



**Central Bank of the Republic of Kosovo**  
**Financial statements**  
**as at and for the year ended 31 December 2009**

# Central Bank of the Republic of Kosovo

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## **Independent Auditors' Report**

To the Governing Board of  
the Central Bank of the Republic of Kosovo

Pristina, 19 May 2010

We have audited the accompanying financial statements of the Central Bank of the Republic of Kosovo ("the Bank"), which comprise the statement of financial position as at 31 December 2009, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to note 4(f) to the financial statements which states that according to Law No. 03/L-074 on the Central Bank of the Republic of Kosovo, the Capital and General Reserve Account of the Bank shall be at least equivalent to five percent of the aggregate amount of the credit balances of all accounts maintained on the books of the Bank at the end of each financial year. As at 31 December 2009 and 2008 this requirement was not satisfied.

*KPMG Albania Shpk Kosovo Branch*

**KPMG Albania Sh.p.k – Kosovo Branch**  
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Pristina  
Kosovo

# Central Bank of the Republic of Kosovo

## Statement of financial position

As at 31 December

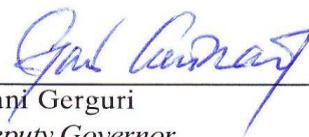
<i>In thousands of EUR</i>	<b>Note</b>	<b>2009</b>	<b>2008</b>
<b>Assets</b>			
Cash on hand	7	21,806	39,674
Current accounts with non-resident banks	8	34,899	10,403
Treasury bills	9	529,652	541,019
Deposit accounts with non-resident banks	10	487,529	519,276
Assets with International Monetary Fund ("IMF")	11	124,482	-
Property and equipment	12	2,115	2,087
Intangible assets	13	174	86
Other assets	14	351	406
<b>Total assets</b>		<b>1,201,008</b>	<b>1,112,951</b>
<b>Liabilities</b>			
Due to domestic banks	15	233,246	137,158
Due to IMF related accounts	16	124,786	-
Due to governmental institutions	17	665,187	908,212
Due to public and commercial entities	18	130,847	24,400
Other domestic liabilities	19	2,019	1,978
<b>Total liabilities</b>		<b>1,156,085</b>	<b>1,071,748</b>
<b>Capital and reserves</b>			
Statutory fund	20	30,000	30,000
Reserve fund	21	14,923	11,203
<b>Total capital and reserves</b>		<b>44,923</b>	<b>41,203</b>
<b>Total liabilities, capital and reserves</b>		<b>1,201,008</b>	<b>1,112,951</b>

The notes on pages 5 to 40 are an integral part of these financial statements.

These financial statements set out on pages 1 to 40 were approved by the management of CBK on 24 March 2010 and signed on its behalf by:



Hashim Rexhepi  
Governor



Gani Gerguri  
Deputy Governor

# Central Bank of the Republic of Kosovo

## Statement of comprehensive income

For the year ended 31 December

<i>In thousands of EUR</i>	Note	2009	2008
Interest income		6,629	42,841
Interest expense		(2,500)	(34,063)
Net interest income	22	4,129	8,778
Fee and commission income		2,462	884
Fee and commission expense		(269)	(215)
Net fee and commission income	23	2,193	669
Grant revenue	24	24	85
Other operating income	25	1,340	1,087
<b>Operating income</b>		<b>7,686</b>	<b>10,619</b>
Personnel expenses	26	(2,160)	(1,771)
Depreciation and amortization	12,13	(505)	(458)
General and administrative expenses	27	(998)	(923)
<b>Operating expenses</b>		<b>(3,663)</b>	<b>(3,152)</b>
<b>Profit for the year</b>		<b>4,023</b>	<b>7,467</b>
<b>Other comprehensive income/(loss)</b>		<b>(303)</b>	<b>-</b>
<b>Total comprehensive income for the period</b>		<b>3,720</b>	<b>7,467</b>

The notes on pages 5 to 40 are an integral part of these financial statements.

# Central Bank of the Republic of Kosovo

## Statement of changes in equity

<i>In thousands of euro</i>	<b>Statutory fund</b>	<b>Reserve fund</b>	<b>Retained Earnings</b>	<b>Total</b>
<b>Balance at 1 January 2008</b>	<b>20,000</b>	<b>4,590</b>	<b>9,146</b>	<b>33,736</b>
<b>Total comprehensive income for the period</b>				
Profit or loss	-	-	7,467	7,467
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>7,467</b>	<b>7,467</b>
<b>Transactions required by law, recorded directly in equity</b>				
Transfer to statutory fund	10,000	(854)	(9,146)	-
<b>Total transfers to statutory fund</b>	<b>10,000</b>	<b>(854)</b>	<b>(9,146)</b>	<b>-</b>
<b>Balance at 31 December 2008</b>	<b>30,000</b>	<b>3,736</b>	<b>7,467</b>	<b>41,203</b>
<b>Balance at 1 January 2009</b>	<b>30,000</b>	<b>3,736</b>	<b>7,467</b>	<b>41,203</b>
<b>Total comprehensive income for the period</b>				
Profit or loss	-	-	3,720	3,720
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>3,720</b>	<b>3,720</b>
<b>Transactions required by law, recorded directly in equity</b>				
Transfer to reserve fund	-	7,467	(7,467)	-
<b>Total transfer to reserve fund</b>	<b>-</b>	<b>7,467</b>	<b>(7,467)</b>	<b>-</b>
<b>Balance at 31 December 2009</b>	<b>30,000</b>	<b>11,203</b>	<b>3,720</b>	<b>44,923</b>

The notes on pages 5 to 40 are an integral part of these financial statements.

# Central Bank of the Republic of Kosovo

## Statement of cash flows

For the year ended 31 December

*In thousands of EUR*

	Note	2009	2008
<b>Cash flows from operating activities</b>			
<b>Profit for the period</b>		3,720	7,467
<i>Adjustments for:</i>			-
Depreciation	12	444	378
Amortization	13	61	80
Grant revenue	24	(24)	(85)
Gain on sale of equipment		(11)	(5)
Interest income	22	(6,629)	(42,841)
Interest expense	22	2,500	34,063
		61	(943)
Change in treasury bills		(15,959)	(145,749)
Change in deposit accounts with non resident banks		(61,824)	197,908
Change in assets with IMF		(124,458)	-
Change in other assets		31	(111)
Change in due to domestic banks		96,088	23,604
Change in due to IMF related accounts		124,761	-
Change in due to governmental institutions		(243,129)	51,482
Change in due to public and commercial entities		106,648	(23,835)
Change in other domestic liabilities		32	(5,717)
		<b>(117,749)</b>	<b>96,639</b>
Interest received		9,160	47,329
Interest paid		(2,574)	(34,209)
<b>Net cash from operating activities</b>		<b>(111,163)</b>	<b>109,759</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of equipment		11	5
Purchase of equipment	12	(472)	(357)
Purchase of intangible assets	13	(149)	(44)
<b>Net cash used in investing activities</b>		<b>(610)</b>	<b>(396)</b>
<b>Cash flows from financing activities</b>			
Proceeds from grants	24	33	36
<b>Net cash from financing activities</b>		<b>33</b>	<b>36</b>
<b>Net increase in cash and cash equivalents</b>		<b>(111,740)</b>	<b>109,399</b>
Effect of exchange rate		(303)	-
Cash and cash equivalents at 1 January		730,878	621,479
<b>Cash and cash equivalents at 31 December</b>	28	<b>618,835</b>	<b>730,878</b>

The notes on pages 5 to 40 are an integral part of these financial statements.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

*(in thousands of EUR, unless otherwise stated)*

### 1. Reporting entity

The Central Bank of the Republic of Kosovo (hereinafter "CBK"), the successor to the Central Banking Authority of Kosovo, is an independent juridical entity with full capacity as a legal person under the law applicable in the Republic of Kosovo. CBK is a distinct public entity with the authority to license, supervise and regulate financial institutions in the Republic of Kosovo. The initial predecessor entity of the CBK – the Banking and Payments Authority of Kosovo was established in accordance with the provisions of the United Nations Interim Administration Mission in Kosovo (hereinafter "UNMIK") Regulation no. 1999/20 issued on 15 November 1999, as amended on 1 October 2001 (UNMIK Regulation 2001/24). On 24 August 2006, a new regulation (UNMIK Regulation no. 2006/47) entered into force transforming the Banking and Payments Authority of Kosovo into the Central Banking Authority of Kosovo. On 5 June 2008, Law no. 03/L-074 on the Central Bank of the Republic of Kosovo was adopted by the Assembly of the Republic of Kosovo. As per this law, the principal objectives of CBK are to:

- foster the soundness, solvency and efficient functioning of a stable market-based financial system, encouraging market emergence of safe financial instruments; and
- without prejudice to this, support the general economic policies in Kosovo with a view to contributing to an efficient allocation of resources in accordance with the principle of an open market economy.

CBK has, amongst others, the powers:

- to recommend broad policy guidelines to the assembly and the government in areas under its responsibility;
- to formulate and implement measures for, and oversee and regulate, payments and settlement systems for transactions in domestic and foreign currency in Kosovo;
- to own and operate one or more payment systems;
- to act as banker to the Ministry of Finance and Economy and to provide financial advice at its request;
- to act as fiscal agent to Ministry of Finance and Economy;
- to hold foreign currency deposits of banks, the Ministry of Finance and Economy, and other public 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 conduct regular economic and monetary analysis of the Kosovo economy, make public the results, and submit proposals and measures to the assembly and government on the basis of such analysis;
- to supervise and regulate dealers in foreign exchange, broker-dealers, and mutual funds;
- to approve external auditors of the financial institutions; and
- to set accounting standards for financial institutions in Kosovo in line with international financial reporting standards.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 1. Reporting entity (continued)

CBK operates from its premises located in Pristina. The address of the registered office of CBK is as follows:

33 Garibaldi Street

Pristina, Kosovo.

### *Governing Board*

The Governing Board formulates policies for the operations of CBK and supervises their implementation. The management of CBK is required to 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, including all events and conditions that have or are expected to have a significant effect on the administration or operations of CBK, the conduct of its policies, the financial system or on the before-mentioned markets and on any other matter that affects or would potentially affect the policies of CBK.

The Governing Board determines policies for the operations of CBK and supervises their implementation. Under the Law No. 03/L-074, the Governing Board is composed of five members. The governing board has the following powers:

- to approve the policies for the execution of the powers of CBK and to supervise their implementation;
- to adopt all rules, orders and guidelines issued by CBK;
- to approve all reports and recommendations that CBK makes to the Assembly and Government;
- to designate, by resolution, at least two non-executive directors to constitute an Audit Committee;
- to approve the organization of CBK;
- to appoint two Deputy Governors upon proposal by the Governor for a term of up to five years;
- to approve the appointment of the Inspector General of CBK for a term of up to five years;
- to approve the budget of CBK;
- to approve the accounting policies of CBK and to approve the periodic reports and financial statements of CBK;
- to decide on the incurrence of debt in material amounts by CBK and the terms and conditions of such debt;
- to approve the categories of assets that shall be suitable for investment by CBK;
- to approve or deny applications for financial institution licenses or registrations and to revoke financial institution licenses or registrations;
- to adopt internal structures, policies and procedures for licensing, registering, supervising and regulating financial institutions, including delegating powers to CBK staff to take corrective actions; and
- to ratify, before their implementation, all enforcement measures prepared by CBK staff, with the exception of those which are specifically under the competence of the Governor by law.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

*(in thousands of EUR, unless otherwise stated)*

### 1. Reporting entity (continued)

#### *Governing Board (continued)*

As at 31 December 2009, the Governing Board of CBK comprised the following members:

- Gazmend Luboteni – Chairman
- Hashim Rexhepi – Governor
- Lulzim Ismajli – Member, Director of Treasury of Ministry of Finance and Economy
- Sejdi Rexhepi – Member
- Mejdin Bektashi – Member

### 2. Basis of preparation

#### **a) Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

#### **b) Basis of measurement**

The financial statements have been prepared on the historical cost basis.

#### **c) Functional and presentation currency**

These financial statements are presented in Euro (“EUR”), which is CBK’s functional currency. Except as indicated, financial information presented in Euro has been rounded to the nearest thousand.

#### **d) Use of estimates and judgments**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in note 5.

The accounting policies set out below have been applied consistently to all the periods presented in these financial statements.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 3. Significant accounting policies

#### a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

CBK deals predominantly in EUR, while the foreign currencies CBK deals with are predominantly Special Drawing Rights ("SDR") and United States Dollars (USD). The exchange rates used for translation at 31 December 2009 and 2008 were as follows:

	<b>2009</b>	<b>2008</b>
	<b>EUR</b>	<b>EUR</b>
1 USD	0.694	0.7 18
1 SDR	0.918	n/a

#### b) Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the profit or loss include interest on financial assets and liabilities at amortised cost on an effective interest rate basis.

#### c) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including transaction fees for operating accounts, fund transfers and licensing fees are recognized as the related services are performed.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 3. Significant accounting policies (continued)

#### d) Employee benefits

##### *i. Defined contribution plans*

CBK makes compulsory social security contributions that provide pension benefits for employees upon retirement. These contributions are classified under defined contribution plans based on Kosovo legislation. CBK's contributions are charged to profit or loss as incurred.

Additionally CBK recognizes fixed contributions payable into external pension funds. The supplementary contribution rate is 10% of gross salary. These amounts are recognized as expenses when they are due. CBK has no legal or constructive obligation to pay further contributions.

##### *ii. Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

#### e) Taxation and profit allocation

CBK is exempt from income tax according to Law No. 03/L-074 issued on 5 June 2008 which requires CBK to pay any balance of its net income directly to the Ministry of Finance and Economy after allocation to replenish the levels of reserve funds (see note 4 f).

#### f) Financial assets and liabilities

##### *i. Recognition*

CBK initially recognizes deposits on the date they originate. All other financial assets and liabilities are initially recognized on the trade date at which CBK becomes a party to the contractual provisions of the instrument.

##### *ii. Derecognition*

CBK derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by CBK is recognized as a separate asset or liability.

CBK derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

##### *iii. Offsetting*

Financial assets and liabilities are set off and the net amount is presented in the statement of financial position when, and only when, CBK has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 3. Significant accounting policies (continued)

#### f) Financial assets and liabilities (continued)

##### *iv. Amortized cost measurement*

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction of impairment.

##### *v. Fair value measurement*

The determination of fair values of financial assets and financial liabilities is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. CBK uses widely recognised valuation models for determining the fair value of common and simpler financial instruments. For these financial instruments, inputs into models are market observable.

##### *vi. Identification and measurement of impairment*

At each reporting date CBK assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a placement or advance by CBK on terms that CBK would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in CBK, or economic conditions that correlate with defaults in CBK.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

#### g) Cash and cash equivalents

Cash and cash equivalents include cash balance on hand, demand deposits with banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by CBK in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 3. Significant accounting policies (continued)

#### h) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for as held-to-maturity.

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that CBK has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss. Held-to-maturity investments include treasury bills.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent CBK from classifying investment securities as held-to-maturity for the current and the following two financial years.

#### i) Property and equipment

##### *i. Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

##### *ii. Subsequent costs*

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to CBK and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 3. Significant accounting policies (continued)

#### i) Property and equipment (continued)

##### iii Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

The estimated useful lives for the current and comparative periods are as follows:

	2009	2008
· Leasehold improvement	20 years	20 years
· Equipment	5 years	5 years
· Computers	3 years	3 years
· Vehicles	5 years	5 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

#### j) Intangible assets

Software acquired by CBK is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful life of software is three years (2008: 3 years).

#### k) Impairment

##### (i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 3. Significant accounting policies (continued)

#### k) Impairment (continued)

##### (i) Financial assets (continued)

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

##### (ii) Non-financial assets

The carrying amounts of CBK's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### l) Financial liabilities

CBK's sources of funding are from international, governmental, public, banking and other financial institutions. They are initially measured at transaction costs, and subsequently measured at their amortized cost using the effective interest method.

#### m) Grant revenue

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that CBK will comply with the conditions associated with the grant. Grants that compensate CBK for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate CBK for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 3. Significant accounting policies (continued)

#### n) Donor financed salaries

Certain individuals engaged at CBK are international experts appointed and funded for a short term by international organisations. The funding from these international organisations includes but it is not limited to the payment of salaries to these international experts. As this assistance is paid by the international organisations directly to the appointee, the extent of the payments are not known nor are they included in these financial statements.

#### o) Provisions

A provision is recognised if, as a result of a past event, CBK has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by CBK from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, CBK recognises any impairment loss on the assets associated with that contract.

#### p) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective or are not relevant for the year ended 31 December 2009, and have not been applied in preparing these financial statements:

- Amendments to IFRS 2 *Share-based Payment* - Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010). This revised Standard requires that an entity receiving goods or services in a share-based payment transaction that is settled by any other entity in the group or any shareholder of such an entity in cash or other assets to recognise the goods or services received in its financial statements. Previously group cash-settled share-based payment transactions were not addressed directly in IFRS 2. CBK does not incur any share-based transactions. As such the amendment to this standard is not applicable to CBK
- Revised IFRS 3 *Business Combinations* (effective for annual periods beginning on or after 1 July 2009). The scope of the revised Standard has been amended and the definition of a business has been expanded. The revised Standard also includes a number of other potentially significant changes including:
  - All items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date, including contingent consideration.
  - Subsequent change in contingent consideration will be recognized in profit or loss.
  - Transaction costs, other than share and debt issuance costs, will be expensed as incurred.
  - The acquirer can elect to measure any non-controlling interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

This Standard is not relevant to CBK operations.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 3. Significant accounting policies (continued)

#### p) New standards and interpretations not yet adopted

- IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2013, early adoption is permitted) This Standard replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement*, about classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable.

- Financial assets will be classified into one of two categories on initial recognition:

- Financial assets measured at amortized cost or financial assets measured at fair value.

A financial asset is measured at amortized cost if the following two conditions are met: the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and, its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Gains and losses on remeasurement of financial assets measured at fair value are recognised in profit or loss, except that for an investment in an equity instrument which is not held for trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. No amount recognised in OCI is ever reclassified to profit or loss at a later date. CBK is in the process of determining the impact of this standard to its operations.

- Revised IAS 24 *Related Party Disclosure* (effective for annual periods beginning on or after 1 January 2011) The amendment exempts government-related entities from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption.

The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel. CBK is in the process of determining the impact of this amendment to its operations.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### Significant accounting policies (continued)

#### p) New standards and interpretations not yet adopted

- Revised IAS 27, *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009). In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. The revisions made to the standard are not expected to impact CBK operations.
- Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* (effective for annual periods beginning on or after 1 February 2010) The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. IAS 32 is not relevant to CBK operations.
- Amendment to IAS 39, *Financial Instruments: Recognition and Measurement* (effective for annual periods beginning on or after 1 July 2009). The amended standard clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances. The amendments to IAS 39 are not relevant to the CBK operations as CBK does not apply hedge accounting.
- IAS 17, *Leases* (effective for annual periods beginning on or after 1 January 2010). IAS 17 is amended to delete paragraph 14, which stated that a lease of land with an indefinite economic life is normally classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. Under the amendments, a land lease with a lease term of several decades or longer may be classified as a finance lease, even if at the end of the lease term title will not pass to the lessee, because in such arrangements substantially all risks and rewards are transferred to the lessee and the present value of the residual value of the leased asset is considered negligible. The amendment is not expected to be relevant to CBK operations.
- Amendment to IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2011). The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required. The amendment is not expected to be relevant to CBK operations.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### Significant accounting policies (continued)

#### p) New standards and interpretations not yet adopted

- IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective prospectively for annual periods beginning on or after 15 July 2009). The Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss. The amendment is not expected to be relevant to CBK operations.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after 1 July 2010). The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a 'debt for equity swap' are *consideration paid* in accordance with IAS 39.41. The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss. The amendment is not expected to be relevant to CBK operations

#### q) Comparatives

The comparative information is presented consistently applying CBK's accounting policies.

## 4. Financial risk management

### a) Introduction and overview

CBK has exposure to the following risks from its use of financial instruments:

- credit risk
- operational risk
- liquidity risk
- market risk

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 4. Financial risk management (continued)

This note presents information about CBK's exposure to each of the above risks, CBK's objectives, policies and processes for measuring and managing risk, and CBK's management of capital. Further quantitative disclosures are included throughout these financial statements.

#### *Risk management framework*

The Governing Board has overall responsibility for the establishment and oversight of CBK's risk management framework. CBK management reports regularly to the Governing Board on risk management practice. The Executive Committee and Investment Committee have obligations for developing and monitoring CBK risk management policies. These policies are implemented by the respective organisational units.

CBK's risk management policies are established to identify and analyze the risks faced by CBK, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. CBK, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

CBK's Audit Committee is responsible for monitoring compliance with CBK's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by CBK. CBK's Audit Committee is assisted in these functions by the Internal Audit Directorate. Internal audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported through the Inspector General to the Audit Committee.

#### **b) Credit risk**

Credit risk is the risk of financial loss to CBK if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from CBK's investments in securities and deposits in other banks.

#### *Management of credit risk*

##### *i. Investments and exposure to other banks*

CBK limits its exposure to credit risk by investing only in securities issued by the governments of EU countries and having deposits with foreign banks whose short term liabilities are rated in one of the two highest categories by internationally recognized credit rating agencies. Given the high credit ratings, management does not expect any counterparty to fail to meet its obligations.

##### *ii. Exposure to credit risk*

The maximum exposure to credit risk as at 31 December 2009 and 31 December 2008 is presented by the carrying amount of its cash on hand, current accounts with non resident banks, treasury bills and deposit accounts with non resident banks. For details on the exposures see Notes 7, 8, 9 and 10.

None of CBK's exposures are past due or impaired. There are no changes in the credit risk management policies from previous years. CBK does not hold any collateral or other credit enhancements against its exposure to credit risk.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 4. Financial risk management (continued)

#### c) Liquidity risk

Liquidity risk is the risk that CBK will encounter difficulty in meeting obligations from its financial liabilities.

#### *Management of liquidity risk*

CBK's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to CBK's reputation.

Policies to monitor and address liquidity risk are set by the Governing Board. CBK manages its liquidity risk by investing in short term deposits with non resident banks and holding adequate quantity of cash in its vaults. Liquidity management policies are set to ensure that even under adverse conditions, CBK is in a position to meet its obligations.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by CBK management. Daily reports covering the liquidity position of CBK are regularly submitted to the Investment Committee members by the Asset Management Directorate.

#### *Exposure to liquidity risk*

#### **Residual contractual maturities of financial liabilities**

	Note	Carrying amount	Less than 1 month	1-3 months	3 Months to 1 year
<b>31 December 2009</b>					
<i>Non-derivative liabilities</i>					
Due to domestic banks	15	233,246	233,246	-	-
Due to IMF related accounts	16	124,786	124,786	-	-
Due to governmental institutions	17	665,187	540,084	50,024	75,079
Due to public and commercial entities	18	130,847	130,847	-	-
Other domestic liabilities	19	2,019	2,019	-	-
		<b>1,156,085</b>	<b>1,030,982</b>	<b>50,024</b>	<b>75,079</b>
<b>31 December 2008</b>					
<i>Non-derivative liabilities</i>					
Due to domestic banks	15	137,158	137,158	-	-
Due to governmental institutions	17	908,212	640,642	109,714	157,855
Due to public and commercial entities	18	24,400	22,554	1,846	-
Other domestic liabilities	19	1,978	1,978	-	-
		<b>1,071,748</b>	<b>802,332</b>	<b>111,560</b>	<b>157,855</b>

The previous table shows the undiscounted cash flows of CBK's financial liabilities on the basis of their earliest possible contractual maturity. The Gross nominal inflow / (outflow) disclosed in the previous table represents the contractual undiscounted cash flows relating to the financial liability or commitment. To manage the liquidity risk arising from financial liabilities, the CBK holds liquid assets comprising cash and cash equivalent and investment in securities for which there is an active and liquid market.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 4. Financial risk management (continued)

#### c) Liquidity risk (continued)

##### *Volatility in the global and Kosovo 's financial markets*

The global financial and economic crisis has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, central banks interest rate cuts to help borrowers, government capital injection, higher interbank saving rates and volatility in stock markets. Further adverse developments resulting from the crisis might result in negative implications on the financial and liquidity position of the CBK.

#### d) Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect CBK's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

##### *Management of market risks*

CBK's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities, there is exposure to basis risk, which is the difference in repricing characteristics of the various floating rate indices.

Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with CBK's operations strategies.

CBK exposure to market risk is related only to non-trading portfolios.

##### *Exposure to interest rate risk non-trading portfolios*

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The Investment Committee is the monitoring body for compliance with these limits. A summary of CBK's interest rate gap position on non-trading portfolios is as follows:

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 4. Financial risk management (continued)

#### (d) Market risks (continued)

##### Exposure to interest rate risk-non-trading portfolios (continued)

	Note	Carrying amount	Less than 3 months	3-6 months	6-12 months
<b>31 December 2009</b>					
Cash on hand	7	21,806	21,806	-	-
Current accounts with non-resident banks	8	34,899	34,899	-	-
Treasury bills	9	529,652	149,940	379,712	-
Deposit accounts with non-resident banks	10	487,529	412,270	50,208	25,051
Assets with IMF	11	124,482	124,482	-	-
<b>Total</b>		<b>1,198,368</b>	<b>743,397</b>	<b>429,920</b>	<b>25,051</b>
		(233,246)	(233,246)	-	-
Due to domestic banks	15				
Due to IMF related accounts	16	(124,786)	(124,786)	-	-
Due to governmental institutions	17	(665,187)	(590,108)	(50,028)	(25,051)
Due to public and commercial entities	18	(130,847)	(130,847)	-	-
Other domestic liabilities	19	(2,019)	(2,019)	-	-
<b>Total</b>		<b>(1,156,085)</b>	<b>(1,081,006)</b>	<b>(50,028)</b>	<b>(25,051)</b>
<b>Gap</b>		<b>42,283</b>	<b>(337,610)</b>	<b>379,892</b>	<b>-</b>
<b>31 December 2008</b>					
Cash on hand	7	39,674	39,674	-	-
Current accounts with non-resident banks	8	10,403	10,403	-	-
Treasury bills	9	541,019	175,559	335,881	29,579
Deposit accounts with non-resident banks	10	519,276	505,242	1,829	12,205
<b>Total</b>		<b>1,110,372</b>	<b>730,878</b>	<b>337,710</b>	<b>41,784</b>
		(137,158)	(137,158)	-	-
Due to domestic banks	15				
Due to governmental institutions	17	(908,212)	(750,357)	(157,855)	-
Due to public and commercial entities	18	(24,400)	(24,400)	-	-
Other domestic liabilities	19	(1,978)	(1,978)	-	-
<b>Total</b>		<b>(1,071,748)</b>	<b>(913,893)</b>	<b>(157,855)</b>	<b>-</b>
<b>Gap</b>		<b>38,624</b>	<b>(183,015)</b>	<b>179,855</b>	<b>41,784</b>

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 4. Financial risk management (continued)

#### d) Market risks (continued)

Overall non-trading interest rate risk positions are managed by the Asset Management Directorate, which uses investment securities and placements with banks to manage the overall position arising from CBK's non-trading activities.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a regular basis include a 100 basis point (bp) parallel fall or rise in all yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant financial position) is as follows:

2009	up to 1 Year scenarios		over 1 Year scenarios	
	100 bp Increase	100 bp decrease	100 bp increase	100 bp Decrease
Estimated Profit (loss) effect	124	(124)	-	-

2008	up to 1 Year scenarios		over 1 Year scenarios	
	100 bp Increase	100 bp decrease	100 bp increase	100 bp Decrease
Estimated Profit (loss) effect	95	(95)	-	-

#### Exposure to other market risks/currency risk-non-trading portfolios

CBK is exposed to currency risk through transactions in foreign currencies. CBK ensures that the net exposure is kept to an acceptable level by buying or selling foreign currency at spot when necessary to address short-term imbalances. CBK's exposure to foreign currency risk is as follows:

31 December 2009	EUR	SDR	Total
<b>Assets</b>			
Cash on hand	21,806	-	21,806
Current accounts with non-resident banks	34,899	-	34,899
Treasury bills	529,652	-	529,652
Deposit accounts with non-resident banks	487,529	-	487,529
Assets with IMF	-	124,482	124,482
Other assets	351	-	351
<b>Total</b>	<b>1,074,237</b>	<b>124,482</b>	<b>1,198,719</b>
<b>Liabilities</b>			
Due to domestic banks	233,246	-	233,246
Due to IMF related accounts	49,099	75,687	124,786
Due to governmental institutions	665,187	-	665,187
Due to public and commercial entities	130,847	-	130,847
Other domestic liabilities	2,019	-	2,019
<b>Total</b>	<b>1,080,398</b>	<b>75,687</b>	<b>1,156,085</b>
<b>Net foreign currency position</b>	<b>(6,161)</b>	<b>48,795</b>	<b>42,634</b>

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 4. Financial risk management (continued)

#### (d) Market risks (continued)

##### Exposure to other market risks/currency risk – non-trading portfolios (continued)

	EUR	SDR	Total
<b>31 December 2008</b>			
<b>Assets</b>			
Cash on hand	39,674	-	39,674
Current accounts with non-resident banks	10,403	-	10,403
Treasury bills	541,019	-	541,019
Deposit accounts with non-resident banks	519,276	-	519,276
Other assets	406	-	406
<b>Total</b>	<b>1,110,778</b>	<b>-</b>	<b>1,110,778</b>
<b>Liabilities</b>			
Due to domestic banks	137,158	-	137,158
Due to governmental institutions	908,212	-	908,212
Due to public and commercial entities	24,400	-	24,400
Other domestic liabilities	1,978	-	1,978
<b>Total</b>	<b>1,071,748</b>	<b>-</b>	<b>1,071,748</b>
<b>Net foreign currency position</b>	<b>39,030</b>	<b>-</b>	<b>39,030</b>

#### (e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with CBK's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of CBK's operations and are faced by all organization units.

CBK's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to CBK's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to managerial staff within each organization unit. This responsibility is supported by the development of overall CBK standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial actions;
- development of contingency plans;
- training and professional development;
- ethical and conduct standards; and
- risk mitigation, including insurance where this is effective.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

*(in thousands of EUR, unless otherwise stated)*

### 4. Financial risk management (continued)

#### e) Operational risks (continued)

Compliance with CBK standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of internal audit reviews are discussed with the management of the organization unit to which they relate, with summaries submitted to the Audit Committee and CBK management.

#### f) Capital management

##### *Regulatory capital*

Law no. 03/L-074 on the Central Bank of the Republic of Kosovo, approved on 5 June 2008 by the Assembly of the Republic of Kosovo, sets the capital requirements of CBK. According to this law, the authorised capital of CBK is EUR 30 million. According to legal provisions, the capital and the general reserve accounts shall be at least equivalent to five percent of the aggregate amount of the credit balances of all accounts maintained on the books of CBK by account holders shown on the statement of financial position of CBK for the end of each financial year. The capital may be increased by such amounts as may be determined by the CBK Governing Board and approved by the Government. CBK capital is not subject to encumbrance.

No reduction of capital can be effected except by promulgation of legislation adopted by the Assembly. Whenever:

- on a monthly pro forma statement of financial position of CBK the value of its assets falls below the sum of its liabilities and its unimpaired authorised capital;
- the net profit of CBK for any financial year is insufficient to increase the capital and general reserve accounts of CBK to a level equivalent to five percent of the aggregate amount of the credit balances of all accounts maintained on the books of CBK by account holders shown on the statement of financial position of CBK at the end of that financial year. The Ministry of Economy and Finance shall, within one month after publication of those financial statements, make a capital contribution to CBK in such amount or amounts as shall be necessary to remedy this deficit.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 4. Financial risk management (continued)

#### f) Capital management (continued)

##### Regulatory capital (continued)

CBK's regulatory capital position at 31 December is as follows:

	Note	2009	2008
<b>Capital and general reserve</b>			
Statutory fund	20	30,000	30,000
Reserve fund	21	11,203	3,736
Retained earnings		3,720	7,467
<b>Total</b>		<b>44,923</b>	<b>41,203</b>

##### Accounts maintained in the books of CBK as at 31 December

Due to domestic banks	15	233,246	137,158
Due to IMF related accounts	16	124,786	-
Due to governmental institutions	17	665,187	908,212
Due to public and commercial entities	18	130,847	24,400
Other domestic liabilities	19	1,745	1,695
<b>Total</b>		<b>1,155,811</b>	<b>1,071,465</b>

**Capital/Accounts maintained in the books of CBK as at 31 December** **3.89%** **3.85%**

**Ratio required as per law** **5%** **5%**

Other domestic liabilities disclosed in the previous table do not include the balances which related to 'Deferred grant revenue' and 'Sundry creditors and accruals'.

As per Law no. 03/L-074, the net income or the net loss of CBK is calculated in accordance with International Financial Reporting Standards (IFRS).

Net income is allocated in each year to a general reserve account until the capital and general reserve accounts are equal to five percent of the aggregate amount of the credit balances of all accounts maintained on the books of the CBK by account holders shown on the Statement of financial position of the CBK for the end of each financial year.

Any balance of net realized income is required to be transferred to the Ministry of Economy and Finance. If there is a net realized loss, it is required to be charged to the general reserve account or to capital, in that order.

# Central Bank of the Republic of Kosovo

## **Note to the financial statements**

*(in thousands of EUR, unless otherwise stated)*

### **5. Use of estimates and judgments**

Management discusses with the Governing Board the development, selection and disclosure of CBK's critical accounting policies and estimates, and the application of these policies and estimates. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

These disclosures supplement the commentary on financial risk management (see note 4).

### **Key sources of estimation uncertainty**

#### **Allowances for impairment losses on loans and advances**

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(f)(vi).

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about the counterparty's financial situation. In case any asset is impaired, it is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by management.

#### **Critical accounting judgments in applying CBK's accounting policies**

Critical accounting judgements made in applying CBK's accounting policies include:

##### **Financial asset and liability classification**

CBK's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances.

In classifying financial assets as held-to-maturity, CBK has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy 3(h).

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(In thousands of EUR, unless otherwise stated)

### 6. Financial assets and liabilities

#### Accounting classifications and fair values

The table below sets out CBK's classification of each class of financial assets and liabilities, and their fair values.

<i>In thousands of EUR</i>	Note	Loans and receivables	Held-to-maturity	Other amortized cost	Total carrying amount	Fair value
<b>31 December 2009</b>						
Cash on hand	7	21,806	-	-	21,806	21,806
Current accounts with non-resident banks	8	34,899	-	-	34,899	34,899
Treasury bills	9	-	529,652	-	529,652	529,275
Deposit accounts with non-resident banks	10	487,529	-	-	487,529	487,529
Assets with IMF	11	124,482	-	-	124,482	124,482
		<b>668,716</b>	<b>529,652</b>	<b>-</b>	<b>1,198,368</b>	<b>1,197,991</b>
Due to domestic banks	15	-	-	233,246	233,246	233,246
Due to IMF related accounts	16	-	-	124,786	124,786	124,786
Due to governmental institutions	17	-	-	665,187	665,187	665,187
Due to public and commercial entities	18	-	-	130,847	130,847	130,847
Other domestic liabilities	19	-	-	1,745	1,745	1,745
		<b>-</b>	<b>-</b>	<b>1,155,811</b>	<b>1,155,811</b>	<b>1,155,811</b>
<b>31 December 2008</b>						
Cash on hand	7	39,674	-	-	39,674	39,674
Current accounts with non-resident banks	8	10,403	-	-	10,403	10,403
Treasury bills	9	-	541,019	-	541,019	541,759
Deposit accounts with non-resident banks	10	519,276	-	-	519,276	519,276
		<b>569,353</b>	<b>541,019</b>	<b>-</b>	<b>1,110,372</b>	<b>1,111,112</b>
Due to domestic banks	15	-	-	137,158	137,158	137,158
Due to governmental institutions	17	-	-	908,212	908,212	908,212
Due to public and commercial entities	18	-	-	24,400	24,400	24,400
Other domestic liabilities	19	-	-	1,695	1,695	1,695
		<b>-</b>	<b>-</b>	<b>1,071,465</b>	<b>1,071,465</b>	<b>1,071,465</b>

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(In thousands of EUR, unless otherwise stated)

### 7. Cash on hand

Cash on hand is all denominated in EUR.

### 8. Current accounts with non-resident banks

These accounts were held at the following banks:

	2009	2008
Deutsche Bundesbank	34,369	9,436
Raiffeisen Zentralbank	145	161
Svenska Handelsbanken	-	130
Commerzbank	381	676
Banque De France	4	-
<b>Total</b>	<b>34,899</b>	<b>10,403</b>

All current accounts have credit rating as per 2009 ranking of and above A-1/P-1 (Standard & Poors/Moody' s ratings) at 29 December.

### 9. Treasury bills

Treasury bills are debt securities issued by governments of European Union countries. They have maturities up to twelve months and they are to be held until maturity. All bills are denominated in EUR and have effective interest rates ranging from 0.199% to 1.490% (2008: 1.83% to 4.37%).

Treasury bills are issued by governments of European Union countries as follows:

	2009	2008
Germany	99,924	69,537
France	164,952	84,929
The Netherlands	99,929	54,904
Italy	-	67,128
Portugal	-	43,836
Belgium	164,847	220,685
<b>Total</b>	<b>529,652</b>	<b>541,019</b>

The CBK invests in treasury bills with a minimum credit rating of AA (Standard & Poor's rating).

# Central Bank of the Republic of Kosovo

(In thousands of EUR, unless otherwise stated)

## 9. Treasury bills (continued)

Treasury bills at 31 December 2009 include an amount of EUR nil (2008: EUR 267,893 thousand) that represents treasury bills purchased by the CBK for the Ministry of Finance and Economy (the "Ministry"). Based on a Memorandum of Understanding (MoU) signed with the Ministry the CBK acts as an Investment Manager of the funds of the Ministry. In January 2010 the parties made changes to the MoU, article III - *Allocation of Risk*. Based on this change for investments made pursuant to this MoU that are in compliance with risk management provisions of the CBK Investment Policy, the related credit risk will be borne by the CBK and these investments will be recorded in the CBK accounts. Based on the MoU, the CBK also assumes responsibility for the proper operation of the Assets Management Directorate, a CBK division, and for the timely purchase, settlement, payment and accounting of all invested amounts of the Kosovo Consolidated Budget.

## 10. Deposit accounts with non-resident banks

Deposit accounts with non-resident banks are composed of:

	2009	2008
<b>Time deposits</b>		
Raiffeisen Zentralbank	56,500	29,700
Svenska Handelsbanken	-	166,200
ING Bank	-	21,735
Deutsche Bundesbank	-	50,300
KBC	48,835	41,571
Rabobank	10,003	96,579
Danske Bank	87,097	46,813
Commerzbank	4,100	65,700
Banque de France	150,824	-
Banque Centrale du Luxembourg	130,057	-
	<b>487,416</b>	<b>518,598</b>
<b>Interest accrued on time deposits</b>		
Raiffeisen Zentralbank	-	153
Svenska Handelsbanken	-	92
ING Bank	-	2
Deutsche Bundesbank	-	95
KBC	52	5
Rabobank	-	319
Danske Bank	2	6
Commerzbank	-	6
Banque de France	31	-
Banque Centrale du Luxembourg	28	-
	<b>113</b>	<b>678</b>
<b>Total</b>	<b>487,529</b>	<b>519,276</b>

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

### Notes to the financial statements

*(In thousands of EUR, unless otherwise stated)*

#### 10. Deposit accounts with non-resident banks (continued)

Deposits placed with non-resident banks are denominated in EUR and earn interest at effective interest rates ranging from 0.05% to 2.05% (2008: 1.41% to 5.00%) and have original maturities from 1 to 186 days (2008: from 1 to 355 days). All deposits have credit rating as per 2009 ranking of A-1/P-1 (Standard & Poors/Moody's ratings) at 29 December.

#### 11. Assets with IMF

	2009	2008
IMF quota	64,205	-
SDR Holdings	60,253	-
Accrued Interest	24	-
<b>Total</b>	<b>124,482</b>	<b>-</b>

The assets listed above relate to the admission of Kosovo to the IMF in June 2009. In relation to the membership of Kosovo in the IMF, the CBK acts as depository and the fiscal agent. This is in accordance with the Law No. 03/L-074 on the Central Bank of the Republic of Kosovo and the Law No. 03-L-152 on Membership of the Republic of Kosovo in the International Monetary Fund and World Bank Group Organizations.

IMF Quota represents an one-time subscription determined at the time of admission. SDR Holdings represent assets approved by IMF Board of Governors as per allocations of SDRs to IMF's member countries on 28 August and 9 September 2009.

IMF quota – reserve tranche position and SDR Holdings bear annual interest rates of 0.22% - 0.31%.

# Central Bank of the Republic of Kosovo

(In thousands of EUR, unless otherwise stated)

## 12. Property and equipment

Property and equipment is composed as follows:

	Leasehold improvement	Equipment	Computers	Vehicles	Total
<b>Cost</b>					
Balance at 1 January 2008	1,279	1,271	445	119	3,114
Acquisitions	-	188	169	-	357
Disposals	-	-	(1)	(12)	(13)
<b>Balance at 31 December 2008</b>	<b>1,279</b>	<b>1,459</b>	<b>613</b>	<b>107</b>	<b>3,458</b>
Balance at 1 January 2009	1,279	1,459	613	107	3,458
Acquisitions	-	84	166	222	472
Disposals	-	-	-	(43)	(43)
<b>Balance at 31 December 2009</b>	<b>1,279</b>	<b>1,543</b>	<b>779</b>	<b>286</b>	<b>3,887</b>
<b>Depreciation</b>					
Balance at 1 January 2008	64	572	303	67	1,006
Depreciation for the period	64	203	94	17	378
Disposals	-	-	(1)	(12)	(13)
<b>Balance at 31 December 2008</b>	<b>128</b>	<b>775</b>	<b>396</b>	<b>72</b>	<b>1,371</b>
Balance at 1 January 2009	128	775	396	72	1,371
Depreciation for the period	64	217	127	36	444
Disposals	-	-	-	(43)	(43)
<b>Balance at 31 December 2009</b>	<b>192</b>	<b>992</b>	<b>523</b>	<b>65</b>	<b>1,772</b>
<b>Carrying amounts</b>					
<b>Balance at 1 January 2008</b>	<b>1,215</b>	<b>699</b>	<b>142</b>	<b>52</b>	<b>2,108</b>
<b>Balance at 31 December 2008</b>	<b>1,151</b>	<b>684</b>	<b>217</b>	<b>35</b>	<b>2,087</b>
<b>Balance at 31 December 2009</b>	<b>1,087</b>	<b>551</b>	<b>256</b>	<b>221</b>	<b>2,115</b>

Lease hold improvement of assets relate to security improvements of CBK's office building. According to article three of Law no. 03/L-074, CBK, for its official business purposes, utilizes and administers the property and facilities, including moveable and immovable property, located at Garibaldi Street 33, Pristina, Kosovo.

There are no assets pledged as collateral as at 31 December 2009 (2008: none).

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

### Notes to the financial statements

(In thousands of EUR, unless otherwise stated)

#### 13. Intangible assets

Intangible assets are composed as follows:

	Software Under Development	Software	Total
<b>Cost</b>			
Balance at 1 January 2008	-	1,017	1,017
Acquisitions	25	19	44
<b>Balance at 31 December 2008</b>	<b>25</b>	<b>1,036</b>	<b>1,061</b>
Balance at 1 January 2009	25	1,036	1,061
Acquisitions	-	149	149
<b>Balance at 31 December 2009</b>	<b>25</b>	<b>1,185</b>	<b>1,210</b>
<b>Amortization</b>			
Balance at 1 January 2008	-	895	895
Amortization for the period	-	80	80
<b>Balance at 31 December 2008</b>		<b>975</b>	<b>975</b>
Balance at 1 January 2009	-	975	975
Amortization for the period	-	61	61
<b>Balance at 31 December 2009</b>	<b>-</b>	<b>1,036</b>	<b>1,036</b>
<b>Carrying amounts</b>			
<b>Balance at 1 January 2008</b>	<b>-</b>	<b>122</b>	<b>122</b>
<b>Balance at 31 December 2008</b>	<b>25</b>	<b>61</b>	<b>86</b>
<b>Balance at 31 December 2009</b>	<b>25</b>	<b>174</b>	<b>174</b>

#### 14. Other assets

Other assets are composed as follows:

	2009	2008
Accrued fee income	333	357
Accounts receivable and prepayments	18	49
<b>Total</b>	<b>351</b>	<b>406</b>

Accrued fee income represents the estimated license renewal fee and other fees for the fourth quarter from local financial institutions.

#### 15. Due to domestic banks

Under CBK supervision Banking Rule XVII, commercial banks operating in Kosovo are required to maintain a liquidity reserve amounting to 10% of their qualifying customer deposits. At least half of these reserve balances must be kept in accounts at CBK.

CBK shall pay interest on the balances held at CBK up to the amount of the 10% minimum required reserve ratio. The annual interest rate as at 31 December 2009 was 0.10% (31 December

# Central Bank of the Republic of Kosovo

2008: 1.25%).

(In thousands of EUR, unless otherwise stated)

## 15. Due to domestic banks

	2009	2008
ProCredit Bank Kosovo	54,138	25,117
Raiffeisen Bank Kosovo	53,005	23,875
NLB Prishtina	18,697	7,699
Komercijalna Banka Bg Mitrovica Branch	2,396	1,132
Banka Ekonomike e Prishtinës	5,913	2,191
Banka për Biznes	5,578	2,025
Banka Kombëtare Tregtare e Shqipërisë	3,354	352
Turk Ekonomi Bankasi Sh.A	9,226	1,381
<b>Total liquidity required reserves</b>	<b>152,307</b>	<b>63,772</b>
<b>Additions on current accounts</b>		
ProCredit Bank Kosovo	42,777	34,242
Raiffeisen Bank Kosovo	2,568	12,438
NLB Prishtina	1,838	7,023
Banka Ekonomike e Prishtinës	8,096	1,520
Banka për Biznes	16,868	10,164
Banka Kreditore e Prishtinës in Receivership	59	226
Banka Kombëtare Tregtare Prishtina Branch	2,518	4,852
Komercijalna Banka - Mitrovica Branch	130	1,179
Turk Ekonomi Bankasi Sh.A	6,085	1,742
<b>Total additions to current accounts</b>	<b>80,939</b>	<b>73,386</b>
<b>Total on current accounts</b>	<b>233,246</b>	<b>137,158</b>

## 16. Due to IMF Related accounts

	2009	2008
IMF Security Account	49,099	-
Reserve Position	15,409	-
IMF SDR Allocation	60,253	-
Accrued Interest	25	-
<b>Total</b>	<b>124,786</b>	<b>-</b>

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

### Notes to the financial statements

(In thousands of EUR, unless otherwise stated)

#### 16. Due to IMF Related accounts (continued)

The amounts mentioned above relate to the admission of Kosovo to the IMF in June 2009. IMF Security Account represents a promissory note to be paid by the Kosovo Government upon IMF's request.

Reserve Position corresponds to the reserve asset portion of the IMF Quota subscription (see Note 11), which was paid by the Kosovo Government.

SDR Allocation represent allocations of SDRs to IMF's member countries as approved by IMF Board of Governors on 28 August and 9 September 2009.

SDR Allocations are interest-bearing with annual interest rates of 0.22% - 0.31%.

#### 17. Due to governmental institutions

Due to governmental institutions include current accounts from the following:

<i>Current accounts</i>	<b>2009</b>	<b>2008</b>
Ministry of Finance and Economy	88,245	403,610
Privatization Agency of Kosovo	451,041	498,425
Interim institutions	797	6,177
<b>Total current accounts</b>	<b>540,083</b>	<b>908,212</b>

<i>Time Deposits</i>	<b>2009</b>	<b>2008</b>
Ministry of Finance and Economy	125,104	-
<b>Total time deposits</b>	<b>125,104</b>	-
<b>Total</b>	<b>665,187</b>	<b>908,212</b>

The effective interest rate for current accounts as at 31 December 2009 is 0.10% (31 December 2008: 1.25%). For time deposits is 0.20% - 1.30% in 2009, (for 2008 not applicable).

#### 18. Due to public and commercial entities

Due to public and commercial entities include current accounts and time deposits from the following:

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(In thousands of EUR, unless otherwise stated)

## 19. Due to public and commercial entities (continued)

	2009	2008
<b>Current accounts</b>		
Insurance companies	7,664	15,394
Public utility corporations	506	1,535
Pension funds	122,676	67
Other	2	2
	<b>130,847</b>	<b>16,998</b>
<b>Time deposits</b>		
Insurance companies	-	7,402
	-	<b>7,402</b>
<b>Total</b>	<b>130,847</b>	<b>24,400</b>

The effective interest rate for current accounts as at 31 December 2009 is 0.10% (31 December 2008: 1.25%) and for time deposits is not applicable (31 December 2008: 3.95 and 4.45%).

## 20. Other domestic liabilities

	2009	2008
Other liabilities to the government	1,210	1,162
Deferred grant revenue	9	-
Liabilities to the former National Bank of Kosovo	496	495
Sundry creditors and accruals	265	283
Other domestic liabilities	39	38
<b>Total</b>	<b>2,019</b>	<b>1,978</b>

The balance due to the government represents rent and supervisory penalties which were collected by the CBK.

Liabilities to the former National Bank of Kosovo arise from the following. Upon inception, CBK inherited certain amounts of cash, in various currencies, from the former National Bank of Kosovo. Also included in this balance is the related interest accumulated since 5 January 2004. The cash was initially converted into DEM 872 thousand on 22 December 2000 and subsequently translated to euro. The balance of the account as at 1 January 2002 was converted to EUR 446 thousand and the resulting balance as at 31 December 2009 and 31 December 2008 includes this balance and interest earned as at those dates.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

### Notes to the financial statements

(In thousands of EUR, unless otherwise stated)

#### 19. Other domestic liabilities (continued)

The movement in deferred grant revenue was as follows:

	Ministry of Economy and Finance	World Bank	Total
Deferred grant revenue at 1 January 2008	-	49	49
Grants received during the year	36	-	36
Grant revenue for the year	(36)	(49)	(85)
<b>Deferred grant revenue at 31 December 2008</b>	<b>-</b>	<b>-</b>	<b>-</b>
Deferred grant revenue at 1 January 2009	-	-	-
Grants received during the year	33	-	33
Grant revenue for the year	(24)	-	(24)
<b>Deferred grant revenue at 31 December 2009</b>	<b>9</b>	<b>-</b>	<b>9</b>

#### 20. Statutory fund

Based on provisions of the UNMIK Regulation no. 2006/47, the initial statutory fund of CBK, totaling DEM 5,000 thousand (EUR 2,556 thousand), was contributed by the Central Fiscal Authority on 31 March 2000. As at 8 June 2004, based on the decision of DSRS (Deputy of Special Representative of the Secretary General) Pillar IV, the statutory fund was increased from EUR 2,556 thousand to EUR 10,000 thousand.

Further to UNMIK Regulation no. 2006/47, on 15 June 2007 EUR 10,000 was transferred from the reserve fund to the statutory fund upon the approval of the Governing Board. Further to Law no 03/L-074, on 29 July 2008 the Governing Board approved the transfer of another EUR 10,000 thousand from the reserve fund.

CBK reports directly to the Assembly of Kosovo. CBK capital is not subject to encumbrance.

#### 21. Reserve fund

The reserve fund was created in accordance with UNMIK Regulation no. 1999/20. Subsequently, it was also addressed by replacing UNMIK regulations.

At present, the level of the reserve fund is regulated by Law no. 03/L-074 on the Central Bank of the Republic of Kosovo. Net profit of each financial year, in accordance with this law and with the authorization of the Governing Board, is transferred to the reserve fund or to the Ministry of Economy and Finance account.

# Central Bank of the Republic of Kosovo

(In thousands of EUR, unless otherwise stated)

## 22. Net interest income

Net interest income is composed as follows:

	2009	2008
<b>Interest income</b>		
From fixed term placements	2,414	33,290
From treasury bills	4,010	9,467
From current account placements (balances)	205	84
	<b>6,629</b>	<b>42,841</b>
<b>Interest expense</b>		
On current account deposits of non-bank entities	1,780	22,011
On eligible current account deposits of banks	360	3,066
On fixed term deposits	360	8,986
	<b>2,500</b>	<b>34,063</b>
<b>Net interest income</b>	<b>4,129</b>	<b>8,778</b>

## 23. Net fee and commission income

Net fee and commission income is composed as follows:

	2009	2008
<b>Fee income</b>		
From cash deposits	220	124
From foreign incoming transfers	75	96
From foreign outgoing transfers	344	356
From inter-bank clearing system	196	145
From credit registry system	93	67
From management of treasury fund	1,500	77
Other fees	34	19
	<b>2,462</b>	<b>884</b>
<b>Fee expenses</b>		
For cash transportation	203	182
For correspondent bank transactions	66	33
	<b>269</b>	<b>215</b>
<b>Net fee and commission income</b>	<b>2,193</b>	<b>669</b>

## 24. Grant revenue

Grant revenue is composed as follows:

	2009	2008
World Bank	-	49
Ministry of Finance and Economy	24	36
<b>Total</b>	<b>24</b>	<b>85</b>

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

### Notes to the financial statements

(In thousands of EUR, unless otherwise stated)

#### 25. Other operating income

Other operating income includes mainly fees charged to financial institutions in Kosovo as part of issuing or renewing licenses as well as other statutory fees related to their activities.

#### 26. Personnel expenses

Personnel expenses are composed as follows:

	<b>2009</b>	<b>2008</b>
Wages and salaries	1,495	1,219
Social security and health insurance cost	380	326
Staff training	147	132
Governing Board	108	58
Other	30	36
<b>Total</b>	<b>2,160</b>	<b>1,771</b>

The number of employees at CBK as at 31 December 2009 is 167 (31 December 2008: 158).

#### 27. General and administrative expenses

General and administrative expenses are composed as follows:

	<b>2009</b>	<b>2008</b>
Insurance expenses	240	234
Repairs and maintenance	48	69
Software maintenance	111	108
Communication expense (telephone, telex and internet)	85	79
Utilities	80	70
Audit and consulting expense	24	23
Security and guard services	44	44
Travel and transportation	95	68
Vehicle operating expenses	28	25
Stores and stationery	28	22
Restaurant (cafeteria) expenses	16	12
Computer and other consumables expense	41	58
Publication and literature expenses	38	51
Official representation expenses	93	27
Other	27	33
<b>Total</b>	<b>998</b>	<b>923</b>

# Central Bank of the Republic of Kosovo

(In thousands of EUR, unless otherwise stated)

## 28. Other Comprehensive income/(loss)

Other comprehensive loss of EUR 303 thousand for the year ended 31 December 2009 [2008: nil] represents unrealized foreign exchange gains and losses in relation to foreign exchange differences resulting upon translation of SDR assets and liabilities on the CBK books.

## 29. Cash and cash equivalents

Cash and cash equivalents are composed as follows:

	Note	2009	2008
Cash on hand	7	21,806	39,674
Current accounts with non-resident banks	8	34,899	10,403
Treasury bills with maturity up to three months		149,893	175,559
Deposit accounts with non-resident banks with maturity up to three months		412,237	505,242
<b>Total</b>		<b>618,835</b>	<b>730,878</b>

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. An investment qualifies as a cash equivalent when it has a short maturity, three months or less from the date of acquisition.

## 30. Commitments and contingencies

### *Legal*

CBK is involved in routine legal proceedings in the ordinary course of business. It is management's opinion that the final outcome of these lawsuits will not have a material effect on CBK's financial statements as at and for the year ended 31 December 2009.

### *Other commitments*

Other commitments are composed as follows:

	31 December 2009	31 December 2008
Purchase of computer applications	10	50
Upgrade the core accounting system	765	-
Purchase of vehicles	-	144
Repair - Installation of the voicing system	-	42
<b>Total</b>	<b>775</b>	<b>236</b>

In 2009, the Kosovo became member of the World Bank Group organizations - International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA) and the Multilateral Investment Guarantee Agency (MIGA). In relation to this membership, the CBK acts as depository. This is in accordance with the Law No. 03/L-074 on the Central Bank of the Republic of Kosovo and the Law No. 03-L-152 on Membership of the Republic of Kosovo in the International Monetary Fund and World Bank Group Organizations.

In June 2009, the Government of Kosovo issued promissory notes to make payments concerning membership subscription to the above mentioned organizations upon their requests and payment instructions. The total balance at 31 December 2009 of these promissory notes is EUR 4,007 thousand.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

*(In thousands of EUR, unless otherwise stated)*

### 31. Related party transactions

Related parties include management and the Governing Board. Their compensations are presented below:

	<b>2009</b>	<b>2008</b>
Compensation to Governing Board members	98	58
Compensation to Management	133	100
<b>Total</b>	<b>231</b>	<b>158</b>

### 32. Subsequent events

There are no events after the reporting date that would require either adjustments or additional disclosures in the financial statements.