



Central Bank of the Republic of Kosovo

Financial statements

as at and for the year ended 31 December 2013

Central Bank of the Republic of Kosovo

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Grant Thornton

Independent Auditor's Report

Grant Thornton LLC
Rr. Rexhep Mala 18
10 000 Pristina
Kosovo

T +381 38 247 771
+381 38 247 801
F +381 38 247 802
www.grant-thornton.com.mk



Grant Thornton

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 2013, 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



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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2013, 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
7 May 2014


Central Bank of the Republic of Kosovo

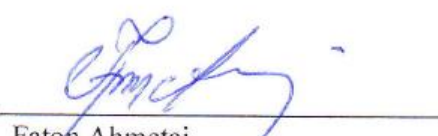
Statement of financial position

As at 31 December 2013

<i>In thousands of EUR</i>	Note	2013	2012
Assets			
Cash on hand	7	27,384	16,761
Current accounts with non-resident banks	8	61,083	99,549
Treasury bills	9	560,828	285,983
Deposit accounts with non-resident banks	10	729,473	821,590
Assets related with IMF	11	231,459	245,401
Property and equipment	12	1,907	1,450
Intangible assets	13	1,311	1,425
Other assets	14	976	462
Total assets		1,614,421	1,472,621
Liabilities			
Due to domestic banks	15	333,173	302,147
Due to IMF related accounts	16	234,011	246,890
Due to governmental institutions	17	757,446	821,509
Due to public and commercial entities	18	236,597	49,023
Other domestic liabilities	19	3,244	3,289
Total liabilities		1,564,471	1,422,858
Capital and reserves			
Statutory fund	20	30,000	30,000
Reserve fund	21	19,462	19,166
Revaluation reserve	21	301	269
Retained Earnings		187	328
Total capital and reserves		49,950	49,763
Total liabilities, capital and reserves		1,614,421	1,472,621

These financial statements set out on pages 3 to 39 were approved by the management of CBK on 7 May 2014 and signed on its behalf by:


Bedri Hamza
Governor


Faton Ahmetaj
Director of Financial Planning and Reporting

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

Central Bank of the Republic of Kosovo

Statement of comprehensive income

For the year ended 31 December

<i>In thousands of EUR</i>	Note	2013	2012
Interest income		990	2,786
Interest expense		(181)	(1,770)
Net interest income	22	809	1,016
Fee and commission income		1,563	1,914
Fee and commission expense		(306)	(388)
Net fee and commission income	23	1,257	1,526
Grant revenue	24	78	55
Other operating income	25	2,367	1,729
Foreign exchange net gain/(loss)	28	87	32
Operating income		4,598	4,358
Personnel expenses	26	(2,903)	(2,566)
Depreciation and amortization	12,13	(478)	(482)
General and administrative expenses	27	(1,030)	(982)
Operating expenses		(4,411)	(4,030)
Profit for the year		187	328
Other comprehensive income			
Total comprehensive income for the year		187	328

The accompanying 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 2013

<i>In thousands of euro</i>	Statutory fund	Reserve fund	Revaluation reserve	Retained Earnings	Total
Balance at 1 January 2013	30,000	19,166	269	328	49,763
Transfer to reserve fund	-	296	32	(328)	-
Total transactions required by law	-	296	32	(328)	-
Profit for the year	-	-	-	187	187
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the	-	-	-	187	187
Balance at 31 December 2013	30,000	19,462	301	187	49,950
Balance at 1 January 2012	30,000	16,572	1,408	1,455	49,435
Transfer to reserve fund	-	2,594	(1,139)	(1,455)	-
Total transactions required by law	-	2,594	(1,139)	(1,455)	-
Profit for the year	-	-	-	328	328
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the	-	-	-	328	328
Balance at 31 December 2012	30,000	19,166	269	328	49,763

Note. Reserve fund and revaluation reserve have been shown separately in the statement of changes in equity in these financial statements. In the statement of changes in equity in financial statements for the year ending 31 December 2012, the above were presented jointly.

The accompanying 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 2013

<i>In thousands of EUR</i>	Note	2013	2012
Cash flows from operating activities			
Profit for the year		187	328
<i>Adjustments for:</i>			
Depreciation	12	272	300
Amortization	13	206	182
Grant revenue	24	(78)	(55)
Gain on sale of equipment		(10)	(13)
Interest income	22	(990)	(2,786)
Interest expense	22	181	1,770
		(232)	(274)
Change in treasury bills		(124,860)	(221,043)
Change in deposit accounts with nonresident banks		104,661	(508)
Change in assets with IMF		13,938	(89,571)
Change in other assets		(514)	(17)
Change in due to domestic banks		31,026	92,447
Change in due to IMF related accounts		(12,874)	90,240
Change in due to governmental institutions		(64,075)	40,683
Change in due to public and commercial entities		187,575	11,965
Change in other domestic liabilities		22	(44)
		134,667	(76,122)
Interest received		971	4,319
Interest paid		(178)	(2,979)
Net cash generated from/(used in) operating activities		135,460	(74,782)
Cash flows from investing activities			
Proceeds from sale of equipment		10	13
Purchase of equipment	12	(729)	(174)
Purchase of intangible assets	13	(92)	(101)
Net cash used in investing activities		(811)	(262)
Cash flows from financing activities			
Proceeds from grants		11	50
Net cash generated from financing activities		11	50
Net increase/(decrease) in cash and cash equivalents		134,660	(74,994)
Effect of exchange rate		-	-
Cash and cash equivalents at 1 January		697,219	772,213
Cash and cash equivalents at 31 December	29	831,879	697,219

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

Central Bank of the Republic of Kosovo

Notes to the financial Statement for the year ended 31 December 2013

(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 2013, the Central Bank Board of CBK comprised the following members:

- Mejd Bektashi – Chairman
- Bedri Hamza – Governor
- Fatmir Plakiqi – Member, Director of Treasury of Ministry of Finance
- Bedri Peci – Member

The Executive Board shall comprise the Governor, who shall be the Chairperson, and three Deputy Governors, and shall be charged with the implementation of the Central Bank'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 (IFRSs).

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 Statement for the year ended 31 December 2013

(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.

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

Central Bank of the Republic of Kosovo

Notes to the financial Statement for the year ended 31 December 2013

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

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.

e) Taxation and profit allocation

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

Central Bank of the Republic of Kosovo

Notes to the financial Statement for the year ended 31 December 2013

(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 Statement for the year ended 31 December 2013

(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 of impairment.

v. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at 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 Statement for the year ended 31 December 2013

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

f) Financial assets and liabilities (continued)

iv. Identification and measurement of impairment

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

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

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

g) Cash and cash equivalents

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 Statement for the year ended 31 December 2013

(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:

	2013	2012
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 Statement for the year ended 31 December 2013

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

k) Impairment non-financial assets

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

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

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

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

l) Financial liabilities

CBK's sources of funding are from international, governmental, public, banking and other financial institutions. Financial liabilities are measured at their amortised cost using the effective interest rate method.

m) Grant revenue

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

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 Statement for the year ended 31 December 2013

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

n) Changes in accounting policies and disclosures

(i) New and revised standards that are effective for annual periods beginning on or after 1 January 2013

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2013. Information on these new standards is presented below.

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 CBK investees are considered to be subsidiaries and therefore to change the scope of consolidation. The requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary are unchanged.

Management has reviewed its control assessments in accordance with IFRS 10 and has concluded that there is no effect on the classification (as subsidiaries or otherwise) of any of the CBK investees held during the period or comparative periods covered by these financial statements.

IFRS 11 ‘Joint Arrangements’ (IFRS 11)

IFRS 11 supersedes IAS 31 ‘Interests in Joint Ventures’ (IAS 31) and SIC 13 ‘Jointly Controlled Entities - Non-Monetary-Contributions by Venturers’. IFRS 11 revises the categories of joint arrangement, and the criteria for classification into the categories, with the objective of more closely aligning the accounting with the investor’s rights and obligations relating to the arrangement. In addition, IAS 31’s option of using proportionate consolidation for arrangements classified as jointly controlled entities under that Standard has been eliminated. IFRS 11 now requires the use of the equity method for arrangements classified as joint ventures (as for investments in associates).

The application of IFRS 11 does not impact CBK financial statements.

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.

The application of IFRS 12 does not materially impact CBK financial statements.

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.

Central Bank of the Republic of Kosovo

Notes to the financial Statement for the year ended 31 December 2013

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

n) Changes in accounting policies and disclosures (continued)

(i) New and revised standards that are effective for annual periods beginning on or after 1 January 2013 (continued)

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. The scope of IFRS 13 is broad and it applies for both financial and non-financial items for which other IFRSs require or permit fair value measurements or disclosures about fair value measurements except in certain circumstances.

IFRS 13 applies prospectively for annual periods beginning on or after 1 January 2013. Its disclosure requirements need not be applied to comparative information in the first year of application. CBK has however included as comparative information the IFRS 13 disclosures that were required previously by IFRS 7 'Financial Instruments: Disclosures'.

The CBK has applied IFRS 13 for the first time in the current year.

Amendments to IAS 19 'Employee Benefits' (IAS 19)

The amendments to IAS 19 made a number of changes to the accounting for employee benefits, the most significant relating to defined benefit plans. The amendments:

- eliminate the 'corridor method' and requires the recognition of remeasurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;
- change the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined benefit asset or liability;
- enhance disclosures, including more information about the characteristics of defined benefit plans and related risks.

The application of amendments to IAS 19 does not impact CBK financial statements

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

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 CBK.

Management anticipates that all of the relevant pronouncements will be adopted in CBK 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 CBK financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on CBK 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. Chapters dealing with impairment methodology 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 Management has yet to assess the impact of this new standard on the CBK financial statements. Management does not expect to implement IFRS 9 until it has been completed and its overall impact can be assessed.

Central Bank of the Republic of Kosovo

Notes to the financial Statement for the year ended 31 December 2013

(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. 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 that CBK which has to deal with, and to set appropriate risk controls and limits, 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 handled by CBK. CBK's Audit Committee is assisted in these functions by the Internal Audit Department. 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 Statement for the year ended 31 December 2013

(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 2013 and 31 December 2012 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

31 December 2013	Note	Carrying amount	Less than 1 month	1-3 months	3 Months to 1 year	1 year to 5 year
<i>Non-derivative liabilities</i>						
Due to domestic banks	15	333,173	333,173	-	-	-
Due to IMF related accounts	16	234,011	128,278	-	-	105,733
Due to governmental institutions	17	757,446	687,431	70,015	-	-
Due to public and commercial entities	18	236,597	236,597	-	-	-
Other domestic liabilities	19	2,428	2,428	-	-	-
		1,563,655	1,387,907	70,015	-	105,733
31 December 2012						
<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	-	-	-
		1,421,997	1,168,932	80,003	60,004	113,058

Central Bank of the Republic of Kosovo

Notes to the financial Statement for the year ended 31 December 2013

(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.

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 investments.

Management of market risks

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

Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with CBK's operations strategies. CBK's exposure to market risk is related only to non-trading portfolios.

Exposure to interest rate risk non-trading portfolios

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

Central Bank of the Republic of Kosovo

Notes to the financial Statement for the year ended 31 December 2013

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

Exposure to interest rate risk-non-trading portfolios

	Note	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years
31 December 2013						
Current accounts with non-resident banks	8	61,083	61,083	-	-	-
Treasury bills	9	560,828	229,963	330,865	-	-
Deposit accounts with non-resident banks	10	729,473	553,493	145,953	30,027	-
Assets related with IMF	11	181,438	75,705	-	-	105,733
Total		1,532,822	920,244	476,818	30,027	105,733
Due to domestic banks	15	(333,173)	(333,173)	-	-	-
Due to IMF related accounts	16	(183,704)	(77,972)	-	-	(105,733)
Due to governmental institutions	17	(757,446)	(737,439)	(20,007)	-	-
Due to public and commercial entities	18	(236,597)	(236,597)	-	-	-
Due to domestic liability	19	(2,428)	(2,428)	-	-	-
Total		(1,513,349)	(1,387,609)	(20,007)	-	(105,733)
Gap		19,473	(467,365)	456,811	30,027	-
31 December 2012						
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 with IMF	11	193,303	80,245	-	-	113,058
Total		1,400,425	760,710	426,660	99,997	113,058
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)	-	-	-
Due to domestic liability	19	(2,428)	(2,428)	-	-	-
Total		(1,369,899)	(1,196,837)	(32,652)	(27,352)	(113,058)
Gap		30,526	(436,127)	394,008	72,645	-

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 Statement for the year ended 31 December 2013

(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:

2013

	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	195	(195)

2012

	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	305	(305)

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:

2013

	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	26	(26)

2012

	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	15	(15)

Central Bank of the Republic of Kosovo

Notes to the financial Statement for the year ended 31 December 2013

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

31 December 2013	EUR	SDR (EUR equivalent)	Total
Assets			
Cash on hand	27,384	-	27,384
Current accounts with non-resident banks	61,083	-	61,083
Treasury bills	560,828	-	560,828
Deposit accounts with non-resident banks	729,473	-	729,473
Assets related with IMF	105,733	125,726	231,459
Other assets	976	-	976
Total	1,485,477	125,726	1,611,203
Liabilities			
Due to domestic banks	333,173	-	333,173
Due to IMF related accounts	155,623	78,388	234,011
Due to governmental institutions	757,446	-	757,446
Due to public and commercial entities	236,597	-	236,597
Other domestic liabilities	3,244	-	3,244
Total	1,486,083	78,388	1,564,471
Net foreign currency position		47,338	

31 December 2012	EUR	SDR (EUR equivalent)	Total
Assets			
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 related with IMF	113,058	132,343	245,401
Other assets	462	-	462
Total	1,337,403	132,343	1,469,746
Liabilities			
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
Total	1,341,302	81,556	1,422,858
Net foreign currency position		50,787	

Central Bank of the Republic of Kosovo

Notes to the financial Statement for the year ended 31 December 2013

(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 2013 and 2012 were as follows:

	2013	2012
	EUR	EUR
1 SDR	1.1173	1.1658

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 Statement for the year ended 31 December 2013

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

(f) Capital management

In accordance with the Law, CBK shall establish and maintain a general reserve. The general reserve may not be used except for the purposes of covering losses sustained by the CBK. In addition, CBK shall establish unrealized revaluation reserve accounts to account for unrealized gains and losses owing to its positions with SDR.

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).

The earnings available for distributions shall be determined:

- by deducting from the net profits the total amount of unrealized revaluation gains, and by allocating an equivalent amount to the respective unrealized revaluation reserve account, and
- by deducting from the appropriate unrealized revaluation reserve account and adding to the distributable earnings the amount of any unrealized profit that was deducted from the net profits for one or more previous years and was realized during the current financial year.

Unrealized revaluation losses will be transferred to the respective unrealized revaluation reserve accounts until such time as these revaluation reserve accounts have a zero balance, after which these losses shall be covered by the current year's profit, then by the general reserve account and subsequently by the authorized capital account.

All distributable earnings will first be applied to the general reserve fund until the aggregate amount of initial capital and general reserves equals five percent (5%) of the Central Bank's monetary liabilities.

The 50% of the distributable earnings remaining after fulfilling the 5% criteria mentioned above is required to be transferred to the Ministry of Finance. The remaining 50% of the distributable earnings is required to be allocated to the general reserve account of CBK.

(g) Asset management

In accordance with the Law 03/L-209 and Law 03/L-048 the CBK is assigned the responsibility for making and managing authorized investments on behalf of the Ministry of Finance.

Central Bank of the Republic of Kosovo

Notes to the financial Statement for the year ended 31 December 2013

(in thousands of EUR, unless otherwise stated)

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 Statement for the year ended 31 December 2013

(in thousands of EUR, unless otherwise stated)

6. Financial assets and liabilities (Accounting classifications and fair values)

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

<i>In thousands of EUR</i>	Note	Loans and receivables	Held-to-maturity	Other amortized cost	Total carrying amount	Fair value
31 December 2013						
Cash on hand	7	27,384	-	-	27,384	27,384
Current accounts with non-resident banks	8	61,083	-	-	61,083	61,083
Treasury bills	9	-	560,828	-	560,828	560,819
Deposit accounts with non-resident banks	10	-	729,473	-	729,473	729,473
Assets related with IMF	11	231,459	-	-	231,459	231,459
		319,926	1,290,301	-	1,610,227	1,610,218
Due to domestic banks	15	-	-	333,173	333,173	333,173
Due to IMF related accounts	16	-	-	234,011	234,011	234,011
Due to governmental institutions	17	-	-	757,446	757,446	757,446
Due to public and commercial entities	18	-	-	236,597	236,597	236,597
Other domestic liabilities	19	-	-	2,428	2,428	2,428
		-	-	1,563,655	1,563,655	1,563,655
31 December 2012						
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
		361,711	1,107,573	-	1,469,284	1,469,285
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
		-	-	1,421,997	1,421,997	1,421,997

Central Bank of the Republic of Kosovo

Notes to the financial Statement for the year ended 31 December 2013

(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:

	2013	2012
Deutsche Bundesbank	39,337	40,240
Raiffeisen Zentralbank	5,358	650
Banque De France	-	1,050
Deutsche Bank	16,388	17,264
Banque centrale du Luxembourg	-	40,345
Total	61,083	99,549

All current accounts of the above banks have credit ratings of A-1/P-1 as per 2013 rankings by Standard & Poor's/Moody's ratings at 31 December 2013.

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 0.0051% to 2.131% p.a. (2012: 0.005% to 2.131% p.a.)

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

	2013	2012
France	244,953	-
The Netherland	215,901	-
Belgium	99,974	245,989
Italy	-	39,994
Total	560,828	285,983

CBK invests in treasury bills with a minimum credit rating of A-1+u and P-1, as per Standard & Poor's/ Moody's ratings.

Central Bank of the Republic of Kosovo

Notes to the Financial Statements for the year ended 31 December 2013

(in thousands of EUR, unless otherwise stated)

10. Deposit accounts with non-resident banks

Deposit accounts with non-resident banks are composed of:

	2013	2012
Time deposits		
Raiffeisen Zentralbank	109,400	162,000
Svenska Handelsbanken	150,943	110,004
ING Bank	-	85,579
Deutsche Bundesbank	130,000	50,000
Rabobank	30,007	161,204
Danske Bank	30,000	-
Swedbank	120,006	-
Banque Centrale du Luxembourg	159,016	167,711
Deutsche Bank	-	85,000
	729,372	821,498
Interest accrued on time deposits		
Raiffeisen Zentralbank	1	5
Svenska Handelsbanken	18	23
ING Bank	-	33
Deutsche Bundesbank	3	-
Rabobank	20	-
Danske Bank	23	-
Swedbank	13	-
Banque Centrale du Luxembourg	23	2
Deutsche Bank	-	29
	101	92
Total	729,473	821,590

Deposits placed with non-resident banks are denominated in EUR and earn interest at effective interest rates ranging from 0.005% to 0.300% p.a. (2012: 0.005% to 0.85% p.a.) and have original maturities from 1 to 273 days (2012: from 1 to 365 days). All deposits have minimum credit rating A-2/P-2, as per December 2013 ranking by Standard & Poors/Moody's ratings.

Central Bank of the Republic of Kosovo

Notes to the financial Statement for the year ended 31 December 2013

(in thousands of EUR, unless otherwise stated)

11. Assets related with IMF

	2013	2012
IMF quota	65,922	68,784
SDR Holdings	59,597	63,348
Accrued interest	207	211
IMF	125,726	132,343
Government		
Due from the Government for the use of IMF funds (SBA)	105,733	113,058
Total	231,459	245,401

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 in 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 2013 ranging from 0.06% to 0.13% p.a. (2012: 0.06% to 0.16% 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 through which the Government of Kosovo obtained from IMF a Stand-By Arrangement in the amount of SDR 97 million (EUR: 113 million), while the outstanding as of 31 December 2013 is SDR 94.6 million (EUR: 105.7 million). The interest rate of this arrangement is tied to IMF's market-related interest rate, known as basic rate of charge, which is itself linked to the SDRs interest rate. The interest rate for the period 2013 fluctuated in quarterly basis annually in average as 1.06% - 1.13% p.a., (on 2012 fluctuated from 1.06% to 1.16% p.a.).

Balance drawn from IMF as at 31 December 2010 and three other tranches during the 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 Statement for the year ended 31 December 2013

(in thousands of EUR, unless otherwise stated)

12. Property and equipment

Property and equipment is composed as follows:

	Leasehold improvements	Equipment	Computers	Vehicles	Assets in process of capitalization	Total
Cost						
At 1 January 2012	1,279	1,318	803	286	193	3,879
Acquisitions	106	41	27	-	-	174
Transfer from/to	165	-	28	-	(193)	-
Disposals	-	-	-	(44)	-	(44)
At 31 December 2012	1,550	1,359	858	242	-	4,009
At 1 January 2013	1,550	1,359	858	242	-	4,009
Acquisitions	495	144	35	-	55	729
Transfer from/to	-	-	-	-	-	-
Disposals	-	(19)	(12)	-	-	(31)
At 31 December 2013	2,045	1,484	881	242	55	4,707
Depreciation						
At 1 January 2012	320	1,174	634	175	-	2,303
Charge for the year	71	66	117	46	-	300
Disposals	-	-	-	(44)	-	(44)
At 31 December 2012	391	1,240	751	177	-	2,559
At 1 January 2013	391	1,240	751	177	-	2,559
Charge for the year	80	75	73	44	-	272
Disposals	-	(19)	(12)	-	-	(31)
At 31 December 2013	471	1,296	812	221	-	2,800
Carrying amounts						
At 1 January 2012	959	144	169	111	193	1,576
At 31 December 2012	1,159	119	107	65	-	1,450
At 31 December 2013	1,574	188	69	21	55	1,907

There are no assets pledged as collateral as at 31 December 2013 (31 December 2012: nil).

Central Bank of the Republic of Kosovo

Notes to the financial Statement for the year ended 31 December 2013

(in thousands of EUR, unless otherwise stated)

13. Intangible assets

Intangible assets are composed as follows:

	Software under development	Software	Total
Cost			
Balance at 1 January 2012	646	1,935	2,581
Acquisitions	-	101	101
Transfer from/to	(621)	621	-
Disposal	-	-	-
Balance at 31 December 2012	25	2,657	2,682
Balance at 1 January 2013	25	2,657	2,682
Acquisitions	88	4	92
Disposals/write offs	-	(649)	(649)
Balance at 31 December 2013	113	2,012	2,125
Amortization			
Balance at 1 January 2012	-	1,075	1,075
Amortization for the year	-	182	182
Disposals	-	-	-
Balance at 31 December 2012	-	1,257	1,257
Balance at 1 January 2013	-	1,257	1,257
Amortization for the year	-	206	206
Disposals/write offs	-	(649)	(649)
Balance at 31 December 2013	-	814	814
Carrying amounts			
Balance at 1 January 2012	646	860	1,506
Balance at 31 December 2012	25	1,400	1,425
Balance at 31 December 2013	113	1,198	1,311

14. Other assets

Other assets are composed as follows:

	2013	2012
Accrued fee income	898	390
Accounts receivable and prepayments	78	72
Total	976	462

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

Central Bank of the Republic of Kosovo

Notes to the financial Statement for the year ended 31 December 2013

(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.

Due to domestic banks

	2013	2012
ProCredit Bank Kosovë	29,599	29,605
Raiffeisen Bank Kosovë	25,065	25,332
NLB Prishtina	16,229	15,613
Banka Ekonomike	5,443	5,887
Banka për Biznes	3,838	4,188
Banka Kombëtare Tregtare (Pristina branch)	8,363	8,465
TEB	14,667	12,052
Komercijalna Banka – Dega Mitrovicë	2,091	1,955
Turkiye is Bankasi a.s.	5	-
Banka Kreditore e Prishtinës	-	-
Total required reserve	105,300	103,097
Additional amount above required reserve		
ProCredit Bank Kosovë	23,560	65,204
Raiffeisen Bank Kosovë	10,977	11,078
NLB Prishtina	64,153	35,843
Banka Ekonomike e Prishtinës	32,651	18,770
Banka për Biznes	13,135	16,540
Banka Kombëtare Tregtare (Pristina branch)	27,811	28,092
TEB	46,842	14,617
Komercijalna Banka – Dega Mitrovicë	2,098	1,872
Turkiye is Bankasi a.s.	6,641	6,999
Banka Kreditore e Prishtinës	5	35
Total addition on current account	227,873	199,050
Total amount on current account	333,173	302,147

Central Bank of the Republic of Kosovo

Notes to the financial Statement for the year ended 31 December 2013

(in thousands of EUR, unless otherwise stated)

16. Due to IMF Related liabilities

	2013	2012
IMF Account No. 1	164	172
IMF Account No. 2	6	6
IMF Security Account	155,663	165,156
IMF SDR Allocation	61,864	64,550
Accrued Interest	206	211
Total due to IMF	217,903	230,095
Due to Government		
IMF - Paid portion of Government quota	16,108	16,795
Total Due to Government	16,108	16,795
Total	234,011	246,890

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 2013 in quarterly averages ranging from 0.06% - 0.13% p.a, (2012: 0.06% - 0.16% p.a.).

Central Bank of the Republic of Kosovo

Notes to the financial Statement for the year ended 31 December 2013

(in thousands of EUR, unless otherwise stated)

17. Due to governmental institutions

Due to governmental institutions includes current accounts from the following:

Current accounts	2013	2012
Treasury - Ministry of Finance	12,888	73,697
Privatization Agency of Kosovo	530,328	549,403
Interim administration institutions	260	407
Total current accounts	543,486	623,507
Time Deposits		
Treasury - Ministry of Finance	113,008	152,007
Privatization Agency of Kosovo	20,007	-
Total time deposits	133,015	152,007
Securities		
Treasury - Ministry of Finance	80,955	45,995
Total Securities	80,955	45,995
Total	757,446	821,509

The effective annual interest rate for current accounts for the year ended 31 December 2013 is zero (for the year ended 31 December 2012: zero). For time deposits the effective interest rates for the year 2013 ranged from 0.005% - 0.22% p.a. (2012: 0.01% - 0.85% p.a.)

18. Due to public and commercial entities

	2013	2012
Current accounts		
Insurance companies	4,199	4,227
Other public institutions	232,328	44,725
Licensed Pension funds	68	68
Other	2	3
	236,597	49,023

The effective interest rate for current accounts as at 31 December 2013 and 2012 is zero.

19. Other domestic liabilities

	2013	2012
Safe custody accounts	2,428	2,428
Deferred grants income	523	590
Other deferred income	12	76
Sundry creditors	281	195
	3,244	3,289

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Notes to the financial Statement for the year ended 31 December 2013

(in thousands of EUR, unless otherwise stated)

19. Other domestic liabilities (continued)

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

Amounts EUR 1,134 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 2013.

Included in 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 which as of 31 December 2013 amounts as 538 thousand euro.

As of 31 December 2013 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 Finance (ICU Portfolio)	World Bank	ECB	Total
Deferred grant revenue at 1 January 2012	595	-	-	595
Grants received during the year	12	36	2	50
Grant recognised as revenue for the year	(52)	(1)	(2)	(55)
Deferred grant revenue at 31 December 2012	555	35	-	590
Deferred grant revenue at 1 January 2013	555	35	-	590
Grants received during the year	11	-	-	11
Grant recognised as revenue for the year	(71)	(7)	-	(78)
Deferred grant revenue at 31 December 2013	495	28	-	523

20. Statutory fund

The CBK statutory fund as at 31 December 2013 and 2012 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 and revaluation reserve

The reserve fund and revaluation reserve 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 Statement for the year ended 31 December 2013

(in thousands of EUR, unless otherwise stated)

22. Net interest income

Net interest income is composed as follows:

	2013	2012
Interest income		
From deposit accounts	548	2,398
From treasury bills	391	269
From current accounts	51	119
	990	2,786
Interest expense		
On current accounts from non-banking entities	50	255
On current accounts from bank entities	1	73
On time deposits	130	1,442
	181	1,770
Net interest income	809	1,016

23. Net fees and commission income

Net fee and commission income is composed as follows:

	2013	2012
Fee income		
From cash deposits	459	463
From foreign incoming transfers	45	32
From foreign outgoing transfers	191	203
From the inter-bank clearing system	433	321
From the credit registry system	119	135
From management of treasury fund	284	721
Other fees	32	39
	1,563	1,914
Fee expenses		
For cash transportation	253	350
For correspondent bank transactions	53	35
Penalties charges	-	3
	306	388
Net fee and commission income	1,257	1,526

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 Statement for the year ended 31 December 2013

(in thousands of EUR, unless otherwise stated)

24. Grant revenue

Grant revenue is composed as follows:

	2013	2012
Ministry of Economy and Finance	71	52
World Bank	7	1
European Central Bank ("ECB")	-	2
Total	78	55

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:

	2013	2012
Fees charged to commercial banks	1,136	1,018
Fees charged to insurance companies	1,095	599
Fees from non-bank financial institutions	105	62
Pension renewal fees	21	27
Other fees	10	23
Total	2,367	1,729

26. Personnel expenses

Personnel expenses are composed as follows:

	2013	2012
Wages and salaries	2,131	1,927
Health insurance costs	343	303
Pension contributions	168	97
Staff training	74	62
Central Bank Board expenses	136	128
Other	51	49
Total	2,903	2,566

The number of employees at CBK as at 31 December 2013 was 193 (31 December 2012: 178).

Central Bank of the Republic of Kosovo

Notes to the financial Statement for the year ended 31 December 2013

(in thousands of EUR, unless otherwise stated)

27. General and administrative expenses

General and administrative expenses are composed as follows:

	2013	2012
Insurance expenses	172	201
Repairs and maintenance	63	69
Software maintenance	225	178
Communication expense (telephone, telex and internet)	62	57
Utilities	99	84
Audit and consulting expense	19	14
Security and guard services	49	78
Travel and transportation	117	88
Vehicle operating expenses	29	25
Stores and stationery	27	26
Representation expenses	55	72
Computer and other consumables expense	48	41
Publication and literature expenses	33	34
Other	32	15
Total	1,030	982

28. Foreign exchange net income gain/(loss)

Foreign exchange net income gain EUR 87 thousand for the year ended 31 December 2013 (2012: gain of 32 thousand) represents unrealized foreign exchange gains and losses in relation to foreign exchange differences resulting upon translation of SDR assets and liabilities on the CBK books.

29. Cash and cash equivalents

Cash and cash equivalents are composed as follows:

	Note	2013	2012
Cash on hand	7	27,384	16,761
Current accounts with non-resident banks	8	61,083	99,549
Treasury bills with maturity up to three months		189,963	39,994
Deposit accounts with non-resident banks with maturity up to three months		553,449	540,915
Total		831,879	697,219

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 Statement for the year ended 31 December 2013

(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 2013.

Credit related commitments

As at 31 December 2013, CBK had commitments to place deposits in total amount of EUR 149 million (31 December 2012, CBK had commitments to place deposits in total amount of 50 EUR nil).

Other commitments

Other commitments are composed as follows:

	2013	2012
Equipment contracts	47	50
Services contracts	27	44
Total	74	94

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 2010, 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 2013 amounts 645 thousands and in 2012 total amounts of these promissory notes was EUR 4,007 thousand, the amount reduction is due to payment of one of these promissory note during 2013.

31. Related party transactions

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

	2013	2012
Compensation to Central Bank Board members	116	96
Compensation to Audit Committee	8	8
Compensation to Key Management Personnel	170	139
Total	294	243

32. Subsequent events

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