



Central Bank of the Republic of Kosovo
Independent Auditor's Report and Financial Statements
as at and for the year ended 31 December 2015

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INDEPENDENT AUDITOR'S REPORT

To the Management of Central Bank of Republic of Kosovo

We have audited the accompanying financial statements of Central Bank of Republic of Kosovo ("CBK"), which comprise the statement of financial position as at December 31, 2015, and the statement of profit or loss and other 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

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 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 Central Bank of Republic of Kosovo as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Prishtina, Kosovo
May 19, 2016

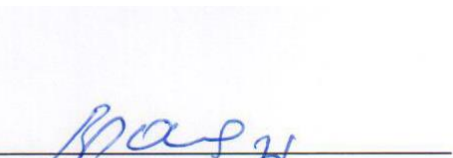
Central Bank of the Republic of Kosovo

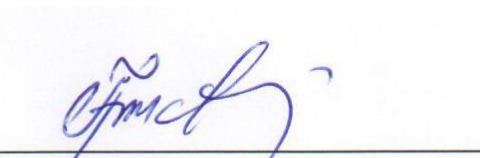
Statement of financial position

At 31 December 2015

| <i>In thousands of EUR</i> | Note | 2015 | 2014 |
|--|-------------|------------------|------------------|
| Assets | | | |
| Cash on hand | 7 | 15,282 | 29,178 |
| Current accounts with non-resident banks | 8 | 241,187 | 323,401 |
| Treasury bills | 9 | 127,319 | 120,789 |
| Deposit accounts with non-resident banks | 10 | 805,309 | 660,123 |
| Assets related with IMF | 11 | 268,277 | 234,786 |
| Property and equipment | 12 | 2,372 | 1,956 |
| Intangible assets | 13 | 1,552 | 1,251 |
| Other assets | 14 | 897 | 886 |
| Total assets | | 1,462,195 | 1,372,370 |
| Liabilities | | | |
| Due to domestic banks | 15 | 316,406 | 315,932 |
| Due to IMF related accounts | 16 | 273,894 | 238,713 |
| Due to governmental institutions | 17 | 735,744 | 713,567 |
| Due to public and commercial entities | 18 | 82,649 | 50,608 |
| Due to borrowings | 19 | 680 | 34 |
| Other domestic liabilities | 20 | 1,799 | 3,181 |
| Total liabilities | | 1,411,172 | 1,322,035 |
| Capital and reserves | | | |
| Authorized capital | 21 | 30,000 | 30,000 |
| Reserve fund | 21a | 20,171 | 19,561 |
| Revaluation reserve | | 164 | 389 |
| Retained earnings | | 688 | 385 |
| Total capital | | 51,023 | 50,335 |
| Total liabilities, capital and reserves | | 1,462,195 | 1,372,370 |

These financial statements set out on pages 4 to 41 were approved by the management of CBK on 19.May.2016 and signed on its behalf by:


Bedri Hamza
Governor


Faton Ahmetaj
Director of Financial, Planning and
Reporting

The accompanying notes from 1 to 33 are an integral part of these financial statements

Central Bank of the Republic of Kosovo
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2015

| <i>In thousands of EUR</i> | Note | 2015 | 2014 |
|--|-------------|----------------|----------------|
| Interest income | | | |
| Interest income | | 642 | 1,504 |
| Interest expense | | (48) | (246) |
| Net interest income | 22 | 594 | 1,258 |
| Fees and commission income | | | |
| Fee and commission income | | 1,442 | 1,640 |
| Fee and commission expense | | (376) | (318) |
| Net fee and commission income | 23 | 1,066 | 1,322 |
| Regulatory and other operating activities revenue | | | |
| Regulatory activity revenue | 24 | 3,410 | 3,310 |
| Grant revenue | 25 | 77 | 77 |
| Other operating income | 26 | 1,139 | 18 |
| Foreign exchange net gain / loss | 29 | (298) | (225) |
| Operating income | | 5,988 | 5,760 |
| Operating expenses | | | |
| Personnel expenses | 27 | (3,625) | (3,571) |
| Depreciation and amortization | 12,13 | (561) | (485) |
| General and administrative expenses | 28 | (1,114) | (1,319) |
| Operating expenses | | (5,300) | (5,375) |
| Profit for the year | | 688 | 385 |
| Other comprehensive income | | - | |
| Total comprehensive income for the year | | 688 | 385 |

The accompanying notes from 1 to 33 are an integral part of these financial statements

Central Bank of the Republic of Kosovo

Statement of changes in equity

For the year ended 31 December 2015

| | Capital | Reserve fund | Revaluation fund | Retained Earnings | Total |
|--|---------------|---------------|------------------|-------------------|---------------|
| <i>In thousands of EUR</i> | | | | | |
| Balance at 1 January 2015 | 30,000 | 19,561 | 389 | 385 | 50,335 |
| Transfer to reserve fund | - | 610 | (225) | (385) | - |
| Total transactions required by law | - | 610 | (225) | (385) | - |
| Profit for the year | - | - | - | 688 | 688 |
| Other comprehensive income | - | - | - | - | - |
| Total comprehensive income for the year | - | - | - | 688 | 688 |
| Balance at 31 December 2015 | 30,000 | 20,171 | 164 | 688 | 51,023 |
| Balance at 1 January 2014 | 30,000 | 19,462 | 301 | 187 | 49,950 |
| Transfer to reserve fund | - | 99 | 88 | (187) | - |
| Total transactions required by law | - | 99 | 88 | (187) | - |
| Profit for the year | - | - | - | 385 | 385 |
| Other comprehensive income | - | - | - | - | - |
| Total comprehensive income for the year | - | - | - | 385 | 385 |
| Balance at 31 December 2014 | 30,000 | 19,561 | 389 | 385 | 50,335 |

The accompanying notes from 1 to 33 are an integral part of the financial statements

Central Bank of the Republic of Kosovo

Statement of cash flows

For the year ended 31 December 2015

| <i>In thousands of EUR</i> | Note | 2015 | 2014 |
|---|------|------------------|-----------------|
| Cash flows from operating activities | | | |
| Profit for the year | | 688 | 385 |
| <i>Adjustments for:</i> | | | |
| Depreciation | 12 | 359 | 279 |
| Amortization | 13 | 202 | 206 |
| Grant revenue | 25 | (77) | (77) |
| Gain on sale of equipment | | - | (18) |
| Interest income | 22 | (642) | (1,504) |
| Interest expense | 22 | 48 | 246 |
| | | 578 | (483) |
| Change in treasury bills | | (3,493) | 250,048 |
| Change in deposit accounts with nonresident banks | | (554,965) | (74,139) |
| Change in assets with IMF | | (33,449) | (3,348) |
| Change in other assets | | (11) | 91 |
| Change in due to domestic banks | | 474 | (17,242) |
| Change in due to IMF related accounts | | 35,138 | 4,720 |
| Change in due to governmental institutions | | 22,193 | (43,876) |
| | | 32,041 | (185,989) |
| Change in due to public and commercial entities | | | |
| Change in borrowings | | 647 | 34 |
| Change in other domestic liabilities | | (1,547) | 3 |
| | | (502,394) | (70,181) |
| Interest received | | 197 | 1,597 |
| Interest paid | | (21) | (263) |
| Net cash generated from/used in operating activities | | (502,218) | (68,847) |
| Cash flows from investing activities | | | |
| Proceeds from sale of equipment | | - | 18 |
| Purchase of equipment | 12 | (775) | (351) |
| Purchase of intangible assets | 13 | (503) | (123) |
| Net cash used in investing activities | | (1,278) | (456) |
| Cash flows from financing activities | | | |
| Proceeds from grants | | 243 | 10 |
| Net cash generated from financing activities | | 243 | 10 |
| Net increase / decrease in cash and cash equivalents | | (503,253) | (69,293) |
| Effect of exchange rate | | - | - |
| Cash and cash equivalents at 1 January | | 762,586 | 831,879 |
| Cash and cash equivalents at 31 December | 30 | 259,333 | 762,586 |

The accompanying notes from 1 to 33 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 2015

(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 Treasury¹ 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 2015, the Board of the Central Bank of Kosovo comprised of the following members:

- Bedri Peci Chairman
- Bedri Hamza – Governor
- Behxhet Brajshori – Member
- Nuhi Ahmeti – 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.

¹ Since it fulfills the requirement of paragraph 2 of Article 79, the Director General of Treasury since August 2015 is not a member of the Board of CBK.

Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended 31 December 2015

(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 that is presented in Euro has been rounded to the nearest thousand.

d) Use of estimates and judgements

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 amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Nonmonetary 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 recognized in profit or loss.

b) Interest

Interest income and expense are recognized 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 commission 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 amortized cost on an effective interest rate basis.

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.

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 recognized initially at fair value and subsequently measured at amortized 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 recognized initially at fair value and subsequently measured at amortized 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.

3. Significant accounting policies (continued)

f) Financial assets and liabilities (continued)

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

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 derecognizes 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 realize 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 amortized 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 amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction of impairment.

3. Significant accounting policies (continued)

f) Financial assets and liabilities (continued)

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.

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 amortized 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 recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset if applicable, continues to be recognized 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 amortized cost in the statement of financial position.

3. Significant accounting policies (continued)

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

i) Property and equipment

i. Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, 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 capitalized 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 derecognized in profit and loss as incurred.

3. Significant accounting policies (continued)

iii. Depreciation

Depreciation is recognized 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:

| | 2015 | 2014 |
|------------------------|----------|----------|
| 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 amortization and accumulated impairment losses.

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

Amortization is recognized 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.

k) Impairment of 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 recognized 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 recognized 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 recognized 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 amortization, if no impairment loss had been recognized.

3. Significant accounting policies (continued)

l) Financial liabilities

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

m) Grant revenue

Government grants are recognized 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 recognized in profit or loss on a systematic basis in the same periods in which the expenses are recognized. Grants that compensate CBK for the cost of an asset are recognized 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 organizations. The funding from these international organizations includes, but it is not limited to, the payment of salaries to these international experts. As this assistance is paid by the international organizations 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 recognized 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 recognized 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 recognizes any impairment loss on the assets associated with that contract.

3. Significant accounting policies (continued)

p) Standards and Interpretations effective in the current period

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board are effective for the current period:

- **Amendments to IAS 19 “Employee Benefits”** - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),
- **Amendments to various standards “Improvements to IFRSs (cycle 2010-2012)”** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- **Amendments to various standards “Improvements to IFRSs (cycle 2011-2013)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the CBK’s accounting policies.

q) Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements the following standards, amendments to existing standards and interpretations were in issue, but not yet effective:

- **IFRS 9 “Financial Instruments”** (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016),
- **IFRS 15 “Revenue from Contracts with Customers”** (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 16 “Leases”** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures”** - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 11 “Joint Arrangements”** – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 “Presentation of Financial Statements”** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 7 “Statement of Cash Flows” - Disclosure Initiative** (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 “Income Taxes”** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”** - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),

3. Significant accounting policies (continued)

q) Standards and Interpretations in issue not yet adopted (continued)

- **Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” - Agriculture: Bearer Plants** (effective for annual periods beginning on or after 1 January 2016)
- **Amendments to IAS 27 “Separate Financial Statements” - Equity Method in Separate Financial Statements** (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)”** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The Central Bank of Kosovo has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Central Bank of Kosovo anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the CBK in the period of initial application.

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 organizational 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.

4. Financial risk management (continued)

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. Investment and exposure of other banks

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

ii. Exposure to credit risk

The maximum exposure to credit risk as at 31 December 2015 and 31 December 2014 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.

4. Financial risk management (continued)

c) Liquidity risk (continued)

Exposure to liquidity risk

Residual contractual maturities of financial liabilities, excluding future interest payments

| 31 December 2015 | Note | Carrying amount | Less than 1 month | 1-3 months | 3 months to 1 year | 1 year to 7 years |
|---------------------------------------|-------------|------------------------|--------------------------|-------------------|---------------------------|--------------------------|
| <i>Non-derivative liabilities</i> | | | | | | |
| Due to domestic banks | 15 | 316,406 | 316,406 | - | - | - |
| Due to IMF related accounts | 16 | 273,894 | 178,949 | 4,357 | 29,331 | 61,257 |
| Due to governmental institutions | 17 | 735,744 | 735,744 | - | - | - |
| Due to public and commercial entities | 18 | 82,649 | 82,649 | - | - | - |
| Due to borrowings | 19 | 680 | 680 | - | - | - |
| Other domestic liabilities | 20 | 756 | 756 | - | - | - |
| | | 1,410,129 | 1,315,184 | 4,357 | 29,331 | 61,257 |
| 31 December 2014 | | | | | | |
| <i>Non-derivative liabilities</i> | | | | | | |
| Due to domestic banks | 15 | 315,932 | 315,932 | - | - | - |
| Due to IMF related accounts | 16 | 238,713 | 136,982 | 2,798 | 5,596 | 93,337 |
| Due to governmental institutions | 17 | 713,567 | 683,561 | 30,006 | - | - |
| Due to public and commercial entities | 18 | 50,608 | 50,608 | - | - | - |
| Due to borrowings | 19 | 34 | 34 | - | - | - |
| Other domestic liabilities | 20 | 2,428 | 2,428 | - | - | - |
| | | 1,321,282 | 1,189,545 | 32,804 | 5,596 | 93,337 |

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.

4. Financial risk management (continued)

d) Market risk (continued)

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 reprise 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 reprising characteristics of the various floating rate indices.

Risk management activities are aimed at optimizing 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 reprising 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:

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 | 1-7 years |
|--|------|--------------------|--------------------|-----------------|-----------------|------------------|
| 31 December 2015 | | | | | | |
| Current accounts with non-resident banks | 8 | 241,187 | 241,187 | - | - | - |
| Treasury bills | 9 | 127,3198 | 3,109 | 53,773 | 8,187 | 62,249 |
| Deposit accounts with non-resident banks | 10 | 805,309 | - | - | 805,309 | - |
| Assets related with IMF | 11 | 211,318 | 125,619 | 4,889 | 19,554 | 61,257 |
| Total | | 1,385,133 | 369,915 | 58,662 | 833,050 | 123,506 |
| Due to domestic banks | 15 | (316,406) | (316,406) | - | - | - |
| Due to IMF related accounts | 16 | (216,666) | (130,966) | (4,889) | (19,554) | (61,257) |
| Due to governmental institutions | 17 | (735,744) | (735,744) | - | - | - |
| Due to public and commercial entities | 18 | (82,649) | (82,649) | - | - | - |
| Due to borrowings | 19 | (680) | (680) | - | - | - |
| Due to other domestic liabilities | 20 | (756) | (756) | - | - | - |
| Total | | (1,352,901) | (1,267,202) | (4,889) | (19,554) | (61,257) |
| Gap | | 32,232 | (897,287) | 53,773 | 813,496 | 62,249 |
| 31 December 2014 | | | | | | |
| | Note | Carrying amount | Less than 3 months | 3-6 months | 6-12 months | 1-7 years |
| Current accounts with non-resident banks | 8 | 323,401 | 323,401 | - | - | - |
| Treasury bills | 9 | 120,789 | - | - | 69,997 | 50,792 |
| Deposit accounts with non-resident banks | 10 | 660,123 | 410,020 | 240,101 | 10,002 | - |
| Assets related with IMF | 11 | 164,193 | 62,462 | - | - | 101,731 |
| Total | | 1,268,506 | 795,883 | 240,101 | 79,999 | 152,523 |
| Due to domestic banks | 15 | (315,932) | (315,932) | - | - | - |
| Due to IMF related accounts | 16 | (167,803) | (66,072) | - | - | (101,731) |
| Due to governmental institutions | 17 | (713,567) | (648,550) | (65,017) | - | - |
| Due to public and commercial entities | 18 | (50,608) | (50,608) | - | - | - |
| Due to borrowings | 19 | (34) | (34) | - | - | - |
| Due to other domestic liabilities | 20 | (2,428) | (2,428) | - | - | - |
| Total | | (1,250,372) | (1,083,624) | (65,017) | - | (101,731) |
| Gap | | 18,134 | (287,741) | 175,084 | 79,999 | 50,792 |

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

4. Financial risk management (continued)

(d) Market risks (continued)

Overall non-trading interest rate risk positions are managed by the Asset Management 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:

2015

| | 100 pb Increase | 100 pb Decrease |
|--------------------------------|--------------------|--------------------|
| Estimated profit (loss) effect | 322 | (322) |

2014

| | 100 pb Increase | 100 pb Decrease |
|--------------------------------|--------------------|--------------------|
| Estimated profit (loss) effect | 181 | (181) |

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:

2015

| | 100 pb Increase | 100 pb Decrease |
|--------------------------------|--------------------|--------------------|
| Estimated profit (loss) effect | 53 | (53) |

2014

| | 100 pb Increase | 100 pb Decrease |
|--------------------------------|--------------------|--------------------|
| Estimated profit (loss) effect | 36 | (36) |

4. Financial risk management (continued)

(d) Market risks (continued)

| 31 December 2015 | EUR | SDR (EUR equivalent) | Total |
|--|------------------|-----------------------------|------------------|
| Assets | | | |
| Cash on hand | 15,281 | - | 15,281 |
| Current accounts with non-resident banks | 241,187 | - | 241,187 |
| Treasury bills | 127,319 | - | 127,319 |
| Deposit accounts with non-resident banks | 805,309 | - | 805,309 |
| Assets related with IMF | 127,747 | 140,454 | 268,201 |
| Other assets | 897 | - | 897 |
| Total | 1,317,740 | 140,454 | 1,458,194 |
| Liabilities | | | |
| Due to domestic banks | 316,406 | - | 316,406 |
| Due to IMF related accounts | 184,821 | 89,304 | 274,125 |
| Due to governmental institutions | 735,744 | - | 735,744 |
| Due to public and commercial entities | 82,649 | - | 82,649 |
| Due to borrowings | 680 | - | 680 |
| Other domestic liabilities | 1,799 | - | 1,799 |
| Total | 1,322,099 | 89,304 | 1,411,403 |
| Net foreign currency position | (4,359) | 51,150 | 46,791 |
| <hr/> | | | |
| 31 December 2014 | EUR | SDR(EUR equivalent) | Total |
| Assets | | | |
| Cash on hand | 29,178 | - | 29,178 |
| Current accounts with non-resident banks | 323,401 | - | 323,401 |
| Treasury bills | 120,789 | - | 120,789 |
| Deposit accounts with non-resident banks | 660,123 | - | 660,123 |
| Assets related with IMF | 101,731 | 133,055 | 234,786 |
| Other assets | 886 | - | 886 |
| Total | 1,236,108 | 133,055 | 1,369,163 |
| Liabilities | | | |
| Due to domestic banks | 315,932 | - | 315,932 |
| Due to IMF related accounts | 155,240 | 83,660 | 238,900 |
| Due to governmental institutions | 713,567 | - | 713,567 |
| Due to public and commercial entities | 50,608 | - | 50,608 |
| Due to borrowings | 34 | - | 34 |
| Other domestic liabilities | 3,181 | - | 3,181 |
| Total | 1,238,562 | 83,660 | 1,322,222 |
| Net foreign currency position | (2,454) | 49,395 | 46,941 |

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 2015 and 2014 were as follows:

| | 2015 | 2014 |
|-------|-------------|-------------|
| | EUR | EUR |
| 1 SDR | 1.27283 | 1.1933 |

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 risk

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 behavior. 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 authorization 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 program 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.

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

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 amortized 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 judgments 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.

5. Use of estimates and judgments (continued)

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

Note to the financial statement for the year ended 31 December 2015

(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 2015 | | | | | | |
| Cash on hand | 7 | 15,282 | - | - | 15,282 | 15,282 |
| Current accounts with non-resident banks | 8 | 241,187 | - | - | 241,187 | 241,187 |
| Treasury bills | 9 | - | 127,319 | - | 127,319 | 127,319 |
| Deposit accounts with non-resident banks | 10 | - | 805,309 | - | 805,309 | 805,309 |
| Assets related with IMF | 11 | 268,277 | - | - | 268,277 | 268,277 |
| | | 524,746 | 932,628 | - | 1,457,374 | 1,457,374 |
| Due to domestic banks | 15 | - | - | 316,406 | 316,406 | 316,406 |
| Due to IMF related accounts | 16 | - | - | 273,894 | 273,894 | 273,894 |
| Due to governmental institutions | 17 | - | - | 735,744 | 735,744 | 735,744 |
| Due to public and commercial entities | 18 | - | - | 82,649 | 82,649 | 82,649 |
| Due to borrowings | 19 | - | - | - | - | - |
| Other domestic liabilities | 20 | - | - | 756 | 756 | 756 |
| | | - | - | 1,409,449 | 1,409,449 | 1,409,449 |
| 31 December 2014 | | | | | | |
| Cash on hand | 7 | 29,178 | - | - | 29,178 | 29,178 |
| Current accounts with non-resident banks | 8 | 323,401 | - | - | 323,401 | 323,401 |
| Treasury bills | 9 | - | 120,789 | - | 120,789 | 120,789 |
| Deposit accounts with non-resident banks | 10 | - | 660,123 | - | 660,123 | 660,123 |
| Assets related with IMF | 11 | 234,786 | - | - | 234,786 | 234,786 |
| | | 587,365 | 780,912 | - | 1,368,277 | 1,368,277 |
| Due to domestic banks | 15 | - | - | 315,932 | 315,932 | 315,932 |
| Due to IMF related accounts | 16 | - | - | 238,713 | 238,713 | 238,713 |
| Due to governmental institutions | 17 | - | - | 713,567 | 713,567 | 713,567 |
| Due to public and commercial entities | 18 | - | - | 50,608 | 50,608 | 50,608 |
| Due to borrowings | 19 | - | - | 34 | 34 | 34 |
| Other domestic liabilities | 20 | - | - | 2,428 | 2,428 | 2,428 |
| | | - | - | 1,321,282 | 1,321,282 | 1,321,282 |

Central Bank of the Republic of Kosovo

Note to the financial statement for the year ended 31 December 2015

(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:

| | 2015 | 2014 |
|------------------------|----------------|----------------|
| Deutsche Bundesbank | - | - |
| Raiffeisen Zentralbank | 152,006 | 145,497 |
| Svenska Handelsbanken | - | 10,004 |
| Deutsche Bank | 79,162 | 104,900 |
| Pohjola Bank Plc | 9,996 | 63,000 |
| Commerzbank AG | 23 | - |
| Total | 241,187 | 323,401 |

All current accounts of the above banks have credit ratings of A-2/P-2 as per 2015 rankings by Standard & Poor's/Moody's ratings. The decrease compared to the 2015 it's a normal flow of daily activities, and at the same time the decrease in current accounts is related with increase in notes 9 and 10 (securities and deposit accounts with non-residential banks).

9. Securities (treasury bills and government bonds)

Both categories are debt securities issued by governments of European Union countries. Treasury bills disclosed below have maturity up to one year. Government bonds have maturity up to two and a half year. All bills are denominated in EUR and have effective interest rates ranging from 0.016% to 2.696% p.a. in 2015 (2014: 0.009% to 0.370% p.a.).

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

As per state:

| | 2015 | 2014 |
|--------------|----------------|----------------|
| France | 50,490 | - |
| Netherlands | 49,996 | 50,792 |
| Belgium | - | 69,997 |
| Kosovo | 26,833 | - |
| Total | 127,319 | 120,789 |

As per type:

| | 2015 | 2014 |
|------------------|----------------|----------------|
| Treasury bills | 64,514 | 69,997 |
| Government bonds | 62,805 | 50,792 |
| Total | 127,319 | 120,789 |

Central Bank of the Republic of Kosovo

Note to the financial statement for the year ended 31 December 2015

(in thousands of EUR, unless otherwise stated)

9. Securities (treasury bills and government bonds) (continued)

Credit rating for financial instruments that CBK has invested for the year ended December 31, 2015 was A-3/P-2, according to Standard& Poor's/Moody's. Increase compared to 2014 is affected from the increase in the total portfolio (affected from the increase in the balance of liabilities, see note 16, 17 and 18) and the transfer between categories i.e. Note 8 has decreased and balances in Note 9 and 10 have increased.

10. Deposit accounts with non-resident banks

Deposit accounts with nonresident banks are composed from:

| | 2015 | 2014 |
|--|----------------|----------------|
| Term deposits | | |
| Raiffeisen Zentralbank | 200,000 | 20,000 |
| Svenska Handelsbanken | - | 80,062 |
| ING Bank | 185,000 | 50,000 |
| Rabobank | 90,023 | - |
| Danske Bank | 140,004 | 110,007 |
| Swedbank | - | 100,000 |
| Banque Centrale du Luxembourg | - | 50,000 |
| Deutsche Bank | 160,000 | 150,000 |
| Pohjola Bank Plc | 30,000 | 100,000 |
| | 805,027 | 660,069 |
| Interest accrued on term deposits | | |
| Raiffeisen Zentralbank | 131 | 1 |
| Svenska Handelsbanken | - | 8 |
| ING Bank | 31 | 1 |
| Rabobank | 21 | - |
| Danske Bank | 24 | 6 |
| Swedbank | - | 18 |
| Banque Centrale du Luxembourg | - | 12 |
| Deutsche Bank | 73 | 1 |
| Pohjola Bank Plc | 2 | 7 |
| | 282 | 54 |
| Total | 805,309 | 660,123 |

Deposits placed with non-resident banks are denominated in EUR and earn interest at effective interest rates ranging from 0.010% to 0.260% p.a. (2014: 0.005% to 0.370% p.a.) and have original maturities from 3 to 367 days (2014: from 1 to 273 days). All deposits have minimum credit ratings A-2/P-2, as per December 2015 ranking by Standard & Poors/Moody's ratings. Comparing to the year 2014 there is an increase in 2015, which is affected from the Notes 8 and 9 related to the increase in the portfolio and due to the movements between the categories disclosed in Notes 8, 9 and 10.

11. Assets related with IMF

| | 2015 | 2014 |
|--|----------------|----------------|
| IMF quota | 75,097 | 70,406 |
| SDR Holdings | 65,127 | 62,462 |
| Accrued interest | 230 | 187 |
| IMF | 140,454 | 133,055 |
| Government | | |
| Due from the Government for the use of IMF funds (SBA) | 127,823 | 101,731 |
| Total | 268,277 | 234,786 |

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 2015 ranging from 0.044% to 0.050% p.a. (2014: 0.05% to 0.12% 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, April 2012 and July 2015 through which the Government of Kosovo obtained from IMF a line for use of funds in accordance with Stand-by Arrangements, while the outstanding as of 31 December 2015 is SDR 100.4 million (EUR: 127.8 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 2015 fluctuated in quarterly basis annually in average of 1.044% - 1.050% p.a., (on 2014 fluctuated from 1.05% - 1.12% p.a.).

To regulate the Stand-By Arrangement with IMF, CBK and the Government of Kosovo entered into an agreement for each Stand-by Arrangement "on the Procedure for Request, Acceptance, Service and Repurchase of the Funds from the IMF in terms of the Stand -By Arrangement". Based on this arrangement CBK withdraws the SDRs from IMF, on behalf of the Government and credits them to the Government's account.

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 2014 | 2,045 | 1,484 | 881 | 242 | 55 | 4,707 |
| Acquisitions | 2 | 174 | 145 | - | 30 | 351 |
| Transfer from/to | 10 | 22 | - | - | (32) | - |
| Transfer from / to (adjustment) | - | - | - | - | (23) | (23) |
| Disposals | - | - | - | (67) | - | (67) |
| At 31 December 2014 | 2,057 | 1,680 | 1,026 | 175 | 30 | 4,968 |
| At 1 January 2015 | 2,057 | 1,680 | 1,026 | 175 | 30 | 4,968 |
| Acquisitions | 7 | 124 | 372 | 145 | 127 | 775 |
| Transfer from/to | - | - | - | - | - | - |
| Transfer from / to (adjustment) | - | - | - | - | - | - |
| Disposals | - | - | - | - | - | - |
| At 31 December 2015 | 2,064 | 1,804 | 1,398 | 320 | 157 | 5,743 |
| Depreciation | | | | | | |
| At 1 January 2014 | 471 | 1,296 | 812 | 221 | - | 2,800 |
| Charge for the year | 103 | 78 | 77 | 21 | - | 279 |
| Transfer from / to (adjustment) | - | 10 | (10) | - | - | - |
| Disposals | - | - | - | (67) | - | (67) |
| At 31 December 2014 | 574 | 1,384 | 879 | 175 | - | 3,012 |
| At 1 January 2015 | 574 | 1,384 | 879 | 175 | - | 3,012 |
| Charge for the year | 103 | 86 | 142 | 28 | - | 359 |
| Transfer from / to (adjustment) | - | - | - | - | - | - |
| Disposals | - | - | - | - | - | - |
| At 31 December 2015 | 677 | 1,470 | 1,021 | 203 | - | 3,371 |
| Carrying amounts | | | | | | |
| At 1 January 2014 | 1,574 | 188 | 69 | 21 | 55 | 1,907 |
| At 31 December 2014 | 1,483 | 296 | 147 | - | 30 | 1,956 |
| At 31 December 2015 | 1,387 | 334 | 377 | 117 | 157 | 2,372 |

There are no assets pledged as collateral as at 31 December 2015 (31 December 2014: nil).

13. Intangible assets

Intangible assets are composed as follows:

| | Software under development | Software | Total |
|------------------------------------|----------------------------|--------------|--------------|
| Cost | | | |
| Balance at 1 January 2014 | 113 | 2,012 | 2,125 |
| Acquisitions | 34 | 89 | 123 |
| Transfers from / to | (88) | 88 | - |
| Transfers from / to (adjustments) | - | 23 | 23 |
| Disposals | - | - | - |
| Balance at 31 December 2014 | 59 | 2,212 | 2,271 |
| Balance at 1 January 2015 | 59 | 2,212 | 2,271 |
| Acquisitions | 424 | 79 | 503 |
| Transfers from / to | - | - | - |
| Transfers from / to (adjustments) | - | - | - |
| Disposals | - | - | - |
| Balance at 31 December 2015 | 483 | 2,291 | 2,774 |
| Amortization | | | |
| Balance at 1 January 2014 | - | 814 | 814 |
| Amortization for the year | - | 206 | 206 |
| Disposals / write offs | - | - | - |
| Balance at 31 December 2014 | - | 1,020 | 1,020 |
| Balance at 1 January 2015 | - | 1,020 | 1,020 |
| Amortization for the year | - | 202 | 202 |
| Disposals / write offs | - | - | - |
| Balance at 31 December 2015 | - | 1,222 | 1,222 |
| Carrying amounts | | | |
| Balance at 1 January 2014 | 113 | 1,198 | 1,311 |
| Balance at 31 December 2014 | 59 | 1,192 | 1,251 |
| Balance at 31 December 2015 | 483 | 1,069 | 1,552 |

14. Other assets

Other assets are composed as follows:

| | 2015 | 2014 |
|--------------------------------------|------------|------------|
| Accrued fee income | 808 | 771 |
| Accounts receivables and prepayments | 89 | 115 |
| Total | 897 | 886 |

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

15. Due to domestic banks

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

| Due to domestic banks | 2015 | 2014 |
|---|----------------|----------------|
| ProCredit Bank Kosovo | 31,592 | 29,511 |
| Raiffeisen Bank Kosovo | 32,682 | 30,023 |
| NLB Prishtina | 15,955 | 16,984 |
| Banka Ekonomike | 6,754 | 5,910 |
| Banka për Biznes | 4,522 | 3,989 |
| Banka Kombëtare Tregtare (Pristina branch) | 8,774 | 8,740 |
| Banka Ekonimike Turke (TEB) | 15,230 | 14,401 |
| Komercijalna Banka – Dega në Mitrovicë | 2,501 | 2,407 |
| Turkiye is Bankasi a.s. | 1,305 | 1,449 |
| T.C. Ziraat Bankasi A.S. – Kosovo Branch | 63 | - |
| Banka Kreditore e Prishtinës | - | - |
| Total required reserve | 119,378 | 113,414 |
| Additional amount above required reserve | | |
| ProCredit Bank Kosovo | 45,633 | 82,301 |
| Raiffeisen Bank Kosovo | 19,250 | 16,110 |
| NLB Prishtina | 23,254 | 25,840 |
| Banka Ekonomike | 10,818 | 5,005 |
| Banka për Biznes | 18,054 | 16,902 |
| Banka Kombëtare Tregtare (Pristina branch) | 30,958 | 15,098 |
| Banka Ekonimike Turke (TEB) | 35,779 | 32,285 |
| Komercijalna Banka – Dega në Mitrovicë | 2,436 | 2,350 |
| Turkiye is Bankasi a.s. | 4,999 | 6,607 |
| T.C. Ziraat Bankasi A.S. – Kosovo Branch | 5,788 | - |
| Banka Kreditore e Prishtinës | 59 | 20 |
| Total addition on current account | 197,028 | 202,518 |
| Total amount on current account | 316,406 | 315,932 |

16. Due to IMF related liabilities

| | 2015 | 2014 |
|---|----------------|----------------|
| IMF Account no. 1 | 188 | 176 |
| IMF Account no. 1 | 6 | 6 |
| IMF Security Account | 184,627 | 155,058 |
| IMF SDR Allocation | 70,475 | 66,072 |
| Accrued interest | 230 | 187 |
| Total due to IMF | 255,526 | 221,499 |
| Due to Government | | |
| IMF – Paid proportion of Government quota | 18,368 | 17,214 |
| Total due to Government | 18,368 | 17,214 |
| Total | 273,894 | 238,713 |

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 which Kosovo Government, have to pay 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 quarterly averages ranging from 0.044% - 0.050% p.a. for 2015 (2014: 0.05% - 0.12% p.a.).

17. Due to Governmental institutions

Due to Governmental institutions includes current accounts from the following:

| Current accounts | 2015 | 2014 |
|-------------------------------------|----------------|----------------|
| Treasury – Ministry of Finance | 248,780 | 90,481 |
| Privatization Agency of Kosovo | 486,819 | 557,801 |
| Interim administration institutions | 145 | 268 |
| Total current accounts | 735,744 | 648,550 |
| Term deposits | | |
| Treasury – Ministry of Finance | - | 65,017 |
| Privatization Agency of Kosovo | - | - |
| Total term deposits | - | 65,017 |
| Total | 735,744 | 713,567 |

The effective annual interest rate for current accounts for the year ended 31 December 2015 is zero (for the year ended 31 December 2014: zero). For time deposits the effective interest rates for the year 2015 is not applicable. (2014: 0.010% - 0.370% p.a.)

18. Due to public and commercial entities

| | 2015 | 2014 |
|---------------------------|---------------|---------------|
| Current accounts | | |
| Insurance companies | 4,528 | 4,982 |
| Other public institutions | 78,119 | 45,556 |
| Licensed Pension Funds | - | 68 |
| Other | 2 | 2 |
| Total | 82,649 | 50,608 |

The effective interest for current accounts as at 31 December 2015 and 2014 is zero. The change in the group comes from the withdrawal of assets held in the current account of one public institution based on their operating goals in their own account in CBK.

19. Due to Borrowings

| | 2015 | 2014 |
|--------------|-------------|-------------|
| Borrowings | 680 | 34 |
| Total | 680 | 34 |

The amount shown above is from borrowings from the World Bank. The Bank has used the possibility of borrowing under favorable conditions (low rate and the principal non-payment period of about 10 years). Borrowing is mainly associated with the project for the development of domestic payments in direction of processing of them in the real time basis.

20. Other domestic liabilities

| | 2015 | 2014 |
|-----------------------|--------------|--------------|
| Safe custody accounts | 756 | 2,428 |
| Deferred grant income | 622 | 456 |
| Other deferred income | 9 | 6 |
| The reserve fund | 168 | 146 |
| Sundry creditors | 244 | 145 |
| | 1,799 | 3,181 |

The change comes from the normal flow of activities in the group in the report with the disclosure dates.

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 2014. This amount during 2015 is transferred to extraordinary revenues.

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 which as of 31 December 2014 amounts as 538 thousand euro. This amounts are transferred to the Kosovo consolidated budget during 2015 and the account is closed.

As of 31 December 2015 in the safe custody accounts are also included EUR 756 thousand related to the current accounts of the Kosovo Insurance Company which was liquidated on April 2010. Only this account is safe custody account as of 31 December 2015.

The movement in deferred grant revenue was as follows:

| | Ministry of Finance (ICU Portfolio) | World Bank | Total |
|---|--|------------|------------|
| Deferred grant revenue at 1 January 2014 | 495 | 28 | 523 |
| Grants received during the year | 10 | - | 10 |
| Grants recognized as revenue for the year | (70) | (7) | (77) |
| Deferred grant revenue at 31 December 2014 | 435 | 21 | 456 |
| Deferred grant revenue at 1 January 2015 | 435 | 21 | 456 |
| Grants received during the year | 10 | 233 | 243 |
| Grants recognized as revenue for the year | (70) | (7) | (77) |
| | - | - | - |
| Deferred grant revenue at 31 December 2015 | 375 | 247 | 622 |

21. Authorized capital

The CBK statutory fund as at 31 December 2015 and 2014 is EUR 30,000 thousand as per Law no. 03/L-209 approved on 22 July 2010.

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

21a. 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.

22. Net interest income

Net interest income is composed as follows:

| | 2015 | 2014 |
|---|------------|--------------|
| Interest income | | |
| From deposit accounts | 528 | 812 |
| From treasury bills | 81 | 636 |
| From current accounts | 33 | 56 |
| | 642 | 1,504 |
| Interest expense | | |
| On current accounts from non-banking entities | 37 | 54 |
| On current accounts from bank entities | 8 | - |
| On term deposits | 3 | 192 |
| | 48 | 246 |
| Net interest income | 594 | 1,258 |

23. Net fees and commission income

Net fee and commission income is composed as follows:

| | 2015 | 2014 |
|--------------------------------------|--------------|--------------|
| Fee income | | |
| From cash deposits | 438 | 459 |
| From foreign incoming transfers | 51 | 40 |
| From foreign outgoing transfers | 258 | 290 |
| From the inter-bank clearing system | 520 | 477 |
| From the credit registry system | 116 | 121 |
| From management of treasury fund | 25 | 224 |
| Other fees | 34 | 29 |
| | 1,442 | 1,640 |
| Fee expenses | | |
| For cash transportation | 360 | 273 |
| For correspondent bank transactions | 16 | 45 |
| | 376 | 318 |
| Net fee and commission income | 1,066 | 1,322 |

23. Net fees and commission income (continued)

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

24. Revenues from the regulatory activity

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.

Revenues from regulatory activity:

| | 2015 | 2014 |
|---|--------------|--------------|
| Fees charged from commercial banks | 2,056 | 1,958 |
| Fees charged to insurance companies | 1,196 | 1,144 |
| Fees from non-bank financial institutions | 146 | 196 |
| Pension renewal fees | 12 | 13 |
| Total | 3,410 | 3,311 |

25. Grant revenue

Grant revenue is composed as follows:

| | 2015 | 2014 |
|--|-----------|-----------|
| Treasury – Ministry of Finance (ICU portfolio) | 70 | 70 |
| World Bank | 7 | 7 |
| Total | 77 | 77 |

26. Other Income

Other income:

| | 2015 | 2014 |
|--------------|--------------|-----------|
| Other income | 1,139 | 18 |
| Total | 1,139 | 18 |

Within other income are included extraordinary income related to Note 20 and other income, which were not related with the ordinary activity of the Bank and any other balance disclosed in as separate Note.

27. Personnel expenses

Personnel expenses are composed as follows:

| | 2015 | 2014 |
|-----------------------------|--------------|--------------|
| Wages and salaries | 2,812 | 2,779 |
| Pension contributions | 449 | 439 |
| Health insurance costs | 175 | 178 |
| Staff training | 63 | 43 |
| Central Bank Board expenses | 101 | 107 |
| Other | 25 | 25 |
| Total | 3,625 | 3,571 |

The number of employees at CBK as at 31 December 2015 was 215 (31 December 2014: 201). As it can be seen from the Note above personnel expenses have increased in 2015 compared to 2014 and this is affected from the increase in number of personnel.

28. General and administrative expenses

General and administrative expenses are as follows:

| | 2015 | 2014 |
|---|--------------|--------------|
| Insurance expenses | 203 | 185 |
| Repairs and maintenance | 36 | 44 |
| Software maintenance | 286 | 240 |
| Communication expense (telephone, telex and internet) | 36 | 51 |
| Utilities | 91 | 97 |
| Audit and consulting expense | 17 | 18 |
| Security and guard services | 62 | 44 |
| Travel and transportation | 134 | 107 |
| Vehicle operating expenses | 29 | 33 |
| Stores and stationery | 6 | 21 |
| Representation expenses | 37 | 36 |
| Other representation expenses | 12 | 11 |
| Cafeteria expenses | 28 | 28 |
| Computer and other consumables expense | 12 | 10 |
| Consumable expenses for equipment | 8 | 40 |
| Publication and literature expenses | 24 | 38 |
| Technical professional assistance and other external services | 30 | 121 |
| Membership in professional organizations* | 27 | 29 |
| Provisional expenses** | 23 | 145 |
| Other | 13 | 21 |
| Total | 1,114 | 1,319 |

* Representation Expenses (other) are mainly representative lunches / dinners of institution,

Other representation expenses consist conferences during 2015, the program of financial education, representation in sports competitions regional, picnic, children's gifts for year end, ceremonies and gifts for staff retirement, gifts for March 8 and similar ones.

** Memberships in professional organizations relates to the expenses for memberships fees for insurance supervisions, pension supervisions, credit registry, internal audit and financial reporting standard regulatory.

*** Provisions for legal cases those are ongoing as at 31 December 2015.

29. Foreign exchange net income gain / loss

Foreign exchange net income loss EUR 298 thousand for the year ended 31 December 2015 (2014: gain of 225 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.

30. Cash and cash equivalents

Cash and cash equivalents are composed as follows:

| | Note | 2015 | 2014 |
|---|-------------|----------------|----------------|
| Cash on hand | 7 | 15,282 | 29,178 |
| Current accounts with non-resident banks | 8 | 241,187 | 323,401 |
| Treasury bills with maturity up to three-months | 9 | 2,864 | - |
| Deposit accounts with non-resident banks with maturity up to three months | 10 | - | 410,007 |
| Total | | 259,333 | 762,586 |

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

31. Commitments and contingencies

Legal cases

There are several open legal cases against CBK as at the reporting date. It is the management's opinion that the final outcome of these cases will not have a significant effect on the financial statements of the CBK and for the year ending December 31, 2015; however due to professional care CBK has estimated and recorded a provision disclosed under other liabilities.

Credit related commitments

As at 31 December 2015, CBK had commitments to place deposits in total amount of EUR 0 (zero) million (31 December 2014, CBK had commitments to place deposits in total amount of 149 EUR nil).

Other commitments

Other commitments are composed as follows:

| | 2015 | 2014 |
|-------------------------------------|--------------|-------------|
| Service contract | 79 | 17 |
| Contract for renovation of building | 2,041 | - |
| Equipment contracts | 61 | 145 |
| Total | 2,181 | 162 |

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.

31. Commitments and contingencies (continued)

Other commitments (continued)

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 2015 amounts 645 thousands and in 2014 total amounts of these promissory notes was EUR 645 thousand.

32. Related party transactions

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

| | 2015 | 2014 |
|--|-------------|-------------|
| Compensation to Central Bank Board members | 80 | 81 |
| Compensation to Audit Committee | 7 | 7 |
| Compensation to Key Management Personnel | 184 | 216 |
| Total | 271 | 304 |

33. Subsequent events

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