



Central Bank of the Republic of Kosovo

Financial statements

as at and for the year ended 31 December 2010

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, 27 May 2011

Report on the Financial Statements

We have audited the accompanying financial statements of Central Bank of the Republic of Kosovo ("the Bank"), which comprise the statement of financial position as at 31 December 2010, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 policies 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 audit 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 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Albania Shpk Kosovo Branch

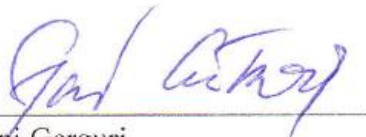
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Central Bank of the Republic of Kosovo
Statement of financial position
As at 31 December


<i>In thousands of EUR</i>	Note	2010	2009
Assets			
Cash on hand	7	60,194	21,806
Current accounts with non-resident banks	8	25,621	34,899
Treasury bills	9	199,275	529,652
Deposit accounts with non-resident banks	10	807,332	487,529
Assets related with International Monetary Fund	11	154,554	124,482
Property and equipment	12	1,736	2,115
Intangible assets	13	898	174
Other assets	14	429	351
Total assets		1,250,039	1,201,008
Liabilities			
Due to domestic banks	15	203,572	233,246
Due to IMF related accounts	16	153,868	124,786
Due to governmental institutions	17	798,721	665,187
Due to public and commercial entities	18	43,228	130,847
Other domestic liabilities	19	2,670	2,019
Total liabilities		1,202,059	1,156,085
Capital and reserves			
Statutory fund	20	30,000	30,000
Reserve fund	21	14,923	11,203
Retained Earnings		3,057	3,720
Total capital and reserves		47,980	44,923
Total liabilities, capital and reserves		1,250,039	1,201,008

The notes on pages 5 to 37 are an integral part of these financial statements.

These financial statements set out on pages 5 to 37 were approved by the management of CBK on 5 April 2011 and signed on its behalf by:



 Gani Gerguri
 Acting Governor



 Faton Ahmetaj
 Director of Financial Planning and
 Reporting

Central Bank of the Republic of Kosovo

Statement of comprehensive income

For the year ended 31 December 2010

<i>In thousands of EUR</i>	Note	2010	2009
Interest income		4,574	6,629
Interest expense		(2,852)	(2,500)
Net interest income	22	1,722	4,129
Fee and commission income		2,575	2462
Fee and commission expense		(248)	(269)
Net fee and commission income	23	2,327	2,193
Grant revenue	24	57	24
Other operating income	25	1,522	1,340
Foreign exchange net gain/(loss)	28	1,408	(303)
Operating income		7,036	7,383
Personnel expenses	26	(2,395)	(2,160)
Depreciation and amortization	12,13	(564)	(505)
General and administrative expenses	27	(1,020)	(998)
Operating expenses		(3,979)	(3,663)
Profit for the year		3,057	3,720
Other comprehensive income		-	-
Total comprehensive income for the year		3,057	3,720

The notes on pages 5 to 37 are an integral part of these financial statements.

Central Bank of the Republic of Kosovo

Statement of changes in equity

As at 31 December

<i>In thousands of euro</i>	Statutory fund	Reserve fund	Retained Earnings	Total
Balance at 1 January 2009	30,000	3,736	7,467	41,203
Total comprehensive income for the year				
Other comprehensive income	-	-	-	-
Profit	-	-	3,720	3,720
Total comprehensive income for the year	-	-	3,720	3,720
Transactions required by law, recorded directly in equity	-	-	-	-
Transfer to statutory fund	-	7,467	(7,467)	-
Total transfers to statutory fund	-	7,467	(7,467)	-
Balance at 31 December 2009	30,000	11,203	3,720	44,923
Balance at 1 January 2010	30,000	11,203	3,720	44,923
Total comprehensive income for the year				
Other comprehensive income	-	-	-	-
Profit	-	-	3,057	3,057
Total comprehensive income for the year	-	-	3,057	3,057
Transactions required by law, recorded	-	3,720	(3,720)	-
Transfer to reserve fund	-	-	-	-
Total transfer to reserve fund	-	3,720	(3,720)	-
Balance at 31 December 2010	30,000	14,923	3,057	47,980

The notes on pages 5 to 37 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 2010

<i>In thousands of EUR</i>	Note	2010	2009
Cash flows from operating activities			
Profit for the year		3,056	3,720
<i>Adjustments for:</i>			
Depreciation	12	478	444
Amortization	13	86	61
Grant revenue	24	(57)	(24)
Gain on sale of equipment		-	(11)
Interest income	22	(4,574)	(6,629)
Interest expense	22	2,852	2,500
		1,841	61
Change in treasury bills		250,380	(15,959)
Change in deposit accounts with nonresident banks		(163,904)	(61,824)
Change in assets with IMF		(22,477)	(124,458)
Change in other assets		(85)	31
Change in due to domestic banks		(29,672)	96,088
Change in due to IMF related accounts		21,490	124,761
Change in due to governmental institutions		132,947	(243,129)
Change in due to public and commercial entities		(87,619)	106,648
Change in other domestic liabilities		(654)	32
		103,554	(117,749)
Interest received		4,119	9,160
Interest paid		(2,347)	(2,574)
Net cash used in / (generated from) operating activities		105,326	(111,163)
Cash flows from investing activities			
Proceeds from sale of equipment		-	11
Purchase of equipment	12	(99)	(472)
Purchase of intangible assets	13	(810)	(149)
Net cash used in investing activities		(909)	(610)
Cash flows from financing activities			
Proceeds from grants		53	33
Net cash generated from financing activities		53	33
Net increase/(decrease) in cash and cash equivalents		104,470	(111,740)
Effect of exchange rate		-	(303)
Cash and cash equivalents at 1 January		618,835	730,878
Cash and cash equivalents at 31 December	29	723,305	618,835

The notes on pages 5 to 37 are an integral part of these financial statements.

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

1. Reporting entity

The Central Bank of the Republic of Kosovo (hereinafter "CBK" or "the Bank"), 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 Bank acts in accordance with Law No.03/L-209 "Law on Central Bank of the Republic of Kosovo", hereafter referred to as ("the CBK Law"). As per this law, the principal objectives of CBK are to:

- foster and maintain a stable financial system, including a safe, sound and efficient payment system.
- contribute to achieving and maintaining domestic price stability.
- support the general economic policies of the Government.

As prescribed in the Law, CBK shall act in accordance with the principles of an open market economy with free competition, favoring an efficient allocation of resources.

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

33 Garibaldi Street

Pristina, Kosovo.

Central Bank Board, Executive Board and Governor

The decision-making bodies of CBK are the Central Bank Board, the Executive Board, and the Governor. As per Article 79, paragraph 2 of the CBK Law, the Central Bank Board comprises of the Governor, the General Director of Treasury and three non-executive members and is charged with the supervision of the implementation of the policies, and the supervision of the administration and the operations of CBK.

As at 31 December 2010, the Central Bank Board of CBK comprised the following members:

- Gazmend Luboteni – Chairman
- Gani Gerguri – Acting Governor
- Lulzim Ismajli – Member, Director of Treasury of Ministry of Finance
- 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.

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

2. Basis of preparation (Continued)

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 the 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 amounts 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.

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.

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.

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

b) Interest (continued)

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 includes 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 expenses relate mainly to transaction and service fees, which are expensed as the services are received.

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.

CBK makes pension contributions as permitted by the Kosovo law, whereby the State provides pension benefits for employees upon retirement. CBK's contributions to the pension plan are charged to profit or loss as incurred.

e) Taxation and profit allocation

CBK is exempt from income tax according to Law No. 03/L-209 issued on 22 July 2010. See note 4 (f) on how CBK allocates its profit.

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

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.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

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. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

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

iii. Offsetting

Financial assets and liabilities are offset 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.

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, CBK measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

v. Fair value measurement

If a market for a financial instrument is not active, CBK establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to CBK, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. CBK calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

iv. 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 if applicable, 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.

h) Investment securities

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

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

h) Investment securities (continued)

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 and loss as incurred.

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:

	2010	2009
Leasehold improvements	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.

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

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 (2009: 3 years).

k) Impairment 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. Financial liabilities are measured at their amortised cost using the effective interest rate 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

Notes to the financial Statement

(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

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these financial statements. None is expected to have an effect on the financial statements of the Bank with the exception of:

- IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2013, earlier application 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 assets 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 effect, if any, on the financial statements, of the introduction of IFRS 9.

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

p) New standards and interpretations

- Revised IAS 24 Related Party Disclosure (effective for annual periods beginning on or after 1 January 2011) The amendment exempts government-related entity 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. The Bank is in the process of assessing the impact of the revised IAS 24 on its financial statements.

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

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 Central Bank Board has overall responsibility for the establishment and oversight of CBK's risk management framework. CBK management reports regularly to the Central Bank Board on risk management practices. 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.

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

Risk management framework (continued)

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 counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from CBK's investments in debt 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 debt 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 2010 and 31 December 2009 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.

c) Liquidity risk

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

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

c) Liquidity risk (continued)

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 Central Bank Board. CBK manages its liquidity risk by investing in short term deposits with nonresident 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. Monthly 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, excluding future interest payments

31 December 2010		Carrying	Less than	1-3	3 Months
<i>Non-derivative liabilities</i>	Note	amount	1 month	months	to 1 year
Due to domestic banks	15	203,572	203,574	-	-
Due to IMF related accounts	16	153,868	131,776	-	22,093
Due to governmental institutions	17	798,721	497,146	226,351	75,225
Due to public and commercial entities	18	43,228	43,228	-	-
Other domestic liabilities	19	2,419	2,419	-	-
		1,201,808	878,393	226,351	97,318

31 December 2009

<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	-	-
		1,156,085	1,030,982	50,024	75,079

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

c) Liquidity risk (continued)

The previous table shows the undiscounted cash flows of CBK's financial liabilities on the basis of their earliest possible contractual maturity. To manage the liquidity risk arising from financial liabilities, CBK holds liquid assets comprising cash and cash equivalents, current accounts, deposit accounts and treasury bills for which there is an active and liquid market.

Volatility in the global and Kosovo financial markets

The global financial and economic crisis has resulted in, among other things, a lower level of capital market funding, and lower liquidity levels across the banking sector, central bank 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 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's exposure to market risk is related only to non-trading portfolios.

Exposure to interest rate risk non-trading portfolios

One of the principal risks to which non-trading portfolios are exposed is a change in market interest rates causing a reduction in future cash flows for variable-rate financial assets or a decline in the fair values of fixed-rate financial assets. 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

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

Exposure to interest rate risk-non-trading portfolios

	Note	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years
31 December 2010						
Current accounts with non-resident banks	8	25,621	25,621	-	-	-
Treasury bills	9	199,275	69,902	94,665	34,708	-
Deposit accounts with non-resident banks	10	807,332	567,765	103,143	136,424	-
Assets with IMF	11	154,554	132,461	-	-	22,093
Total		1,186,782	795,749	197,808	171,132	22,093
Due to domestic banks	15	(203,572)	(203,572)	-	-	-
Due to IMF related accounts	16	(153,868)	(131,775)	-	-	(22,093)
Due to governmental institutions	17	(798,721)	(527,101)	(100,222)	(171,398)	-
Due to public and commercial entities	18	(43,228)	(43,228)	-	-	-
Due to domestic liability	19	(2,419)	(2,419)	-	-	-
Total		(1,201,808)	(908,095)	(100,222)	(171,398)	(22,093)
Gap		(15,026)	(112,346)	97,586	(266)	-
31 December 2009						
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	-	-	-
Total		1,176,562	721,591	429,920	25,051	-
Due to domestic banks	15	(233,246)	(233,246)	-	-	-
	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)	-	-	-
Due to domestic liability	19	2,019	2,019	-	-	-
Total		(1,156,085)	(1,081,006)	(50,028)	(25,051)	-
Gap		20,477	(359,415)	379,892	-	-

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Notes to the financial Statement

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Non-interest bearing financial assets and liabilities have not been included in the table above.

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.

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:

2010

	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	141	(141)

2009

	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	124	(124)

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

CBK has an exposure to SDR related to its IMF assets and liabilities, which they monitor on an ongoing basis. CBK's exposure to foreign currency risk is as follows:

2010

	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	7	(7)

2009

	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	3	(3)

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

31 December 2010	EUR	SDR	Total
Assets			
Cash on hand	60,194	-	60,194
Current accounts with non-resident banks	25,621	-	25,621
Treasury bills	199,275	-	199,275
Deposit accounts with non-resident banks	807,332	-	807,332
Assets with IMF	-	154,554	154,554
Other assets	429	-	429
Total	1,092,851	154,554	1,247,405
Liabilities			
Due to domestic banks	203,5724	-	203,574
Due to IMF related accounts	72,9823	80,886	153,869
Due to governmental institutions	798,7212	-	798,722
Due to public and commercial entities	43,228	-	43,228
Other domestic liabilities	2,419	-	2419
Total	1,121,173	80,886	1,202,062
Net foreign currency position	(28,322)	73,668	45,345

31 December 2009	EUR	SDR	Total
Assets			
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
Total	1,074,237	124,482	1,198,719
Liabilities			
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
Total	1,080,398	75,687	1,156,085
Net foreign currency position	(6,161)	48,795	42,634

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

CBK deals predominantly in EUR, while the foreign currencies CBK deals with are predominantly Special Drawing Rights (“SDRs”). The exchange rates used for translation at 31 December 2010 and 2009 were as follows:

	2010	2009
	EUR	EUR
1 SDR	1.159	1.088

SDRs are supplementary foreign exchange reserve assets defined and maintained by the international Monetary Fund (IMF). Although SDRs are not a currency itself, they represent a potential claim on the currencies of IMF member states for which they may be exchanged. SDRs were created in 1969 to alleviate a shortage of preferred foreign exchange reserve assets, namely the US dollar and gold, the value of the SDR is defined by a weighted currency basket of four major currencies, the Euro, the US dollar, the British pound, and the Japanese yen.

(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 of the organization’s 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 organizational 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.

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 management of the organizational unit to which they relate, with summaries submitted to the Audit Committee and CBK management.

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

(f) Capital management

Law no. 03/L-209 on the Central Bank of the Republic of Kosovo, approved on 22 July 2010 by the Assembly of the Republic of Kosovo, sets the capital requirements of CBK. According to this law, the authorized capital of CBK is EUR 30 million. The capital may be increased by such amounts as may be proposed by CBK and approved by the Government. No reduction of CBK capital shall be permitted at any time.

As per Law no. 03/L-209, 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 aggregate amount of initial capital and general reserves equals five percent (5%) of the Central Bank's monetary liabilities.

50% of the net balance of realized income remaining after fulfilling the 5% criteria mentioned above is required to be transferred to the Ministry of Economy and Finance. The remaining 50% of the realized income is required to be allocated to the general reserve account of CBK.

5. Use of estimates and judgments

Management discusses with the Central Bank 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 credit losses

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 financial assets 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 judgements about the counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and an estimate of cash flows considered recoverable is independently approved.

Critical accounting judgments in applying CBK's accounting policies

Critical accounting judgments 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).

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Notes to the financial Statement

(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
31 December 2010						
Cash on hand	7	60,194	-	-	60,194	60,194
Current accounts with non-resident banks	8	25,621	-	-	25,621	25,621
Treasury bills	9	-	199,275	-	199,276	198,490
Deposit accounts with non-resident banks	10	807,332	-	-	807,332	807,332
Assets with IMF	11	154,554	-	-	154,554	154,554
		1,047,701	199,275	-	1,246,976	1,246,191
Due to domestic banks	15	-	-	203,572	203,572	203,572
Due to IMF related accounts	16	-	-	153,868	153,868	153,869
Due to governmental institutions	17	-	-	798,721	798,721	798,721
Due to public and commercial entities	18	-	-	43,228	43,228	43,228
Other domestic liabilities	19	-	-	2,419	2,419	2,419
		-	-	1,201,808	1,201,808	1,201,808
31 December 2009						
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
		668,716	529,652	-	1,198,368	1,197,991
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
		-	-	1,155,811	1,155,811	1,155,811

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(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:

	2010	2009
Deutsche Bundesbank	25,068	34,369
Raiffeisen Zentralbank	234	145
Commerzbank	315	381
Banque De France	4	4
Total	25,621	34,899

All current accounts have credit ratings of A-1/P-1 as per 2010 rankings of the above banks by Standard & Poor's/Moody's ratings at 31 December 2010.

9. Treasury bills

Treasury bills are debt securities issued by governments of European Union countries. They have maturities up to twelve months and they held until maturity. All bills are denominated in EUR and have effective interest rates ranging from 0.141% to 1.346% (2009: 0.199% to 1.490%)

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

	2010	2009
Germany	-	99,924
France	-	164,952
The Netherlands	-	99,929
Italy	84,613	-
Portugal	34,787	-
Belgium	79,875	164,847
Total	199,275	529,652

CBK invests in treasury bills with a minimum credit rating of A-2 and P-2, as per Standard & Poor's/Moody's ratings.

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

9. Treasury bills (continued)

Treasury bills at 31 December 2010 include an amount of EUR 84,747 thousand (2009: EUR nil) 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, 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, the related credit risk is borne by the CBK and these investments are recorded in the CBK accounts. Based on the MoU, 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:

	2010	2009
Time deposits		
Raiffeisen Zentralbank	94,600	56,500
ING Bank	150,088	-
KBC	20,003	48,835
Rabobank	136,064	10,003
Danske Bank	97,392	87,097
Commerzbank	53,800	4,100
Banque de France	144,387	150,824
Banque Centrale du Luxembourg	110,379	130,057
	806,713	487,416
Interest accrued on time deposits		
Raiffeisen Zentralbank	35	-
ING Bank	132	-
KBC	1	52
Rabobank	358	-
Danske Bank	2	2
Commerzbank	58	-
Banque de France	14	31
Banque Centrale du Luxembourg	19	28
	619	113
Total	807,332	487,529

Central Bank of the Republic of Kosovo

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 0.10% to 1.20% (2009: 0.05% to 2.05%) and have original maturities from 1 to 366 days (2009: from 1 to 186 days). All deposits have credit rating A-1/P-2, as per 2010 ranking by Standard & Poors/Moody's ratings.

11. IMF related assets

	2010	2009
IMF quota	68,420	64,205
SDR Holdings	63,993	60,253
Accrued interest	48	24
IMF	132,461	124,482
Government		
Due from the Government for the use of IMF funds (SBA)	22,093	-
Total	154,554	124,482

The assets listed above are related to the admission of Kosovo to the IMF in June 2009. CBK acts as depository and fiscal agent in relation to Kosovo's membership in the IMF. This is in accordance with the Law No. 03/L-209 on the Central Bank of the Republic of Kosovo and 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 a subscription amount determined at the time of admission of Kosovo into IMF and is expressed in SDR and its amount is determined based on IMF rules and regulations.

SDR Holdings represents assets approved by the IMF Board of Governors as per allocations of SDRs to IMF's member countries (decisions made on 28 August 2009 and 9 September 2009). SDR holding assets bear annual interest rates in 2010 ranging from 0.25% to 0.36% (2009: 0.22% - 0.31%).

Due from the Government for the use of IMF funds, represents an amount due from the Government as per IMF and Kosovo Stand-by Arrangement signed in July 2010 through which the Government of Kosovo obtained from IMF a Stand-By Arrangement in the amount of SDR 92.6 million (EUR: 107.4 million). The interest rate of this arrangement is tied to IMF's market-related interest rate, known as the basic rate of charge, which is itself linked to the SDRs interest rate. The interest rate for the period from August 2010 until 31 December 2010 fluctuated from 1.33% to 1.36%.

Balance drawn as at 31 December 2010, SDR18.8 million (EUR 22.1 million) by the Government of Kosovo from the Stand-by Arrangement. CBK acts as depository institution for the Government of Kosovo. To regulate the Stand-By Arrangement with IMF, CBK and the Government of Kosovo entered into an agreement on July 2010 "on the Procedure for Request, Acceptance, Service and Repurchase of the Funds from the IMF in terms of the Stand -By Arrangement". Based on this arrangement CBK withdraws the SDRs from IMF, on behalf of the Government, and credit's them to the Government's account.

Central Bank of the Republic of Kosovo

Notes to the financial Statement

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12. Property and equipment

Property and equipment is composed as follows:

	Leasehold improvements	Equipment	Computers	Vehicles	Assets in the course of construction	Total
Cost						
At 1 January 2009	1,279	1,459	613	107	-	3,458
Acquisitions	-	84	166	222	-	472
Disposals	-	-	-	(43)	-	(43)
At 31 December 2009	1,279	1,543	779	286	-	3,887
At 1 January 2010	1,279	1,543	779	286	-	3,887
Acquisitions	-	23	67	-	9	99
At 31 December 2010	1,279	1,566	846	286	9	3,986
Depreciation						
At 1 January 2009	128	775	396	72	-	1,371
Charge for the period	64	217	127	36	-	444
Disposals	-	-	-	(43)	-	(43)
At 31 December 2009	192	992	523	65	-	1,772
At 1 January 2010	192	992	523	65	-	1,772
Charge for the period	64	215	143	56	-	478
At 31 December 2010	256	1,207	666	121	-	2,250
Carrying amounts						
At 1 January 2009	1,151	684	217	35	-	2,087
At 31 December 2009	1,087	551	256	221	-	2,115
At 31 December 2010	1,023	359	180	165	9	1,736

There are no assets pledged as collateral as at 31 December 2010 (2009: nil).

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(in thousands of EUR, unless otherwise stated)

13. Intangible assets

Intangible assets are composed as follows:

	Software under development	Software	Total
Cost			
Balance at 1 January 2009	25	1,036	1,061
Acquisitions	41	108	149
Balance at 31 December 2009	66	1,144	1,210
Balance at 1 January 2010	66	1,144	1,210
Acquisitions	760	50	810
Balance at 31 December 2010	826	1,194	2,020
Amortization			
Balance at 1 January 2009	-	975	975
Amortization for the year	-	61	61
Balance at 31 December 2009	-	1,036	1,036
Balance at 1 January 2010	-	1,036	1,036
Amortization for the year	-	86	86
Balance at 31 December 2010	-	1,122	1,122
Carrying amounts			
Balance at 1 January 2009	25	61	86
Balance at 31 December 2009	66	108	174
Balance at 31 December 2010	826	72	898

14. Other assets

Other assets are composed as follows:

	2010	2009
Accrued fee income	324	333
Accounts receivable and prepayments	105	18
Total	429	351

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

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Notes to the financial Statement

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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 pays interest to commercial banks on the balances held by them at CBK representing up to 10% of the minimum required capital. No interest is paid by CBK to commercial banks on amounts maintained at CBK above the 10% of the minimum required capital. The annual interest rate for the year ended 31 December 2010 was 0.10% (31 December 2009: 0.10%).

15. Due to domestic banks (continued)

	2010	2009
ProCredit Bank Kosovo	28,790	27,069
Raiffeisen Bank Kosovo	25,970	26,503
NLB Prishtina	11,106	9,349
Komercijalna Banka - Mitrovica Branch	1,467	1,198
Banka Ekonomike e Prishtinës	4,029	2,957
Banka për Biznes	3,032	2,789
Banka Kombëtare Tregtare - Prishtina Branch	1,594	1,677
Turk Ekonomi Bankasi Sh.A	5,822	4,613
Total liquidity required reserves	81,810	76,154
Additional balances on current accounts		
ProCredit Bank Kosovo	36,163	69,846
Raiffeisen Bank Kosovo	25,524	29,070
NLB Prishtina	14,945	11,187
Banka Ekonomike e Prishtinës	5,526	11,052
Banka për Biznes	15,033	19,657
Banka Kreditore e Prishtinës in Receivership	7	59
Banka Kombëtare Tregtare - Prishtina Branch	7,774	4,195
Komercijalna Banka - Mitrovica Branch	1,508	1,328
Turk Ekonomi Bankasi Sh.A	15,282	10,698
Total additional balances on current accounts	121,762	157,092
Total on current accounts	203,572	233,246

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Notes to the Financial Statements

(in thousands of EUR, unless otherwise stated)

16. Due to IMF Related liabilities

	2010	2009
IMF Account No. 1	167	-
IMF Account No. 2	6	-
IMF Security Account	72,808	49,099
IMF - Paid portion of Government quota	16,630	15,409
IMF SDR Allocation	64,209	60,253
Accrued Interest	48	25
Total due to IMF	137,238	109,377
Due to Government		
IMF - Paid portion of Government quota	16,630	15,409
Total Due to Government	16,630	15,409
Total	153,868	124,786

16. Due to IMF Related liabilities (continued)

These positions are related to the admission of Kosovo to the IMF in June 2009.

Accounts No.1 and No.2 are IMF accounts with CBK opened as per IMF's request based on IMF's rules and regulations.

IMF Security Account represents a promissory note to be paid by the Kosovo Government upon IMF's request. This amount represents a liability of CBK to IMF and is matched by a corresponding claim of CBK to the Government of Kosovo.

IMF paid portion of Government quota represents the amount paid by the Government to the IMF regarding the IMF quota.

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

SDR Allocations are interest-bearing with annual interest rates for 2010 ranging from 0.25% - 0.36% (2009: 0.22% - 0.31%).

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

17. Due to governmental institutions

Due to governmental institutions includes current accounts from the following:

Current accounts

	2010	2009
Treasury - Ministry of Finance	49,572	88,245
Privatization Agency of Kosovo	65,089	451,041
Interim administration institutions	1,678	797
Total current accounts	116,339	540,083

Time Deposits

Treasury - Ministry of Finance	140,010	125,104
Privatization Agency of Kosovo	457,680	-
Total time deposits	597,690	125,104

Securities

Treasury - Ministry of Finance	84,692	-
Total Securities	84,692	-
Total	798,721	665,187

The effective annual interest rate for current accounts for the year ended 31 December 2010 is 0.10% (for the year ended 31 December 2009: 0.10%). For time deposits the effective interest rates for the year 2010 ranged from 0.17% - 1.09% (2009: 0.20% - 1.30%).

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(in thousands of EUR, unless otherwise stated)

18. Due to public and commercial entities

	2010	2009
Current accounts		
Insurance companies	5,027	7,664
Other public institutions	38,131	123,114
Pension funds	68	67
Other	2	2
	43,228	130,847

The effective interest rate for current accounts as at 31 December 2010 is 0.10% (31 December 2009: 0.10%).

19. Other domestic liabilities

	2010	2009
Safe custody accounts	2,419	1,745
Deferred grants income	5	9
Sundry creditors	17	6
Other deferred income and liabilities	228	259
	2,670	2,019

The Safe custody balance represents these types of account and amounts.

Amounts EUR 1,130 collected by the CBK until 5 January 2004 on behalf of the Kosovo Government for the offices of the former national bank of Kosovo, which were rented out to various entities/individuals. This amount also included interest earned on these rent payments until 31 December 2010.

Included in the safe custody accounts are also certain amount of cash, in various currencies, that CBK inherited upon inception, from the former National Bank of Kosovo and the interest earned over the years.

In the safe custody accounts are also included EUR 763 thousand related to the current accounts of the Kosova Insurance Company which was liquidated on April 2010.

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Notes to the financial Statement

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19. Other domestic liabilities (continued)

The movement in deferred grant revenue was as follows:

	Ministry of Finance (ICU Portfolio)	World Bank	ECB	Total
Deferred grant revenue at 1 January 2009	-	-	-	-
Grants received during the year	33	-	-	33
Grant revenue for the year	(24)	-	-	(24)
Grant reconciliation from previous years	-	-	-	-
Deferred grant revenue at 31 December 2009	9	-	-	9
Deferred grant revenue at 1 January 2010	9	-	-	9
Grants received during the year	12	10	31	53
Grant revenue for the year	(16)	(10)	(31)	(57)
Grant reconciliation from previous years	-	-	-	-
Deferred grant revenue at 31 December 2010	5	-	-	5

20. Statutory fund

The CBK statutory fund as at 31 December 2010 is EUR 30,000 thousand as per Law no. 03/L-209 approved on 22 July 2010. The CBK statutory fund as at 31 December 2009 was EUR 30,000 as per the replaced CBK Law no. 03/L-074.

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

21. Reserve fund

The level of the reserve fund is regulated by Law no. 03/L-209 on the Central Bank of the Republic of Kosovo. The profit of each financial year is allocated as described in note 4 (f) in accordance with this law.

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(in thousands of EUR, unless otherwise stated)

22. Net interest income

Net interest income is composed as follows:

	2010	2009
Interest income		
From deposit accounts	2,813	2,414
From treasury bills	1,496	4,010
From current accounts	265	205
	4,574	6,629
Interest expense		
On current accounts from non-banking entities	659	1,780
On current accounts from bank entities	163	360
On time deposits	2,030	360
	2,852	2,500
Net interest income	1,722	4,129

23. Net fees and commission income

Net fee and commission income is composed as follows:

	2010	2009
Fee income		
From cash deposits	344	220
From foreign incoming transfers	61	75
From foreign outgoing transfers	247	344
From the inter-bank clearing system	260	196
From the credit registry system	131	93
From management of treasury fund	1,500	1,500
Other fees	32	34
	2,575	2,462
Fee expenses		
For cash transportation	212	203
For correspondent bank transactions	36	66
	248	269
Net fee and commission income	2,327	2,193

Income from management of treasury fund is earned from deposits that CBK holds for the Ministry of Finance, which are invested in accordance with prior approval of the Ministry of Finance. The assets and liabilities are matched and all income on the assets is paid over to the Ministry of Finance. Income from management of treasury fund consists of a fee that CBK receives for this service. CBK retains credit risk on the assets in this portfolio. Accordingly, CBK records the assets and the matching liabilities in its statement of financial position.

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(in thousands of EUR, unless otherwise stated)

24. Grant revenue

Grant revenue is composed as follows:

	2010	2009
European Central Bank ("ECB")	31	-
World Bank	10	-
Ministry of Economy and Finance	16	24
Total	57	24

25. Other operating income

Other operating income mainly comprises of fees charged to financial institutions in Kosovo as part of issuing or renewing licenses, as well as other statutory fees related to their activities. Other operating income consists of the following:

	2010	2009
Fees charged to insurance companies	922	775
Fees charged to commercial banks	546	514
Fees from non-banking financial institutions	51	40
Other fees	3	11
Total	1,522	1,340

26. Personnel expenses

Personnel expenses are composed as follows:

	2010	2009
Wages and salaries	1,578	1,495
Health insurance costs	151	135
Pension contributions	258	245
Staff training	214	147
Central Bank Board expenses	155	108
Other	39	30
Total	2,395	2,160

The average number of employees at CBK in 2010 was 164 (2009: 161).

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27. General and administrative expenses

General and administrative expenses are composed as follows:

	2010	2009
Insurance expenses	258	240
Repairs and maintenance	39	48
Software maintenance	140	111
Communication expense (telephone, telex and internet)	105	85
Utilities	81	80
Audit and consulting expense	25	24
Security and guard services	54	44
Travel and transportation	82	95
Vehicle operating expenses	31	28
Stores and stationery	28	28
Representation expenses	16	16
Computer and other consumables expense	38	41
Publication and literature expenses	52	38
Official representation expenses	39	93
Other	32	27
Total	1,020	998

28. Foreign exchange net income gain/(loss)

Foreign exchange net income gain/(loss) EUR 1,408 thousand for the year ended 31 December 2010 (2009: loss of 303 thousand) 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	2010	2009
Cash on hand	7	60,194	21,806
Current accounts with non-resident banks	8	25,621	34,899
Treasury bills with maturity up to three months		69,863	149,893
Deposit accounts with non-resident banks with maturity up to three months		567,627	412,237
Total		723,305	618,835

Cash and 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.

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Notes to the Financial Statements

(in thousands of EUR, unless otherwise stated)

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 2010.

Other commitments

Other commitments are composed as follows:

	31 December 2010	31 December 2009
Purchase of computer applications	-	10
Upgrade of the core accounting system	45	765
Total	45	775

In 2009, 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, CBK acts as depository. This is in accordance with the Law No. 03/L-209 on the Central Bank of the Republic of Kosovo and 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 2010 of these promissory notes was EUR 4,007 thousand.

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Notes to the Financial Statements

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31. Related party transactions

Related parties include Key Management and the Central Bank Board. Their compensations are presented below:

	2010	2009
Compensation to Central Bank Board members	121	98
Compensation to Key Management Personnel	114	133
Total	235	231

32. Subsequent events

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