



**Central Bank of the Republic of Kosovo**  
**Independent Auditors' Report and Financial Statements**  
**as at and for the year ended 31 December 2012**

# Central Bank of the Republic of Kosovo

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## Independent auditors' report

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

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 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and 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.

### *Auditor's 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 the auditor's 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, the auditor considers 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 the 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 present fairly, in all material respects, the financial position of the Bank as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

*Grant Thornton LLC*  
**Grant Thornton LLC**

Prishtina, Kosova  
10 May 2013

# Central Bank of the Republic of Kosovo

## Statement of comprehensive income

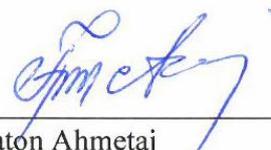
As at 31 December

| <i>In thousands of EUR</i>                     | <b>Note</b> | <b>2012</b>      | <b>2011</b>      |
|--|-------------|------------------|------------------|
| <b>Assets</b>                                  |             |                  |                  |
| Cash on hand                                   | 7           | 16,761           | 13,456           |
| Current accounts with non-resident banks       | 8           | 99,549           | 31,513           |
| Treasury bills                                 | 9           | 285,983          | 24,988           |
| Deposit accounts with non-resident banks       | 10          | 821,590          | 1,009,046        |
| Assets related with IMF                        | 11          | 245,401          | 155,687          |
| Property and equipment                         | 12          | 1,450            | 1,576            |
| Intangible assets                              | 13          | 1,425            | 1,506            |
| Other assets                                   | 14          | 462              | 446              |
| <b>Total assets</b>                            |             | <b>1,472,621</b> | <b>1,238,218</b> |
| <b>Liabilities</b>                             |             |                  |                  |
| Due to domestic banks                          | 15          | 302,147          | 209,700          |
| Due to IMF related accounts                    | 16          | 246,890          | 156,509          |
| Due to governmental institutions               | 17          | 821,509          | 782,178          |
| Due to public and commercial entities          | 18          | 49,023           | 37,059           |
| Other domestic liabilities                     | 19          | 3,289            | 3,337            |
| <b>Total liabilities</b>                       |             | <b>1,422,858</b> | <b>1,188,783</b> |
| <b>Capital and reserves</b>                    |             |                  |                  |
| Statutory fund                                 | 20          | 30,000           | 30,000           |
| Reserve fund                                   | 21          | 19,435           | 17,980           |
| Retained Earnings                              |             | 328              | 1,455            |
| <b>Total capital and reserves</b>              |             | <b>49,763</b>    | <b>49,435</b>    |
| <b>Total liabilities, capital and reserves</b> |             | <b>1,472,621</b> | <b>1,238,218</b> |

The notes from 1 to 32 are an integral part of these financial statements

These financial statements were approved by the management of CBK on 10 May 2013 and signed on its behalf by:

  
Bedri Hamza  
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 2012

| <i>In thousands of EUR</i>                     | Note      | 2012           | 2011           |
|--|-----------|----------------|----------------|
| Interest income                                |           | 2,786          | 10,079         |
| Interest expense                               |           | (1,770)        | (7,585)        |
| <b>Net interest income</b>                     | <b>22</b> | 1,016          | 2,494          |
| Fee and commission income                      |           | 1,914          | 2,651          |
| Fee and commission expense                     |           | (388)          | (290)          |
| <b>Net fee and commission income</b>           | <b>23</b> | 1,526          | 2,361          |
| Grant revenue                                  | 24        | 55             | 44             |
| Other operating income                         | 25        | 1,729          | 1,620          |
| Foreign exchange net gain/(loss)               | 28        | 32             | (1,139)        |
| <b>Operating income</b>                        |           | <b>4,358</b>   | <b>5,380</b>   |
| Personnel expenses                             | 26        | (2,566)        | (2,249)        |
| Depreciation and amortization                  | 12,13     | (482)          | (625)          |
| General and administrative expenses            | 27        | (982)          | (1,051)        |
| <b>Operating expenses</b>                      |           | <b>(4,030)</b> | <b>(3,925)</b> |
| <b>Profit for the year</b>                     |           | <b>328</b>     | <b>1,455</b>   |
| <b>Other comprehensive income</b>              |           |                |                |
| <b>Total comprehensive income for the year</b> |           | <b>328</b>     | <b>1,455</b>   |

The notes from 1 to 32 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>             | <b>Statutory<br/>fund</b> | <b>Reserve<br/>fund</b> | <b>Retained<br/>Earnings</b> | <b>Total</b>  |
|---|---------------------------|-------------------------|------------------------------|---------------|
| <b>Balance at 1 January 2012</b>        | <b>30,000</b>             | <b>17,980</b>           | <b>1,455</b>                 | <b>49,435</b> |
| Transfer to reserve fund                | -                         | 1,455                   | (1,455)                      | -             |
| Total transactions required by law      | -                         | 1,455                   | (1,455)                      | -             |
| Profit for the year                     | -                         | -                       | 328                          | 328           |
| Other comprehensive income              | -                         | -                       | -                            | -             |
| Total comprehensive income for the year | -                         | -                       | 328                          | 328           |
| <b>Balance at 31 December 2012</b>      | <b>30,000</b>             | <b>19,435</b>           | <b>328</b>                   | <b>49,763</b> |
| <b>Balance at 1 January 2011</b>        | <b>30,000</b>             | <b>14,923</b>           | <b>3,057</b>                 | <b>47,980</b> |
| Transfer to reserve fund                | -                         | 3,057                   | (3,057)                      | -             |
| Total transactions required by law      | -                         | 3,057                   | (3,057)                      | -             |
| Profit for the year                     | -                         | -                       | 1,455                        | 1,455         |
| Other comprehensive income              | -                         | -                       | -                            | -             |
| Total comprehensive income for the year | -                         | -                       | 1,455                        | 1,455         |
| <b>Balance at 31 December 2011</b>      | <b>30,000</b>             | <b>17,980</b>           | <b>1,455</b>                 | <b>49,435</b> |

The notes from 1 to 32 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 2012

| <i>In thousands of EUR</i>                                    | Note | 2012            | 2011           |
|---|------|-----------------|----------------|
| <b>Cash flows from operating activities</b>                   |      |                 |                |
| Profit for the year   |      | 328             | 1,455          |
| <i>Adjustments for:</i>                                       |      |                 |                |
| Depreciation  | 12   | 300             | 484            |
| Amortization  | 13   | 182             | 141            |
| Grant revenue   | 24   | (55)            | (44)           |
| Gain on sale of equipment                                     |      | (13)            | -              |
| Interest income   | 22   | (2,786)         | (10,079)       |
| Interest expense  | 22   | 1,770           | 7,585          |
|   |      | <b>(274)</b>    | <b>(458)</b>   |
| Change in treasury bills                                      |      | (221,043)       | 104,122        |
| Change in deposit accounts with nonresident banks             |      | (508)           | (40,989)       |
| Change in assets with IMF                                     |      | (89,571)        | (1,112)        |
| Change in other assets  |      | (17)            | 30             |
| Change in due to domestic banks                               |      | 92,447          | 6,128          |
| Change in due to IMF related accounts                         |      | 90,240          | 2,678          |
| Change in due to governmental institutions                    |      | 40,683          | (17,212)       |
| Change in due to public and commercial entities               |      | 11,965          | (6,170)        |
| Change in other domestic liabilities                          |      | (44)            | 77             |
|   |      | <b>(76,122)</b> | <b>47,094</b>  |
| Interest received   |      | 4,319           | 9,147          |
| Interest paid   |      | (2,979)         | (6,895)        |
| <b>Net cash (used in)/generated from operating activities</b> |      | <b>(74,782)</b> | <b>49,346</b>  |
| <b>Cash flows from investing activities</b>                   |      |                 |                |
| Proceeds from sale of equipment                               |      | 13              | -              |
| Purchase of equipment   | 12   | (174)           | (334)          |
| Purchase of intangible assets                                 | 13   | (101)           | (738)          |
| <b>Net cash used in investing activities</b>                  |      | <b>(262)</b>    | <b>(1,072)</b> |
| <b>Cash flows from financing activities</b>                   |      |                 |                |
| Proceeds from grants  |      | 50              | 634            |
| <b>Net cash generated from financing activities</b>           |      | <b>50</b>       | <b>634</b>     |
| <b>Net (decrease)/increase in cash and cash equivalents</b>   |      | <b>(74,994)</b> | <b>48,908</b>  |
| Effect of exchange rate                                       |      | -               | -              |
| Cash and cash equivalents at 1 January                        |      | <b>772,213</b>  | <b>723,305</b> |
| <b>Cash and cash equivalents at 31 December</b>               | 29   | <b>697,219</b>  | <b>772,213</b> |

The notes from 1 to 32 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" 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 2012, the Central Bank Board of CBK comprised the following members:

- Sejdi Rexhepi – Chairman
- Gani Gerguri – Governor
- Fatmir Plakiqi – Member, Director of Treasury of Ministry of Finance
- Mejdi Bektashi – Member

The Executive Board shall comprise the Governor, who shall be the Chairperson, and two Deputy Governors, and shall be charged with the implementation of the CBK's policies and its operations.

### 2. Basis of preparation

#### a) Statement of compliance

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

#### b) Basis of measurement

The financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies in note 3 below.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

*(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 statements

*(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

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 statements

(in thousands of EUR, unless otherwise stated)

### 3. Significant accounting policies (continued)

#### f) Financial assets and liabilities

The Bank classifies its investments into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

#### Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified into the “financial assets at fair value through profit or loss category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking, or if so designated by management.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Bank intends to sell in the short term or that it has designated as at fair value through profit or loss or available for sale. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the Bank will not be able to collect all amounts due according to their original terms. The bank has no assets classified in this category.

#### Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities other than those that meet the definition of loans and receivables that the Bank’s management has the positive intention and ability to hold to maturity. These assets are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of debt securities held to maturity is established when there is objective evidence that the Bank will not be able to collect all amounts due according to their original terms.

#### Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. The Bank has no assets classified in this category.

#### 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.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(in thousands of EUR, unless otherwise stated)

### 3. Significant accounting policies (continued)

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

##### 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 for 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.

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.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(in thousands of EUR, unless otherwise stated)

### 3. Significant accounting policies (continued)

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

##### 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 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

For the purpose of cash flow statement, 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 investment.

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.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(in thousands of EUR, unless otherwise stated)

### 3. Significant accounting policies (continued)

#### 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:

|                        | 2012     | 2011     |
|------------------------|----------|----------|
| Leasehold improvements | 20 years | 20 years |
| Equipment              | 5 years  | 5 years  |
| Computers              | 3 years  | 3 years  |
| Vehicles               | 5 years  | 5 years  |

The other equipment useful life is assessed on case by case basis. 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 each software is based on assessment of the use of that software without any large need of upgrade, currently from 3 to 10 years.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(in thousands of EUR, unless otherwise stated)

### 3. Significant accounting policies (continued)

#### k) Impairment of non-financial assets

The carrying amounts of CBK's non-financial assets are reviewed at each reporting date whenever 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.

#### 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.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(in thousands of EUR, unless otherwise stated)

### 3. Significant accounting policies (continued)

#### p) Changes in accounting policies and disclosures

##### (i) Adoption of 'Presentation of Items of Other Comprehensive Income' (Amendments to IAS 1)

The Bank has adopted 'Presentation of Items of Other Comprehensive Income' (Amendments to IAS 1). The Amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012 and require entities to separate items presented in other comprehensive income (OCI) into those that, in accordance with other IFRSs, will not be reclassified subsequently to profit or loss and those that will be reclassified subsequently to profit or loss when specific conditions are met. The existing option to present items of OCI either before tax or net of tax remains unchanged; however, if the items are presented before tax, then the Amendments to IAS 1 require the tax related to each of the two groups of OCI to be shown separately.

##### (ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Bank (except for the Amendments to IAS 1 noted above).

Management anticipates that all of the relevant pronouncements will be adopted in the Bank's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Bank's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Bank's financial statements.

#### **IFRS 9 Financial Instruments (IFRS 9)**

The IASB aims to replace IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39) in its entirety with IFRS 9. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning on or after 1 January 2015. Chapters dealing with impairment methodology and hedge accounting are still being developed. Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address application issues. The Bank's management have yet to assess the impact of this new standard on the Bank's financial statements. However, Management does not expect to implement IFRS 9 until all of its chapters have been published and they can comprehensively assess the impact of all changes.

#### **Consolidation Standards**

A package of new consolidation standards is effective for annual periods beginning or after 1 January 2013. Information on these new standards is presented below. Management has not yet completed its assessment of the impact of these new and revised standards on the Bank's financial statements.

#### IFRS 10 'Consolidated Financial Statements' (IFRS 10)

IFRS 10 supersedes IAS 27 'Consolidated and Separate Financial Statements' (IAS 27) and SIC 12 'Consolidation – Special Purpose Entities'. IFRS 10 revises the definition of control and provides extensive new guidance on its application. These new requirements have the potential to affect which of the Group's investees are considered to be subsidiaries and therefore change the scope of consolidation.

However, the requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary remain the same.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(in thousands of EUR, unless otherwise stated)

### 3. Significant accounting policies (continued)

#### p) Changes in accounting policies and disclosures (continued)

#### (iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank (continued)

##### IFRS 11 'Joint Arrangements' (IFRS 11)

IFRS 11 supersedes IAS 31 'Interests in Joint Ventures' (IAS 31). It aligns more closely the accounting by the investors with their rights and obligations relating to the joint arrangement. In addition, IAS 31's option of using proportionate consolidation for joint ventures has been eliminated. IFRS 11 now requires the use of the equity accounting method, which is currently used for investments in associates.

##### IFRS 12 'Disclosure of Interests in Other Entities' (IFRS 12)

IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

##### Transition guidance for IFRS 10, 11, 12

Subsequent to issuing the new standards the IASB made some changes to the transitional provisions in IFRS 10, IFRS 11 and IFRS 12. The guidance confirms that the entity is not required to apply IFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also makes changes to IFRS 11 and IFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides additional relief by removing the requirement to present comparatives for the disclosures relating to unconsolidated structured entities for any period before the first annual period for which IFRS 12 is applied. The new guidance is also effective for annual periods on or after 1 January 2013.

Consequential amendments to IAS 27 'Separate Financial Statements' (IAS 27) and IAS 28 'Investments in Associates and Joint Ventures' (IAS 28). IAS 27 now only addresses separate financial statements. IAS 28 brings investments in joint ventures into its scope. However, IAS 28's equity accounting methodology remains unchanged.

##### **IFRS 13 'Fair Value Measurement' (IFRS 13)**

IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. IFRS 13 applies prospectively for annual periods beginning on or after 1 January 2013.

Management is in the process of reviewing its valuation methodologies for conformity with the new requirements and has yet to complete its assessment of their impact on the Bank's financial statements.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(in thousands of EUR, unless otherwise stated)

### 3. Significant accounting policies (continued)

#### p) Changes in accounting policies and disclosures (continued)

#### (iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank (continued)

##### **Amendments to IAS 19 ‘Employee Benefits’ (IAS 19 Amendments)**

The IAS 19 Amendments include a number of targeted improvements throughout the Standard. The main changes relate to defined benefit plans.

They:

- eliminate the ‘corridor method’, requiring entities to recognise all actuarial gains and losses arising in the reporting period,
- changes the measurement and presentation of certain components of defined benefit cost,
- enhance the disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

The IAS 19 Amendments are effective for annual periods beginning on or after 1 January 2013 and will apply retrospectively.

##### **Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)**

The Amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32’s criteria for offsetting financial assets and financial liabilities in the following two areas:

- the meaning of ‘currently has a legally enforceable right of set-off’
- that some gross settlement systems may be considered equivalent to net settlement.

The Amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively. Management does not anticipate a material impact on the Bank’s financial statements from these Amendments.

##### **Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)**

Qualitative and quantitative disclosures have been added to IFRS 7 ‘Financial Instruments: Disclosures’ (IFRS 7) relating to gross and net amounts of recognised financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position. The Amendments are effective for annual reporting periods beginning on or after 1 January 2013 and interim periods within those annual periods. The required disclosures should be provided retrospectively. Management does not anticipate a material impact on the Bank’s financial statements from these Amendments.

##### **Annual Improvements 2009-2011 (the Annual Improvements)**

The Annual Improvements 2009-2011 (the Annual Improvements) made several minor amendments to a number of IFRSs. The amendments relevant to the Bank are summarised below:

Clarification of the requirements for opening statement of financial position:

- clarifies that the appropriate date for the opening statement of financial position is the beginning of the preceding period (related notes are no longer required to be presented)
- addresses comparative requirements for the opening statement of financial position when an entity changes accounting policies or makes retrospective restatements or reclassifications, in accordance with IAS 8.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

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

### 3. Significant accounting policies (continued)

#### p) Changes in accounting policies and disclosures (continued)

#### (iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank (continued)

Clarification of the requirements for comparative information provided beyond minimum requirements:

- clarifies that additional financial statement information need not be presented in the form of a complete set of financial statements for periods beyond the minimum requirements,
- requires that any additional information presented should be presented in accordance with IFRS and the entity should present comparative information in the related notes for that additional information.

Tax effect of distribution to holders of equity instruments:

- addresses a perceived inconsistency between IAS 12 'Income Taxes' (IAS 12) and IAS 32 'Financial Instruments: Presentation' (IAS 32) with regards to recognising the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction;
- clarifies that the intention of IAS 32 is to follow the requirements in IAS 12 for accounting for income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction.

Segment information for total assets and liabilities:

- clarifies that the total assets and liabilities for a particular reportable segment are required to be disclosed if, and only if: (i) a measure of total assets or of total liabilities (or both) is regularly provided to the chief operating decision maker; (ii) there has been a material change from those measures disclosed in the last annual financial statements for that reportable segment.

The Annual Improvements noted above are effective for annual periods beginning on or after 1 January 2013. Management does not anticipate a material impact on the Bank's financial statements from these Amendments.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(in thousands of EUR, unless otherwise stated)

### 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 qualitative and 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 through CBK's Executive Board to the Central Bank Board on risk management practices. The Executive Board 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 review and 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 chief Internal Audit 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 money markets or current account) 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.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(in thousands of EUR, unless otherwise stated)

### 4. Financial risk management (continued)

#### Management of credit risk (continued)

##### ii. Exposure to credit risk

The maximum exposure to credit risk as at 31 December 2012 and 31 December 2011 is presented by the carrying amount of its: current accounts with non-resident banks, treasury bills and money market placements with non-resident banks. For details on the exposures please see Notes 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.

#### 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 Bank Executive 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 Department.

#### Exposure to liquidity risk

#### Residual contractual maturities of financial liabilities, excluding future interest payments

|                                       | Note | Carrying amount  | Less than 1 month | 1-3 months     | 3 Months to 1 year | 1 year to 5 year |
|---------------------------------------|------|------------------|-------------------|----------------|--------------------|------------------|
| <b>31 December 2012</b>               |      |                  |                   |                |                    |                  |
| <i>Non-derivative liabilities</i>     |      |                  |                   |                |                    |                  |
| Due to domestic banks                 | 15   | 302,147          | 302,147           | -              | -                  | -                |
| Due to IMF related accounts           | 16   | 246,890          | 133,832           | -              | -                  | 113,058          |
| Due to governmental institutions      | 17   | 821,509          | 681,502           | 80,003         | 60,004             | -                |
| Due to public and commercial entities | 18   | 49,023           | 49,023            | -              | -                  | -                |
| Other domestic liabilities            | 19   | 2,428            | 2,428             | -              | -                  | -                |
|                                       |      | <b>1,421,997</b> | <b>1,168,932</b>  | <b>80,003</b>  | <b>60,004</b>      | <b>113,058</b>   |
| <b>31 December 2011</b>               |      |                  |                   |                |                    |                  |
| <i>Non-derivative liabilities</i>     |      |                  |                   |                |                    |                  |
| Due to domestic banks                 | 15   | 209,700          | 209,700           | -              | -                  | -                |
| Due to IMF related accounts           | 16   | 156,509          | 136,045           | -              | -                  | 20,464           |
| Due to governmental institutions      | 17   | 782,178          | 355,365           | 165,171        | 261,642            | -                |
| Due to public and commercial entities | 18   | 37,059           | 37,059            | -              | -                  | -                |
| Other domestic liabilities            | 19   | 2,427            | 2,427             | -              | -                  | -                |
|                                       |      | <b>1,187,873</b> | <b>740,596</b>    | <b>165,171</b> | <b>261,642</b>     | <b>20,464</b>    |

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(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 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

| 31 December 2012                         | N<br>o<br>t<br>e | Carrying amount    |                    |                 |                 |                  |
|--|------------------|--------------------|--------------------|-----------------|-----------------|------------------|
|  |                  | Carrying amount    | Less than 3 months | 3-6 months      | 6-12 months     | 1-5 years        |
| Current accounts with non-resident banks | 8                | 99,549             | 99,549             | -               | -               | -                |
| Treasury bills                           | 9                | 285,983            | 39,994             | 145,992         | 99,997          | -                |
| Deposit accounts with non-resident banks | 10               | 821,590            | 540,922            | 280,668         | -               | -                |
| Assets related with IMF                  | 11               | 193,303            | 80,245             | -               | -               | 113,058          |
| <b>Total</b>                             |                  | <b>1,400,425</b>   | <b>760,710</b>     | <b>426,660</b>  | <b>99,997</b>   | <b>113,058</b>   |
| Due to domestic banks                    | 15               | (302,147)          | (302,147)          | -               | -               | -                |
| Due to IMF related accounts              | 16               | (194,792)          | (81,734)           | -               | -               | (113,058)        |
| Due to governmental institutions         | 17               | (821,509)          | (761,505)          | (32,652)        | (27,352)        | -                |
| Due to public and commercial entities    | 18               | (49,023)           | (49,023)           | -               | -               | -                |
| Other domestic liabilities               | 19               | (2,428)            | (2,428)            | -               | -               | -                |
| <b>Total</b>                             |                  | <b>(1,369,899)</b> | <b>(1,196,837)</b> | <b>(32,652)</b> | <b>(27,352)</b> | <b>(113,058)</b> |
| <b>Gap</b>                               |                  | <b>30,526</b>      | <b>(436,127)</b>   | <b>394,008</b>  | <b>72,645</b>   | <b>-</b>         |

| 31 December 2011                         | N<br>o<br>t<br>e | Carrying amount    |                    |                  |                 |                 |
|--|------------------|--------------------|--------------------|------------------|-----------------|-----------------|
|  |                  | Carrying amount    | Less than 3 months | 3-6 months       | 6-12 months     | 1-5 years       |
| Current accounts with non-resident banks | 8                | 31,513             | 31,513             | -                | -               | -               |
| Treasury bills                           | 9                | 24,988             | -                  | 24,988           | -               | -               |
| Deposit accounts with non-resident banks | 10               | 1,009,046          | 727,474            | 177,255          | 104,317         | -               |
| Assets related to IMF                    | 11               | 155,687            | 135,223            | -                | -               | 20,464          |
| <b>Total</b>                             |                  | <b>1,221,234</b>   | <b>894,210</b>     | <b>202,243</b>   | <b>104,317</b>  | <b>20,464</b>   |
| Due to domestic banks                    | 15               | (209,700)          | (209,700)          | -                | -               | -               |
| Due to IMF related accounts              | 16               | (156,509)          | (136,045)          | -                | -               | (20,464)        |
| Due to governmental institutions         | 17               | (782,178)          | (520,536)          | (221,545)        | (40,097)        | -               |
| Due to public and commercial entities    | 18               | (37,059)           | (37,059)           | -                | -               | -               |
| Other domestic liabilities               | 19               | (2,427)            | (2,427)            | -                | -               | -               |
| <b>Total</b>                             |                  | <b>(1,187,873)</b> | <b>(905,767)</b>   | <b>(221,545)</b> | <b>(40,097)</b> | <b>(20,464)</b> |
| <b>Gap</b>                               |                  | <b>33,361</b>      | <b>(11,557)</b>    | <b>(19,302)</b>  | <b>64,220</b>   | <b>-</b>        |

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

# Central Bank of the Republic of Kosovo

## Notes 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 Department, 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 nonstandard 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:

#### 2012

|                                | 100 bp<br>Increase | 100 bp<br>Decrease |
|--------------------------------|--------------------|--------------------|
| Estimated Profit (loss) effect | 305                | (305)              |

#### 2011

|                                | 100 bp<br>Increase | 100 bp<br>Decrease |
|--------------------------------|--------------------|--------------------|
| Estimated Profit (loss) effect | 376                | (376)              |

#### 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:

#### 2012

|                                | 100 bp<br>Increase | 100 bp<br>Decrease |
|--------------------------------|--------------------|--------------------|
| Estimated Profit (loss) effect | 15                 | (15)               |

#### 2011

|                                | 100 bp<br>Increase | 100 bp<br>Decrease |
|--------------------------------|--------------------|--------------------|
| Estimated Profit (loss) effect | 35                 | (35)               |

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(in thousands of EUR, unless otherwise stated)

### 4. Financial risk management (continued)

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

| 31 December 2012                         | EUR              | SDR (EUR equivalent) | Total            |
|--|------------------|----------------------|------------------|
| <b>Assets</b>                            |                  |                      |                  |
| Cash on hand                             | 16,761           | -                    | 16,761           |
| Current accounts with non-resident banks | 99,549           | -                    | 99,549           |
| Treasury bills                           | 285,983          | -                    | 285,983          |
| Deposit accounts with non-resident banks | 821,590          | -                    | 821,590          |
| Assets with IMF                          | 113,058          | 132,343              | 245,401          |
| Other assets                             | 462              | -                    | 462              |
| <b>Total</b>                             | <b>1,337,403</b> | <b>132,343</b>       | <b>1,469,746</b> |
| <b>Liabilities</b>                       |                  |                      |                  |
| Due to domestic banks                    | 302,147          | -                    | 302,147          |
| Due to IMF related accounts              | 165,334          | 81,556               | 246,890          |
| Due to governmental institutions         | 821,509          | -                    | 821,509          |
| Due to public and commercial entities    | 49,023           | -                    | 49,023           |
| Other domestic liabilities               | 3,289            | -                    | 3,289            |
| <b>Total</b>                             | <b>1,341,302</b> | <b>81,556</b>        | <b>1,422,858</b> |
| <b>Net foreign currency position</b>     |                  | <b>50,787</b>        |                  |

| 31 December 2011                         | EUR              | SDR (EUR equivalent) | Total            |
|--|------------------|----------------------|------------------|
| <b>Assets</b>                            |                  |                      |                  |
| Cash on hand                             | 13,456           | -                    | 13,456           |
| Current accounts with non-resident banks | 31,513           | -                    | 31,513           |
| Treasury bills                           | 24,988           | -                    | 24,988           |
| Deposit accounts with non-resident banks | 1,009,046        | -                    | 1,009,046        |
| Assets with IMF                          | 20,464           | 135,223              | 155,687          |
| Other assets                             | 446              | -                    | 446              |
| <b>Total</b>                             | <b>1,099,913</b> | <b>135,223</b>       | <b>1,235,136</b> |
| <b>Liabilities</b>                       |                  |                      |                  |
| Due to domestic banks                    | 209,700          | -                    | 209,700          |
| Due to IMF related accounts              | 73,668           | 82,841               | 156,509          |
| Due to governmental institutions         | 782,178          | -                    | 782,178          |
| Due to public and commercial entities    | 37,059           | -                    | 37,059           |
| Other domestic liabilities               | 3,337            | -                    | 3,337            |
| <b>Total</b>                             | <b>1,105,942</b> | <b>82,841</b>        | <b>1,188,783</b> |
| <b>Net foreign currency position</b>     |                  | <b>52,382</b>        |                  |

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(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 2012 and 2011 were as follows:

|       | <b>2012</b> | <b>2011</b> |
|-------|-------------|-------------|
|       | <b>EUR</b>  | <b>EUR</b>  |
| 1 SDR | 1.1658      | 1.1865      |

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 policies and procedures 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 code of conduct policy; and
- risk mitigation, including insurance, where this is effective.

Compliance with CBK policies and procedures 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 statements

(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).

From the net income by deducting the total amount unrealized revaluation gains it's derived the earnings available for distribution (under Article 56 of the above mentioned Law)

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).

# 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<br>receivables | Held-to-maturity | Other<br>amortized cost | Total carrying<br>amount | Fair value       |
|--|------|--------------------------|------------------|-------------------------|--------------------------|------------------|
| <b>31 December 2012</b>                  |      |                          |                  |                         |                          |                  |
| Cash on hand                             | 7    | 16,761                   | -                | -                       | 16,761                   | 16,761           |
| Current accounts with non-resident banks | 8    | 99,549                   | -                | -                       | 99,549                   | 99,549           |
| Treasury bills                           | 9    | -                        | 285,983          | -                       | 285,983                  | 285,984          |
| Deposit accounts with non-resident banks | 10   | 821,590                  | -                | -                       | 821,590                  | 821,590          |
| Assets related with IMF                  | 11   | 245,401                  | -                | -                       | 245,401                  | 245,401          |
|  |      | <b>1,183,301</b>         | <b>285,983</b>   | <b>-</b>                | <b>1,469,284</b>         | <b>1,469,285</b> |
| Due to domestic banks                    | 15   | -                        | -                | 302,147                 | 302,147                  | 302,147          |
| Due to IMF related accounts              | 16   | -                        | -                | 246,890                 | 246,890                  | 246,890          |
| Due to governmental institutions         | 17   | -                        | -                | 821,509                 | 821,509                  | 821,509          |
| Due to public and commercial entities    | 18   | -                        | -                | 49,023                  | 49,023                   | 49,023           |
| Other domestic liabilities               | 19   | -                        | -                | 2,428                   | 2,428                    | 2,428            |
|  |      | -                        | -                | <b>1,421,997</b>        | <b>1,421,997</b>         | <b>1,421,997</b> |
| <b>31 December 2011</b>                  |      |                          |                  |                         |                          |                  |
| Cash on hand                             | 7    | 13,456                   | -                | -                       | 13,456                   | 13,456           |
| Current accounts with non-resident banks | 8    | 31,513                   | -                | -                       | 31,513                   | 31,513           |
| Treasury bills                           | 9    | -                        | 24,988           | -                       | 24,988                   | 24,990           |
| Deposit accounts with non-resident banks | 10   | 1,009,046                | -                | -                       | 1,009,046                | 1,009,046        |
| Assets related with IMF                  | 11   | 155,687                  | -                | -                       | 155,687                  | 155,687          |
|  |      | <b>1,209,702</b>         | <b>24,988</b>    | <b>-</b>                | <b>1,234,690</b>         | <b>1,234,692</b> |
| Due to domestic banks                    | 15   | -                        | -                | 209,700                 | 209,700                  | 209,700          |
| Due to IMF related accounts              | 16   | -                        | -                | 156,509                 | 156,509                  | 156,509          |
| Due to governmental institutions         | 17   | -                        | -                | 782,178                 | 782,178                  | 782,178          |
| Due to public and commercial entities    | 18   | -                        | -                | 37,059                  | 37,059                   | 37,059           |
| Other domestic liabilities               | 19   | -                        | -                | 2,427                   | 2,427                    | 2,427            |
|  |      | -                        | -                | <b>1,187,873</b>        | <b>1,187,873</b>         | <b>1,187,873</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:

|                               | 2012          | 2011          |
|-------------------------------|---------------|---------------|
| Deutsche Bundesbank           | 40,240        | 30,961        |
| Raiffeisen Zentralbank        | 650           | 61            |
| Commerzbank                   | -             | 481           |
| Banque De France              | 1,050         | -             |
| Deutsche Bank                 | 17,264        | 10            |
| Banque centrale du Luxembourg | 40,345        | -             |
| <b>Total</b>                  | <b>99,549</b> | <b>31,513</b> |

All current accounts have credit ratings of A-1/P-1 as per 2012 rankings of the above banks by Standard & Poor's/Moody's ratings at 31 December 2012.

### 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 held to maturity. All bills are denominated in EUR and have effective interest rates ranging from 0.005% to 2.131% p.a. (2011: 0.35% to 1.20% p.a.)

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

|              | 2012           | 2011          |
|--------------|----------------|---------------|
| Italy        | 39,994         | -             |
| Belgium      | 245,989        | 24,988        |
| <b>Total</b> | <b>285,983</b> | <b>24,988</b> |

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

# 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

Deposit accounts with non-resident banks are composed of:

|  | 2012           | 2011             |
|--|----------------|------------------|
| <b>Time deposits</b>                     |                |                  |
| Raiffeisen Zentralbank                   | 162,000        | 129,200          |
| Svenska Handelsbanken                    | 110,004        | 36,000           |
| ING Bank                                 | 85,579         | 120,664          |
| Deutsche Bundesbank                      | 50,000         | 80,000           |
| KBC                                      | -              | 87,334           |
| Rabobank                                 | 161,204        | 132,555          |
| Danske Bank                              | -              | 98,534           |
| Banque de France                         | -              | 165,755          |
| Banque Centrale du Luxembourg            | 167,711        | 157,279          |
| Deutsche Bank                            | 85,000         | -                |
|  | <b>821,498</b> | <b>1,007,321</b> |
| <b>Interest accrued on time deposits</b> |                |                  |
| Raiffeisen Zentralbank                   | 5              | 434              |
| Svenska Handelsbanken                    | 23             | 185              |
| ING Bank                                 | 33             | 387              |
| Deutsche Bundesbank                      | -              | 9                |
| KBC                                      | -              | 186              |
| Rabobank                                 | -              | 140              |
| Danske Bank                              | -              | 1                |
| Banque de France                         | -              | 354              |
| Banque Centrale du Luxembourg            | 2              | 29               |
| Deutsche Bank                            | 29             | -                |
|  | <b>92</b>      | <b>1,725</b>     |
| <b>Total</b>                             | <b>821,590</b> | <b>1,009,046</b> |

### 11. Deposit accounts with non-resident banks

Deposits placed with non-resident banks are denominated in EUR and earn interest at effective interest rates ranging from 0.005% to 0.85% p.a. (2011: 0.05% to 1.68% p.a.) and have original maturities from 1 to 365 days (2011: from 1 to 367 days). All deposits have credit rating A-1/P-1, as per December 2012 ranking by Standard & Poors/Moody's ratings.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(in thousands of EUR, unless otherwise stated)

### 12. Assets related with IMF

|  | 2012           | 2011           |
|--|----------------|----------------|
| IMF quota  | 68,784         | 70,006         |
| SDR Holdings   | 63,348         | 65,149         |
| Accrued interest                                       | 211            | 68             |
| <b>IMF</b>   | <b>132,343</b> | <b>135,223</b> |
| <b>Government</b>                                      |                |                |
| Due from the Government for the use of IMF funds (SBA) | 113,058        | 20,464         |
| <b>Total</b>   | <b>245,401</b> | <b>155,687</b> |

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 (above disclosed on euro equivalent) 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 average interest rates in 2012 ranging from 0.06% to 0.16% p.a. (2011: 0.11% - 0.55% p.a.).

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 and 2012, through which the Government of Kosovo obtained from IMF a Stand-By Arrangement in the amount of SDR 109.7 million (EUR: 127.9 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 year 2012 fluctuated in quarterly basis annually in average as 1.06% - 1.16%, p.a. (from August 2011 until 31 December 2011 fluctuated from 1.11% to 1.55% p.a.).

Balance drawn from IMF as at 31 December 2011 and three other tranches during 2012, in total amount around SDR 97 million (EUR 113 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's on July 2010 and April 2012 "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's 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 statements

(in thousands of EUR, unless otherwise stated)

### 12. Property and equipment

Property and equipment is composed as follows:

|                            | Leasehold<br>improvements | Equipment    | Computers  | Vehicles   | Assets in<br>process of<br>capitalization | Total        |
|----------------------------|---------------------------|--------------|------------|------------|---|--------------|
| <b>Cost</b>                |                           |              |            |            |   |              |
| <b>At 1 January 2011</b>   | 1,279                     | 1,566        | 846        | 286        | 9   | 3,986        |
| Acquisitions               | -                         | 31           | 119        | -          | 184                                       | 334          |
| Disposals                  | -                         | (279)        | (162)      | -          | -   | (441)        |
| <b>At 31 December 2011</b> | <b>1,279</b>              | <b>1,318</b> | <b>803</b> | <b>286</b> | <b>193</b>                                | <b>3,879</b> |
| <b>At 1 January 2012</b>   | 1,279                     | 1,318        | 803        | 286        | 193                                       | 3,879        |
| Acquisitions               | 106                       | 41           | 27         | -          | -   | 174          |
| Transfer (from)/to         | 165                       | -            | 28         | -          | (193)                                     | -            |
| Disposals                  | -                         | -            | -          | (44)       | -   | (44)         |
| <b>At 31 December 2012</b> | <b>1,550</b>              | <b>1,359</b> | <b>858</b> | <b>242</b> | <b>-</b>                                  | <b>4,010</b> |
| <b>Depreciation</b>        |                           |              |            |            |   |              |
| <b>At 1 January 2011</b>   | 256                       | 1,220        | 664        | 121        | -   | 2,261        |
| Charge for the year        | 64                        | 233          | 133        | 54         | -   | 484          |
| Disposals                  | -                         | (279)        | (163)      | -          | -   | (442)        |
| <b>At 31 December 2011</b> | <b>320</b>                | <b>1,174</b> | <b>634</b> | <b>175</b> | <b>-</b>                                  | <b>2,303</b> |
| <b>At 1 January 2012</b>   | 320                       | 1,174        | 634        | 175        | -   | 2,303        |
| Charge for the year        | 71                        | 66           | 117        | 46         | -   | 300          |
| Disposals                  | -                         | -            | -          | (44)       | -   | (44)         |
| <b>At 31 December 2012</b> | <b>391</b>                | <b>1,240</b> | <b>751</b> | <b>177</b> | <b>-</b>                                  | <b>2,559</b> |
| <b>Carrying amounts</b>    |                           |              |            |            |   |              |
| <b>At 1 January 2011</b>   | <b>1,023</b>              | <b>346</b>   | <b>182</b> | <b>165</b> | <b>9</b>                                  | <b>1,725</b> |
| <b>At 31 December 2012</b> | <b>959</b>                | <b>144</b>   | <b>169</b> | <b>111</b> | <b>193</b>                                | <b>1,576</b> |
| <b>At 31 December 2012</b> | <b>1,159</b>              | <b>119</b>   | <b>107</b> | <b>65</b>  | <b>-</b>                                  | <b>1,450</b> |

There are no assets pledged as collateral as at 31 December 2012 (31 December 2011: nil).

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(in thousands of EUR, unless otherwise stated)

### 13. Intangible assets

Intangible assets are composed as follows:

|                                    | Software under<br>development | Software     | Total        |
|------------------------------------|-------------------------------|--------------|--------------|
| <b>Cost</b>                        |                               |              |              |
| <b>Balance at 1 January 2011</b>   | 826                           | 1,194        | 2,020        |
| Acquisitions                       | 620                           | 118          | 738          |
| Transfer From/To                   | (800)                         | 800          | -            |
| Disposal                           | -                             | (177)        | (177)        |
| <b>Balance at 31 December 2011</b> | <b>646</b>                    | <b>1,935</b> | <b>2,581</b> |
| <b>Balance at 1 January 2012</b>   | 646                           | 1,935        | 2,581        |
| Acquisitions                       | -                             | 101          | 101          |
| Transfer to Software               | (621)                         | 621          | -            |
| Disposals                          | -                             | -            | -            |
| <b>Balance at 31 December 2012</b> | <b>25</b>                     | <b>2,657</b> | <b>2,682</b> |
| <b>Amortization</b>                |                               |              |              |
| <b>Balance at 1 January 2011</b>   | -                             | 1,111        | 1,111        |
| Amortization for the year          | -                             | 141          | 141          |
| Disposals                          | -                             | (177)        | (177)        |
| <b>Balance at 31 December 2011</b> | -                             | <b>1,075</b> | <b>1,075</b> |
| <b>Balance at 1 January 2012</b>   | -                             | 1,075        | 1,075        |
| Amortization for the year          | -                             | 182          | 182          |
| Disposals                          | -                             | -            | -            |
| <b>Balance at 31 December 2011</b> | -                             | <b>1,257</b> | <b>1,257</b> |
| <b>Carrying amounts</b>            |                               |              |              |
| <b>Balance at 1 January 2011</b>   | <b>826</b>                    | <b>83</b>    | <b>909</b>   |
| <b>Balance at 31 December 2012</b> | <b>646</b>                    | <b>860</b>   | <b>1,506</b> |
| <b>Balance at 31 December 2012</b> | <b>25</b>                     | <b>1,400</b> | <b>1,425</b> |

### 14. Other assets

Other assets are composed as follows:

|                                     | 2012       | 2011       |
|-------------------------------------|------------|------------|
| Accrued fee income                  | 390        | 371        |
| Accounts receivable and prepayments | 72         | 75         |
| <b>Total</b>                        | <b>462</b> | <b>446</b> |

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

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(in thousands of EUR, unless otherwise stated)

### 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 the minimum required reserve. No interest is paid by CBK to commercial banks on amounts maintained at CBK above the minimum required reserve. The annual interest rate as at 31 December 2012 was 0.00% (31 December 2011: 0.10%).

#### Due to domestic banks

|                                     | 2012           | 2011          |
|-------------------------------------|----------------|---------------|
| ProCredit Bank Kosovë               | 29,605         | 29,255        |
| Raiffeisen Bank Kosovë              | 25,332         | 28,314        |
| NLB Prishtina                       | 15,613         | 12,062        |
| Banka Ekonomike e Prishtinës        | 5,887          | 5,356         |
| Banka për Biznes                    | 4,188          | 3,713         |
| Banka Kombëtare Tregtare            | 8,465          | 4,674         |
| Banka Ekonomike Turke - TEB         | 12,052         | 8,553         |
| Komercijalna Banka – Dega Mitrovicë | 1,955          | 1,774         |
| <b>Total required reserve</b>       | <b>103,097</b> | <b>93,701</b> |

#### Additional amount above required reserve

|  |                |                |
|--|----------------|----------------|
| ProCredit Bank Kosovë                    | 65,204         | 35,547         |
| Raiffeisen Bank Kosovë                   | 11,078         | 9,775          |
| NLB Prishtina                            | 35,843         | 8,105          |
| Banka Ekonomike e Prishtinës             | 18,770         | 21,220         |
| Banka për Biznes                         | 16,540         | 25,630         |
| Banka Kombëtare Tregtare                 | 28,092         | 4,900          |
| Banka Ekonomike Turke                    | 14,617         | 8,992          |
| Komercijalna Banka – Dega Mitrovicë      | 1,872          | 1,816          |
| Turkiye is Bankasi a.s.                  | 6,999          | -              |
| Banka Kreditore e Prishtinës             | 35             | 14             |
| <b>Total Addition on current account</b> | <b>199,050</b> | <b>115,999</b> |
| <b>Total</b>                             | <b>302,147</b> | <b>209,700</b> |

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(in thousands of EUR, unless otherwise stated)

### 16. Due to IMF related accounts

|  | 2012           | 2011           |
|--|----------------|----------------|
| IMF Account No. 1                      | 172            | 175            |
| IMF Account No. 2                      | 6              | 5              |
| IMF Security Account                   | 165,156        | 73,488         |
| IMF SDR Allocation                     | 64,550         | 65,697         |
| Accrued Interest                       | 211            | 68             |
| <b>Total due to IMF</b>                | <b>230,095</b> | <b>139,433</b> |
| <b>Due to Government</b>               |                |                |
| IMF - Paid portion of Government quota | 16,795         | 17,076         |
| <b>Total Due to Government</b>         | <b>16,795</b>  | <b>17,076</b>  |
| <b>Total</b>                           | <b>246,890</b> | <b>156,509</b> |

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 according to IMF's rules and regulations.

IMF Security Account represents a promissory notes issued by the Kosovo Government, they have to be paid 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 and Paid portion of quota are interest-bearing with annual interest rates for 2012 in quarterly averages ranging from 0.06% - 0.16% p.a. (2011: 0.11% - 0.55% p.a.).

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(in thousands of EUR, unless otherwise stated)

### 17. Due to governmental institutions

Due to governmental institutions includes current accounts from the following:

|                                     | 2012           | 2011           |
|-------------------------------------|----------------|----------------|
| Current accounts                    |                |                |
| Treasury - Ministry of Finance      | 73,697         | 89,326         |
| Privatization Agency of Kosovo      | 549,403        | 265,310        |
| Interim administration institutions | 407            | 729            |
| <b>Total current accounts</b>       | <b>623,507</b> | <b>355,365</b> |
| Time Deposits                       |                |                |
| Treasury - Ministry of Finance      | 152,007        | 105,042        |
| Privatization Agency of Kosovo      | -              | 321,771        |
| <b>Total time deposits</b>          | <b>152,007</b> | <b>426,813</b> |
| Securities                          |                |                |
| Treasury - Ministry of Finance      | 45,995         | -              |
| <b>Total Securities</b>             | <b>45,995</b>  | <b>-</b>       |
| <b>Total</b>                        | <b>821,509</b> | <b>782,178</b> |

The effective annual interest rate for current accounts for the year ended 31 December 2012 is 0.00% (for the year ended 31 December 2011: 0.10% p.a.). For time deposits the effective interest rates for the year 2012 ranged from 0.01% - 0.85% (2011: 0.25% - 1.53% p.a.).

### 18. Due to public and commercial entities

|                           | 2012          | 2011          |
|---------------------------|---------------|---------------|
| <b>Current accounts</b>   |               |               |
| Insurance companies       | 4,227         | 6,938         |
| Other public institutions | 44,725        | 30,050        |
| Licensed pension funds    | 68            | 68            |
| Other                     | 3             | 3             |
|                           | <b>49,023</b> | <b>37,059</b> |

The effective interest rate for current accounts as at 31 December 2012 is 0.00% (31 December 2011: 0.10% p.a.).

### 19. Other domestic liabilities

|                                       | 2012         | 2011         |
|---------------------------------------|--------------|--------------|
| Safe custody accounts                 | 2,428        | 2,427        |
| Deferred grants                       | 590          | 595          |
| Other deferred income                 | 76           | 62           |
| Sundry creditors                      | 195          | 242          |
| Other deferred income and liabilities | -            | 11           |
|                                       | <b>3,289</b> | <b>3,337</b> |

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(in thousands of EUR, unless otherwise stated)

### 19. Other domestic liabilities (continued)

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

Amount of EUR 1,135 represents rents 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 2012.

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

As of 31 December 2012 in the safe custody accounts are also included EUR 756 thousand related to the current accounts of the Kosova Insurance Company which was liquidated on April 2010.

The movement in deferred grant revenue was as follows:

|   | Ministry of<br>Finance | World<br>Bank | ECB      | Total      |
|---|------------------------|---------------|----------|------------|
| Deferred grant revenue at 1 January 2011          | 5                      | -             | -        | 5          |
| Grants received during the year                   | 606                    | 11            | 17       | 634        |
| Grant recognized as revenue for the year          | (16)                   | (11)          | (17)     | (44)       |
| <b>Deferred grant revenue at 31 December 2011</b> | <b>595</b>             | <b>-</b>      | <b>-</b> | <b>595</b> |
| Deferred grant revenue at 1 January 2012          | 595                    | -             | -        | 595        |
| Grants received during the year                   | 12                     | 36            | 2        | 50         |
| Grant recognized as revenue for the year          | (52)                   | (1)           | (2)      | (55)       |
| <b>Deferred grant revenue at 31 December 2012</b> | <b>555</b>             | <b>35</b>     | <b>-</b> | <b>590</b> |

### 20. Statutory fund

The CBK statutory fund as at 31 December 2012 and 2011 is EUR 30,000 thousand as per Law no. 03/L-209 approved on 22 July 2010.

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.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(in thousands of EUR, unless otherwise stated)

### 22. Net interest income

Net interest income is composed as follows:

|   | 2012         | 2011          |
|---|--------------|---------------|
| <b>Interest income</b>                        |              |               |
| From money market placements                  | 2,398        | 8,943         |
| From treasury bills                           | 269          | 696           |
| From current accounts                         | 119          | 440           |
|   | <b>2,786</b> | <b>10,079</b> |
| <b>Interest expense</b>                       |              |               |
| On current accounts from non-banking entities | 255          | 870           |
| On current accounts from bank entities        | 73           | 598           |
| On time deposits                              | 1,442        | 6,117         |
|   | <b>1,770</b> | <b>7,585</b>  |
| <b>Net interest income</b>                    | <b>1,016</b> | <b>2,494</b>  |

### 23. Net fees and commission income

Net fee and commission income is composed as follows:

|                                      | 2012         | 2011         |
|--------------------------------------|--------------|--------------|
| <b>Fee income</b>                    |              |              |
| From cash deposits                   | 463          | 372          |
| From foreign incoming transfers      | 32           | 68           |
| From foreign outgoing transfers      | 203          | 238          |
| From the inter-bank clearing system  | 321          | 281          |
| From the credit registry system      | 135          | 158          |
| From management of treasury fund     | 721          | 1,500        |
| Other fees                           | 39           | 34           |
|                                      | <b>1,914</b> | <b>2,651</b> |
| <b>Fee expenses</b>                  |              |              |
| For cash transportation              | 350          | 259          |
| For correspondent bank transactions  | 35           | 31           |
| Penalties charges                    | 3            | -            |
|                                      | <b>388</b>   | <b>290</b>   |
| <b>Net fee and commission income</b> | <b>1,526</b> | <b>2,361</b> |

Income from management of treasury fund is resulted from asset management services provided to the Treasury of the Ministry of Finance by CBK. Those services are in accordance with the CBK law.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(in thousands of EUR, unless otherwise stated)

### 24. Grant revenue

Grant revenue is composed as follows:

|                                 | 2012      | 2011      |
|---------------------------------|-----------|-----------|
| European Central Bank ("ECB")   | 2         | 17        |
| World Bank                      | 1         | 11        |
| Ministry of Economy and Finance | 52        | 16        |
| <b>Total</b>                    | <b>55</b> | <b>44</b> |

### 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:

|  | 2012         | 2011         |
|--|--------------|--------------|
| Fees charged to insurance companies          | 1,017        | 938          |
| Fees charged to commercial banks             | 599          | 611          |
| Fees from non-banking financial institutions | 62           | 67           |
| Pension renewal fee                          | 27           | -            |
| Other fees                                   | 24           | 4            |
| <b>Total</b>                                 | <b>1,729</b> | <b>1,620</b> |

### 26. Personnel expenses

Personnel expenses are composed as follows:

|                             | 2012         | 2011         |
|-----------------------------|--------------|--------------|
| Wages and salaries          | 1,927        | 1,639        |
| Pension contributions       | 303          | 261          |
| Health insurance costs      | 97           | 97           |
| Staff training              | 62           | 85           |
| Central Bank Board expenses | 128          | 132          |
| Other                       | 49           | 35           |
| <b>Total</b>                | <b>2,566</b> | <b>2,249</b> |

The average number of employees at CBK in 2012 was 178 (2011: 167).

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(in thousands of EUR, unless otherwise stated)

### 27. General and administrative expenses

General and administrative expenses are composed as follows:

|   | 2012       | 2011         |
|---|------------|--------------|
| Insurance expenses                                    | 201        | 223          |
| Repairs and maintenance                               | 69         | 53           |
| Software maintenance                                  | 178        | 209          |
| Communication expense (telephone, telex and internet) | 57         | 79           |
| Utilities   | 84         | 81           |
| Audit and consulting expense                          | 14         | 20           |
| Security and guard services                           | 78         | 79           |
| Travel and transportation                             | 88         | 95           |
| Vehicle operating expenses                            | 25         | 22           |
| Stores and stationery                                 | 26         | 32           |
| Representation expenses                               | 72         | 44           |
| Computer and other consumables expense                | 41         | 50           |
| Publication and literature expenses                   | 34         | 41           |
| Other   | 15         | 23           |
| <b>Total</b>  | <b>982</b> | <b>1,051</b> |

### 28. Foreign exchange net income profit/(loss)

Foreign exchange net profit of EUR 32 thousand for the year ended 31 December 2012 (2011: loss of 1,139 thousand) represents unrealized foreign exchange profit 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 | 2012           | 2011           |
|---|------|----------------|----------------|
| Cash on hand  | 7    | 16,761         | 13,456         |
| Current accounts with non-resident banks                                  | 8    | 99,549         | 31,513         |
| Treasury bills with maturity up to three months                           |      | 39,994         | -              |
| Deposit accounts with non-resident banks with maturity up to three months |      | 540,915        | 727,244        |
| <b>Total</b>  |      | <b>697,219</b> | <b>772,213</b> |

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.

# Central Bank of the Republic of Kosovo

## 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 2012.

#### **Credit related commitments**

As at 31 December 2012, CBK had commitments to place deposits in total amount of EUR 50 million (31 December 2011, CBK had commitments to place deposits in total amount of EUR nil).

#### *Other commitments*

Other commitments are composed as follows:

|                     | <b>2012</b> | <b>2011</b> |
|---------------------|-------------|-------------|
| Equipment contracts | 50          | -           |
| Services contracts  | 44          | -           |
| <b>Total</b>        | <b>94</b>   | -           |

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 World Bank sub-agencies above mentioned upon their requests and payment instructions. The total balance at 31 December 2012 and 2011 of these promissory notes was EUR 4,007 thousand.

### 31. Related party transactions

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

|  | <b>2012</b> | <b>2011</b> |
|--|-------------|-------------|
| Compensation to Central Bank Board members | 120         | 130         |
| Compensation to Audit Committee            | 8           | 2           |
| Compensation to Key Management Personnel   | 139         | 103         |
| <b>Total</b>                               | <b>267</b>  | <b>235</b>  |

### 32. Subsequent events

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