer loan you must deposit 20% of the loan amount. You can use the loan to make this deposit, but in that case your loan is decreased by 20%. But be careful: interest is also calculated on the amount you have deposited, not only on the amount paid out to you!

You have the right to pay off the loan before its maturity, but the bank also has the right to charge a penalty for early repayment. This penalty is calculated on the day on which you repay the loan in full and it can vary depending on how much time has passed since the day you obtained the loan (i.e. how long you have been paying off the loan). When applying for a loan, ask the bank to provide you with information about this penalty.

7. What is included in the loan agreement?

The loan agreement consists of the agreement itself and the repayment plan. We urge you to pay special attention to the following aspects of the agreement:

- the currency in which the loan is denominated;
- the exchange rate used to calculate the instalments;
- the interest rate established for the funds approved to you by the bank. You must know what interest rate has been established, and whether it is fixed or variable; a fixed interest rate implies that it cannot be changed throughout the entire loan repayment term, whereas a variable interest rate may vary in accordance with the changes on the money market and is linked to EURIBOR. Also, you should pay attention to whether the interest rate is calculated on the outstanding balance only, i.e. the unpaid portion of the loan, or on the entire loan amount, which is rare;
- security and terms of forced collection of debt.

The repayment plan is a document containing several columns. The first column contains the dates of all monthly instalment payments over the course of the repayment term, so you can always know the exact amount you need to pay on a certain date. The second column contains amounts representing the share of the principal in the monthly instalment, while the third column shows the interest rate of all monthly instalments. By checking the second and the third column you are able, at any time, to tell how much of the principal or interest rate you are paying off every month. The next column shows you how much of the debt is left for you to pay off – the so-called outstanding amount which decreases every month after each monthly instalment is paid. At the bottom of each column you may see its total value.

Apart from the loan agreement, a customer may sign, when necessary, a separate pledge agreement.

What is EURIBOR?

*EURIBOR is short for **Eur**o **I**nter**b**ank **O**ffered **R**ate and it refers to a reference interest rate based on money supply and demand in the European market, and based on daily quotes sent by the 47 largest European banks. When obtaining a loan with a variable interest rate linked to EURIBOR, one should bear in mind the possible changes in EURIBOR. In such cases the banks – after a certain period set forth in the agreement (one, three or six months) – adjust the interest rates for the loan in question in relation to the EURIBOR rate at that point. This is very important for loans with longer repayment terms, where it is more likely that a potential increase in EURIBOR will lead to an increase in a borrower's monthly payments. On the other hand, the banks often need to link the loans they grant to companies and individuals to EURIBOR because they are often financing them not only using deposits, but also using loans from international banks which are usually linked to the variable rate of EURIBOR.*

8. Loan security

The purpose of securing a loan is to enable the bank to collect its receivables from other sources in case a problem occurs in collecting the debt as agreed. Loan repayment is usually based upon the amount of monthly income, but collateral offers other means of collecting debts.

The most common forms of repayment guarantee for consumer loans are assignment of salary, a blank promissory note signed by the borrower, or a pledge based on movables and immovables. The pledge is established and governed by a separate Pledge Agreement.

9. What are the steps in the loan approval process, from the moment you apply for a loan?

There are several steps between your desire to obtain a loan and the bank's approval, which bankers also call the "loan approval process". You had the interview with your loan officer and you have filled out the loan application together. What happens next?

Data entry: Your loan application data is entered in the bank's system, in special electronic forms designed for this purpose.

Loan analysis: Your loan application is assessed. During this phase, the bank checks your credit standing. This will be determined not only by your loan officer, but also by another person, the credit risk officer.

Decision on loan approval: The decision is based on rigorous criteria which each bank sets individually. Depending on the complexity of the loan and its amount, the decision may be taken by several persons or even by a credit committee, usually consisting of three employees: loan officer, credit risk officer and branch manager. Together, they analyse your application, taking into consideration all documents you have submitted as proof of your credit standing, and take a final positive or negative decision.

Informing the client of the bank's decision: The bank informs the client of its decision, usually within a period of one to three days. If your application is rejected, the bank should provide an explanation as to why. If the loan is approved, then, after informing the client, the bank prepares the documents for loan disbursement.

Loan disbursement: During this phase, you sign the loan agreement and its integral parts, as well as any pledge agreements.

Monitoring: After the loan has been approved, the bank starts the monitoring phase. At regular intervals, the bank checks whether you are fulfilling your loan agreement obligations. Also, your financial status is checked at certain intervals, usually once a year, and according to a certain scale.

*- **Assignment of your salary** entitles the bank to block your income to your current account in the event that you stop making regular payments.*

- *A **guarantor** is a person who gives a guarantee to the bank, by pledging his/her property, that he/she will assume responsibility for your obligations if you are unable to make regular payments.*
- *A **promissory note** is a type of security which obligates you, the payer, to pay to the payee – the bank – the amount due under the promissory note.*
- *A **pledge** is a part of your property which serves as security for the loan, which means that a part of your property may become the property of the bank if you stop fulfilling your obligations under the loan agreement.*
- *A **mortgage** entitles the bank to collect your debt by liquidating the immovables you have pledged, if you stop making payments on time.*

10. What should you do in case of problems with loan repayment?

Everyone can experience a financial crisis at some point. If such a crisis occurs, you need to stay calm and collected, ask to talk with the bank and, together with the bank, work out measures for resolving the crisis. Very often, it is moments like these that will reveal whether your bank is a reliable partner and adviser, or merely a seller of products and services.

The key to achieving a solution which is in your best interests lies in preparing for the interview with the bank. This primarily means that before talking to the bank you must provide a basic and feasible answer to the crucial question: How can I overcome this financial crisis?

The first step in finding possible solutions is to analyse the causes of the crisis. If you examine the crisis in a realistic and impartial manner, you will find a solution sooner. Consider the following:

1. Causes: what caused this crisis, what are the key steps for overcoming it and within what period?
2. Suggestions: what suggestions will you give to the bank (e.g. one year deferral in payment of interest and principal)?
3. Arguments: state three arguments supporting the suggestions you put forth.

All information which you present in support of your proposal must be comprehensible to the bank. We recommend that you back up the information you provide with relevant documents.

A feasible solution is always one based on a plan for achieving short-term, medium-term and long-term recovery, an improvement in your financial position, and the resumption of regular repayment.

Short-term recovery steps
1. If you have any savings, use them to pay the debts.
2. Reconsider your cost priorities: perhaps you can postpone less important expenditures, which can be deferred until later, and use the funds for loan repayment instead (e.g. clothing expenses or other less important monthly expenses could be postponed in favour of payment of instalments).

Medium-term recovery steps
1. Increase your income (talk about a salary increase, find an additional job, consider changing your current job).
2. Cut costs (e.g. consider the possibility of moving, check the possibility of saving money on monthly bills and other costs of living, etc.).

Long-term recovery steps
1. Assets/liabilities (e.g. sell some of your assets: replace your car with a cheaper one, sell your summer house, consider moving to a smaller apartment etc.).

VI 5 important things an ordinary person should know about saving

Loans and the possibilities and risks associated with them have been our main focus in this brochure. We hope that we have succeeded in presenting the information you need about loans in a clear and helpful manner. However, we have left some space for an equally important aspect of our lives, namely saving.

Saving helps you to develop a habit of handling your money more rationally and makes you aware of its real value. This habit will prove useful for you in the future in many ways. If, at some point in your life, you urgently need money, you will not have to apply for a loan or sink deeper into debt. You can use your savings.

To a certain extent, savings equal loans. A loan allows you to use in advance money you do not yet have, whereas, in the case of saving, you consciously set money aside now so that you can use it at some point in the future. A period of saving is, in a sense, comparable to a loan repayment period, with an important difference being that when saving, you use the money you already have. Therefore, one of the most important characteristics of saving is – planning. In this section we would like to provide you with some useful advice on saving, and in the appendix, some tips on how to prepare a family budget.

So take the decision to make a start. We encourage you to start planning and to responsibly manage your finances!

1. What types of savings deposits are available to you?

There are two types of savings: sight deposits and term deposits. Both types of savings generate income – namely the interest which is added to your savings account after a certain period of time has passed.

A sight deposit is a savings deposit without any fixed term, i.e. you can terminate the account and withdraw your funds whenever you choose. While the funds are on deposit, you can increase or reduce the amount without any restrictions, that is to say, you can deposit funds to, or withdraw funds from, the account as you choose. The bank calculates interest according to the daily balance of your savings. The interest is usually credited to your account on a quarterly or annual basis, depending on the terms and conditions offered by the bank in question.

One way to take advantage of this option is to establish a **standing order** so that small amounts are transferred to your savings account on a monthly basis. In this way you can try to discipline yourself and not give up on monthly savings.

Term savings, or a term deposit, is a savings deposit placed for a specific, predefined period of time. This type of deposit has a defined period and the funds can only be withdrawn after this period has elapsed; if the deposit is terminated and the funds withdrawn earlier, then a lower interest rate will be applied than the one which had agreed for the entire period. The interest rate paid on the term deposit usually increases over the course of the term deposit period.

Please bear in mind that in the case of a premature withdrawal of funds from a term deposit - that is, before the period defined in the deposit agreement - you will pay a penalty for terminating the term deposit ahead of time and the interest rate will be reduced. The purpose of this penalty fee, to a certain extent, is to cover the costs the bank has incurred, because the bank made financial plans based on your contractual obligation. And therefore, by prematurely withdrawing your money, you disrupt the planned cash flows, thus altering the financial plans of the bank.

Benefits of term deposits

Term deposits offer certain benefits compared to sight deposits. First of all, the interest rate calculated for term deposits is higher, precisely because the people entrust their money to the bank for a period of time defined in advance, and therefore the bank is sure of that money for that specific period of time. Also, this type of saving has a positive effect on your cost planning, because it encourages you to plan your income and costs in advance, thus giving you more control over your finances.

2. How do you choose the right type of savings deposit?

First of all, make your plans according to your needs. If you choose term deposits, the term will be set according to your needs. If, for example, you are saving for your children's education, you know that you will not have to withdraw that money for a long period of time. If you are saving for a car, then the term will be based on your wages.

If, on the other hand, you are saving for no specific reason, then you can open a sight deposit, with the funds available to you whenever you wish, or you can open a term deposit with the possibility of withdrawing a certain amount without termination of the contract. You can also combine different types of savings and deposit your money in several accounts. If you know in advance why you are saving, then you will have no problem making your choice: a higher interest rate with a specific period of time for which you will not have access to your money and entrust it to the bank, or a lower interest rate and daily access to your savings.

3. Pay attention to your contractual obligations

When establishing a term deposit, you will sign a deposit agreement. This agreement regulates the rights and obligations of both parties, that is, you and the bank. This Agreement defines, in addition to the time period and interest rate, the account to which your funds, together with the interest earned, will be transferred after the defined period has elapsed, the terms and conditions for premature termination of the agreement, the interest rate in this case, special benefits, etc.

4. Are there any special terms and conditions?

Most banks have special terms and conditions which serve to encourage and motivate their client to save. Some of these benefits are: premature withdrawal of a portion of the principal amount without termination of the contract, advance payment of interest, the possibility of adding funds to the savings account, increase of the interest rate depending on the amount, etc.

Of course, if you require some other banking service beside savings, you could be given special terms and conditions not only for savings, but also for the required service. The possibilities are numerous!

5. Reward the bank which stands for your values

In your relationship with the bank you are first and foremost partners. This is not a relationship in which an institution wants to sell you a product at all costs and to make a profit at your expense, without any regard as to whether that product suits you, whether it is a burden to you or whether it causes you problems. All bank services have their uses, but these may differ from your specific needs. The aim of every bank is to establish a long-term relationship with their clients, which is possible only by a relationship on transparent, highly professional and fair terms. This partnership is based on mutual benefit, understanding and co-operation, and therefore you should expect nothing less from your relationship with the bank. The bank is here to advise you, to help you and to offer you a service you will benefit from, and it is up to you to recognise this and reward the bank by giving it your trust.

VII Appendix: How do you prepare a home budget?

A budget is a plan that you make to allow easier management of your funds. A budget can help you by letting you:

- see what you are spending your money on and how much you spend over a specific period of time,
- plan savings which you might need in case of unexpected situations, and
- take day-to-day decisions about your money and decisions for the future by monitoring the changes in your financial status.

A budget can provide you with a general overview of your financial status and help you control your finances in the future. Even though every person has a different financial status, all budgets are based on the same idea: settle debts, save money for unexpected situations and have some extra money for spending.

In order to make a budget, you have to know the following:

- how much money you will have in a given period of time - your INCOME;
- how much money you will spend in a given period of time - your EXPENSES; and
- how you can achieve a balance between your consumer habits and unexpected situations and how you can get the most VALUE from your money.

In order to determine your income, you should examine your salary slip or your monthly bank account report. Then, closely inspect your monthly expenses. These can be divided into three types: fixed expenses, flexible and voluntary expenses. In order to help you make better decisions, let us explain more about what each of these expenses represent.

Fixed expenses are regular and more or less invariable every month. These are, among other things, electricity, phone, utilities, cable TV and internet bills, loan instalments, insurance instalments, etc.

Flexible expenses are also regular, but the amounts of these costs vary. These are, for example, grocery bills or mobile phone bills.

Voluntary expenses are the costs you freely choose and over which you have the sole control. These include entertainment, clothing, and costs for buying presents, but also saving. However, saving money cannot be considered to be an expense, because this is money which you will use in the future, or which can actually increase value if it has been deposited in a savings account at the bank.

The basic function of a budget is to enable you to compare income and expenses. Planned expenses are in the first column, whereas actual monthly expenses are in the second one. At the end of the month you can compare your planned and actual costs, which will enable you to analyse the flow of your funds. This is how a budget indicates the points where most of your money is spent, that is, where you could save money. On the other hand, you will also have personal satisfaction because you will see that you have managed to save money on something. If you conclude that you are spending more than you should, you should find a way to lower your flexible and voluntary expenses.

You will be surprised at how much money you spend and on what you are currently spending your money. Those voluntary expenses which seem quite small may add up dramatically over the course of the year.

In order to effectively manage your money every month you should:

- give fixed allowances to yourself and your family members,
- use a shopping list,
- buy on sale,
- compare prices,
- plan large purchases in advance,
- pay your bills first,

- try to increase the amount you save if you begin earning more money,
- avoid "embellishing" the figures, and instead really calculate the actual situation. It is important to plan a budget which will be applicable over a long period of time,
- do monthly follow-ups on your budget and adjust your budget to reflect changes in income and expenses,
- include family members in budget planning, so that they will also understand budgeting and realise their personal responsibility.

Home Budget Outline

CATEGORY	**BUDGETED MONTHLY AMOUNT**	**ACTUAL MONTHLY AMOUNT**	**DIFFERENCE**
INCOME			
Salary			
Bonuses/raises			
Monthly public transport ticket			
Vacation prepayment			
Other income			
TOTAL INCOME			
FIXED EXPENSES			
Rent			
Electricity			
Phone			
Utilities			
Cable TV and Internet			
Gas			
Health insurance			
Pension			
Loan instalment			
Credit card instalment			
Family expenses for children			
Other fixed expenses			
FLEXIBLE EXPENSES			
Groceries			
Transportation			
Fuel			
Car maintenance			
Home repairs			
Health expenses			
Personal expenses (hairdresser, beautician, etc.)			
Mobile phone bill			
Other flexible expenses			
VOLUNTARY EXPENSES			
Savings			
Fun, entertainment			
Clothing, footwear			
Furniture			
Presents			
Recreation			
Saving for vacation			
Other voluntary expenses			
TOTAL EXPENSES			
NET INCOME			
(income – expenses)			

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Moreover, the EFSE Development Facility, the Fund's trust fund, offers complementary, non-financial services in support of EFSE's financial investments, including technical assistance, consulting and training. In this regard, EFSE supports initiatives promoting responsibility in rendering financial services, such as this educational brochure, which has been prepared by ProCredit Bank.

Published by:
ProCredit Bank a.d. Belgrade

October 2007