



ANNUAL REPORT

BANKING AND PAYMENTS AUTHORITY OF KOSOVO

2001

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Honourable Special Representative of the Secretary General of the United Nations

European Monetary Union was completed by the introduction of euro currency on 1 January 2002. The euro is now used by over 300 million people, including Kosovars. I am pleased to acknowledge the tremendous effort of all staff of the Banking and Payments Authority of Kosovo in ensuring that the changeover was accomplished smoothly and in time in Kosovo. Preparations for this transition had started early in 2001 and required considerable planning and organisation.

The Banking and Payments Authority of Kosovo is a young institution and is still undergoing organisational changes. When the BPK was established in November 1999, there were no other banks operating in Kosovo. The need to provide commercial banking facilities dictated that the BPK operated a wide network of branches to serve all communities. During 2001, as the commercial banking sector developed further, the BPK expanded its Financial Sector supervision and licensing responsibilities and focused on development of Insurance and Pension sectors.

In 2001, training programmes to improve professional skills of staff in all functions of the BPK were continued with particular emphasis on supervisory and regulatory functions. BPK staff was able to participate in both on-site and overseas training programmes, some of which were donor funded. Much progress has been made in enhancing the skills of local staff and training continues to be assigned the highest priority. Much still remains to be done.

I am pleased to submit the 2001 Annual Report of Banking and Payments Authority of Kosovo.

Chaiha Kim Rhee
Managing Director

1. GLOSSARY

| | |
|--------------|---|
| BPK | Banking and Payments Authority |
| CFA | Central Fiscal Authority |
| CSK | Customs Service of Kosovo |
| FDI | Foreign Direct Investment |
| FRY | Federal Republic of Yugoslavia |
| GDP | Gross Domestic Product |
| GNP | Gross National Product |
| IAS | International Accounting Standards |
| ICS | Interbank Clearing System |
| IMF | International Monetary Fund |
| IPAC | Interbank Payment Advisory Committee |
| KCB | Kosovo Consolidated Budget |
| KTA | Kosovo Trust Agency |
| MFE | Ministry of Finance and Economy |
| MFI | Micro Finance Institution |
| PIP | Public Investment Program |
| SOE | Socially Owned Enterprise |
| SOK | Statistical Office of Kosovo |
| UNMIK | United Nations Interim Administration Mission in Kosovo |
| USAID | United States Agency for International Development |

2. SUMMARY

Kosovo's economy suffered decades of economic neglect and lack of investment. It was weak even before the 1999 conflict which destroyed or severely damaged housing, agriculture and infrastructure. As a result, industrial and agricultural output declined precipitously. GDP per capita in 1995 was estimated by the World Bank at \$400, by far the lowest in Europe. In 2001 it reached \$900 but it continued to lag behind other post-conflict countries in the region.

The economy is still at the initial stage of development. The post-war emergency support for Kosovo was focused on establishing peace and order, providing humanitarian aid, setting up civilian administration, assisting with house reconstruction and re-starting the operation of the economy. In 2001, Kosovo's economy continued to rely on participation of foreign donors in the investment projects. The European Union was by far the largest donor, accounting for almost 65 % of total commitments to the end of 2001. Changes and developments in the local economy resulted in the real GDP growth of nearly 11% in 2001. Unemployment, however, remained a major problem among the mainly young population of Kosovo.

One of the first big successes after the conflict was the rebuilding of a sound and efficient banking system, based on the prudent principles of international banking. The Banking and Payments Authority of Kosovo, which was created in November 1999 by UNMIK Regulation 1999/20, operated through its head office in Prishtina and 22 branch and sub-branch offices throughout Kosovo. In 2001, BPK branch network continued to offer payment facilities, bank deposit facilities, domestic and international payments, and facilitated collection of taxes and other payments. At the same time, financial supervision and licensing functions were growing in significance.

3. KOSOVO ECONOMY IN 2001

3.1 GROSS DOMESTIC PRODUCT, NATIONAL INCOME AND PRICES

Kosovo economy is still at the initial stage of development. Available data shows real growth in economic activity since the year 2000. With a price inflation rate of 11 %, also real Gross Domestic Product (GDP)¹ grew nearly 11% in 2001. Despite a significant nominal year-on-year increase of 23.5% (to euro 1,747 million) the GDP in 2001 was still well below the level necessary to satisfy the needs of Kosovo's economy.

As a consequence of decades of economic backwardness, neglect, and misguided investments and exploitative economic programs, Kosovo's economy was weak even before the conflict. GDP per capita in 1995 was estimated by the World Bank at \$400, by far the lowest in Europe. The 1999 conflict badly hurt the economy. Much of the housing stock, agriculture and infrastructure was destroyed or severely damaged in the conflict. As a result, industrial and agricultural output declined precipitously.

GDP per capita in 2001 was \$900, and this was well below the levels recorded in other, including post-conflict, countries in the region: Bosnia and Herzegovina (\$1,109), Albania (\$1,218), Yugoslavia (\$1,261), Macedonia (\$1,674), Bulgaria (\$1,686), Romania (\$1,772), Croatia (\$4,625) and Slovenia (\$9,443).

In 2001 the Gross National Product (GNP)² exceeded the actual GDP by euro 687 million. Compared with the year 2000, there was a noticeable decrease (from 163% to 146%) of consumption in the GDP composition. Foreign assistance (grants of donors for financing the budget and assistance in reconstruction) share in GDP decreased from 96% to 76% from the previous year. Nevertheless, total monetary value of foreign assistance in 2001 remained almost unchanged at euro 1,329 million. The ratio of imports to GDP also decreased in this period, from 145% to 117%. At the current stage of economic

¹ Gross Domestic Product (GDP) is defined as final goods & services produced within Kosovo borders by both domestic and foreign factors (labour & capital) and sold on the market during the year plus self-produced consumer goods (natural economy)

² Gross National Product (GNP) is defined as final goods & services produced by domestic factors within Kosovo borders and sold on the market during the year plus labour income of Kosovars employed in Kosovo by international donors and remittances transferred during the year by Kosovars who are employed abroad. Adjusted Disposable Income (ADI) means total disposable monetary income of Kosovo institutional units (households, firms, government, and NGOs) adjusted for (extended by) transfers in-kind, such as house reconstruction aid, food aid, and imputed income from owner occupied dwellings.

development of Kosovo, it is not surprising, therefore, that 60% of GDP was spent on imported goods and services. This underlines the reliance of Kosovo on both imports and foreign assistance.

Table 1.

SELECTED MACROECONOMIC INDICATORS

| | Unit | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|--|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|
| GDP | MIn euro | 1,414 | 1,747 | 1,990 | 2,163 | 2,339 | 2,530 |
| GDP nominal growth rate | % | | 23,5 | 14,0 | 8,7 | 8,2 | 8,1 |
| GDP real growth rate | % | | 11,0 | 7,0 | 4,5 | 4,5 | 5,5 |
| Inflation rate | % | - | 11,3 | 6,5 | 4,0 | 3,5 | 2,5 |
| GDP/capita | Euro | 798 | 941 | 1,051 | 1,122 | 1,196 | 1,284 |
| Consumption | MIn euro | 2,317 | 2,572 | 2,809 | 2,834 | 2,785 | 2,803 |
| Consumption/GDP | % | 163 | 147 | 141 | 131 | 112 | 110 |
| Investment | MIn euro | 959 | 946 | 871 | 706 | 575 | 585 |
| of which PIP | MIn euro | 628 | 588 | 411 | 280 | 220 | 200 |
| Investment/GDP | % | 68 | 54 | 44 | 33 | 24 | 231 |
| Exports g & nfs | MIn euro | 148 | 231 | 247 | 244 | 220 | 225 |
| Imports g & nfs | MIn euro | -2,051 | -2,050 | -1,977 | -1,661 | -1,281 | -1,124 |
| Imports of mses | MIn euro | -1,116 | -1,058 | -1,246 | -1,121 | -926 | -860 |
| Imports of nfs | MIn euro | -935 | -992 | -731 | -540 | -355 | -264 |
| of which foreign remittances | MIn euro | 472 | 524 | 526 | 507 | 441 | 437 |
| CA balance without grants | MIn euro | -1,254 | -1,132 | -1,072 | -803 | -549 | -412 |
| CA before grants/GDP | % | -89 | -65 | -54 | -37 | -23 | -16 |
| Grants (FA) | MIn euro | 1,336 | 1,290 | 1,032 | 794 | 528 | 386 |
| PIP | MIn euro | 628 | 588 | 411 | 280 | 220 | 200 |
| Budget grants | MIn euro | 102 | 77 | 10 | 25 | 15 | 10 |
| Other aid (of which imputed services provided by donors) | MIn euro | 570 | 661 | 602 | 484 | 293 | 176 |
| CA balance after grants | MIn euro | 82 | 197 | -40 | -9 | -21 | -26 |
| CA balance after grants/GDP | % | 6 | 11 | -2 | 0 | -1 | -1 |
| Foreign Direct Investment (FDI) | MIn euro | 0 | 5 | 10 | 30 | 40 | 45 |
| Exports g & nfs / GDP | % | 10 | 13 | 12 | 11 | 9 | 9 |
| Imports g & nfs / GDP | % | -145 | -117 | -99 | -77 | -55 | -44 |
| Workers' remittances / GDP | % | 33 | 30 | 26 | 23 | 19 | 17 |
| Foreign assistance / GDP | % | 94 | 74 | 52 | 37 | 23 | 15 |
| Foreign Direct Investment / GDP | % | 0 | 0 | 1 | 1 | 2 | 2 |
| GNP | MIn euro | 2,063 | 2,434 | 2,648 | 2,777 | 2,852 | 3,016 |

Source: CFA Macroeconomic Unit and IMF staff estimates and forecast

Table 2

CONSUMER PRICE INDEX (CPI), total, 2000-Q1 – 2001-Q4

| | Consumer price index | | |
|-------------|------------------------------|------------------------|------------------------|
| | Jan 2001=100 ₁ | Period ₂ | Annual ₃ |
| 2000 | 92.72 | | |
| 2001 | 102.89 | 10.97 | 10.97 |
| 2000 | | | |
| Q1 | 91.93 | | |
| Q2 | 91.04 | -0.97 | |
| Q3 | 92.59 | 1.70 | |
| Q4 | 95.32 | 2.95 | |
| 2001 | | | |
| Q1 | 100.51 | 5.45 | 9.34 |
| Q2 | 102.66 | 2.14 | 12.76 |
| Q3 | 103.50 | 0.81 | 11.79 |
| Q4 | 104.88 | 1.33 | 10.03 |

Source: Ministry of Finance and Economy, Macroeconomic Unit

In 2000-2001, consumer prices grew at an average rate of 2-3 percentage points per quarter, or about 10 percent per year. The fastest growth of consumer prices took place in the first quarter of 2001 as compared to the fourth quarter of 2000, by 5.45 percent. During 2000 (January – December 2000), the largest increases occurred in the prices of fruits and vegetables, by 27.1 percent; housing and furniture, 23.0; and dairy products, 19.7. In 2001 (December 2000 – December 2001), the largest price increases were in: fruits and vegetables, by 19.5 percent; meat and fish, 18.4; and housing and furniture, 14.2.

Interestingly, the goods with high price increases are either local goods (“non-tradables”) or “tradables” that belong to the category of “competitive imports”, i.e. goods that are produced in relatively large quantities in Kosovo (for which import share in total sales in Kosovo is relatively low); all of these are not labour intensive. At the same time, the prices of many “non-competitive tradables” (i.e. those that are predominantly imported), such as coffee, tea, alcoholic beverages, cigarettes, soap, shampoo, detergents, cloth, footwear,

¹ Average prices for a given period of time (year, quarter and month), January 2001=100

² Period-to-period price index (year-to-year, quarter-to-quarter and month-to-month) = price changes calculated for consecutive periods, percent

³ Annual price changes = change in average price level in a given period of time as compared to the same period of time in the previous year, percent.

refrigerators, and television sets) and the prices of labour-intensive services (non-tradables, such as restaurant meals, repairs of house appliances, repairs of cars) have remained stable or even declined.

3.2 BALANCE OF PAYMENTS

The Kosovo economy to significant extent relies on remittances from abroad, foreign assistance, and import. These factors determine balance of payments developments. In 2001, the ratio of *workers' remittances* (Kosovo Diaspora) to GDP remained almost at the stable level of 30% of GDP. This shows that Kosovar emigrants play a key role in the economic, social and political development of Kosovo.¹ Remittances from Diaspora have contributed to the very survival of the people in Kosovo, almost 80 percent of families receive monthly remittances of between \$250-\$500. Together with *donor assistance* and domestic savings, these remittances have played a major role in the recovery of Kosovo economy. The transfers from Diaspora reached euro 524 million in 2001 and, by its nature, were directed mainly at personal consumption and renovation of private housing.

| Table 3 DONOR COMMITMENTS TO KOSOVO | | | | | |
|--|---------|-----------|---------|---------|---------|
| 1999 | | 2000 | | 2001 | |
| Pledged | Spent | Pledged | Spent | Pledged | Spent |
| 304,122 | 165,961 | 1,138,378 | 651,303 | 535,982 | 578,905 |

Source: Donor Coordination Unit (MFE/DEP)

Donors had firmly committed about euro 2.0 billion and had spent euro 1.4 billion (nearer euro 1.6 billion if budgetary support is included) by the end of 2001. The European Union is by far Kosovo's most significant donor, accounting for almost 65 % of total commitments to the end of 2001, with the United States, Switzerland, Japan, the World Bank and Canada being amongst Kosovo's other generous donors.

¹ Economic and political background of Kosovo shows three main waves of emigration. The first wave - mostly unskilled, poorly educated people from rural Kosovo - left Kosovo in the late 1960s and early 1970s. A second wave - mostly better-educated and skilled Kosovar Albanians from urban areas - left Kosovo during the 1980s and early 1990s. The third wave of asylum seekers and refugees fled Kosovo in dire circumstances during the 1998-99 conflict.

Capital investment in Kosovo stood at 55% of GDP. This is a slightly misleading statistics considering that Kosovo economy is highly subsidised from abroad.¹ A more appropriate and realistic comparison, therefore, is the ratio of investments to GNP which was 39% in 2001. This is closer to a level at which local economy is able to absorb capital investments, because of the existing infrastructure and available poor management and low skill base of the workforce. Out of euro 968 million invested in Kosovo in 2001, 60% was spent on public investment program (PIP). This underlines the dependence of Kosovo economy on continued participation of foreign donors in the investment projects.

The initial stage of post-conflict emergency support for Kosovo was focused on establishing peace and order, securing personal safety of the residents, providing humanitarian aid, setting up civilian administration, facilitating the return of refugees to their homes, assisting with house reconstruction and re-starting the operation of the economy. At that stage, most of investment activities (electric power, water, communications services, etc.) were financed and administered by the donors.

One of the first big successes after the conflict was the rebuilding of a sound and efficient banking system, based on the prudent principles of international banking. With seven commercial banks, licensed and supervised by the BPK, the financial sector had become a partner and supporter of the comprehensive economic development of Kosovo. Commercial banks, apart from providing cash payment and collection services, gradually developed programmes of extending credit to businesses and individuals. Micro-financial institutions were among the first to offer support to the local communities and businesses in the form of loans for development of infrastructure and facilities.

The economy of Kosovo continues to rely on imports and as a result showed a wide foreign trade deficit in 2001. Based on the data provided by Customs Service of Kosovo, a clear geographic structure of imports and type of goods imported can be developed.

¹ Gross National Product was nearly 139% of the GDP.

Table 4**FOREIGN TRADE: IMPORTS BY COMMODITIES**

Million euro

| | Total comm. imports | Total imports (BRICO) | Food | Clothing | Petrol | Plastics & wood | Constr. materials | Metal | Machinery | Transp. equipmt | Other |
|------|---------------------|-----------------------|-------|----------|--------|-----------------|-------------------|-------|-----------|-----------------|-------|
| 2000 | 372.2 | 1,055.0 | 69.4 | - | 46.3 | 37.1 | 15.1 | 19.6 | 23.0 | - | 845.0 |
| 2001 | 659.8 | 539.4 | 165.0 | 15.7 | 89.1 | 73.7 | 26.2 | 43.0 | 41.0 | 4.5 | 81.7 |

Note: Total Commercial Imports – the value of taxable imports
 Total Imports – documented by the BRICO database. 2000 and 2001 excl. shipments from/through Serbia.
 2001 excl. tax-exempt goods brought to Kosovo by UNMIK, KFOR, other intl. donors, diplomatic missions, NGOs with a public benefit status

Source: CFA/MFE: Macroeconomics Monitor, July 2002

While a high participation in imports of petrol (13.5%) and plastics and wood products (11.2%) is understandable, it is rather disappointing that food imports occupy such a predominant place (25%) in the trade balance of an otherwise agricultural economy.

The first positive signs in balance of trade of Kosovo occurred in 2000 and 2001. After virtually total destruction of the local economy and complete lack of exporting capacity, 2000 and 2001 show return of exports in the balance of trade of Kosovo. The highest participation in exports had plastic and wood products at 34%, while metal products and scrap at 30.5% came a close second.

Table 5**FOREIGN TRADE: EXPORTS BY COMMODITIES**

Million euro

| | Total | Food | Plastic & wood | Clothing | Construction materials | Metal & scrap | Electric equipment | Transp. equipmt | Other |
|------|-------|------|----------------|----------|------------------------|---------------|--------------------|-----------------|-------|
| 2000 | 18.68 | 5.27 | 7.69 | 0.41 | 0.02 | 3.76 | 1.06 | 0.25 | 0.23 |
| 2001 | 10.63 | 1.49 | 3.61 | 0.11 | 0.07 | 3.25 | 1.55 | 0.14 | 0.42 |

Source: CFA/MFE: Macroeconomics Monitor, July 2002

Introduction of VAT in July 2001, which replaced the sales tax, and replacement of humanitarian help with commercial imports, created a new geographic structure of imports. Countries in the Balkan region had become the major trading partners of Kosovo in 2001. The historical, geographical and economic factors led to strong growth in these trading relationships.

Macedonia, Turkey, Montenegro, Albania and Bulgaria are the source of approximately 62% of all imports to Kosovo. Macedonia remained by far the biggest trading partner of Kosovo.

It continued to enjoy most favourable trade conditions as only 1% custom duty was levied on goods coming from Macedonia into Kosovo. The free trade agreement between Macedonia and FRY has significant impact both on imports and exports of Kosovo. Macedonian certificates of origin often cover goods originating from other countries. This has a distorting effect on Kosovo foreign trade and it is considered as a source of fiscal evasion.

| Table 6 | | | | | | | | | | |
|--|---------------------|-----------------------|-----------|---------------|-----------|------------------|------------|------------|-----------|--------------|
| FOREIGN TRADE: IMPORTS OF GOODS BY PLACE OF LOADING | | | | | | | | | | Million euro |
| | Total comm. imports | Total imports (BRICO) | Albania | Croatia & BiH | Bulgaria | EU & Switzerland | Macedonia | Montenegro | Turkey | Other |
| 2000 | 372 | 1,055 | 21 | 32 | 85 | 95 | 349 | 169 | 106 | 198 |
| 2001 | 660 | 539 | 29 | 20 | 35 | 161 | 148 | 50 | 75 | 22 |

Note: The 2001 figures do not include shipments from/through Serbia

Source: CFA/MFE: Macroeconomics Monitor, July 2002

3.3. FISCAL POLICY

Kosovo currently enjoys the benefits of a simple and efficiently enforced tax system and a market which is more open than most in the region. There will be a need, of course, to modify the fiscal framework over time in line with developments in the local economy. Modifications are therefore aimed principally at extending the tax base and improving the effectiveness of collection whilst gradually shifting the burden from the border to the domestic economy.

| Table 7. | | | |
|--|---------------|-------------|-------------|
| SHARE OF THE GOVERNMENT IN KOSOVO ECONOMY | | | |
| | (in % of GDP) | | |
| | 2000 | 2001 | 2002 (est.) |
| Kosovo Consolidated Budget (KCB) expenditures (incl. municipalities) | 15.7 | 16.0 | 27.0 |
| KCB + Public Investment Program (PIP) | 60.1 | 49.6 | 47.6 |
| KCB + PIP + Government services provided by donors | 100.4 | 87.4 | 77.9 |

Sources: MFE, CFA and IMF staff estimates

Revenues of the Kosovo Consolidated Budget (KCB) surpassed budget expectations by a large margin both in 2000 and 2001, and are likely to do so again in 2002, reaching 20.5% percent of GDP. The share of general budget expenditures in GDP, at only 16.0% in 2001, was relatively low. However, once the amount of public investment program (financed entirely by donor grants) is added, public spending reached 49.6% of GDP.

Border tax revenues were the main source of revenue in the KCB budget with a share in the total budget revenue in 2001 of 61%. In July 2001, the sales tax was replaced with VAT and this has contributed a further 22.9% to the total budget revenue in Kosovo.

Table 8.

FISCAL SECTOR: GENERAL BUDGET TAX REVENUES, NON-TAX REVENUES, AND DONOR BUDGET SUPPORT

Million euro

| | TOTAL | Tax revenues | | | Total | Non-tax revenues | | | Donor budget support |
|------|-------|--------------|----------|--------|-------|-----------------------|---------------------------|------------------------|----------------------|
| | | Total | Domestic | Border | | Travel documents fees | Vehicle registration fees | Court & municipal fees | |
| 2000 | 228.9 | 121.7 | 6.5 | 115.2 | 4.8 | n/a | n/a | n/a | 102.3 |
| 2001 | 342.0 | 249.7 | 41.0 | 208.7 | 15.9 | 3.73 | 8.43 | 3.77 | 76.3 |

Source: CFA/MFE: Macroeconomic monitor, July 2002

General budget expenditures reached euro 228.2 million or 13% of GDP in 2001. The general budget expenditure increased nearly 12% between 2000 and 2001. The main factor behind this increase was a growth in expenditures for health and social welfare, which increased by nearly 59% between 2000 and 2001.

Health and social welfare sectors have been the biggest recipients of funds from the general budget (45.4% of total budget expenditures). Economy and other sectors - fuel and energy, natural resources, transport and communication, and not classified items, received a 15.33% share of public spending.

Table 9.

FISCAL SECTOR: GENERAL BUDGET EXPENDITURE BY GOVERNMENT FUNCTIONS

| | | <i>Million euro</i> | | | | | | | |
|-------------|--------------|---------------------|-----------------------|-------------|-------------|----------------|---------------------|----------------------|-----------------|
| | Total | General services | Public order & safety | Education | Health | Social welfare | Housing & community | Recreation & culture | Economy & other |
| 2000 | 203.8 | 11.6 | 16.4 | 56.8 | 33.0 | 32.2 | 10.0 | 2.3 | 41.5 |
| 2001 | 228.2 | 11.7 | 10.8 | 23.6 | 59.4 | 44.2 | 39.1 | 4.5 | 35.0 |

Source: CFA/MFE: Macroeconomic monitor, July 2002

Kosovo achieved a budget surplus of euro 133.7 million in 2001.

Table 10.

FISCAL SECTOR: CURRENT BUDGET BALANCE

| | | <i>Million euro, end of period</i> | | |
|-------------|--|------------------------------------|----------------------|-------------------------|
| | | Current revenues | Current expenditures | Current budget balance* |
| 2000 | | 219.6 | 199.7 | 19.9 |
| 2001 | | 341.9 | 228.2 | 133.7 |

* Data represents the current cash balance held in the Kosovo Consolidated Fund at the Central Treasury
 Source: CFA/MFE: Macroeconomic monitor, July 2002

4. BPK AND BANKING SECTOR ACTIVITY IN 2001

4.1. BPK STRUCTURE

The Banking and Payments Authority of Kosovo was established on 15 November 1999 in accordance with the provisions of the United Nations Interim Administration Mission in Kosovo Regulation 1999/20 (further amended by Regulation 2001/24) 'On the Banking and Payments Authority of Kosovo'.

Under Section 5 of the Regulation, the BPK main objectives are to:

- Foster an efficient and safe system for domestic payments, and
- Foster the liquidity, solvency and efficient functioning of a stable market-based financial system, including regulating banks, insurance companies and other financial institutions.

Under Section 6 of the Regulation, BPK was vested with specific powers:

- To recommend broad policy guidelines to the Special Representative of the Secretary-General in areas under its responsibility, under the guidance of the Deputy Special Representative for Economic Reconstruction and Development;
- To formulate and implement measures for, and supervise and regulate, payments and settlement systems for transactions in domestic and foreign currency in Kosovo;
- To own and operate one or more payments systems;
- To act as banker to the Central Fiscal Authority and to provide financial advice at its request;
- To act as fiscal agent of the Central Fiscal Authority;
- To hold foreign currency deposits of banks, the Central Fiscal Authority, and other entities;

- To ensure an adequate supply of bank notes and coins for the settlement of cash transactions;
- To maintain a depository for safe keeping of currency and securities;
- To license, supervise and regulate financial institutions;
- To supervise and regulate dealers in foreign exchange; and
- To conduct regular economic and monetary analysis of the Kosovo economy, make public the results, and submit proposals and measures to the UN Interim Administration in Kosovo on the basis of such analysis.

A Governing Board, management and staff constitute organization of the BPK. The Governing Board formulates policies for the operations of the BPK and supervises their implementation. The staff of the BPK report, not less than ten times each year, to the Governing Board on the conduct of its operations and policies, on the soundness of the financial system, and on the state of the money, capital and foreign exchange markets.

Under the Regulation, the Governing Board is composed of seven members, of recognized integrity and professional experience in financial and banking matters, appointed by the Special Representative of the Secretary-General: the Chairperson, the Managing Director, the Deputy Managing Director for Financial Institution Supervision and Regulation, the Deputy Managing Director for Payments Systems, and three other persons (two of whom shall be appointed from the UN Interim Administration in Kosovo).

The Governing Board has the following powers:

- To determine the policies for the execution of the powers of the BPK and to supervise their implementation by the management and staff;
- To adopt all rules, orders and guidelines issued by the BPK;
- To approve all reports and recommendations that the BPK makes to the UN Interim Administration in Kosovo;
- To make recommendations to the Special Representative of the Secretary-General on the BPK's participation in technical consultations with international organizations;

- To adopt the by-laws of the BPK;
- To determine the organization of the BPK;
- To approve the appointment of the Inspector General of the BPK;
- To establish and close branch offices and agencies of the BPK;
- To determine the budget of the BPK and the terms and conditions of employment of BPK employees, agents and correspondents;
- To determine the accounting policies of the BPK and to approve the periodic reports and financial statements of the BPK;
- To decide on the incurring of debt in material amounts by the BPK and the terms and conditions of such debt;
- To determine the categories of assets that shall be suitable for investment of the BPK's financial resources;
- To approve or deny applications for financial institution licences or registrations and to revoke financial institution licences or registrations; and
- To adopt internal structures, policies and procedures for licensing, registering, supervising and regulating financial institutions.

The Managing Director of the BPK serves as the chief executive officer of the BPK in charge of the day-to-day business of the BPK. The Deputy Managing Director for Financial Institution Supervision and the Deputy Managing Director for Payments Systems are responsible to the Managing Director. During absence of Managing Director, the Deputy Managing Director of Financial Institution Supervision or, or in his absence, the Deputy Managing Director for Payments Systems, act as chief executive officer of the BPK. The Managing Director is responsible to the Governing Board for the execution of its decisions and for the direction and control of the administration and operations of the BPK.

All powers that are not specifically reserved for the Governing Board are vested in the Managing Director. Within the limitations of his/her powers, the Managing Director has the authority to take all actions required or deemed advisable for the administration or operations of the BPK, including without limitation entering into contractual commitments on behalf of the BPK, appointing the employees, agents and correspondents of the BPK,

and generally representing the BPK. The Managing Director may, with the approval of the Governing Board, delegate some of his or her powers to other employees of the BPK.

The Deputy Managing Director for Financial Institution Supervision is responsible to the Managing Director. He/she has the authority to take enforcement measures, including ordering any financial institution to take remedial actions, appointing a receiver for a financial institution, or imposing penalties provided in this regulation or other applicable laws or regulations on licensing, supervision, and regulation of financial institutions.

4.2. BPK OPERATIONS

During 2001, the BPK operated through its head office in Prishtina and 22 branch and sub-branch offices located throughout Kosovo. The core of its operations, such as Financial Supervision and Licensing, was growing in significance and the commercial type operations were continued to be provided. The main such function performed through the BPK branch network was provision of payment facilities, including salaries and social assistance payments, for UNMIK, Central Fiscal Authority and other entities. Collection of taxes and other payments, bank deposit facilities, domestic and international payments were also provided by the BPK.

FINANCIAL SECTOR REGULATION AND SUPERVISION

Under UNMIK Regulation 2001/24 amending Regulation 1999/20 on the Banking and Payments Authority of Kosovo, the BPK is responsible for licensing, supervision and regulation of financial institutions in Kosovo. The responsibility for the implementation and enforcement of the BPK's supervisory functions is conferred upon three departments:

- the Bank Supervision Department,
- the Insurance Supervision Department, and
- the Pension Supervision Department.

4.2.1 BANKING SUPERVISION

The year 2001 continued to be a year of re-building for the banking system in Kosovo. When the BPK was established in 1999 there were no operating banks in Kosovo. A key regulation, UNMIK Regulation 1999/21 on Bank Licensing, Supervision, and Regulation (Banking Regulation), was adopted on 15 November 1999. With the assistance of international experts, by year-end 2000 a sound financial sector regulatory framework had been developed and a supervision unit organized and staffed within the BPK to provide effective prudential oversight of the financial system, including banks and non-bank financial institutions.

Regulatory Framework

The Bank Supervision Department derives its authority and responsibility to license and supervise banks and financial institutions from UNMIK Regulations.

Regulation 1999/21 specifically provides a framework for bank licensing, bank organization and governance, the issuance of prudential rules and orders, maintenance of financial records and accounts in accordance with International Accounting Standards (IAS), requirements for external audits and on-site inspections, and the application of enforcement actions or penalties to assure compliance with the regulation.

In addition, by year-end 2001 twenty-one prudential and supervisory rules, which establish limits, operating guidelines, procedures, and reporting requirements for banks and financial institutions, had been adopted by the Governing Board.

Licensing Activity

Commercial Banks

By UNMIK Regulation, banks are defined as juridical persons accepting deposits and employing these funds either in whole or in part for the purpose of extending credit or making investments at their own risk. A bank can obtain a licence from the BPK, if the following conditions are met:

- Its business plan is based on sound analysis under reasonable assumption,
- The bank will comply with all provisions of the Regulation,
- The qualifications, experience and integrity of the bank's administrators, principal shareholders and those who propose to have or have a significant interest are appropriate for the bank, and
- Minimum capital requirements are met.

By year-end 2000, only one bank had met the requirements for a bank license. However, by the end of 2001, there were seven operating banks in Kosovo with aggregate total assets of 519 million euro, total loans of 25 million euro, and total deposits of 492 million euro. The seven banks were operating a total of 25 branches at year-end 2001. Three bank license applications were declined by the BPK during 2001, and preliminary approval for a bank license was revoked for four banks.

The ownership structure of the banking sector at 31 December 2001 measured by share capital was 63% foreign capital and 37% domestic capital. There is no state-ownership of banks in Kosovo; however, 6% of share capital in the banking system is held by socially owned enterprises.

Non-bank Financial Institutions

The BPK is responsible for the licensing and supervision of non-bank financial institutions. Micro finance institutions (MFI's) were the first formal financial institutions to enter the post-conflict market in late 1999. By year-end 2001, the BPK had registered fifteen non-bank financial institutions that engage in micro finance and lending to small and medium size enterprises. These institutions are funded by grants from international donors. Both solidarity group guarantees and individual loans for productive purposes with guarantors are used. Non-bank financial institutions are helping to create a stable system that provides financial services for disadvantaged groups and small businesses that lack access to credit. At year-end 2001, outstanding loans for this sector were 22 million euro.

Under BPK Rule XVI on the Registration, Licensing and Supervision of Foreign Exchange Bureaus and Money Transfer Services, entities operating as foreign exchange bureaus and/or money transfer services are required to register with the BPK, and must comply with the operating requirements outlined in the rule. By year-end 2001, the BPK had approved applications to establish three foreign exchange bureaus, and two applications from entities to conduct money transfer services.

Table 11.

Structure of the financial system

| Type of Financial Institution | Number | Number of Offices |
|---|--------|-------------------|
| Licensed banks | 7 | 25 |
| Banks with preliminary license approval | 0 | n/a |
| Micro Finance Institutions | 15 | 29 |
| Exchange Bureaus | 3 | 4 |
| Wire Transfer Operators | 2 | 42 |

Table 12.

Financial system, loans and deposits December 31, 2001

Thousand euro

| | Loans | Deposits |
|---------------------|---------------|----------------|
| Banks | 25,135 | 492,255 |
| MFI's and non-banks | 22,359 | 38 |
| TOTAL | 47,494 | 492,293 |

Supervisory Process**Supervisory Philosophy / Strategy**

The BPK's goal is to have a supervision and regulatory process that is effective, flexible and promotes a competitive market-based banking system. During 2001, international experts from USAID and the IMF assigned to the BPK continued to assist in the establishment of a bank supervision function that is based on international best practices and the major principles for effective banking supervision established by the Basle Committee on Banking Supervision. This included the hiring and training of a new bank supervision staff, development of supervisory policies and procedures, and implementing a regulatory reporting framework based on IAS. One of the major objectives of international advisors is

to achieve full transfer of bank supervision responsibilities to the local Kosovar bank supervision staff.

Supervisory Policies and Procedure

During 2000, two bank supervision policy manuals were developed and implemented, a bank licensing manual and a bank supervision manual, which outline bank licensing and supervision policies and procedures. During 2001, further refinements to supervisory policies were made to ensure an effective framework for the sound functioning of the banking sector.

The bank licensing manual includes standardized forms and procedures for licensing of banks and non-bank financial institutions. The bank supervision manual provides for standardized on-site supervision procedures based on a five-scale CAMEL system of assigning banking ratings and allows for higher efficiency and consistency in conducting inspections and examinations. Supervision policies and procedures are risk-based, which enables the BPK to allocate its supervisory resources to areas of greatest risk, within individual banks and the banking system. Supervision by risk focuses on the ability of management to identify, measure, monitor and control risk.

Supervisory Monitoring Activity

To carry out its responsibility for the licensing and supervision of banks and financial institutions, the Bank Supervision Department is following a supervisory approach of continuous supervision through on-site inspections and off-site monitoring.

During 2001, inspectors of the BPK conducted 11 onsite inspections in banks, and 10 onsite inspections in non-bank credit institutions. Bank regulatory reports were analysed by the Bank Supervision Department on a monthly and quarterly basis in order to monitor compliance with requirements for safe and sound banking operations. In addition, six bank license applications were processed by the Bank Supervision Department during 2001.

UNMIK Regulation includes provisions for enforcement actions for non-compliance with the regulation, BPK rules or for unsafe and unsound banking practices. Enforcement actions under the regulation range from written warnings to revocation of the license. No formal enforcement actions against banks or financial institutions were taken by the BPK during 2001.

Table 13.

BPK Prudential Rules

| Number | Description |
|-----------|--|
| No. I | On Capital Adequacy |
| No. II | On Credit Concentrations |
| No. III | On Real Estate and Fixed Assets Holdings Limitations |
| No. IV | On Liquid Assets Holdings |
| No. V | On Large Exposures |
| No. VI | On Licensing of and Restrictions on Branches of Foreign Banks |
| No. VII | On Foreign Exchange Activities |
| No. VIII | On the Governance of Banks |
| No. IX | On Bank Assets Classifications, Provisioning and Non-Accruals |
| No. X | On Money Laundering |
| No. XI | On Reporting of Banks |
| No. XII | On Record Retention |
| No XIII | On Principal Shareholders and Others Who Control Banks |
| No. XIV | On Licensing and Supervision of Micro Finance Institutions |
| No. XV | On Translated Version of Rules and Orders |
| No. XVI | On Licensing and Supervision of Foreign Exchange Offices & Money Transfer Services |
| No. XVII | On Minimum Required Liquidity Reserves |
| No. XVIII | On Clearing and Operation of Settlement Accounts |
| No. XIX | On Kosovo Bank Account Numbering System |
| No. XX | On Credit Restrictions |
| No. XXI | On Increase in Minimum Capital of Banks |

Staffing and Training

The BPK's goal is to have a well-trained professional staff of bank supervisors who are knowledgeable of modern risk-based bank supervision techniques. A formal training program has been developed for bank supervisors. The training program includes both formal classroom training and on-the-job training. During 2001, six formal classroom training seminars were provided by an international bank supervision training expert in the following areas: Basic Bank Supervision; Advanced Offsite Analysis; Ethics and Professional

Conduct of Supervisors; Advanced Bank Supervision; Train-the-Trainer; and Examination Management Techniques.

In addition to formal bank supervision seminars, international advisors provided extensive on-the-job training throughout 2001 to the bank supervision staff during onsite inspections and offsite monitoring activities.

4.2.2 INSURANCE SUPERVISION

During 1999, an insurance company licensing system was introduced through UNMIK Pillar II under Administrative Direction No. 1999/3 whereby five non-life insurance companies were licensed during 2000 to undertake compulsory third-party motor vehicle liability insurance. During 2001 the decision was made that a modern insurance regulation be prepared and enacted, and that insurance companies be licensed, regulated, and supervised by the BPK.

UNMIK Regulation 2001/25 on Licensing, Supervision and Regulation of Insurance Companies and Insurance Intermediaries, passed on 5 October 2001, a new regulatory regime, based on European Union principles and supervised by the BPK, was created. Under this Regulation supervision of the existing five non-life insurance companies moved from UNMIK Pillar II to the BPK and effective power of supervision and also licensing transferred to the BPK. The existing companies were allowed to operate under the licences that were issued to them by the UNMIK Pillar II and new companies requesting an insurance company license were required to apply to the BPK for the licence.

As at December 31, 2001, the Insurance Supervision Department was reviewing license applications from four of the existing companies. Based on the BPK's enforcement powers provided under the new insurance regulation, a temporary administrator was appointed in place of current management of one insurance company. The company was subsequently placed in receivership.

Status of Development of the Insurance Supervision Department

By the end of 2001, a functioning insurance regulatory department had been established and a training program developed. Eleven new inspectors had been hired and were receiving training on onsite and offsite supervision of insurance companies. The inspectors are receiving on the job training along with occasional in-house training programs to advance their knowledge and understanding of insurance supervision.

Fifteen prudential insurance rules had also been drafted on topics such as: General Insurance Classes; Compulsory Motor Vehicle Third Party Liability Insurance; Licensing of Insurance Companies; Licensing of Insurance Intermediaries; Licensing of Insurance Adjusters; Licensing of Surplus Lines Brokers; Financial Requirements of Insurance Intermediaries; Accounting Standards and Record-keeping Requirements; Required Minimum Capital and Margin of Solvency; Reserve Requirements of General Insurance and Life Insurance Companies; and Valuation of Assets.

4.2.3 PENSION SUPERVISION

Under UNMIK Regulation 2001/35 on Pensions in Kosovo adopted on 22 December 2001, the BPK has regulatory oversight for supplementary pension plans (employer and individual pension plans) operating in Kosovo. At year-end 2001, the BPK was in the process of establishing a Pension Supervision Department to assume responsibility for regulation of pension plans as required under the regulation.

4.3 INTERBANK CLEARING SYSTEM

The Interbank Clearing System (ICS) was established in May 2001 in order to facilitate domestic payment operations and channel them through the banking system. This was possible because of an existing banking tradition and culture and also as a result of the rapidly developing good relationships between banks and their clients. Clearing System had to be developed and became fully operational by the end of 2001. The rapid growth of operations through ICS showed that confidence of Kosovars in the local banking system was increasing.

Initially a manual system was introduced where each commercial bank prepared interbank payments on a diskette and at an agreed time, exchanged diskettes at the BPK. By the end of 2001, the initial system was being replaced with an electronic version of the payment system, Electronic Interbank Transfer System, to connect all participating commercial banks via dial-up lines for transmitting interbank payment orders. When the Interbank Clearing System was introduced, Interbank Payment Advisory Committee (IPAC) was also established to address all issues relating to non-cash payments in Kosovo. IPAC is chaired by the Director of the Interbank Clearing System Department of the BPK and all participating commercial banks are members.

In close cooperation with IPAC, it was possible to develop all ICS daily operational procedures and address other issues, such as ICS standard forms, ICS fee structure, ICS operating rules, adoption of the standard bank account numbering system based on IBAN, and common form of transfer orders for interbank and bilateral payments.

Technical working group of IPAC was established with participation of Information Technology experts from all banks to facilitate further implementation of the Electronic Interbank Transfer System.

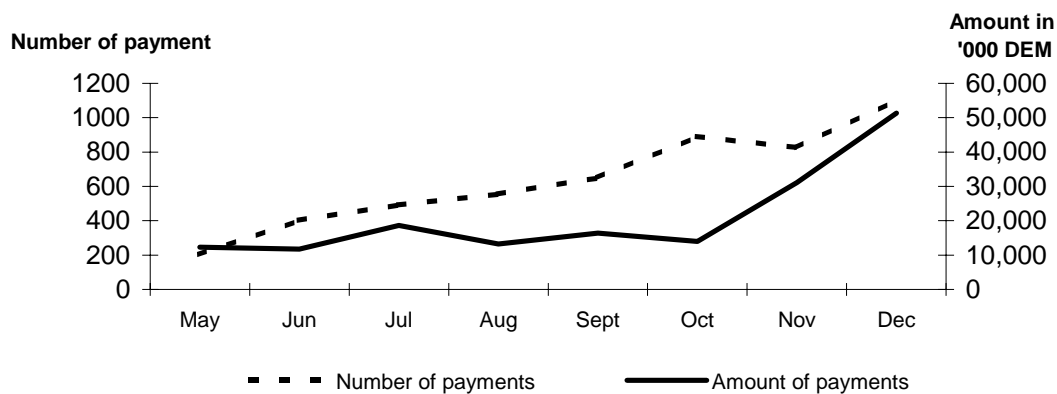
Volume of the Interbank Payment Operations

In terms of volume of the ICS operations, the number as well as the total amount of transactions showed steady increases. The year-end daily average number of transactions reached fifty and all payment orders were executed on real time basis. During this period mass payments of salaries for different entities were undertaken through the clearing office. The euro changeover process significantly affected the number of ICS operations, particularly during December 2001. The rapidly increasing volume of the ICS operations presented a need for further automation and modernization of the ICS department.

Table 13.
Interbank Payment Operations, May-December 2001, thousand DEM

| Period | Number of Payments | Total amount of payments | Daily average number of payments | Average amount of payments |
|--------------|--------------------|--------------------------|----------------------------------|----------------------------|
| May | 204 | 12,269 | 10.20 | 60 |
| June | 403 | 11,724 | 20.15 | 29 |
| July | 492 | 18,666 | 24.60 | 38 |
| August | 556 | 13,212 | 27.80 | 24 |
| September | 651 | 16,370 | 32.55 | 25 |
| October | 890 | 13,999 | 44.50 | 16 |
| November | 825 | 31,114 | 41.25 | 38 |
| December | 1,103 | 51,310 | 55.15 | 47 |
| TOTAL | 5,124 | 168,664 | 32.03 | 35 |

Figure 1.
Interbank Payment Operations, May-December 2001



4.4 FOREIGN ASSET MANAGEMENT

BPK Foreign Asset Management function developed significantly in line with the steady increase in customer deposits during 2001. The role of the Investment Committee, which oversaw and controlled the operations of Foreign Asset Management, also started to change to one of supervision. In the early days of BPK's operations, there was a strong link between the investments, cash requirements, and the liquidity that was necessary for foreign payments. During 2001, cash in circulation reached the optimum level and thereafter funds deposited with the Bank became readily available for investment.

In the run up to euro conversion BPK developed closer relationships with other central banks of Europe and furthered its recognition. It also continued its good working relationship with correspondent banks in Germany and Austria. While observing the general rules of prudence, maintaining adequate liquidity and security of its investments, BPK was also able to improve the return on its investments.

Foreign Asset Management contributed to the euro conversion process by ensuring successful front loading of euro banknotes and coins in December and successfully planning for availability of funds for the export/import of the currencies. During December nearly DEM 200 million were converted to euros to enable the front-loading of the new currency.

During 2001, Foreign Asset Management staff gradually improved their technical expertise and were able to perform the preparatory functions and contribute to the investment decision processes. Segregation of duties between the dealing activities and the settlements continued to be strictly observed. Foreign Asset Management was on the one hand supervised by the Investment Committee and on the other checked and controlled by the internal procedures of the Back Office that is located within the Accounting department. The Back Office functions support operations of the Front Office by providing up-to-date information on balances of all nostro accounts, reconciliation of the cash movements and accurate recording of all transactions.

Growth of the commercial banking sector has reduced the pressures on the BPK as the more “commercial” type activities have transferred to the commercial banks. Foreign payments activities still continue to be conducted by the BPK but the number of payments and also the amounts are now significantly lower.

4.5. AUDITED 2001 RESULTS

AUDITED 2001 RESULTS

*Banking and Payments
Authority of Kosovo*

*Independent Auditors' Report and
Financial Statements
for the year ended December 31, 2001*

4.6. LICENSED BANKS

American Bank of Kosovo

1 Luan Haradinaj
Prishtina, Kosovo
+381 038 226 400

Bank for Private Business

6 Vellusha Street
Prishtina, Kosovo
+381 038 548 901

Banka Ekonomike

5a Qafa
Prishtina, Kosovo
+381 038 228 693

Banka Kreditore – Credit Bank of Prishtina

29, Tirana
Prishtina, Kosovo
+381 038 549 851

KASA Bank

1, Rr. Pal Palucaj
Prishtina, Kosovo
+381 038 500 597

Micro Enterprise Bank

Rr. Skenderbeu
Prishtina, Kosovo
+381 038 248 778

New Bank of Kosovo

54, Rr. Nena Tereze
Prishtina, Kosovo
+381 038 517 130

BANKING AND PAYMENTS AUTHORITY OF KOSOVO
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MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS OF THE BANKING AND PAYMENTS AUTHORITY OF KOSOVO

The accompanying financial statements of the Banking and Payments Authority of Kosovo on pages 3 to 18 are the responsibility of, and have been approved by, management.

The financial statements have been prepared by management in conformity with International Accounting Standards. The financial statements include certain amounts that are based on the best estimates and judgements as at the date of the report.

In our opinion, the information set out in the attached Balance Sheet, Statement of Income, Statement of Changes in Capital and Reserves and Statement of Cash Flows, together with the information in the accompanying notes, presents fairly the financial position as at December 31, 2001 and 2000 and the results, changes in capital and reserves and cash flows for the year ended December 31, 2001 and the period November 15, 1999 to December 31, 2000.

Deloitte & Touche, independent auditors, have been engaged to audit these financial statements, and their report is included on page 2.

Chaiha Kim Rhee
Managing Director

Benoit Waelkens
Deputy Managing Director

Date

INDEPENDENT AUDITORS' REPORT

To the Governing Board of the Banking and Payments Authority of Kosovo:

We have audited the accompanying balance sheets of the Banking and Payments Authority of Kosovo ('BPK' or the 'Bank') as at December 31, 2001 and 2000 and the related statements of income, changes in capital and reserves and cash flows for the year ended December 31, 2001 and the period since inception on November 15, 1999 to December 31, 2000. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2001 and 2000, and the results of its operations, changes in capital and reserves and cash flows for the year ended December 31, 2001 and the period November 15, 1999 to December 31, 2000 in accordance with International Accounting Standards.

Deloitte & Touche,
Tirana

October 4, 2002

BANKING AND PAYMENTS AUTHORITY OF KOSOVO
BALANCE SHEET
AS AT DECEMBER 31, 2001

| | Notes | 2001 DEM'000 | 2000 DEM'000 |
|---|-------|-----------------------|-----------------------|
| ASSETS | | | |
| Foreign assets | | | |
| Current accounts with non-resident banks | 3 | 194,368 | 1,024 |
| Deposit accounts with non-resident banks | 4 | <u>90,000</u> | <u>89,000</u> |
| Total foreign assets | | <u>284,368</u> | <u>90,024</u> |
| Domestic assets | | | |
| Cash on hand | | 383,600 | 29,870 |
| Other domestic assets | 5 | <u>2,761</u> | <u>1,778</u> |
| Total domestic assets | | <u>386,361</u> | <u>31,648</u> |
| Total assets | | <u>670,729</u> | <u>121,672</u> |
| LIABILITIES | | | |
| Domestic liabilities | | | |
| Due to domestic banks | 6 | 428,704 | 32,356 |
| Due to Governmental institutions | 7 | 155,728 | 44,084 |
| Due to public and commercial entities | 8 | 28,329 | 33,888 |
| Other domestic liabilities | 9 | <u>45,257</u> | <u>3,262</u> |
| Total domestic liabilities | | <u>658,018</u> | <u>113,590</u> |
| CAPITAL AND RESERVES | | | |
| Capital | 10 | 5,000 | 5,000 |
| General reserve | 11 | 7,711 | 605 |
| Retained earnings | | <u>-</u> | <u>2,477</u> |
| Total capital and reserves | | <u>12,711</u> | <u>8,082</u> |
| Total liabilities and capital and reserves | | <u>670,729</u> | <u>121,672</u> |

Authorised for issuance by the management on

Chaiha Kim Rhee
Managing Director

Benoit Waelkens
Deputy Managing Director

The accompanying notes are an integral part of these financial statements.

BANKING AND PAYMENTS AUTHORITY OF KOSOVO
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2001

| | Notes | Year ended December 31, 2001 DEM '000 | November 15, 1999 to December 31, 2000 DEM '000 |
|--|-----------|--|---|
| Operations with non-residents | | | |
| Interest income | | 5,532 | 1,738 |
| Fees and commission expense | | (384) | (241) |
| | | <u>5,148</u> | <u>1,497</u> |
| Interest and commission from operations with non-residents, net | | | |
| Operations with residents | | | |
| Fees and commission income | | 6,634 | 1,826 |
| Interest and commission expense | | (470) | - |
| | | <u>6,164</u> | <u>1,826</u> |
| Interest and commission from operations with residents, net | | | |
| Grant revenue | 9 | <u>1,106</u> | <u>3,842</u> |
| Other operating income | 12 | <u>244</u> | <u>162</u> |
| Net operating income | | <u>12,662</u> | <u>7,327</u> |
| Other non-operating expenses | | | |
| Staff costs | 13 | 1,596 | 1,447 |
| Depreciation | 5 | 419 | 229 |
| General and administrative expenses | 14 | 5,968 | 2,449 |
| Other expenses | | 50 | 120 |
| | | <u>8,033</u> | <u>4,245</u> |
| Total other non-operating expenses | | | |
| NET PROFIT FOR THE PERIOD | | <u><u>4,629</u></u> | <u><u>3,082</u></u> |

The accompanying notes are an integral part of these financial statements.

**BANKING AND PAYMENTS AUTHORITY OF KOSOVO
STATEMENT OF CHANGES IN CAPITAL AND RESERVES
FOR THE YEAR ENDED DECEMBER 31, 2001**

| | Capital | General | Retained | Total |
|-------------------------------------|---------------------|---------------------|-----------------|----------------------|
| | DEM'000 | reserve | earnings | DEM'000 |
| | <u>DEM'000</u> | <u>DEM'000</u> | <u>DEM'000</u> | <u>DEM'000</u> |
| Capital contribution in the period | 5,000 | - | - | 5,000 |
| Net profit for the period | - | - | 3,082 | 3,082 |
| Transfer to general reserve | - | 605 | (605) | - |
| Balance at December 31, 2000 | 5,000 | 605 | 2,477 | 8,082 |
| Net profit for the year | - | - | 4,629 | 4,629 |
| Transfer to general reserve | - | 7,106 | (7,106) | - |
| Balance at December 31, 2001 | <u>5,000</u> | <u>7,711</u> | <u>-</u> | <u>12,711</u> |

The accompanying notes are an integral part of these financial statements.

BANKING AND PAYMENTS AUTHORITY OF KOSOVO
STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED DECEMBER 31, 2001

| | December 31, 2001 DEM'000 | November 15, 1999 to December 31, 2000 DEM'000 |
|---|--|---|
| Cash flows from operating activities | | |
| Net profit for the period | 4,629 | 3,082 |
| Non-cash items in the statement of income | | |
| Depreciation | 419 | 229 |
| Interest income | (12,166) | (3,564) |
| Grant revenue | (1,106) | (3,842) |
| Change in operating assets | | |
| Increase in other domestic assets | (527) | (796) |
| Change in operating liabilities | | |
| Increase in due to domestic banks | 396,348 | 32,356 |
| Increase in due to Governmental institutions | 111,644 | 44,084 |
| (Decrease)/Increase in due to public and commercial entities | (5,559) | 33,888 |
| Increase in other domestic liabilities | 41,570 | 2,024 |
| Net cash from operating activities | 535,252 | 107,461 |
| Cash flows from investing activities | | |
| Acquisition of tangible fixed assets | (875) | (1,211) |
| Interest received | 12,166 | 3,564 |
| Net cash from investing activities | 11,291 | 2,353 |
| Cash flows from financing activities | | |
| Capital introduced | - | 5,000 |
| Grant funds received | 1,531 | 5,080 |
| Net cash from financing activities | 1,531 | 10,080 |
| Increase in cash during the period | 548,074 | 119,894 |
| Cash and cash equivalents at the beginning of the period | 119,894 | - |
| Cash and cash equivalents at the end of the period | 667,968 | 119,894 |

The accompanying notes are an integral part of these financial statements.

BANKING AND PAYMENTS AUTHORITY OF KOSOVO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

1. GENERAL INFORMATION

The Banking and Payments Authority of Kosovo (the 'Bank' or 'BPK') is a distinct public entity with the authority to license, supervise and regulate financial institutions in the territory of Kosovo. The Bank was established in accordance with the provisions of the United Nations Interim Administration Mission in Kosovo ('UNMIK') regulation no. 1999/20 issued on November 15, 1999 (as amended on October 1, 2001) 'On the Banking and Payments Authority of Kosovo'. Under this regulation the Bank's principal objectives are to:

- Foster an efficient and safe system for domestic payments, and
- Foster the liquidity, solvency and efficient functioning of a stable market based financial system, including regulating banks, insurance companies and other financial institutions.

The Bank has the following specific powers to:

- Recommend broad policy guidelines to the Special Representative of the Secretary-General of the United Nations in areas under its responsibility, under the guidance of the Deputy Special Representative for Economic Reconstruction and Development;
- Formulate and implement measures for, and supervise and regulate, payments and settlement systems for transactions in domestic and foreign currency in Kosovo;
- Own and operate one or more payments systems;
- Act as banker to the Central Fiscal Authority and to provide financial advice at its request;
- Act as fiscal agent to the Central Fiscal Authority;
- Hold foreign currency deposits of banks, the Central Fiscal Authority and other entities;
- Ensure an adequate supply of bank notes and coins for the settlement of cash transactions;
- Maintain a depository for safe keeping of currency and securities;
- License, supervise and regulate financial institutions;
- Supervise and regulate dealers in foreign exchange, and
- Conduct regular economic and monetary analysis of the Kosovo economy, make public the results, and submit proposals and measures to the United Nations Interim Administration Mission in Kosovo on the basis of such analysis.

The BPK operates from a head office located in Prishtina and a network of branches located throughout the territory of Kosovo. During July 2002, as part of a restructuring of the Bank, the branches were taken over by a local commercial bank which was effected through a tender process.

**BANKING AND PAYMENTS AUTHORITY OF KOSOVO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared, in all material aspects, in accordance with International Accounting Standards (“IAS”) except donor financed salaries which are not recorded as expenses and grant revenue in the financial statements of the BPK.

The Bank maintains its books and records in accordance with the generally accepted accounting practices in the United Nations administered territory of Kosovo.

The significant accounting policies used by the Bank in these financial statements are set out below:

Basis of preparation

The financial statements presented include the accounts of the Bank prepared on the historical cost basis of accounting. The financial statements are presented in the official currency of the territory of Kosovo, the German Mark (“DEM”) being the currency in the territory of Kosovo during the year ended December 31, 2001. In accordance with the regulations of the European Monetary Union the European Union currency unit (“EUR”) was adopted as the single currency in Kosovo from January 1, 2002 and consequently DEM denominated amounts were converted into EUR as at January 1, 2002 using the fixed exchange rate of EUR 1 = DEM 1.95583. From January 1, 2002 BPK’s books and records are maintained in EUR .

Interest and commissions

In these financial statements, interest income and expense is recognized on the accrual basis.

Commission income is credited to income when received and commission expense is debited to expense when paid.

Foreign currency translation

Transactions denominated in foreign currency are translated into DEM at the Bank’s official exchange rate on the date of the transaction.

Foreign currency monetary assets and liabilities are retranslated into DEM at the Bank’s official exchange rate on the financial statements reporting period end. Unrealized foreign exchange gains/losses are credited/charged to the statement of income.

The applicable official Bank rates (DEM to the foreign currency unit) for the principal currencies as at December 31 were as follows:

| | 2001 | 2000 |
|--------------------------------|-------------|-------------|
| United States dollar (“USD”) | 2.165 | 2.073 |
| Italian lira (“ITL”) | 0.001 | 0.001 |
| European currency unit (“EUR”) | 1.955 | 1.955 |
| French franc (“FFR”) | 0.298 | 0.298 |
| Swiss franc (“SFR”) | 1.293 | 1.269 |

BANKING AND PAYMENTS AUTHORITY OF KOSOVO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and current and deposit accounts with non-resident banks.

Deposit accounts with non-resident banks

Deposits are stated in the balance sheet at the amount of the principal outstanding. Interest is accrued on a time basis and interest receivable at the period end is reflected in other assets.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation.

If the fair value of an item of property, plant and equipment is lower than its carrying amount, due to circumstances not considered to be temporary, the item of property, plant and equipment is written down to its fair value.

Gains and losses on disposal of property, plant and equipment are recognized in the statement of income in the year of disposal.

Depreciation is provided on all property, plant and equipment based on historic cost. The annual charge for depreciation is computed using the straight-line method using rates specified for each depreciable asset based on estimated useful lives. The estimated useful lives applied during the year ended December 31, 2001 and the period ended December 31, 2000 are:

| | Depreciation rate per annum | Useful life |
|-----------------------------------|--|--------------------|
| Vehicles | 20 % | 5 years |
| Plant, office and other equipment | 20 % | 5 years |
| Computer equipment | 33.3 % | 3 years |

Grant revenue

Grants received for the purpose of acquiring property, plant and equipment, or granted property, plant and equipment, are recorded as deferred grant income in the balance sheet and released to grant revenue over the same period as the useful life of the item of property, plant and equipment. Grants received to fund the Bank's expenses are credited directly to grant revenue in the statement of income in the period that the related expenditure took place.

Fair value of financial instruments

The carrying value of the financial instruments including cash on hand, current and deposit accounts and other liabilities approximate fair value because of their short maturities.

Taxation and profit allocation

The Bank is exempt from income tax according to the UNMIK regulation 1999/20 issued on November 15, 1999 (as amended on October 1, 2001) 'On the Banking and Payments Authority of Kosovo' and is required by law to pay any balance of its net income directly to the Central Fiscal Authority ('CFA') after allocations to replenish the levels of reserve funds directed by the Governing Board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

General reserve

In accordance with UNMIK regulation 1999/20, each year the Bank shall allocate net income to the general reserve account until the capital and general reserve accounts amount to 5% of the aggregate amount of the credit balances of all accounts maintained on the books of the Bank by account holders shown on the balance sheet of the Bank for the end of each financial year.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

BANKING AND PAYMENTS AUTHORITY OF KOSOVO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

3. CURRENT ACCOUNTS WITH NON-RESIDENT BANKS

| | 2001 | 2000 |
|--------------------------------------|-----------------------|---------------------|
| | DEM'000 | DEM'000 |
| Deutsche Bundesbank | 193,329 | - |
| Raiffeisen Zentralbank Osterreich AG | 526 | 577 |
| Commerzbank AG | 481 | 434 |
| Den Norske Bank | 10 | 13 |
| Dresdner Bank | 22 | - |
| | <u>194,368</u> | <u>1,024</u> |
| Total | <u>194,368</u> | <u>1,024</u> |

Current accounts held with foreign banks are denominated mainly in DEM and EURO. Current accounts at December 31, 2001 held at Commerzbank AG bear interest at 2.5 % (December 31, 2000: 2.5 %), at Raiffeisen Zentralbank Osterreich AG bear interest at 2.35 % (December 31, 2000: 3.97 %) and at Deutsche Bundesbank bear interest at 2.25 % (December 31, 2000: no balance at that date).

Due to the EURO conversion the BPK provided a collateral of DEM 193,329 thousand (being the Bank account balance at Deutsche Bundesbank) as guarantee for the equivalent amount of EUR 98,848 thousand as part of the frontloading of EURO banknotes and coins distributed from Deutsche Bundesbank on December 8, 2001 and December 20, 2001. The amount guaranteed expired on January 2, 2002 when the EURO banknotes and coins became legal tender.

4. DEPOSIT ACCOUNTS WITH NON-RESIDENT BANKS

| | 2001 | 2000 |
|--------------------------------------|----------------------|----------------------|
| | DEM'000 | DEM'000 |
| Commerzbank AG | 4,000 | 60,500 |
| Raiffeisen Zentralbank Osterreich AG | 84,000 | 28,500 |
| Dresdner Bank | 2,000 | - |
| | <u>90,000</u> | <u>89,000</u> |
| Total | <u>90,000</u> | <u>89,000</u> |

Deposits with non-resident banks as at December 31, 2001 earn interest that varies from 3.15 % to 3.30 % (December 31, 2000: 4.68 % to 5 %). All the above deposits matured by January 21, 2002.

BANKING AND PAYMENTS AUTHORITY OF KOSOVO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

5. OTHER DOMESTIC ASSETS

| | 2001 | 2000 |
|---|---------------------|---------------------|
| | DEM'000 | DEM'000 |
| Property, plant and equipment, net (see below) | 1,438 | 982 |
| Receivables from the Central Fiscal Authority (CFA) | 596 | - |
| Accrued interest | 365 | 111 |
| Receivable for duplicate payment | 130 | - |
| Euro prepaid expense | 120 | - |
| Receivables from the European Agency for Reconstruction (EAR) | 37 | - |
| Prepaid expenses | 43 | 26 |
| Consumable inventory | 29 | - |
| Due from the CFA for approved but unpaid grant funding | 3 | 659 |
| Total | <u>2,761</u> | <u>1,778</u> |

The net book values of property, plant and equipment by category are comprised of:

| | Plant and other equipment | Office equipment | Computer equipment | Vehicles | Total property, plant and equipment |
|--|--|-----------------------------|-------------------------------|------------------|--|
| <u>COST</u> | | | | | |
| Balance at January 1, 2001 | 414 | 20 | 768 | 9 | 1,211 |
| Additions | 330 | 92 | 376 | 77 | 875 |
| Balance at December 31, 2001 | <u>744</u> | <u>112</u> | <u>1,144</u> | <u>86</u> | <u>2,086</u> |
| <u>ACCUMULATED DEPRECIATION</u> | | | | | |
| Balance at January 1, 2001 | 10 | 17 | 201 | 1 | 229 |
| Charge for the period | 66 | 32 | 314 | 7 | 419 |
| Balance at December 31, 2001 | <u>76</u> | <u>49</u> | <u>515</u> | <u>8</u> | <u>648</u> |
| <u>NET BOOK VALUE</u> | | | | | |
| Balance at December 31, 2001 | <u>668</u> | <u>63</u> | <u>629</u> | <u>78</u> | <u>1,438</u> |
| Balance at December 31, 2000 | 404 | 3 | 567 | 8 | 982 |

Property, plant and equipment additions as at December 31, 2001 include DEM 478,128 (December 31, 2000: DEM 903,108) of property, plant and equipment purchased with grant funds from the Central Fiscal Authority, United States Assistance in Development (USAID), the European Agency for Reconstruction, the European Union and the Government of Norway.

BANKING AND PAYMENTS AUTHORITY OF KOSOVO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

6. DUE TO DOMESTIC BANKS

| | 2001 | 2000 |
|--|-----------------------|----------------------|
| | DEM'000 | DEM'000 |
| Micro Enterprise Bank | 18,596 | - |
| New Bank of Kosovo | 1,413 | - |
| Private Business Bank | 828 | - |
| Economic Bank of Kosovo | 173 | - |
| | <u>21,010</u> | <u>-</u> |
| Total required liquidity reserves | | |
| Micro Enterprise Bank | 269,765 | 24,638 |
| New Bank of Kosovo | 65,707 | 2,984 |
| Private Business Bank | 29,800 | - |
| American Bank of Kosovo | 19,740 | - |
| Economic Bank of Kosovo | 13,597 | 1,895 |
| Credit Bank of Kosovo | 7,914 | 2,839 |
| Kasabank sh.a | 1,171 | - |
| | <u>407,694</u> | <u>32,356</u> |
| Total current accounts | | |
| Total | <u>428,704</u> | <u>32,356</u> |

Under BPK supervision regulation Rule XVII, commercial banks operating in Kosovo are required to maintain liquidity reserves at the BPK of 5 % of total customer deposits. Certain commercial banks at December 31, 2001 were not required to maintain such liquidity reserves as their deposit collection activities at that date were still limited.

Current account deposits are repayable on demand and are interest free. Required reserves bear interest at 1.55 % as at December 31, 2001 (December 31, 2000: interest free).

BANKING AND PAYMENTS AUTHORITY OF KOSOVO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

7. DUE TO GOVERNMENTAL INSTITUTIONS

| | 2001 | 2000 |
|--|-----------------------|----------------------|
| | DEM'000 | DEM'000 |
| UNMIK | 5,004 | 18,425 |
| CFA treasury, custom and taxes | 136,001 | 11,849 |
| UNMIK public utilities entities | 9,925 | 10,711 |
| Due to local government municipalities | 4,633 | 2,984 |
| Due to other governmental institutions | 165 | - |
| UNMIK foreign currency deposits | - | 115 |
| | <u> </u> | <u> </u> |
| Total | <u>155,728</u> | <u>44,084</u> |

Current account deposits are repayable on demand and are interest-free.

8. DUE TO PUBLIC AND COMMERCIAL ENTITIES

| | 2001 | 2000 |
|--|----------------------|----------------------|
| | DEM'000 | DEM'000 |
| Kosovo Energy Corporation (KEK) | 1,155 | 13,383 |
| Post and Telecommunications enterprise of Kosovo (PTK) | 2,454 | 11,289 |
| Kosova Insurance Company | 10,326 | 3,243 |
| Siguria Insurance Company | 2,697 | - |
| INSIG insurance company | 3,500 | - |
| Dardania Insurance Company | 3,929 | - |
| Non-bank financial institutions | 1,027 | - |
| Non-commercial entities (aid agencies and NGOs) | 3,241 | 3,416 |
| Commercial entities | - | 2,557 |
| | <u> </u> | <u> </u> |
| Total | <u>28,329</u> | <u>33,888</u> |

The above accounts are current accounts which are repayable on demand and are interest-free except for insurance companies which are required to maintain deposits with the BPK. These required deposits bear annual interest, starting from August 2001, varying from 2.2 % to 1.66 % at December 31, 2001.

**BANKING AND PAYMENTS AUTHORITY OF KOSOVO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001**

9. OTHER DOMESTIC LIABILITIES

| | 2001 DEM '000 | 2000 DEM'000 |
|--|--------------------------|-------------------------|
| Sundry creditors and accruals | 1,697 | 876 |
| Foreign transfer suspense account (note a) | 40,793 | 48 |
| Deferred grant revenue (note b) | 1,663 | 1,238 |
| Due to the former National Bank of Kosovo (note c) | 872 | 872 |
| Other | 232 | 228 |
| Total | <u>45,257</u> | <u>3,262</u> |

Note a: The amount of DEM 40,793 thousand at December 31, 2001 relates to transfer payments in favour of BPK customers which were cleared to customer accounts by January 9, 2002.

Note b:

| | CFA DEM '000 | CFA Grant Euro Conversion DEM '000 | USAID DEM '000 | European Union DEM '000 | Government of Norway DEM '000 | EAR DEM '000 | Total DEM '000 |
|--|-------------------------|---|---------------------------|--|--|-------------------------|---------------------------|
| Grant funds received in the period | 4,054 | - | 190 | 414 | 422 | - | 5,080 |
| Transfer to grant revenue | (3,488) | - | (50) | (107) | (197) | - | (3,842) |
| Deferred grant revenue at December 31, 2000 | 566 | - | 140 | 307 | 225 | - | 1,238 |
| Grant funds received in the year | 412 | 738 | - | - | - | 381 | 1,531 |
| Transfer to grant revenue | (328) | (337) | (63) | (121) | (98) | (159) | (1,106) |
| Deferred grant revenue at December 31, 2001 | 650 | 401 | 77 | 186 | 127 | 222 | 1,663 |

CFA has committed funds amounting to DEM 2,920 thousand for the year ended December 31, 2001 of which amount of DEM 737 thousand was spent in year 2001 and amount of DEM 2,183 thousand in year 2002.

Note c: The amount due to the former National Bank of Kosovo relates to cash balances in various currencies belonging to that entity which were physically on hand at the inception of the Bank. These balances were converted into DEM on December 22, 2000, physically transferred to Commerzbank AG in Frankfurt and included in the Bank's current account balance at that entity.

BANKING AND PAYMENTS AUTHORITY OF KOSOVO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

10. CAPITAL

In accordance with UNMIK regulation 1999/20 'On the Banking and Payments Authority of Kosovo' the capital of the Bank totaling DEM 5 million was contributed by the Central Fiscal Authority on March 31, 2000.

11. GENERAL RESERVE

The general reserve was created during the period to December 31, 2000, in accordance with UNMIK regulation 1999/20 and the Governing Board of the Bank's decision. Transfer of DEM 7,106 thousand was made in year 2001.

12. OTHER OPERATING INCOME

| | Year ended December 31, 2001 DEM'000 | November 15, 1999 to December 31, 2000 DEM'000 |
|---------------------|---|---|
| Bank licensing fees | 156 | 128 |
| Rental income | 37 | 11 |
| Other | 51 | 23 |
| Total | 244 | 162 |

"Other" of DEM 51 thousand for the year ended December 31, 2001 relates to the conversion of Dinar banknotes held at one of the branches after the war.

13. STAFF COSTS

Staff costs consist largely of employee salaries. As at December 31, 2001, the Bank had 377 employees (December 31, 2000: 339 employees).

BANKING AND PAYMENTS AUTHORITY OF KOSOVO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

14. GENERAL AND ADMINISTRATIVE EXPENSES

| | Year ended December 31, 2001 DEM'000 | November 15, 1999 to December 31, 2000 DEM'000 |
|--|---|---|
| Security and cash transportation expenses | 3,276 | 1,346 |
| Building repairs and maintenance | 258 | 287 |
| Equipment repairs and maintenance | 110 | 304 |
| Computer training costs | - | 123 |
| Utilities | 250 | 64 |
| Insurance for cash transportation | 357 | 56 |
| Communication expenses (telephone, telex and internet) | 160 | 55 |
| Computer expenses | 70 | 53 |
| Stores and stationery | 135 | 52 |
| Vehicle operating expenses | 71 | 44 |
| Software license | 70 | - |
| Audit and consulting expense | 334 | - |
| Euro conversion expense (see below) | 769 | - |
| Other | 108 | 65 |
| Total | <u>5,968</u> | <u>2,449</u> |

Euro conversion expense can be detailed as below:

| | Year ended December 31, 2001 DEM'000 |
|--------------------------------------|---|
| Euro advertising campaign | 53 |
| Euro notes and coins transportation | 371 |
| Euro administration costs | 339 |
| Other costs | 6 |
| Total Euro conversion expense | <u>769</u> |

Euro administration costs amounting to DEM 213 thousand relate to security expenses, the preparation cost of setting up the accounting software for the currency changeover and fees paid to a coordination manager who supervised the process of Euro conversion.

BANKING AND PAYMENTS AUTHORITY OF KOSOVO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

15. RELATED PARTY TRANSACTIONS

Related parties consist of UNMIK and those entities it directly owns or over which it exerts significant influence. Such entities include the Central Fiscal Authority (CFA), the Kosovo Energy Corporation (KEK) and the Post and Telecommunications enterprise of Kosovo (PTK). Significant balances with related parties have been separately disclosed in these financial statements.

16. RISK MANAGEMENT

Liquidity risk

Policies to monitor and address liquidity risk are set by the Board of Directors of the Bank. The Foreign Operations department of the Bank monitors the liquidity risk on a continual basis by analysing liquidity ratios, gaps and economic scenarios.

Liquidity management policies are set to ensure that, even under adverse conditions, the Bank is in a position to meet its obligations.

Credit risk

Due to the nature of operations the Bank is not subject to credit risk.

Price risk

The key elements of price risk affecting the Bank are:

- currency risk associated with fluctuations in the value of financial instruments due to changes in foreign exchange rates; and
- interest rate risk associated with fluctuations in the value of financial instruments due to changes in market interest rates.

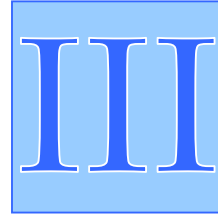
The Bank's exposure to currency risk is monitored on a continual basis by the Foreign Operations department. Financial assets denominated in foreign currencies are disclosed in each relevant note to the financial statements.

Interest rate risk is monitored by the Foreign Operations department of the Bank. The Bank mitigates such risks by maintaining a significant excess of interest bearing assets over liabilities. The Bank maintains a portfolio of interest bearing financial assets and liabilities such that the generated net interest income is significantly in excess of operating requirements which minimizes the potential adverse effects of interest rate fluctuations. Interest rates applicable to financial assets and liabilities are disclosed in each relevant note to the financial statements.

17. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform to current year presentation.

* * * * *



STATISTICAL APPENDIX

5. STATISTICAL APPENDIX

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Table 1.

DEPOSITORY CORPORATION SURVEY

(000' EUR)

| Description | Dec-00 | Jan-01 | Feb-01 | Mar-01 | Apr-01 | May-01 | Jun-01 | Jul-01 | Aug-01 | Sep-01 | Oct-01 | Nov-01 | Dec-01 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Net Foreign Assets | 126,911 | 153,459 | 145,278 | 158,313 | 168,644 | 180,135 | 197,211 | 225,792 | 248,831 | 278,839 | 301,491 | 320,241 | 483,063 |
| Claims on non-residents | 126,911 | 153,474 | 145,286 | 158,323 | 168,654 | 180,144 | 197,218 | 225,799 | 248,841 | 278,866 | 301,571 | 320,396 | 483,247 |
| less: Liabilities to non-residents | 0 | 16 | 8 | 9 | 9 | 9 | 7 | 7 | 10 | 27 | 80 | 155 | 184 |
| Net Claims on Central Government | -8,741 | -18,548 | -8,991 | -16,370 | -26,054 | -31,730 | -34,213 | -45,462 | -52,707 | -65,348 | -81,857 | -89,616 | -72,066 |
| Claims on central government | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| less: Liabilities to central government | 8,741 | 18,548 | 8,991 | 16,370 | 26,054 | 31,730 | 34,213 | 45,462 | 52,707 | 65,348 | 81,857 | 89,616 | 72,066 |
| Claims on the domestic Economy | 7,498 | 7,733 | 8,334 | 7,993 | 9,570 | 10,914 | 13,746 | 16,605 | 18,661 | 18,936 | 21,094 | 26,053 | 32,433 |
| Other items net | -288 | -8,078 | -8,546 | -4,054 | -6,007 | -6,625 | -6,927 | -9,146 | -10,637 | -17,846 | -13,110 | 4,319 | 45,484 |
| Other Assets | 31,585 | 33,490 | 31,044 | 34,988 | 43,035 | 45,224 | 46,813 | 49,456 | 49,968 | 55,053 | 48,113 | 74,887 | 283,594 |
| less: Other Liabilities | 31,873 | 41,568 | 39,590 | 39,042 | 49,042 | 51,850 | 53,740 | 58,602 | 60,605 | 72,899 | 61,223 | 70,568 | 238,110 |
| Money M1 | 121,637 | 131,402 | 133,452 | 120,669 | 118,887 | 124,323 | 133,952 | 149,377 | 163,622 | 169,228 | 176,697 | 185,348 | 346,125 |
| Currency in circulation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Current accounts | 121,637 | 131,402 | 133,452 | 120,669 | 118,887 | 124,323 | 133,952 | 149,377 | 163,622 | 169,228 | 176,697 | 185,348 | 346,125 |
| Current account-enterprises | 22,796 | 21,820 | 20,522 | 83,982 | 82,465 | 89,266 | 95,944 | 105,155 | 117,317 | 120,503 | 126,190 | 124,007 | 146,129 |
| Current account-individuals | 98,841 | 109,581 | 112,930 | 36,687 | 36,422 | 35,057 | 38,007 | 44,222 | 46,305 | 48,725 | 50,506 | 61,341 | 199,996 |
| Money M2(M1 + quasi-money) | 121,637 | 131,402 | 133,452 | 140,988 | 140,847 | 147,547 | 160,809 | 181,235 | 199,080 | 208,176 | 220,351 | 248,172 | 478,999 |
| Terms and saving accounts | 0 | 0 | 0 | 20,318 | 21,960 | 23,224 | 26,857 | 31,859 | 35,459 | 38,948 | 43,655 | 62,823 | 132,874 |
| Terms and saving account (enterprises) | N/A | 0 | 0 | 12,479 | 12,635 | 12,006 | 13,112 | 14,303 | 15,775 | 15,270 | 15,340 | 20,203 | 31,158 |
| Terms and saving account (individuals) | N/A | 0 | 0 | 7,840 | 9,325 | 11,218 | 13,745 | 17,555 | 19,683 | 23,677 | 28,314 | 42,621 | 101,716 |
| Money M3(M2 + money market instr) | 125,381 | 134,566 | 136,075 | 145,882 | 146,153 | 152,693 | 169,816 | 187,789 | 204,149 | 214,582 | 227,618 | 260,998 | 488,914 |
| Deposits in process | 3,743 | 3,164 | 2,623 | 4,895 | 5,306 | 5,147 | 9,007 | 6,553 | 5,068 | 6,406 | 7,266 | 12,826 | 9,915 |

Figure 1.

Indexes in relation with M2

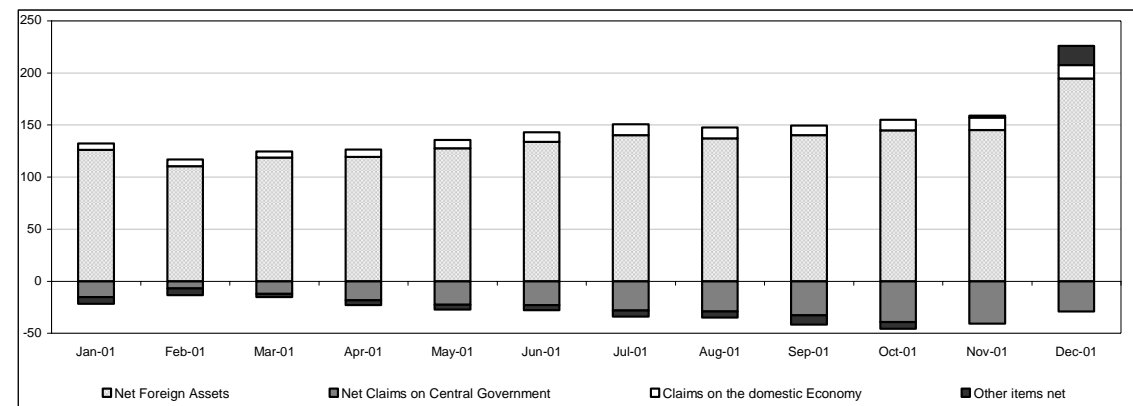


Table 2.

BPK - MONETARY SURVEY

(000' EUR)

| Description | Dec-00 | Jan-01 | Feb-01 | Mar-01 | Apr-01 | May-01 | Jun-01 | Jul-01 | Aug-01 | Sep-01 | Oct-01 | Nov-01 | Dec-01 |
|---|---------------|----------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Net foreign assets | 61,697 | 77,728 | 63,963 | 73,002 | 86,563 | 85,364 | 86,106 | 100,705 | 110,422 | 132,183 | 140,167 | 156,099 | 296,051 |
| Claims on non-residents | 61,697 | 77,744 | 63,970 | 73,011 | 86,572 | 85,374 | 86,112 | 100,712 | 110,431 | 132,210 | 140,247 | 156,254 | 296,235 |
| less: Liabilities to non-residents | NA | 16 | 8 | 9 | 9 | 9 | 7 | 7 | 10 | 27 | 80 | 155 | 184 |
| Net claims on central government | -8,741 | -18,548 | -8,991 | -16,370 | -26,054 | -31,730 | -34,213 | -45,462 | -52,707 | -65,348 | -81,857 | -89,616 | -72,066 |
| Claims on central government | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| less: Deposits of central government | 8,741 | 18,548 | 8,991 | 16,370 | 26,054 | 31,730 | 34,213 | 45,462 | 52,707 | 65,348 | 81,857 | 89,616 | 72,066 |
| Claims on the domestic economy | 1,333 | 631 | 626 | 624 | 636 | 651 | 583 | 586 | 554 | 605 | 607 | 603 | 864 |
| Monetary base | 32,378 | 28,963 | 28,804 | 31,360 | 25,765 | 19,465 | 17,582 | 17,716 | 17,776 | 16,559 | 20,060 | 15,817 | 10,885 |
| Currency in circulation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Deposits included in broad money | 32,378 | 28,963 | 28,804 | 31,360 | 25,765 | 19,465 | 17,582 | 17,716 | 17,776 | 16,559 | 20,060 | 15,817 | 10,885 |
| Deposits excluded from broad money | 15,753 | 29,958 | 20,800 | 19,835 | 27,949 | 28,178 | 28,372 | 31,246 | 33,370 | 43,761 | 31,392 | 42,542 | 184,991 |
| Shares and other equity | 4,925 | 4,727 | 4,727 | 4,727 | 4,727 | 4,727 | 4,727 | 4,727 | 4,727 | 4,727 | 4,727 | 4,727 | 4,727 |
| Other liabilities net | 1,234 | -3,839 | 1,266 | 1,333 | 2,704 | 1,915 | 1,795 | 2,140 | 2,395 | 2,393 | 2,738 | 4,000 | 24,245 |

Figure 2.

Structure of Assets of the BPK, *in percentage, stock data*

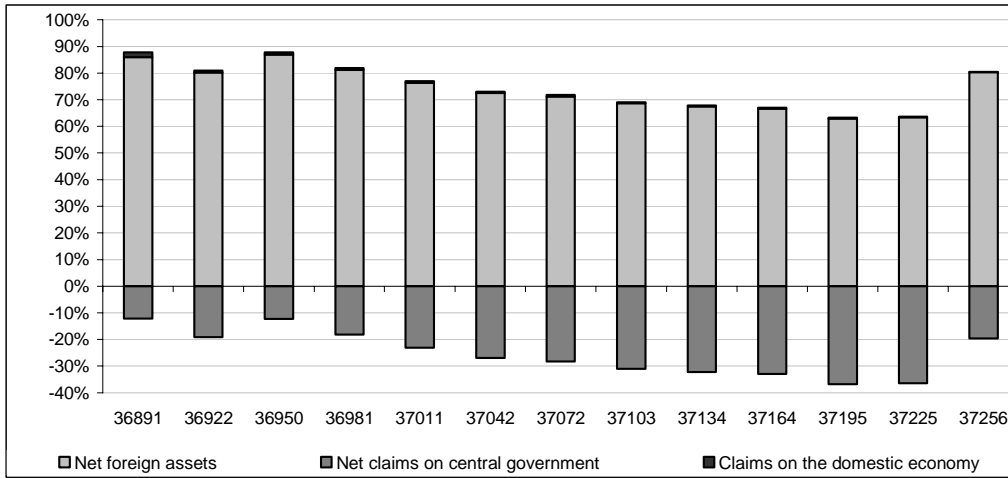


Figure 3.

Structure of Liabilities of the BPK, *in percentage, stock data*

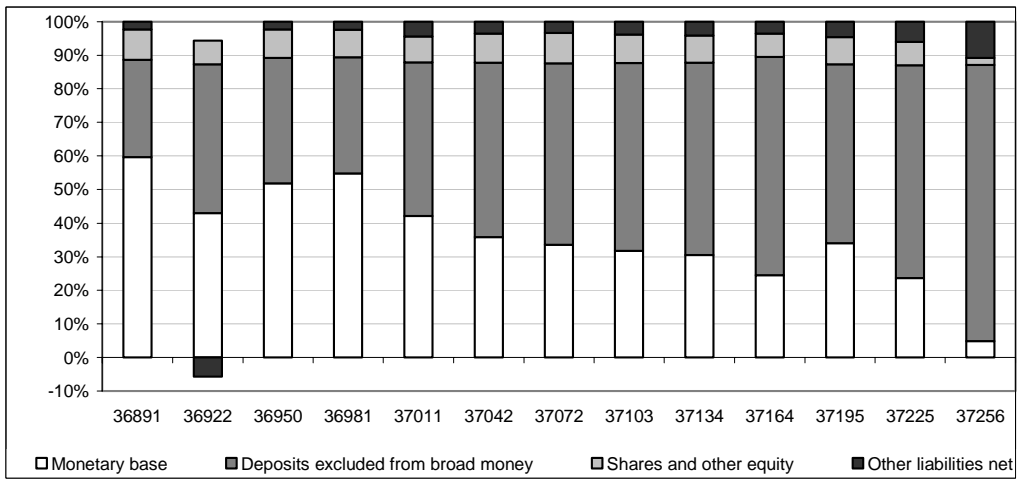


Table 3.

OTHER DEPOSITORY CORPORATION SURVEY

(000' EUR)

| Description | Dec-00 | Jan-01 | Feb-01 | Mar-01 | Apr-01 | May-01 | Jun-01 | Jul-01 | Aug-01 | Sep-01 | Oct-01 | Nov-01 | Dec-01 |
|-------------------------------------|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Net Foreign Assets | 65,214 | 75,731 | 81,316 | 85,311 | 82,082 | 94,771 | 111,105 | 125,087 | 138,410 | 146,656 | 161,324 | 164,142 | 187,012 |
| Claims on non-residents | 65,214 | 75,731 | 81,316 | 85,311 | 82,082 | 94,771 | 111,105 | 125,087 | 138,410 | 146,656 | 161,324 | 164,142 | 187,012 |
| less: Liabilities to non-residents | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Claims on Central Bank | 25,370 | 33,490 | 31,044 | 31,309 | 37,847 | 38,490 | 38,504 | 44,289 | 45,791 | 48,658 | 37,172 | 54,860 | 254,113 |
| Net claims on central gover. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Claims on the domestic eco. | 12,380 | 7,103 | 7,708 | 11,049 | 14,122 | 16,998 | 21,471 | 21,186 | 22,284 | 24,727 | 31,428 | 45,478 | 61,050 |
| Deposits inc. in broad money | 93,003 | 105,602 | 107,271 | 114,522 | 120,388 | 133,228 | 152,234 | 170,073 | 186,373 | 198,023 | 207,558 | 245,181 | 478,029 |
| Borrowing | 2,924 | 3,045 | 3,045 | 3,060 | 3,045 | 5,045 | 5,045 | 5,045 | 5,045 | 5,045 | 5,045 | 5,045 | 5,045 |
| Shares and other equity | 6,152 | 7,104 | 9,102 | 9,435 | 8,440 | 10,638 | 13,019 | 13,873 | 14,242 | 15,414 | 15,848 | 12,010 | 17,897 |
| Other liabilities net | 885 | 572 | 650 | 651 | 2,178 | 1,346 | 782 | 1,571 | 826 | 1,558 | 1,473 | 2,244 | 1,205 |

Figure 4.

Structure of the Assets of Other Depository Corporations, *in percentage, stock data*

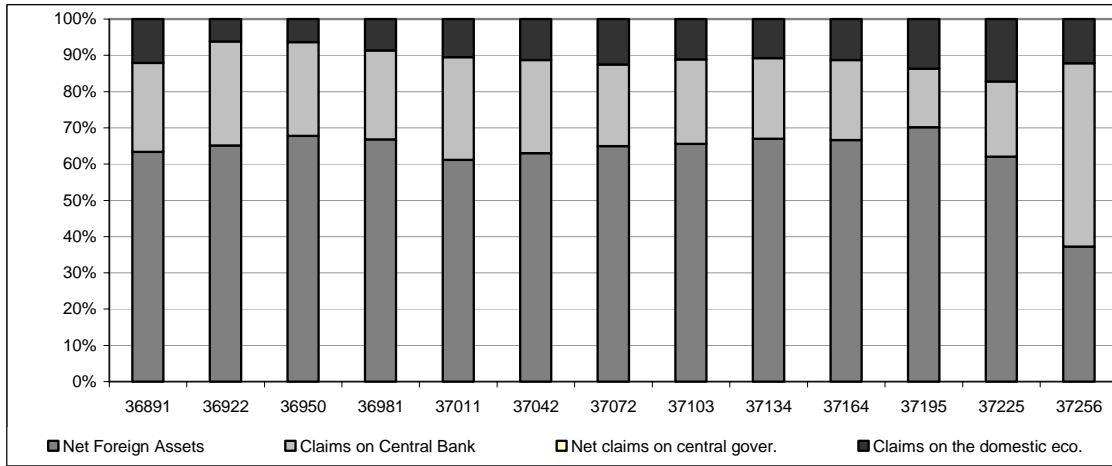


Figure 5.

Structure of the Liabilities of Other Depository Corporations, *in percentage, stock data*

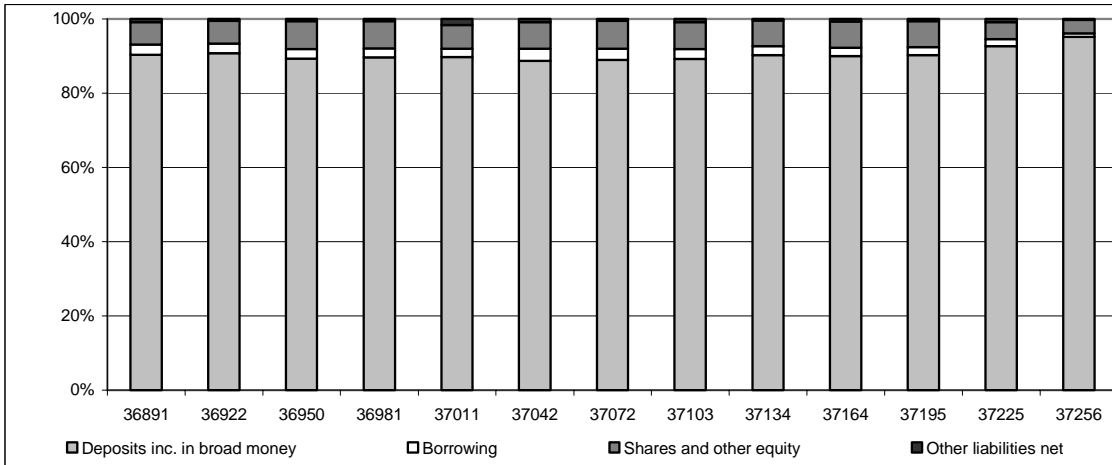


Table 4.
BPK PAYMENT OPERATIONS-DEPOSITS BY MAIN ACCOUNT, flow data (monthly) (000' EUR)

| Period | Government Agencies | Public Utilities | Banks and Other Fin. Institutions | Insurance Companies | Enterprises | NGO-s | Donor Agencies | TOTAL DEPOSITS |
|----------------------------|---------------------|------------------|-----------------------------------|---------------------|--------------|--------------|----------------|----------------|
| Total Year 2000 * : | 227,810 | 50,349 | 9,790 | 5,468 | 16,313 | 10,878 | 7,149 | 327,757 |
| 2001 | | | | | | | | |
| Jan | 14,470 | 7,496 | 4,013 | 640 | 776 | 958 | 129 | 28,483 |
| Feb | 10,024 | 7,680 | 888 | 556 | 1,037 | 604 | 270 | 21,059 |
| Mar | 10,019 | 8,181 | 2,370 | 492 | 852 | 252 | 35 | 22,202 |
| Apr | 15,131 | 7,112 | 6,025 | 366 | 779 | 229 | 851 | 30,492 |
| May | 21,481 | 8,607 | 8,864 | 327 | 844 | 193 | 798 | 41,114 |
| Jun | 17,917 | 7,632 | 8,771 | 391 | 553 | 141 | 252 | 35,657 |
| Jul | 27,996 | 6,944 | 11,933 | 681 | 697 | 226 | 12 | 48,490 |
| Aug | 24,481 | 7,288 | 17,195 | 730 | 711 | 216 | 112 | 50,733 |
| Sep | 29,284 | 8,672 | 14,283 | 1,512 | 219 | 339 | 55 | 54,365 |
| Oct | 35,131 | 106 | 7,567 | 8,896 | 258 | - | 1,779 | 53,737 |
| Nov | 20,707 | 47 | 2,927 | 3,864 | 161 | - | 425 | 28,131 |
| Dec | 8,556 | 2,996 | 120,807 | 197 | - | 124 | 107 | 132,787 |
| TOTAL**: | 235,199 | 72,761 | 205,642 | 18,654 | 6,887 | 3,281 | 4,826 | 547,250 |

* Data available from June 2000

** Total should be compared with "the total withdrawals" in Table 5.

Figure 6.
DEPOSITS BY MAIN ACCOUNT

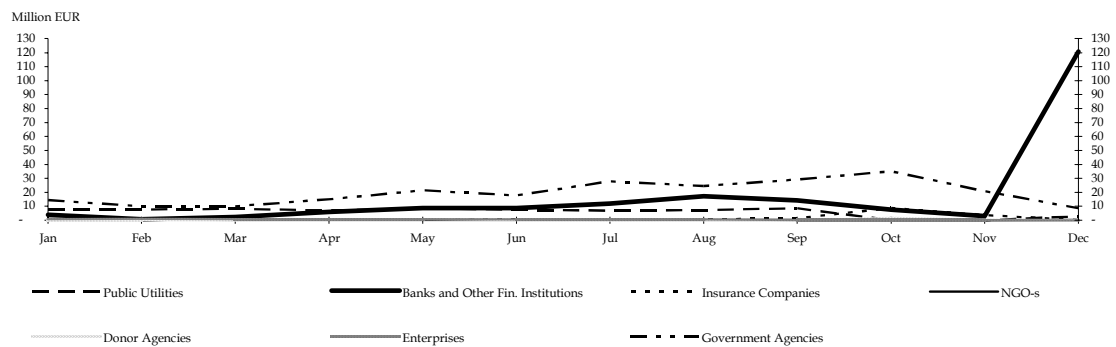


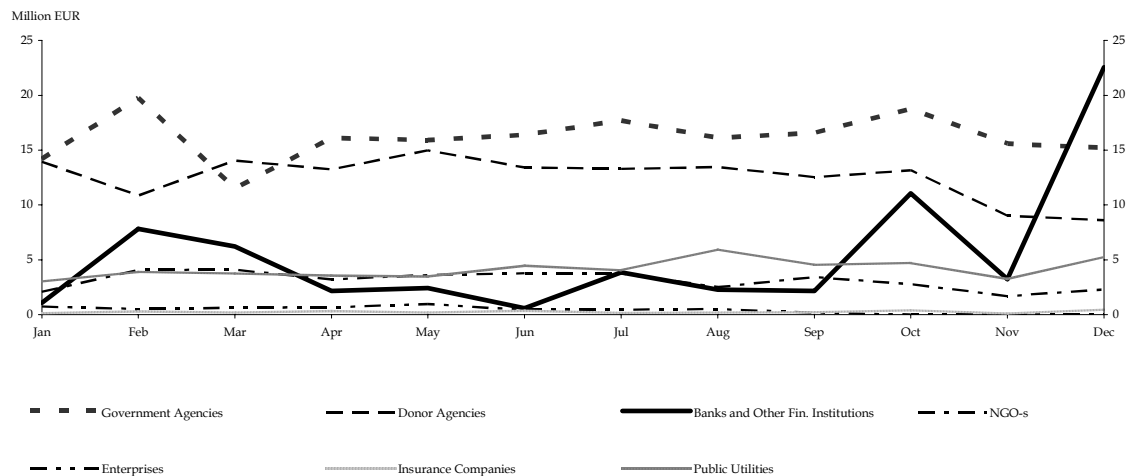
Table 5.
BPK PAYMENT OPERATIONS - WITHDRAWALS BY MAIN ACCOUNT , flow data (monthly) (000' EUR)

| Period | Government Agencies | Donor Agencies | Banks and Other Fin. Institutions | Public Utilities | NGO-s | Enterprises | Insurance Companies | TOTAL WITHDRAWALS |
|----------------------------|---------------------|----------------|-----------------------------------|------------------|---------------|--------------|---------------------|-------------------|
| Total Year 2000 * : | 214,924 | 82,756 | 2,124 | 43,554 | 31,284 | 12,238 | 1,408 | 388,289 |
| 2001 | | | | | | | | |
| Jan | 14,196 | 13,941 | 1,067 | 3,034 | 2,091 | 759 | 128 | 35,216 |
| Feb | 19,767 | 10,851 | 7,798 | 3,892 | 4,071 | 520 | 306 | 47,204 |
| Mar | 11,537 | 14,026 | 6,204 | 3,742 | 4,093 | 645 | 198 | 40,444 |
| Apr | 16,117 | 13,232 | 2,153 | 3,559 | 3,201 | 674 | 316 | 39,252 |
| May | 15,905 | 14,973 | 2,438 | 3,464 | 3,605 | 969 | 195 | 41,549 |
| Jun | 16,384 | 13,435 | 583 | 4,455 | 3,769 | 441 | 357 | 39,424 |
| Jul | 17,691 | 13,286 | 3,843 | 4,029 | 3,755 | 464 | 162 | 43,230 |
| Aug | 16,112 | 13,462 | 2,281 | 5,941 | 2,522 | 500 | 196 | 41,013 |
| Sep | 16,574 | 12,538 | 2,164 | 4,548 | 3,427 | 199 | 223 | 39,673 |
| Oct | 18,747 | 13,153 | 11,061 | 4,712 | 2,786 | 0 | 392 | 50,851 |
| Nov | 15,597 | 9,017 | 3,232 | 3,247 | 1,689 | 0 | 120 | 32,902 |
| Dec | 15,205 | 8,598 | 22,528 | 5,261 | 2,290 | 0 | 445 | 54,327 |
| TOTAL **: | 193,833 | 150,512 | 65,351 | 49,883 | 37,299 | 5,170 | 3,039 | 505,086 |

*Data available from June 2000.

** Total should be compared with "the total deposits" in Table 4

Figure 7.
WITHDRAWALS BY MAIN ACCOUNTS



| Table 6. | | |
|------------------------------------|------|-------------------|
| BPK CASH VAULTS, stock data | | (000 EURO) |
| Period | | TOTAL |
| 2000 | Nov | 15,385 |
| | Dec | 15,828 |
| 2001 | Jan | 29,267 |
| | Feb | 19,595 |
| | Mar | 25,883 |
| | Apr | 21,207 |
| | May | 29,914 |
| | Jun | 26,139 |
| | Jul | 35,431 |
| | Aug | 39,801 |
| | Sep | 47,451 |
| | Oct | 21,885 |
| | Nov | 23,184 |
| | Dec* | 249,685 |

** Euro Conversion effect*

Data are based on "value date accounting"

Figure 8.
BPK VAULT CASH FLOW, EURO million

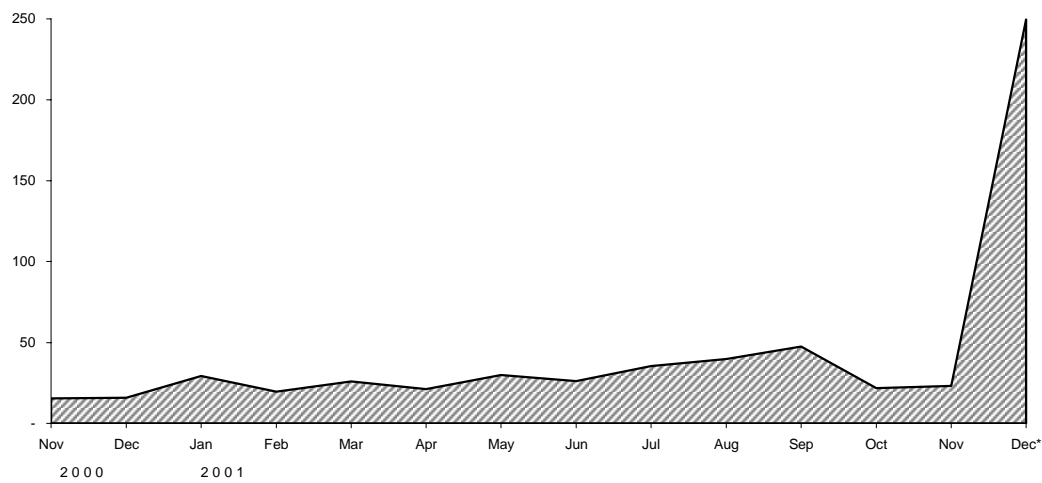
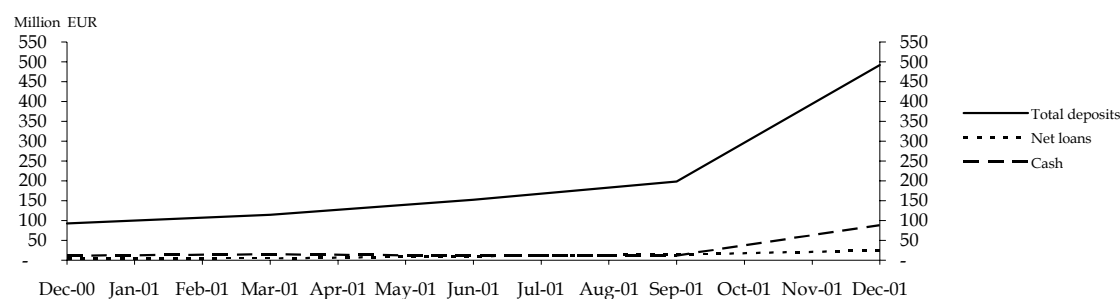


Table 7.**BALANCE SHEET OF COMMERCIAL BANKS, end of period**

('000 EUR)

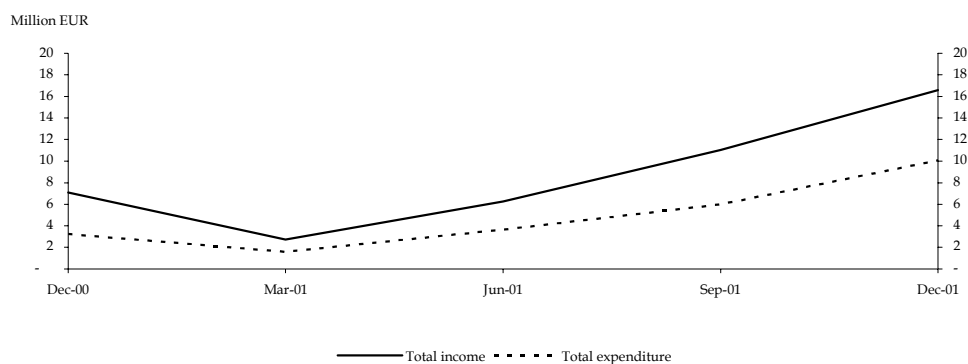
| DESCRIPTION | Dec-00 | Mar-01 | Jun-01 | Sep-01 | Dec-01 |
|--|----------------|----------------|----------------|----------------|----------------|
| ASSETS | | | | | |
| Cash | 11,671 | 14,790 | 11,754 | 11,904 | 88,342 |
| Balance with BPK | 13,700 | 16,519 | 26,751 | 36,745 | 176,793 |
| Non-inters bearing current account with other banks | 6,215 | 3,679 | 8,308 | 6,394 | 33,239 |
| Loans to financial institutions | 65,214 | 85,311 | 111,105 | 146,656 | 179,514 |
| Securities | - | - | - | - | 7,498 |
| Gross loans to non-financial institutions | 3,148 | 4,960 | 10,745 | 14,867 | 25,916 |
| Less; Provisions for loan losses | - | 240 | 388 | 599 | 781 |
| Net loans | 3,148 | 4,719 | 10,357 | 14,268 | 25,135 |
| Property and equipment, net of depreciation | 441 | 703 | 1,208 | 2,188 | 4,544 |
| Interest receivable and other assets | 2,576 | 1,948 | 1,597 | 1,862 | 3,920 |
| Total Assets | 102,964 | 127,669 | 171,081 | 220,017 | 518,985 |
| LIABILITIES AND SHAREHOLDER'S EQUITY | | | | | |
| Liabilities: | | | | | |
| Deposits by banks and other financial instit. | | | | | |
| Costumer deposits | | | | | |
| Current account-enterprises | 89,260 | 109,628 | 143,227 | 191,616 | 482,340 |
| Current account-individuals | - | 62,272 | 80,905 | 110,053 | 138,441 |
| Terms and saving account-enterprises | 89,260 | 27,038 | 35,464 | 42,567 | 205,604 |
| Terms and saving account-individuals | - | 12,479 | 13,112 | 15,500 | 31,158 |
| Deposits in process* | - | 7,840 | 13,745 | 23,496 | 107,138 |
| Deposits in process* | 3,743 | 4,895 | 9,007 | 6,405 | 9,915 |
| Total deposits | 93,003 | 114,522 | 152,234 | 198,021 | 492,255 |
| Borrowings | 2,924 | 3,045 | 5,045 | 5,045 | 5,045 |
| Interest payable and other liabilities | 885 | 666 | 772 | 1,558 | 1,249 |
| Subordinated debts | - | - | 11 | - | - |
| Total liabilities | 96,812 | 118,234 | 158,062 | 204,625 | 498,549 |
| Shareholder's equity: | | | | | |
| Share capital | 4,600 | 3,866 | 7,313 | 7,313 | 18,467 |
| Contingency reserve | - | - | 511 | 511 | 512 |
| General reserve | - | - | 1 | - | - |
| Retained profit | 1,552 | 5,569 | 5,194 | 7,568 | 1,457 |
| Total shareholder's equity | 6,152 | 9,435 | 13,019 | 15,392 | 20,435 |
| Total liabilities and shareholder's equity | 102,964 | 127,669 | 171,081 | 220,017 | 518,985 |
| Off-balance sheet commitments | | | | | |
| 1. Direct credit substitutes (guaranties and standby letters of credit) | 360 | 694 | 1,914 | 3,411 | 1,961 |
| 2. Transaction related contingencies | - | - | - | - | - |
| 3. Loan commitments | 11,300 | 11,300 | 9,000 | - | - |
| 4. Interest and foreign exchange rate related items including swaps, options and futures | - | - | - | - | - |
| Total commitments and contingencies | 11,660 | 11,994 | 10,914 | 3,411 | 1,961 |

Figure 9.**CASH, NET LOANS AND COSTUMER DEPOSITS AT THE COMMERCIAL BANKS**

* Types of transactions that temporarily can not be classified as deposits, nor as transfers

| Table 8. | | | | | |
|--|---------------|---------------|---------------|---------------|-------------------|
| INCOME AND EXPENDITURE OF COMMERCIAL BANKS, end of period | | | | | ('000 EUR) |
| DESCRIPTION | Dec-00 | Mar-01 | Jun-01 | Sep-01 | Dec-01 |
| INCOME | | | | | |
| Interest income | 1,829 | 1,097 | 2,782 | 4,730 | 7,179 |
| Loans | - | 219 | 805 | 1,265 | 2,150 |
| Placement with banks | - | 877 | 1,977 | 3,465 | 5,029 |
| Securities | - | - | - | - | - |
| Non-Interest income | 5,274 | 1,620 | 3,471 | 6,293 | 9,402 |
| Fees and commissions | 5,274 | 1,595 | 3,386 | 6,205 | 9,212 |
| Other operating income | - | 25 | 85 | 88 | 190 |
| TOTAL INCOME | 7,104 | 2,717 | 6,253 | 11,023 | 16,581 |
| EXPENDITURE | | | | | |
| Interest expenditure /1 | 207 | 144 | 409 | 744 | 1,312 |
| Deposits | 207 | 93 | 285 | 499 | 855 |
| Borrowings | - | 52 | 124 | 245 | 458 |
| Non-Interest expenditures | 338 | 182 | 585 | 902 | 1,507 |
| Provision for losses on loans | 166 | 75 | 343 | 434 | 616 |
| Depreciation on fixed assets | 172 | 107 | 242 | 468 | 891 |
| General and administrative expenses | 2,707 | 1,280 | 2,651 | 4,345 | 7,271 |
| TOTAL EXPENDITURES | 3,252 | 1,606 | 3,644 | 5,992 | 10,090 |
| NET INCOME | | | | | |
| Net operating income | 3,852 | 1,111 | 2,608 | 5,031 | 6,491 |
| Net gains/losses from dealing securities | - | - | - | - | - |
| Net gains/losses from dealing in foreign exchange | 577 | 167 | 331 | 573 | 699 |
| Net gains/losses from foreign currency revaluations | 33 | 7 | 16 | (32) | (19) |
| Net income from banking activities before taxes | 4,462 | 1,285 | 2,956 | 5,572 | 7,172 |
| Provision from taxes | 610 | 82 | 179 | 305 | 456 |
| Net profit / loss for period | 3,852 | 1,203 | 2,777 | 5,267 | 6,716 |
| Less: dividends | 2,300 | - | - | - | 5,260 |
| Retained profit for period | 1,552 | 1,203 | 2,777 | 5,267 | 1,457 |

Figure 10.
COMMERCIAL BANKS INCOME AND EXPENDITURE, end of period



1/ No breakdown of interest income and expenditures data before December 2000.

| Table 9. | | |
|--|---------------|----------------|
| COMMERCIAL BANKS DEPOSITS | | |
| (in 000' EUR) | | |
| Description | Dec-00 | Dec-01 |
| Residents | | |
| Individuals | 22,792 | 312,734 |
| Time deposits | 3,034 | 100,869 |
| Sight deposits | 19,758 | 1,211,865 |
| Legal entities | 55,990 | 158,196 |
| Time deposits | 4,579 | 31,083 |
| Sight deposits | 51,410 | 127,112 |
| Banks | - | - |
| Time deposits | - | - |
| Sight deposits | - | - |
| Total | 78,781 | 470,930 |
| Nonresidents | | |
| Individuals | 1,742 | 4,844 |
| Time deposits | 66 | 1,549 |
| Sight deposits | 1,676 | 3,296 |
| Legal entities | 7,973 | 9,039 |
| Time deposits | 13 | 28 |
| Sight deposits | 7,959 | 9,011 |
| Banks | - | - |
| Time deposits | - | - |
| Sight deposits | - | - |
| Total | 9,715 | 13,884 |
| TOTAL (Residents + Nonresidents)* | 88,496 | 484,813 |

* Excl. euro 7.4 million 'deposits in process' at the MEB

Figure 11.

COMMERCIAL BANKS DEPOSITS

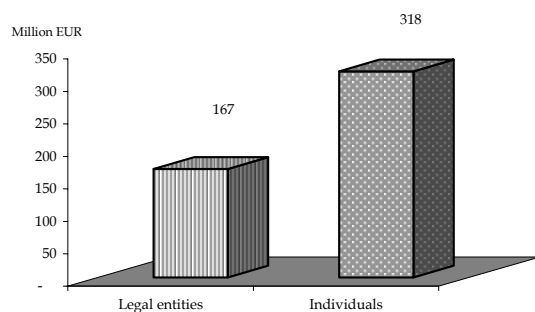


Table 10.

CONCENTRATION OF COMMERCIAL BANKS LOANS, end of period

(in 000'EUR)

| Description | Dec-00 | Mar-01 | Jun-01 | Sep-01 | Dec-01 |
|-----------------------------|--------------|--------------|---------------|---------------|---------------|
| By Ownership | | | | | |
| Private | 3,314 | 4,959 | 10,842 | 14,411 | 24,191 |
| Socially-Owned | - | - | 343 | 379 | 1,000 |
| Public | - | - | - | - | - |
| Total | 3,314 | 4,959 | 11,185 | 14,790 | 25,191 |
| By economic activity | | | | | |
| Trade | 2,186 | 3,483 | 6,852 | 9,133 | 13,940 |
| Industry | 562 | 71 | 2,366 | 3,626 | 3,122 |
| Services | 566 | 1,405 | 1,781 | 2,010 | 3,988 |
| Agriculture | - | - | 62 | 21 | 10 |
| Other | - | - | 123 | - | 4,131 |
| Total | 3,314 | 4,959 | 11,185 | 14,790 | 25,191 |

Figure 12.

QUARTERLY TREND OF COMMERCIAL BANK LOANS

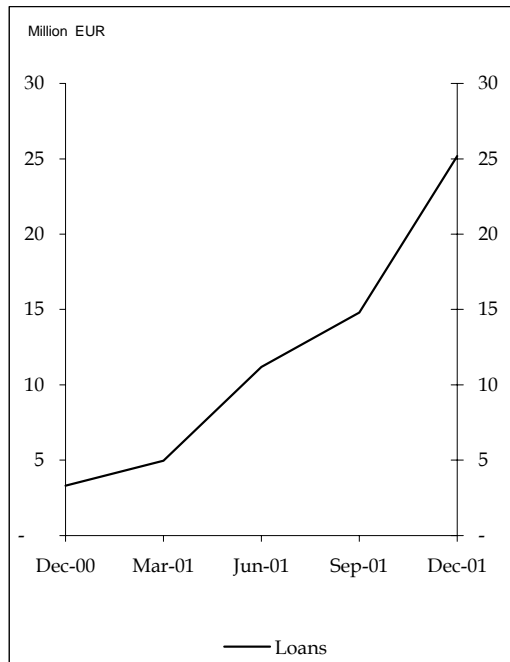


Figure 13.

LOANS BY SECTORS

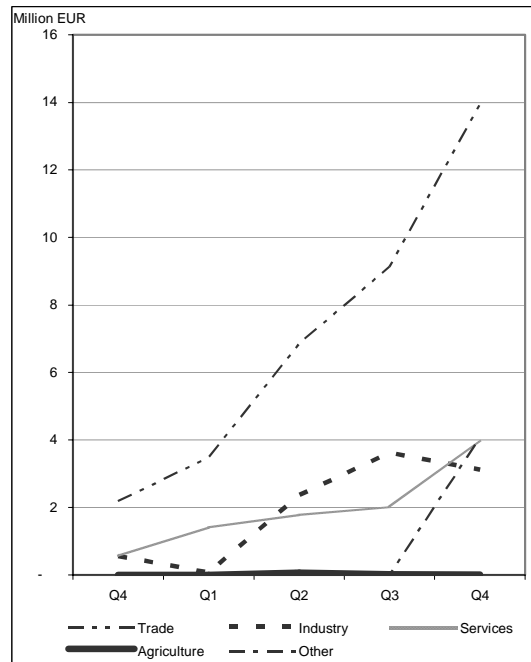


Table 11.**MFI's LOAN ACTIVITY, in Thousands EUR, Stock Data**

| | FINCA | ICU | ICMC | GRAM MEN | MCI | CORD- AID | BESË- LIDHJA | ADIE | DEG | ABU | DRC | KOSINV- EST | MESH- TEKNA | Ce.L.L.M | KBFF | TOTAL |
|--------|-------|-------|-------|-------------|-----|--------------|-----------------|-------|-----|-------|-----|----------------|----------------|----------|-------|---------------|
| Dec-00 | 560 | - | 1,282 | 234 | - | 111 | 373 | 101 | - | - | - | - | - | - | - | 2,662 |
| Jan-01 | 609 | - | 1,495 | 258 | 654 | 93 | 366 | 139 | - | - | - | - | - | - | - | 3,613 |
| Feb-01 | 719 | - | 1,988 | 324 | 699 | 111 | 366 | 293 | - | - | - | - | - | - | - | 4,500 |
| Mar-01 | 761 | 1,052 | 1,966 | 364 | 673 | 89 | 439 | 484 | - | - | - | - | - | - | - | 5,828 |
| Apr-01 | 862 | 1,843 | 2,309 | 430 | 645 | 246 | 468 | 512 | - | - | - | - | - | - | - | 7,315 |
| May-01 | 1,126 | 2,845 | 2,511 | 452 | 620 | 222 | 521 | 776 | - | - | - | - | - | - | - | 9,072 |
| Jun-01 | 1,378 | 3,872 | 2,613 | 474 | 690 | 216 | 610 | 776 | - | - | - | - | - | - | - | 10,629 |
| Jul-01 | 1,543 | 4,523 | 2,725 | 511 | 707 | 205 | 630 | 915 | - | - | - | - | - | - | - | 11,759 |
| Aug-01 | 1,697 | 5,180 | 2,649 | 627 | 742 | 186 | 659 | 924 | - | 2,168 | - | - | 30 | 72 | - | 14,934 |
| Sep-01 | 1,841 | 5,345 | 2,897 | 729 | 801 | 156 | 670 | 1,074 | - | 3,248 | 141 | - | 34 | 705 | - | 17,640 |
| Oct-01 | 1,999 | 5,524 | 3,234 | 873 | 781 | 151 | 669 | 1,039 | 957 | 3,360 | 177 | 47 | 45 | 66 | 930 | 19,852 |
| Nov-01 | 2,158 | 5,924 | 3,540 | 950 | 817 | 146 | 768 | 1,058 | 957 | 3,986 | 166 | 69 | 94 | 80 | 1,167 | 21,880 |
| Dec-01 | 2,169 | 6,217 | 3,638 | 957 | 854 | 143 | 729 | 1,069 | 957 | 3,624 | 152 | 84 | 163 | 71 | 1,532 | 22,359 |

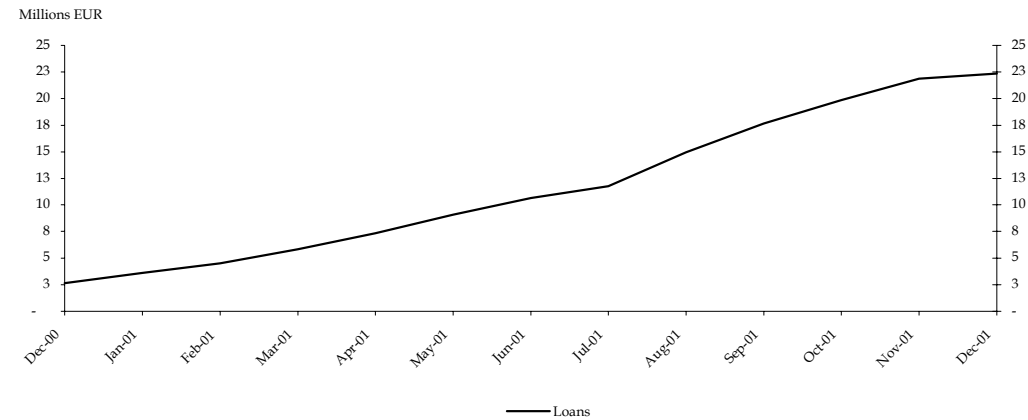
Figure 14.**MFI'S LOAN ACTIVITY**

Table 12.

MF1'S NUMBER OF LOANS, in Thousands, Stock Data

| | FINCA | ICU | ICMC | GRAM MEN | MCI | CORD- AID | BESÉ- LIDHJA | ADIE | DEG | ABU | DRC | KOS- INVEST | MESH- TEKNA | Ce.L.L.M | KBFF | TOTAL |
|--------|-------|-----|-------|-------------|-----|--------------|-----------------|-------|-----|-----|-----|----------------|----------------|----------|------|--------|
| Dec-00 | 520 | - | 925 | 488 | - | 12 | 668 | 109 | - | | | | | | | 2,722 |
| Jan-01 | 647 | - | 2,122 | 578 | 68 | 12 | 678 | 162 | - | | | | | | | 4,267 |
| Feb-01 | 759 | - | 2,520 | 734 | 77 | 13 | 678 | 146 | - | | | | | | | 4,927 |
| Mar-01 | 858 | 12 | 2,353 | 865 | 79 | 13 | 714 | 524 | - | | | | | | | 5,418 |
| Apr-01 | 961 | 18 | 2,602 | 1,049 | 83 | 26 | 745 | 480 | - | | | | | | | 5,964 |
| May-01 | 987 | 25 | 2,830 | 1,182 | 85 | 26 | 762 | 787 | - | | | | | | | 6,684 |
| Jun-01 | 909 | 33 | 3,094 | 1,311 | 92 | 20 | 866 | 787 | - | | | | | | | 7,112 |
| Jul-01 | 1,339 | 37 | 3,246 | 1,435 | 94 | 20 | 892 | 920 | - | - | - | - | - | - | - | 7,983 |
| Aug-01 | 1,351 | 40 | 3,039 | 1,627 | 108 | 20 | 922 | 1,035 | - | 3 | - | - | 24 | 58 | | 8,227 |
| Sep-01 | 1,384 | 42 | 3,723 | 1,744 | 116 | 19 | 940 | 1,305 | - | 5 | 96 | - | 28 | 58 | | 9,460 |
| Oct-01 | 1,428 | 43 | 3,963 | 1,977 | 132 | 18 | 899 | 1,355 | 1 | 5 | 124 | 38 | 35 | 58 | 23 | 10,099 |
| Nov-01 | 1,453 | 48 | 4,227 | 2,219 | 154 | 18 | 914 | 1,451 | 1 | 6 | 124 | 57 | 64 | 76 | 33 | 10,845 |
| Dec-01 | 1,569 | 50 | 4,452 | 2,345 | 173 | 18 | 910 | 1,597 | 1 | 7 | 124 | 73 | 103 | 76 | 48 | 11,545 |

Figure 15.

MF1'S NUMBER OF LOANS

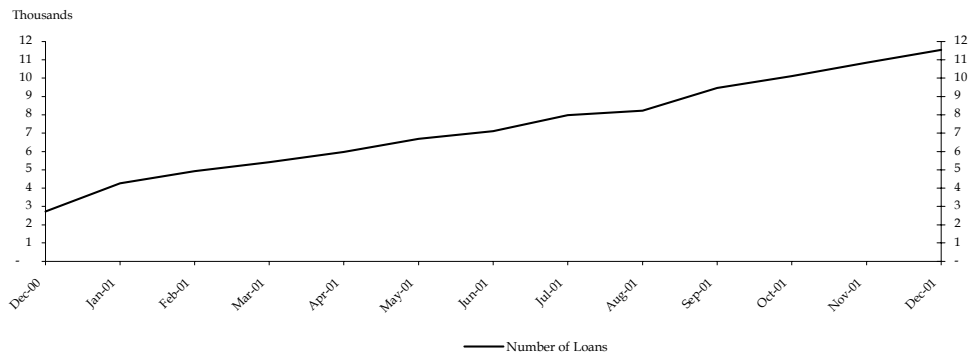


Table 13.

TRANSFERS, in thousands EUR, monthly

| MONTH | OUTGOING | | | | INCOMING | | | |
|--------------|---------------|------------------|-------------------------|----------------|----------------|------------------|-------------------------|----------------|
| | BPK | Commercial Banks | Wire transfers Agencies | Total | BPK | Commercial Banks | Wire transfers Agencies | Total |
| Year 2000 | 8,553 | 173,463 | 1,746 | 183,762 | 117,213 | 286,096 | 6,370 | 409,679 |
| Year 2001 | | | | | | | | |
| Jan-01 | 3,253 | 25,905 | 802 | 29,960 | 25,100 | 69,480 | 1,675 | 96,255 |
| Feb-01 | 1,201 | 20,525 | 737 | 22,464 | 2,730 | 19,995 | 2,018 | 24,743 |
| Mar-01 | 2,570 | 27,945 | 1,023 | 31,537 | 30,205 | 29,563 | 2,805 | 62,573 |
| Apr-01 | 2,427 | 33,319 | 772 | 36,517 | 24,592 | 40,168 | 2,810 | 67,570 |
| May-01 | 2,989 | 38,351 | 811 | 42,151 | 14,938 | 48,777 | 3,407 | 67,122 |
| Jun-01 | 4,914 | 35,528 | 756 | 41,197 | 15,972 | 89,045 | 3,394 | 108,410 |
| Jul-01 | 12,118 | 49,368 | 377 | 61,864 | 21,512 | 53,725 | 3,362 | 78,599 |
| Aug-01 | 17,679 | 51,029 | 973 | 69,682 | 17,436 | 52,801 | 3,658 | 73,895 |
| Sep-01 | 10,540 | 42,922 | 951 | 54,413 | 17,271 | 40,592 | 4,163 | 62,026 |
| Oct-01 | 13,463 | 65,616 | 1,008 | 80,087 | 20,467 | 71,551 | 5,093 | 97,111 |
| Nov-01 | 2,279 | 70,305 | 934 | 73,518 | 16,635 | 52,410 | 4,938 | 73,982 |
| Dec-01 | 3,863 | 39,708 | 949 | 44,521 | 20,123 | 20,123 | 4,517 | 44,763 |
| TOTAL | 77,295 | 500,522 | 10,094 | 587,911 | 226,980 | 588,229 | 41,841 | 857,050 |

Figure 16.

TRANSFERS, in million EUR, monthly

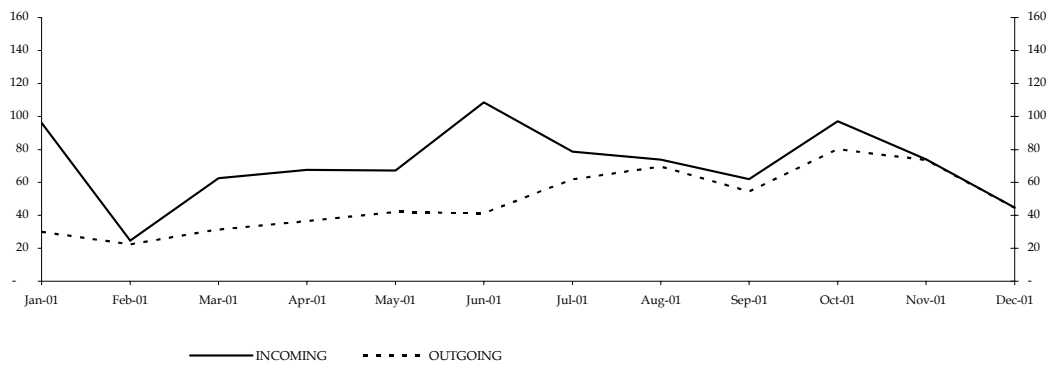


Table 14.**NUMBER OF TRANSFERS, *monthly***

| MONTH | OUTGOING | | | | INCOMING | | | |
|-----------------|----------|------------------|-------------------------|---------------|----------|------------------|-------------------------|---------------|
| | BPK | Commercial Banks | Wire transfers Agencies | Total | BPK | Commercial Banks | Wire Transfers Agencies | Total |
| Year 2000 | 168 | 12,350 | 2,758 | 15,276 | 78 | 17,176 | 7,862 | 25,116 |
| Year 2001: | | | | | | | | |
| January | 52 | 3,160 | 613 | 3,825 | 14 | 5,872 | 2,348 | 8,234 |
| February | 23 | 3,215 | 619 | 3,857 | 11 | 6,230 | 2,864 | 9,105 |
| March | 77 | 1,805 | 829 | 2,711 | 22 | 3,103 | 3,971 | 7,096 |
| April | 70 | 1,813 | 784 | 2,667 | 21 | 2,529 | 3,950 | 6,500 |
| May | 82 | 1,113 | 843 | 2,038 | 25 | 3,534 | 4,384 | 7,943 |
| June | 65 | 3,372 | 841 | 4,278 | 15 | 4,672 | 4,954 | 9,641 |
| July | 45 | 3,413 | 949 | 4,407 | 30 | 4,360 | 5,036 | 9,426 |
| August | 51 | 3,335 | 1,073 | 4,459 | 17 | 5,149 | 5,581 | 10,747 |
| September | 65 | 3,055 | 998 | 4,118 | 22 | 5,380 | 6,041 | 11,443 |
| October | 76 | 4,582 | 1,191 | 5,849 | 21 | 7,516 | 7,263 | 14,800 |
| November | 55 | 3,705 | 1,046 | 4,806 | 18 | 6,686 | 7,615 | 14,319 |
| December | 43 | 3,302 | 1,132 | 4,477 | 16 | 6,028 | 8,181 | 14,225 |
| Total Year 2001 | 704 | 35,870 | 10,918 | 28,242 | 232 | 61,059 | 62,188 | 68,692 |

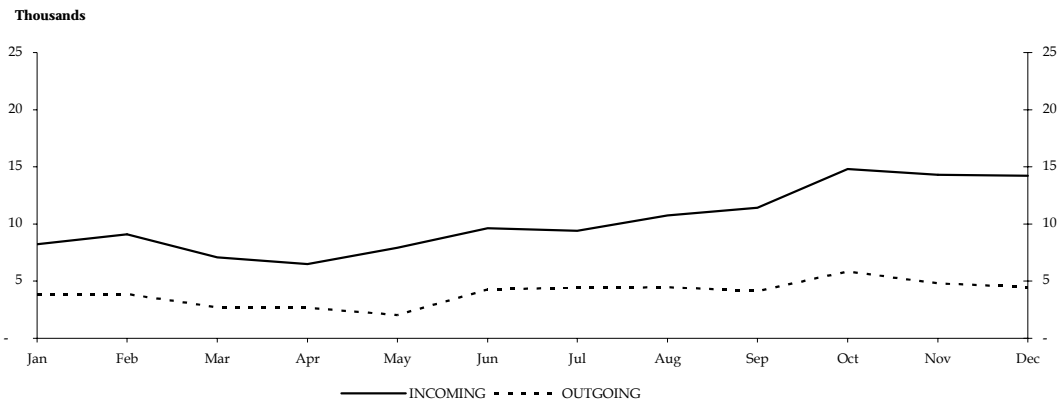
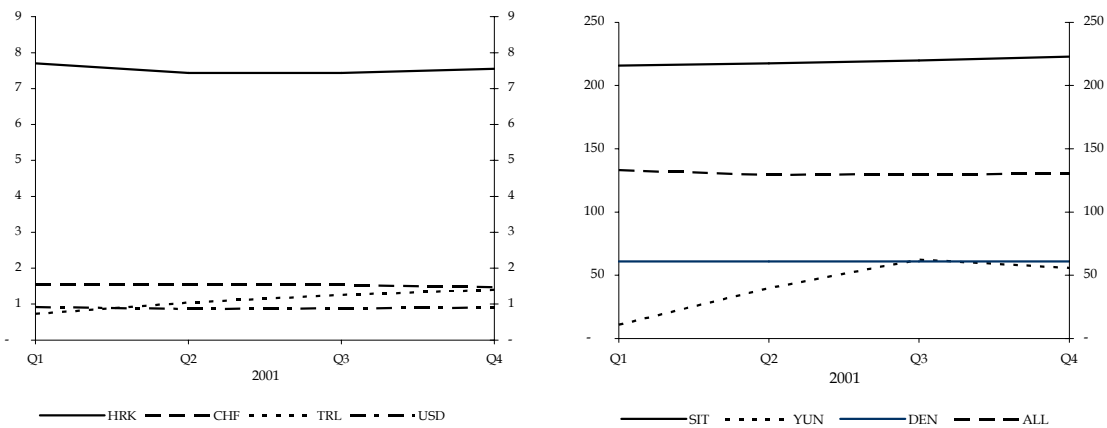
Figure 17.**NUMBER OF TRANSFERS, *Year 2001***

Table 15.
EURO EXCHANGE RATE AGAINST SELECTED CURRENCIES, average for period

| Period | Albania Lek ALL | Croatia Kuna HRK | Macedonia Denar DEN | Slovenia Tolar SIT | Switzerland Franc CHF | Turkey Lira TRL | USA Dollar USD | Yugoslavia Dinar YUN |
|-------------|-----------------------|------------------------|---------------------------|--------------------------|-----------------------------|-----------------------|----------------------|----------------------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| 2000 | 133.72 | 7.66 | 60.72 | 207.44 | 1.56 | 0.58 | 0.92 | 10.74 |
| 2001 | 130.60 | 7.53 | 60.91 | 219.03 | 1.51 | 1.11 | 0.90 | 42.12 |
| 2000 | | | | | | | | |
| Q1 | 137.97 | 7.76 | 60.65 | 201.77 | 1.61 | 0.56 | 0.99 | 11.47 |
| Q2 | 135.17 | 7.74 | 60.69 | 207.17 | 1.56 | 0.57 | 0.93 | 10.85 |
| Q3 | 131.67 | 7.59 | 60.76 | 208.90 | 1.55 | 0.59 | 0.91 | 10.52 |
| Q4 | 130.07 | 7.58 | 60.77 | 211.93 | 1.52 | 0.59 | 0.87 | 10.11 |
| 2001 | | | | | | | | |
| Q1 | 133.00 | 7.70 | 60.83 | 215.67 | 1.53 | 0.73 | 0.92 | 10.73 |
| Q2 | 129.20 | 7.44 | 60.92 | 217.57 | 1.53 | 1.04 | 0.87 | 39.86 |
| Q3 | 129.91 | 7.44 | 60.94 | 220.03 | 1.53 | 1.26 | 0.89 | 62.23 |
| Q4 | 130.30 | 7.55 | 60.95 | 222.83 | 1.47 | 1.40 | 0.90 | 55.65 |

Figure 18.
Euro exchange rate against selected currencies, average for period



Source: www.oanda.com

Table 16.**AVERAGE WAGE IN THE BUDGET SECTOR, euro, end of period**

| | General Services | Public Order and Security | Education | Health | Economy | Recreation and Culture | Housing | Environment | |
|-------|---------------------|---------------------------------|-----------|--------|---------|---------------------------|---------|-------------|-----|
| TOTAL | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 2001 | 144 | 170 | 165 | 139 | 133 | 155 | 154 | 193 | 187 |
| Q1 | 141 | 154 | 155 | 141 | 130 | 151 | 157 | 200 | 188 |
| Q2 | 142 | 159 | 155 | 140 | 131 | 151 | 155 | 182 | 189 |
| Q3 | 143 | 164 | 158 | 140 | 132 | 152 | 154 | 186 | 185 |
| Q4 | 144 | 170 | 165 | 139 | 133 | 155 | 154 | 193 | 187 |

Source: Ministry of Public Services, Division of Payroll and Payment Administration

Note: Includes both the central budget and the municipal budgets

Table 17.**EMPLOYMENT BY LEGAL FORM OF ENTERPRISE OWNERSHIP, ALL ENTERPRISES, NUMBER OF EMPLOYEES, end of period**

| TOTAL | Individual businesses | Partnerships | Joint stock companies | Cooperatives | Private companies limited | Public companies limited | State owned | Socially owned | |
|-------|-----------------------|--------------|-----------------------|--------------|---------------------------|--------------------------|-------------|----------------|--------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | |
| 2000 | 142,215 | 73,622 | 3,842 | 7,747 | 739 | 2,112 | 958 | 7,692 | 45,503 |
| 2001 | 177,260 | 98,696 | 5,552 | 8,767 | 760 | 2,462 | 979 | 11,142 | 48,902 |
| Q1 | 154,209 | 82,376 | 4,319 | 7,891 | 741 | 2,143 | 976 | 9,600 | 46,143 |
| Q2 | 163,608 | 88,881 | 4,842 | 8,235 | 751 | 2,168 | 976 | 9,827 | 47,928 |
| Q3 | 172,912 | 95,026 | 5,281 | 8,692 | 760 | 2,421 | 979 | 11,039 | 48,714 |
| Q4 | 177,260 | 98,696 | 5,552 | 8,767 | 760 | 2,462 | 979 | 11,142 | 48,902 |

Source: Statistical Office of Kosovo, Business Register

Notes: Employment data reflect the information provided by the enterprises at the moment of their registration with the Business register. No up-to-date figures are available from the Register.

Table 18.**EMPLOYMENT BY ENTERPRISE ECONOMIC ACTIVITY, ALL ENTERPRISES, NUMBER OF EMPLOYEES, end of period**

| TOTAL | Agriculture | Industry | Construction | Trade | Transport | Finance | Services | |
|-------|-------------|----------|--------------|--------|-----------|---------|----------|--------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | |
| 2000 | 142,215 | 5,274 | 44,797 | 16,782 | 51,336 | 10,514 | 4,052 | 9,460 |
| 2001 | 177,260 | 7,147 | 52,248 | 21,190 | 65,505 | 14,240 | 5,244 | 11,686 |
| Q1 | 154,209 | 5,468 | 48,131 | 18,835 | 55,626 | 11,698 | 4,524 | 9,927 |
| Q2 | 163,608 | 6,263 | 49,720 | 20,014 | 59,366 | 12,501 | 4,833 | 10,911 |
| Q3 | 172,912 | 7,046 | 51,594 | 20,743 | 63,316 | 13,759 | 5,062 | 11,392 |
| Q4 | 177,260 | 7,147 | 52,248 | 21,190 | 65,505 | 14,240 | 5,244 | 11,686 |

Source: Statistical Office of Kosovo, Business Register

Notes: Employment data reflect the information provided by the enterprises at the moment of their registration with the Business register. No up-to-date figures are available from the Register.

Table 19.

COMMERCIALISATION PROCESS OF SOCIALLY - OWNED ENTERPRISES (As of December 31, 2001)

| No | Enterprises | Region | Sector (details) | No. of employees (actual / recorded)* | Selected Tenderer (Country of origin) | | | Date of Contract Signing | Committed Investment over Contract Length |
|----|---------------------------------|-------------------|---|---------------------------------------|---------------------------------------|--------------------|-------|--------------------------|---|
| | | | | | domestic | foreign | joint | | |
| 1 | Sharr Cement | Ferizaj | Cement production | 741 / 2000 | - | HOLDERBANK (Switz) | - | 13.06 '00 | ≈ 19 € million |
| 2 | Mirusha | Pejë | Construction | 115 / 350 | - | SACET (Italy) | - | 06.12 '00 | ≈ 3.17€ million |
| 3 | Progres Meat Processing | Prizren | Food processing (meat processing) | 30 / 70 | FRUCTUS (Kosovo) | - | - | 02.03. '01 | ≈ 2.55 € million |
| 4 | Progres Cannery | Prizren | Food processing (fruit and vegetable processing and caning) | 150 | ABI / ELIF 19 (Kosovo) | - | - | 19.04. '01 | ≈ 3.57€ million |
| 5 | Betonjerka | Mitrovicë | Concrete elements | 0 / 30 | - | 2K group (Albania) | - | 25.06. '01 | ≈0.68 € million |
| 6 | Fapol | Podujevë | Plastic poles for electricity reinforced polyester | 135/NA | CRK (Kosovo) | - | - | 03.07. '01 | ≈1.9 € million € |
| 7 | Poultry Farm | Prishtina Lipijan | Agrobusiness | 50 / 100 | Trade enterprise "Ardi" Kosovë | - | - | 03.07. '01 | ≈ 2.2 million € |
| 8 | Sunflower Oil | Gjilane/Ferizaj | Oil production; Agrobusiness | 128/NA | Alcon (Kosovo) | - | - | 07.08.01 | N/A |
| 9 | Artizanati | Prizren | Agrobusiness | 29/NA | Astra-B (Kosovo) | - | - | 05.10.'01 | N/A |
| 10 | Kosovo Brick Factory | Prishtina | Construction materials | 150/NA | - | Itco (Italy) | - | 01.11.01 | ≈3.5 € million |
| 11 | Mustafa Goga Brick Plant | Gjilane/Ferizaj | Construction materials (bricks) | NA | Kacanik Commerce (Kosovo) | - | - | 09.11.01 | ≈1.73 € million |
| 12 | Termovent | Prishtina/Lipjan | Manufacturing (ventilators) | NA | Dajji (Kosovo) | - | - | 29.11.01 | ≈0.61 € million |

Source: Department of Trade and Industry (DTI)

Note: * Actual number of employees represents the number of employees currently working at the time of commercialisation. Recorded number of employees represents the number of employees that were recorded from the time of establishment of the enterprises.

Table 20.**TOTAL DONORS COMMITMENTS, at the end of 2001, € million**

| DONOR | COMMITMENT (€ million) | % OF TOTAL COMMITMENT |
|----------------------------------|-----------------------------------|----------------------------------|
| EUROPEAN UNION: | | |
| European Commission | 846.00 | 42.21 |
| EU member states | 455.79 | 22.74 |
| Sub-total European Union | 1,301.79 | 64.95 |
| OTHER BILATERAL: | | |
| United States | 300.28 | 14.98 |
| Switzerland | 105.15 | 5.25 |
| Japan | 95.46 | 4.76 |
| Canada | 61.83 | 3.09 |
| Norway | 18.42 | 0.92 |
| Korea | 1.09 | 0.05 |
| Slovenia | 0.51 | 0.03 |
| San Marino | 0.23 | 0.01 |
| Sub-total other bilateral | 582.97 | 29.09 |
| MULTILATERAL: | | |
| World Bank | 70.87 | 3.54 |
| Islamic Development Bank | 38.48 | 1.92 |
| EBRD | 3.30 | 0.16 |
| UNDP | 2.69 | 0.13 |
| CE | 2.00 | 0.10 |
| UNICEF | 2.09 | 0.10 |
| Sub-total multilateral | 119.43 | 5.96 |
| Grand TOTAL | 2,004.19 | 100.00 |

Source: European Commission/World Bank Joint Office