



CENTRAL BANKING AUTHORITY OF KOSOVO
AUTORITETI QENDROR BANKAR I KOSOVËS
CENTRALNI BANKARSKI AUTORITET KOSOVA

ANNUAL REPORT 2007

CBAK
ANNUAL
REPORT

Pristina
May
2008

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LIST OF ABBREVIATIONS

ACP	Amerikan Capital Partners
ATM	Automated Teller Machine
B&H	Bosna and Hercegovina
BiH	Bosnia and Herzegovina
BKT	Banka Kombëtare Tregtare
BOP	Balance of Payments of Kosovo
BRK	Banka e Re e Kosovës
CA	Current Account
CAMEL	Capital Assets Quality Management Earning Liquidity
CAR	Capital Adequacy Ratio
CBAK	Central Banking Authority of Kosovo
CCIU	Currency Counterfeit Investigation Unit
CEFTA	Central Europe Free Trade Agreements
CPI	Consumer Price Index
CRK	Credit Registry of Kosovo
DC	Depository Corporations
DEAS	Directorate for Economic Analysis and Statistics
DIPS	Directorate of Insurance and Pension Supervision
E&S	Efficacy & Safety

LIST OF ABBREVIATIONS

EAD	Economic Analysis Department
EAR	European Agency for Reconstruction
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EICS	Electronic Interbank Clearing System
EU	European Union
EUR	Euro
FC	Financial Corporations
FDI	Foreign Direct Investments
FTA	Free Trade Agreement
FYROM	Former Yugoslav Republic of Macedonia
GDP	Gross domestic product
HHI	Herfindahl – Hirschman Index
HICP	Harmonized Index of Consumer Prices
IAIS	International Association of Insurance Supervisors
IAS	International Accounting Standards
IAS	International Accounting Standards
ICS	Interbank Clearing System
ICS	Interbank Clearing System
IG	Inspector General
IMF	International Monetary Fund
IOPS	International Organization of Pension Supervisors
IT	Information Technology

LIST OF ABBREVIATIONS

KB	Komercijalna Banka
KCB	Kosovo Consolidated Budget
KEK	Energetic Corporation of Kosovo
KPST	Kosovo Pension Saving Trust
KTA	Kosovo Trust Agency
MCR	Minimum Capital Requirement
MFE	Ministry of Economy and Finance
MOU	Memorandum of Understanding
New Cos	New Companies
NFC	Non-Financial Corporations
NIM	Net Interest Margin
NLB	Nova Ljubljanska Banka
NPISH	Nonprofit Institutions Serving Households
NPL	Non- Performing Loans
ODC	Other Depository Corporations
OFC	Other Financial Corporations
OFI	Other Financial Intermediaries
PISG	Provisional Institutions of Self Government
POE	Publicly Owned Enterprises
POS	Point of Sales
PTK	Post and Telecommunication of Kosovo, J.S.C.
ROAA	Return on Average Assets
ROAE	return on Average Equity

LIST OF ABBREVIATIONS

SCR	Solvency Capital Requirement
SD	Statistics Department
SEE	South – East Europe
SOE	Socially Owned Enterprises
SOK	Statistical Office of Kosovo
SRSG	Special Representative of Secretary General
SSO	Special Spin – Off
TEB	Türk Ekonomi Bankasi
TPL	Third Party Liability
UNMIK	United Nations Mission in Kosovo
US	United States
USAID	United States Agency for International Development
USD	United States dollar

Honored Special Representative of the Secretary General,
Honored President of Kosovo,

I have the honor and pleasure of presenting to you the Annual Report for 2007 which includes the most important developments in the Kosovo economy and in particular in the financial sector. During 2007 Kosovo had a GDP increase of 3.5%, whereas the GDP per capital was around 1.400 €. Aside from the fact that Kosovo had low inflation during the previous years, even deflation during a short period, in 2007 inflation increased to 4.4% as a result of the increase of fuel prices and prices of food products in the world market.

Unemployment further remains one of the main problems aside from the creation of new work places in 2007, which presents an extremely delicate issue for Kosovo as a place with a new population.

Income in the Kosovo Consolidated Budget increased for 26 % compared to the previous year, whereas expenses were achieved with only 87%, what caused a surplus from around 234 million euros.

The financial sector attained further development in 2007. The banking sector which is dominated by commercial banks, having around 1.4 billion euros of total assets noted an increase from 23.5%. While two local banks were taken by a foreign bank, the domination of foreign banks increased even further.

Interest rates for permitted loans have noted a decline, whereas interest rates for deposits were increased, what has affected a small decline of the interest margin during 2007.

The negative trend of extremely high import compared to export also continued in 2007 which presents one of the main problems for the Kosovo economy.

The Annual Report has now become a traditional publication that reflects the experience of the CBAK staff and their commitment to offer an inclusive publication for the general opinion which will be very valuable for all that wish to be informed on the Kosovo economy including the real, fiscal and financial sector.

The Central Banking Authority of Kosovo has been transformed into a stable and strong Institution, continuing with the advancement of the internal organization and continuous qualification of its staff. Achievements up until now indicate that the CBAK staff as well as managers and foreign experts which are part of this success can feel proud of themselves for their contribution. All of these would not have been achieved without the valuable advices and technical assistance of the International Monetary Fund, European Union, USAID and World Bank, as well as the unreserved support of UNMIK and the Government of Kosovo.

New challenges awaiting this institution have to be surpassed with success. In this direction, capacity building, as technical also managerial as well as the effective independence will be critical factors for the further development of this extremely important institution for Kosovo.



Prof. Dr. Gazmend Luboteni
Chairman of the Governing Board

Dear Special Representative of the Secretary General,
Dear President of Kosovo

In 2007, more than in the previous years, the financial sector significantly increased the quality and the volume of its supply towards economic actors, thereby supporting continued economic development and the drive toward a market economy. Consequently, the financial sector of Kosovo has now reached a level of development close to that of its neighboring countries. In this regard, the financial sector can be considered as one of Kosovo's assets.

Economic activity, which is on an improving trend since late 2005, grew for the second consecutive year at a rate close to 3%, with a real GDP growth presently estimated at 3% for 2007, compared to 2.8 % for 2006. Lending activity from commercial banks was high in 2007, with an increase of total loans by 42%, bringing the ratio of total loans to GDP to around 30%, a level comparable with that of Kosovo's neighbors. The overall liquidity of the banking sector is adequate.

Regarding lending activities, it should be stressed that good bankable projects, as well as initiatives from entrepreneurs in sectors with value added, are growing steadily. Indeed, the level of interest rates which is presently perceived as high by borrowers –while it is in fact similar to those of most of the Balkans countries- reflects in large part the level of economic uncertainties perceived by bankers as well as investors.

In other words, a significant upgrade of the different components of the business environment, with special focuses on the functioning of the court system, on public governance, on adequate supply in basic equipments, and on upgrading the educational system, should go hand in hand with improvements in efficiency of the financial system.

In its capacities as a central banking and supervisory authority, the CBAK is determined to contribute positively to economic development, by strengthening the financial sector and offering the best services to its different partners, as well as to the general public. Prudential rules applicable to the financial sector have been amended to upgrade the regulatory framework. In particular, the CBAK Board approved a new insurance rule which gives a legal basis to the development of life insurance activities. In cooperation with the industry, the CBAK has also prepared the necessary steps to move towards a liberalization of tariffs of vehicle insurance.

More fundamentally, the CBAK has conducted a pro-active and selective approach towards foreign investors, in order to bring strong and experienced actors to invest in the Kosovo financial sector. As a result, the CBAK granted in 2007 and in early 2008 four banking licenses to subsidiaries or branches of financial institutions already active in the region. One of these licenses has been given to an institution which bought and merged two of the four domestically held banks. In total, the restructuring of the banking sector promoted by the CBAK since early 2006 has brought to a significant change in the structure of the banking sector, whose composition is now more optimal: a mix of international, regional and local institutions. Kosovars should benefit from enlarged financial services and increased competition.

On the side of insurance companies, the CBAK has implemented a risk based capital and reserves requirement which has been designed to strengthen the capacities of the industry. Major

improvements have been made in modernizing the companies' network, as well as in giving a legal framework for life insurance products and for liberalization of tariffs.

Regarding its central banking activities, the CBAK has undertaken several initiatives to improve its services to economic actors and public authorities.

Internationally, the CBAK, which is now involved in the major international and regional professional organizations and circles, has targeted Kosovo's integration with the outside world as its priority objective. Among different challenges to be addressed, the major remaining ones are the mutual recognition of insurance policies, and the future membership of Kosovo to the Green Card network.

Proclamation of the independence of Kosovo on February 17, 2008 entails changes of the international status of Kosovo. Independence is seen both as an opportunity and as a challenge for the financial sector, as well as for the CBAK itself. Foreign companies will invest in Kosovo only if the business environment is assessed as being secure, stable and fair. As regarding financial actors, their operations in Kosovo will develop only if financial supervision and other activities performed by the CBAK continue to be conducted in an effective, efficient, independent and professional way.

In that context, I am pleased to submit to you the 2007 Annual Report of the CBAK.



Hashim Rexhepi
Managing Director

Members of the Governing Board, Audit Committee and Executive Committee

As at 31 December 2007, the Governing Board of the Central Banking Authority of Kosovo was composed of following members:

GOVERNING BOARD OF THE CBAK

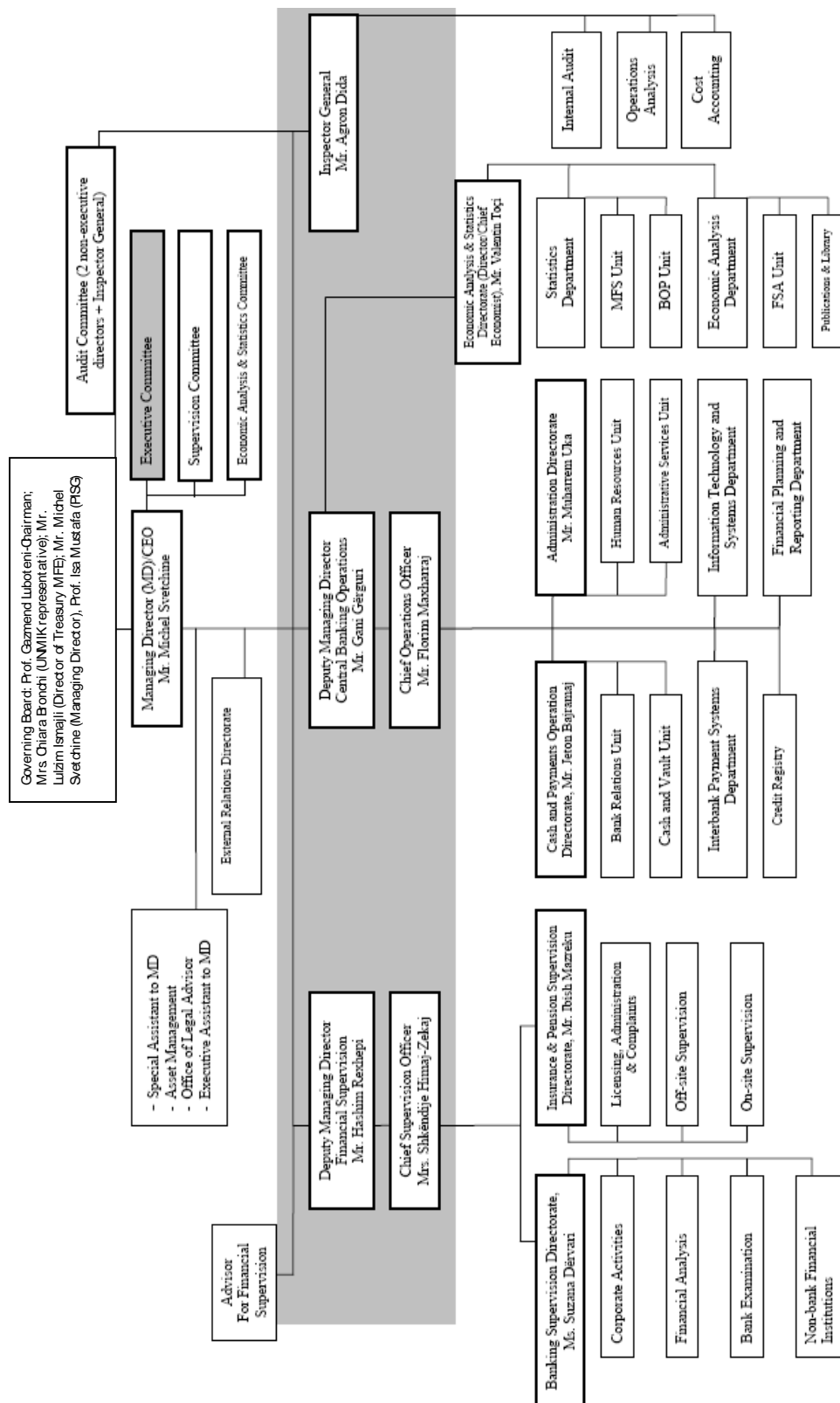
Mr. Gazmend Luboteni, Chairman of the Governing Board;¹
Mr. Michel Svetchine, Managing Director of the CBAK (member of the Governing Board);
Mrs. Chiara Bronchi, Head of Fiscal Affairs Office – UNMIK (member of the Governing Board);
Mr. Lulzim Ismajli, Head of the Treasury (member of the Governing Board);
Mr. Isa Mustafa, Professor, Faculty of Economics – University of Prishtina (member of the Gov. Board)

EXECUTIVE COMMITTEE OF THE CBAK (as at 31 December 2007):

Mr. Michel Svetchine, Managing Director of the CBAK;
Mr. Hashim Rexhepi, Deputy Managing Director for Financial Sector Supervision;
Mr. Gani Gërguri, Deputy Managing Director for Central Banking Operations;
Mr. Agron Dida, Inspector General;
Ms. Shkendije Himaj, Chief Supervision Officer;
Mr. Florim Maxharraj, Chief Operations Officer.

¹ Mr. Luboteni was appointed as Chairman of the Governing Board since November 20, 2007. Mr. Luboteni replaced Mr. Ajri Begu that was Chairman of the Governing Board until July 24, 2007.

Organizational Structure of the CBAK as at Dec 31, 2007



1. Executive Summary

1. Executive Summary

Supported mainly from emerging markets and developing countries, the world real GDP grew by 4.7% in 2007, which is lower than in 2006. World inflation in 2007 stood at 3.9% stemming from the increase in oil prices. Overall increase in the oil prices affected the European Union also by causing increase in the energy and food prices. HICP in 2007 shows an inflation that accounted at 2.1%. European Union real GDP grew by 3.0% in 2007, which is broadly the same as in 2006. Concerning the trade balance, due to the increase in export of goods, the European Union recorded a trade surplus of 0.3%.

Driven from the increase in consumption and investments, the South-East European countries real GDP grew with 5.9% in 2007 while inflation remained stable at 3.1% despite the pressure from the international increase in oil prices. One of the key concerns in the South-East European countries remains high level of unemployment that in 2007 reached 25.7%, on average. Apart from the high unemployment, external imbalances in these countries recorded a current account deficit of 11.0% of GDP, on average, mainly driven from the trade deficit. Almost in all the South-East European countries the offsetting item for the external imbalance remains foreign direct investments (mainly driven from the privatization proceeds), remittances, and particularly (in some countries) tourism revenues. Concerning the general government balance, on average it remained stable, from a deficit of 1.0% of GDP to a surplus of 3.9% of GDP.

Reaching the per capita GDP of around euro 1,400 the Kosovo economy in 2007 shows real GDP growth of 3.5% driven from the private sector. Inflation in 2007 stood at 4.4%, after the period of a stable inflation. The main reason for such increase was attributed to the increase in the international increase in the oil prices. Unemployment in Kosovo remains very high, with around 28,000 new job seekers per year, of which majority are belonging to the age group of 15-39 years. Kosovo Consolidated Budget in 2007 amounted a surplus of euro 233.7 million (9.8% of GDP), due to the increase in the non-tax revenues. Mainly due to the increase of Kosovo Consolidated Budget accounts at CBAK, financial sector net foreign assets reached euro 1.4 billion in 2007. The Kosovo financial sector continued to be dominated from the banking sector (90% of total financial sector assets). With the annual growth of loans by around 40% and growth of deposits by around 24%, the loan to deposit ratio stood at 78% in 2007. Banking sector in Kosovo remains profitable and solvent. Current account deficit to GDP in 2007 accounted at 22.5%, remaining key concern for the Kosovo economy. The deficit is mainly driven from the trade deficit (exports/imports coverage around 9%), while remittances and FDI remains offsetting this level of current account deficit.

The Central Banking Authority of Kosovo (CBAK) adjusted its organization structure in 2007 with the primary objective to further promote CBAK development and to better suit CBAK activities. By promoting the competitive market-based financial sector, the CBAK goal is to have a financial supervision that is effective and flexible. The supervisory approach of the CBAK has evolved consistent with the evolution of international best practice from a "rules-based" approach to "risk-based" approach (Basel Core Principles). Significant developments on completion of banking and non-banking regulations have been achieved during 2007.

The CBAK provides public and financial institutions, with the usual financial services offered by a central bank and also ensures an adequate supply of banknotes and coins for the settlement of cash transactions in the economy. In accordance with the current Regulation, the CBAK Governing Board determines the investment policy to be followed by the management. Since the largest amount of the funds relates to public money that could be redeemed at a short notice, a special attention is paid to safety and liquidity. Invested assets are placed in euro currency with a maturity of less than one year while deposits at CBAK are remunerated with reference to the European Central Bank deposit facility rate.

Since its establishment, the CBAK has been actively engaged in developing an efficient and safe system for domestic payments. The volume and the value of transactions routed through the EICS have been steadily increasing, reflecting the relative increase of non-cash payments and the growth of confidence in the domestic banking system.

Introduced in 2006, the Credit Registry of Kosovo is a web based application that had been enhanced further in 2007. CRK contains information on individual borrowers which serves as an important tool for the assessment of creditworthiness and risks of borrower facilitating the credit granting process.

The project on the physical security upgrade of the CBAK premises, which had been started in 2006, was completed in 2007 with the main objective to enhance the safety and security of CBAK staff and property.

Internal Audit performed their activities based on the Annual Audit Working Plan approved by the Audit Committee and the Governing Board of the CBAK (risk based approach). Among that it were performed the ad hoc audits requested by the Inspector General or the Management.

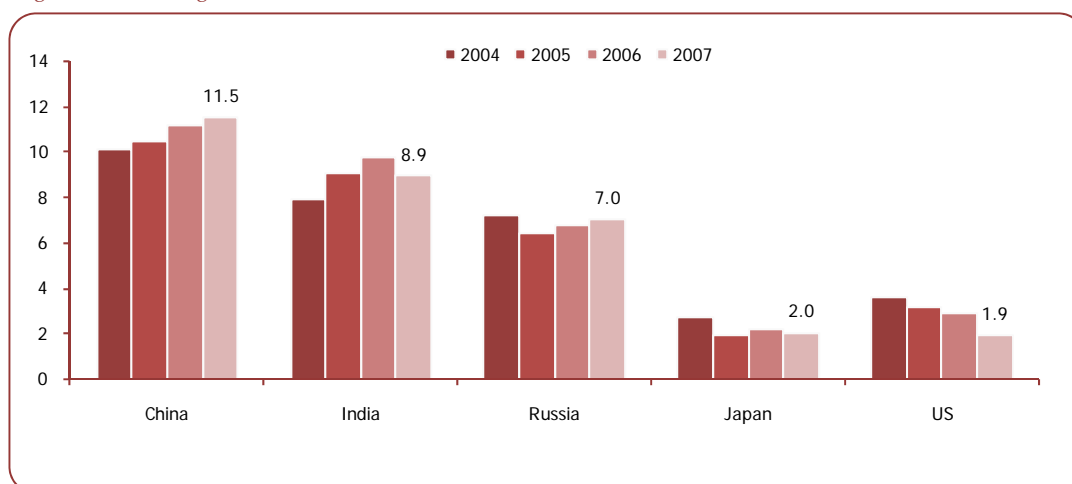
2. External Economic Environment

2. External Economic Environment²

2.1. World Economy

The world economy marked a real GDP growth of 4.7% in 2007 slowing compared to the previous year. Main contributors to growth were economic developments in the emerging markets and developing countries while the drag in growth was mainly caused by the slowdown in the US economy. The economic reforms and the increased investments in emerging markets and developing countries was an important driver of the output growth. Attaining the yearly growth rate of 11.5% in 2007, China remains the main contributor to the global growth followed by India, Russia, Japan and the US (Figure 1). The main negative contribution on the US economic growth was caused by a disruption of credit due to problems in the real estate sector. The US real GDP growth of 1.9% in 2007 represents the lowest growth rate in the US since 2000.

Figure1. Real GDP growth, as of 2007



Source: World Economic Outlook (2007)

The world average annual inflation increased at 3.9% in 2007 (from 3.6% in 2006). Globally, the main explanation of the increase in the inflation rate is the international increase in the oil prices, which sequentially led to higher food prices. The annual average inflation in emerging markets and developing countries stood at 5.9% in 2007. While the US annual average inflation stood at 2.7% in 2007, the euro area and other developed economies recorded an annual average inflation of 2.6%.

The US economy remains the main contributor to the global imbalances. Considering that high level of imports in the US are mainly a result of high consumption, the slowdown the economy faced in 2007 reduced to some extent the large Current Account (CA) deficit in terms of a slowdown in imports. Another cause for a slower growth in the US CA deficit in 2007 was the

² Developments in the external economic environment are based on different publications: IMF World Economic Outlook (2007), Deloitte Global Economic Outlook (2007), EBRD (2007), Business Monitor International (2008), IMF Regional Economic Outlook (2007), European Commission (2007), UNDP (2007), ECB (2008) and Eurostat (2008)

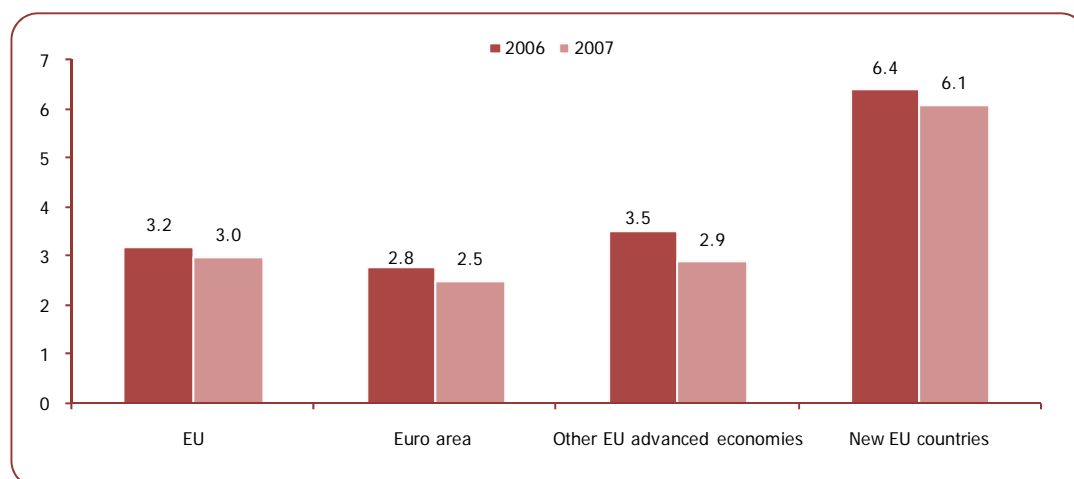
depreciation of the US Dollar throughout the year. As a result, the US CA accounted for 5.7% of GDP in 2007 compared to 6.2% of GDP in 2006. Unlike the US, Asian countries save more than invest and thus generate high CA surpluses. China leads with a surplus of 11.7% of GDP in 2007, followed from Russia with a surplus of 5.9% of GDP and Japan 4.5% of GDP. The global rise in the commodity prices further promoted the CA surpluses of the oil exporting countries as well.

The US dollar depreciated against euro, pound and yen over the past two years. In 2007, euro stood at USD 1.37, compared to USD 1.26 in 2006. As for Yen, euro was traded at JPY 161.25 in end 2007, when in end 2006 euro traded at JPY 146.02. Euro appreciated against British pound in 2007 and was traded at GBP 0.68, compared to GBP 0.67 in 2006.

2.2. European Union

Growth in European Union (EU) has been sustained for a long period, mainly from strong domestic demand, particularly investment. The EU real GDP growth reached 3.0% in 2007, which represents a slower growth compared to 3.2% in 2006 (Figure 2). Luxemburg and Slovenia recorded the highest growth rates in the Euro area, estimated at 5.4%, followed by Ireland and Finland that reached 4.6% and 4.3%, respectively. Italy on the other hand continues being the country with the lowest growth rate in the euro area, estimated at 1.7% in 2007. In the group of new EU countries, Latvia recorded a double digit growth rate, reaching 10.5% in 2007. Slovak Republic maintained an increasing trend in respect to growth, marking a real GDP growth of 8.8% in 2007, followed by Estonia and Lithuania which marked a growth of 8.0%, respectively. Among other EU advanced economies, Sweden leads with 3.6% growth and is followed by United Kingdom that reached a growth rate of 3.1% in 2007.

Figure 2. Real GDP in European Union, as of 2007³

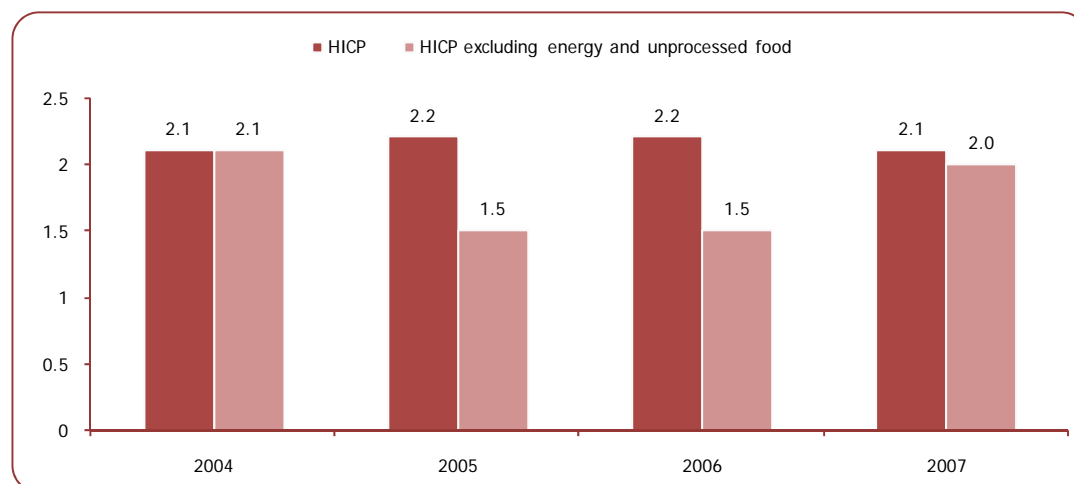


Source: Regional Economic Outlook (2007)

The Euro area average inflation for 2007 was close to the targeted inflation of 2.0% by the European Central Bank. The estimated HICP inflation in the end 2007 was 2.1%, compared to 2.2% in 2006. Increases that HICP inflation experienced during 2007 are explained with the increase in the food and energy prices. The other EU advanced economies marked lower inflation rates compared to the new EU countries. Regarding new EU countries, Latvia had the highest inflation rate, reaching 9.0% in 2007. Bulgaria, Hungary and Estonia had higher inflation levels as well compared to the region, reaching 8.2%, 7.6% and 6.0%, respectively.

³ EU Euro area countries comprise: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Slovenia, Spain; Other EU advanced economies: Denmark, Sweden, UK; New EU countries: Bulgaria, Cyprus, Czech Republic, Hungary, Malta, Poland, Romania, Slovak Republic, Estonia, Latvia, Lithuania.

Figure 3. Inflation in Euro Area



Source: Eurostat (2007)

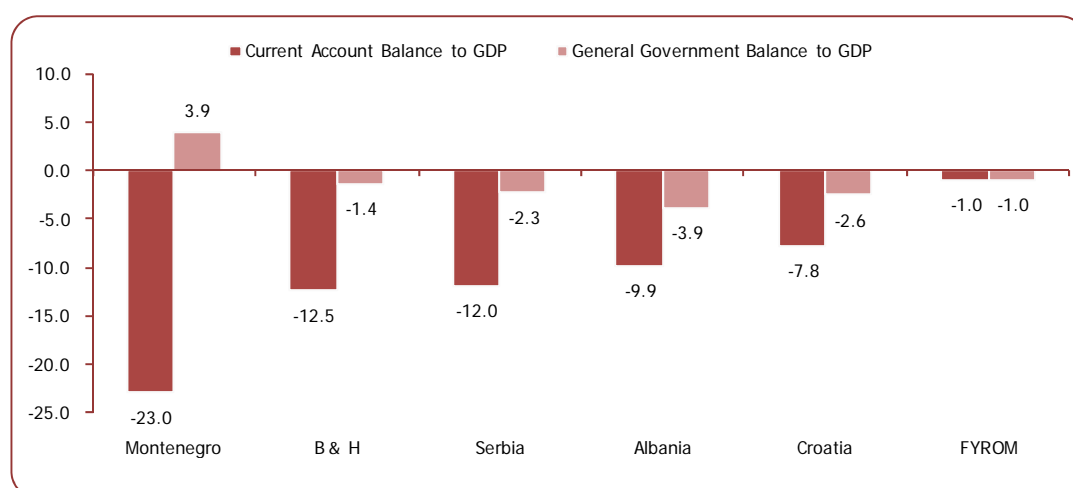
The euro area CA recorded a surplus of euro 29.5 billion in 2007, compared to a deficit of euro 22.8 billion in 2006. The switch from deficit of 0.3% to GDP in 2006 to a surplus of 0.3% of GDP in 2007 was mainly a result of an increase in the export of goods. The highest CA surplus was recorded in Luxemburg (10.5% of GDP) and in the Netherlands (7.4% of GDP). The opposite sign was marked in the new EU countries. Latvia had the largest current account deficit within this group in 2007 (25.3% of GDP) and was closely followed by Bulgaria (20.3% of GDP).

2.3. South East Europe

South-East European countries (SEE) have kept the momentum and recorded another year of favorable growth performance, attaining the real GDP growth rate of 5.9% in 2007. Growth in the region was driven mainly from the strong domestic demand (consumption and investment). Reaching 7.0%, Montenegro recorded the highest growth figures in 2007 (Figure 4). Maintaining the trend from the previous years, Albania and Serbia grew by 6.0% in 2007, respectively. Bosnia and Herzegovina (BiH) marked a slowdown in real GDP growth compared to 2006, reaching 5.8% in 2007 compared to 6.2% in 2006. Growing annually by 5.0% in 2007, FYROM represents the lowest growth rate in the region.

Inflation remained fairly stable in the region throughout 2007. Despite the pressure caused by an increase in the food prices in mid-2007, the average inflation rate stood at 3.1% in 2007 compared to 5.5% in 2006. While Serbia's CPI stood at 6.4% in 2007, other countries of the region fluctuated between 2.0% and 3.1% for the year.

Figure 4. Current Account Balance to GDP and General Government Balance to GDP



Source: EBRD (2007)

Regarding the general government balance, Montenegro is the only country in the region which recorded a budget surplus (3.9% of GDP) in 2007, originating from an increase in the budgetary revenues. The deterioration in the government balance of most countries of the region was a result of an increase in the budgetary expenditures. While Albania had the largest negative balance in the region (3.9%), FYROM marked the lowest negative balance (1.0% of GDP).

The average FDI level recorded was around 10.1% of GDP in SEE in 2007. Main destinations for these flows were Montenegro, BiH and Croatia. Driven mainly by privatization proceeds, these countries marked a net FDI flow of 23.0% of GDP, 13.7% of GDP and 9.1% of GDP respectively in 2007. Inflows of FDI in Albania and FYROM stood at 5.3% of GDP and 4.3% of GDP respectively. Serbia is an exception in the region that marked a decline in the net FDI inflows from 13.8% of GDP in 2006 to 5.1% of GDP in 2007.

3. Kosovo Economy

3. Kosovo Economy

In 2007 the real GDP increased by 3.5% despite the decline in the donor sector (Table 1). The per capita GDP amounted at around euro 1,400. The economic growth was maintained from the private sector (mainly private sector investments) that to a large extent has been supported by the increasing banking sector loans and FDI. In terms of economic sectors, most economic development up to 2007 has taken place in the trade and lately construction sectors. Inflation in Kosovo for the year 2007 stood at 4.4%, which is much higher than the previous year's inflation. The rationale for such increase was attributed mainly due to the international increase in the oil prices that afterwards had its implications, especially in the increase of food prices in Kosovo.

Table 1. Selected Macroeconomic Indicators of the Kosovo Economy

Description	2004	2005	2006	2007
Real Sector				
Real GDP growth	2.0%	-1.0%	3.1%	3.5%
GDP per capita (in euro)	1,282.0	1,259.1	1,312.9	1,364.9
Prices (annual average)	-1.1%	-1.4%	0.6%	4.4%
Fiscal Sector (in % of GDP)				
Revenues	28.0%	28.9%	31.3%	37.7%
Expenditures	33.9%	31.5%	28.0%	27.9%
Budget balance	-5.9%	-2.6%	3.4%	9.8%
Financial Sector (in euro million)				
Net claims on external sector	642.6	685.1	963.0	1,350.3
Net claims on fiscal sector	-221.3	-229.7	-482.5	-860.7
Net claims on real sector	-253.5	-259.1	-182.3	-137.2
External Sector (in % of GDP)				
Current Account (CA) balance	-14.0%	-17.2%	-17.1%	-22.5%
Goods and services	-42.8%	-47.3%	-50.2%	-57.2%
Current transfers	28.4%	30.6%	32.4%	33.3%
of which: Remittances	7.2%	10.3%	12.9%	14.6%
Foreign direct investments	0.8%	3.6%	11.0%	17.8%
Portfolio and other investments	5.3%	1.9%	-10.2%	-10.2%

Source: IMF (2007), MEF (2008), SOK (2008), CBAK (2008)

Unemployment continues to be persistent, especially among young population. Kosovo has approximately 28,000 job seekers per year with a much smaller number of new jobs created (around 6500 in 2007), while around 70% of new jobs are absorbed from the private sector. In terms of age structure, around 80% of registered jobseekers are of age 15-39 years that would give good precondition for labor intensive industry.

Higher revenues than planned compared to lower expenditures than planned led the Kosovo Consolidated Budget (KCB) to surplus for two successive years (2006 and 2007). While KCB expenditures represented to be broadly stable comparing with 2006 (increase by 4.3%) the KCB revenues recorded to be higher by 25.9%, mainly due to the increase in the non-tax revenues (mobile telephony license). Hence, the surplus in 2007 amounted at euro 233.7 million (9.8% of GDP) over euro 76.5 million in 2006 (3.4% of GDP).

The financial sector of Kosovo continued to grow during 2007 with assets reaching 58.5% of GDP (49.0% in 2006), where banking sector assets represents around 90% of total financial sector assets. During 2007, the banking sector has attracted new investments that led to an increase in the number of banks and increase in the foreign ownership in Kosovo banking sector. The banking sector continues to show a good performance that is shown by high profitability and in the same time good liquidity and solvency position. Other Financial Corporations (OFC) recorded positive performance in 2007 in terms of asset growth, even though in terms share to total financial sector assets they showed to be broadly stable.

The external sector imbalance remains a challenge for the Kosovo economy. The strong demand for imports maintained the trade deficit at high levels deepening further the CA deficit. The coverage of imports by exports was only 9.3%. Accounting for 22.5% of GDP, the Kosovo CA deficit grew annually by 37.6% in 2007. As in the previous years, the deficit was mainly offset by current transfers, specifically remittances received from Kosovars working abroad amounting to euro 521.7 million.

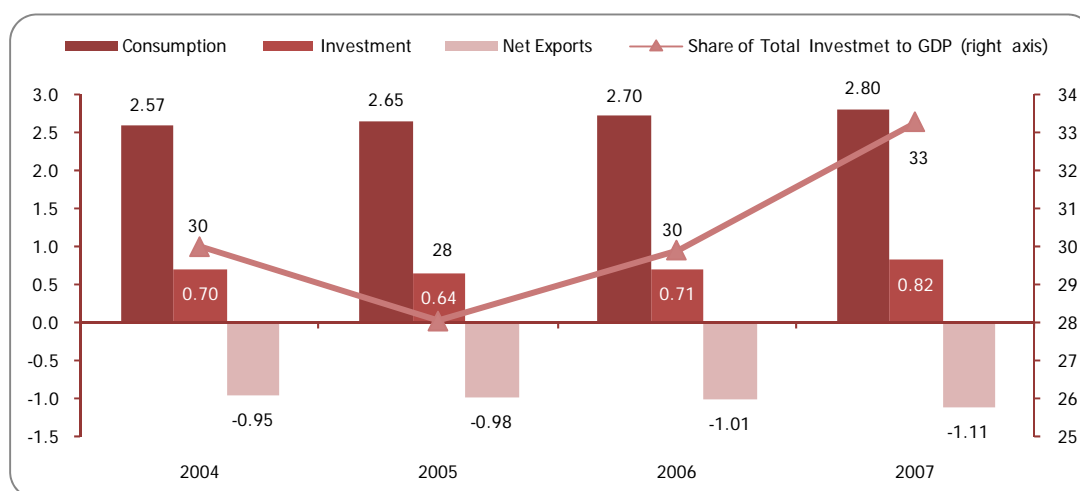
3.1. Real Sector

3.1.1. Gross Domestic Product

Year 2007 was another year of positive macroeconomic development. Following a real GDP growth of 3.1% in 2006, year 2007 experienced a real growth of 3.5%. This level of real GDP growth is mainly attributed to the private sector consumption and investments. Major negative effect to the growth is caused by high trade deficit which increased by 10.2%. Comparing this level of growth with the average of the region (SEE countries) which is 5.9% shows that Kosovo is still behind the regional countries.

Overall consumption in 2007 increased by 3.8% reaching euro 2.8 billion, which accounts for 114.3% of the GDP (Figure 6). Growing by 15.2%, investments as a share to GDP reached the highest rate accounting for 33.3% of the GDP in 2007 over 29.9% in 2006. Due to faster increase of imports (euro 160 million) relative to exports (euro 57 million) trade deficit continued to deepen. Such increase in imports may be mainly due to overall increase of private consumption and investments.

Figure 5. Kosovo real GDP by Components, in euro billion



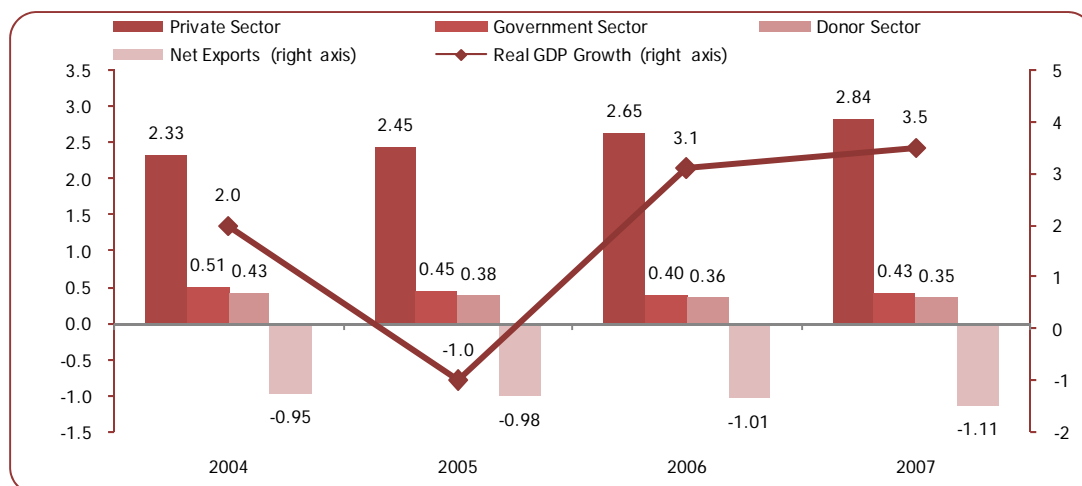
Source: IMF (2007)

Private sector consumption and investments increased significantly by 7.2% in 2007 reaching euro 2.8 billion which is 115.7% of the GDP. Private sector consumption for 2007 experienced an increase of 5.2%, reaching almost 2.2 billion. Private sector investments increasing by 14.6% reached euro 647 million in 2007 (26.3% of the GDP). In addition to banking sector loans, investments are being financed by foreign direct investment (FDI) in Kosovo.

The government sector expenditures (consumption and investments), after an annual decline of 11.6% in last two years, in 2007 experienced an increase of 6.2%. The share of total government consumption and investments to the GDP accounted at 17.3%, amounting euro 426 million that is mainly due to higher government investments. The share of government investments to total government expenditure increased by 7.2pp in 2007 and now it accounts for 32.5% of total expenditures (compared to 25.3% in 2006). Government spending on goods and services impacted negatively the total expenditure as they have decreased by 8.3%, amounting at euro 131 million in

2007 compared to euro 143 million in 2006. About 55% of government consumption is represented by wages and salaries, while the remaining consist the consumption of goods and services.

Figure 6. Kosovo real GDP by Sector, in euro million



Source: IMF (2007)

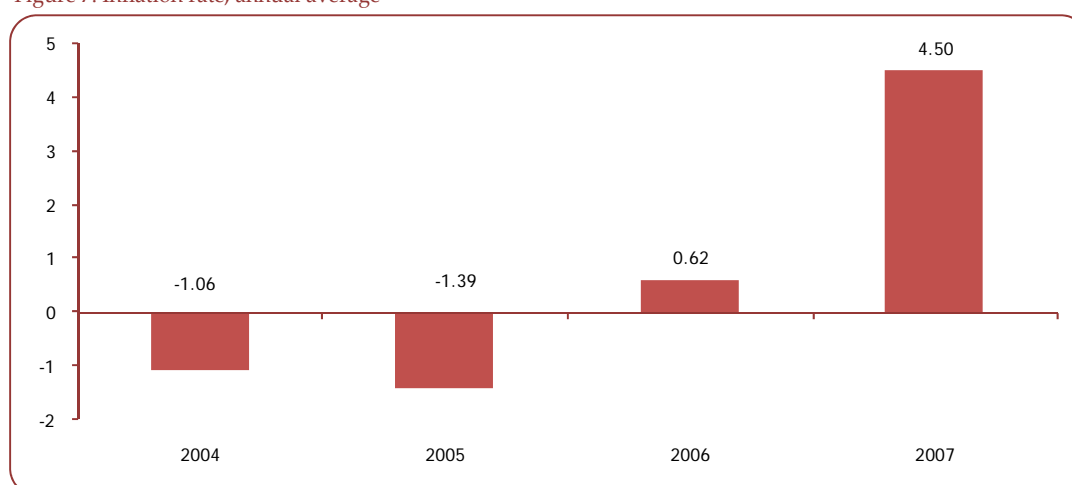
Donor sector expenditures (consumption and investments) decreased by 1.7% in 2007, amounting at euro 355 million for 2007 (euro 361 million in 2006). However, the decrease in expenditure was smaller than that of previous years. The share of donor sector expenditures to GDP is 14.4% (15.2% in 2006). Consumption of donor sector, in 2007, increased by 1.8% amounting euro 323 million. This increase of donor sector consumption contributed positively to total donor sector expenditures by 1.6pp. On the other hand, the decrease of donor sector investments, in 2007, contributed negatively to total donor sector expenditures by 3.3pp.

The largest negative effect to the GDP is caused by high level of trade deficit which in 2007 was about 1.4 billion (45.4% of the GDP). Despite the negative effect of imports to GDP, the positive development is that about 42.4% of private imports are private investment goods, and this share was continuously increasing (28.6% in 2005, and 36.2% in 2006). As the import of investment goods has increased as a share to private imports, this may lead to higher domestic production.

3.1.2. Prices

After the low/negative inflation in previous periods, year 2007 experienced much higher level of inflation standing at 4.4% (Figure 8). Prices in Kosovo have been affected by the international increase of the oil prices which impacted the energy and food prices. This level of inflation was mainly caused by the increase in the prices of bread and cereals by around 25%, representing a significant part in the consumers' basket.

Figure 7. Inflation rate, annual average



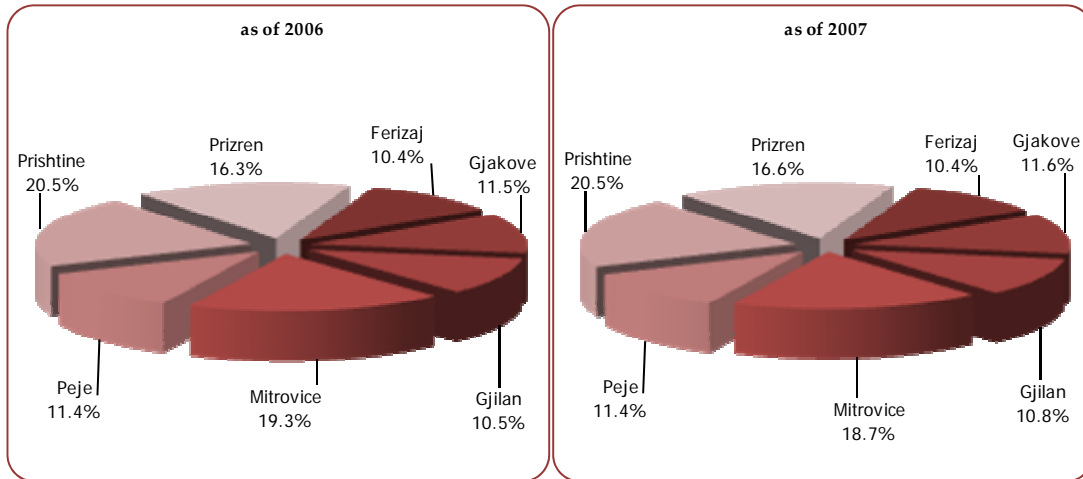
Source: Consumer Price Index (2007)

3.1.3. Unemployment

One of the main concerns of the Kosovo economy remains high unemployment. IMF estimations have shown that it stands somewhere around 33.0% of active labor force.⁴ The number of registered job-seekers has continued to increase reaching around 335 thousand job-seekers in 2007 (2.6% higher than 2006). In addition to the concern that the number of registered job-seekers is increasing, more than 90% of them have been registered as unemployed for a period longer than 12 months. Around 80% of the job-seekers are younger than 40 years old emphasizing that Kosovo might be adequate for labor intensive industry. The average of new registered job-seekers in last four years is about 28 thousand per year. These numbers show that approximately every year more than 20,000 registered job-seekers remain unemployed as the average number of new jobs created in last four years reached about 7700. Figures show that private sector is continuously increasing its share to total new jobs created. In 2007 almost 70% of the new jobs are announced by the private sector (compared to 62.6% in 2006).

⁴ Some estimation suggest that it is around 33.0% of active labor force, while others show that it is above 50.0%. The main problem with unemployment is because since 1981 there was no census about the population in Kosovo. Estimations which do take into account informal economy suggest that unemployment is 33.0% since a considered number of people considering their self as unemployed work unofficially.

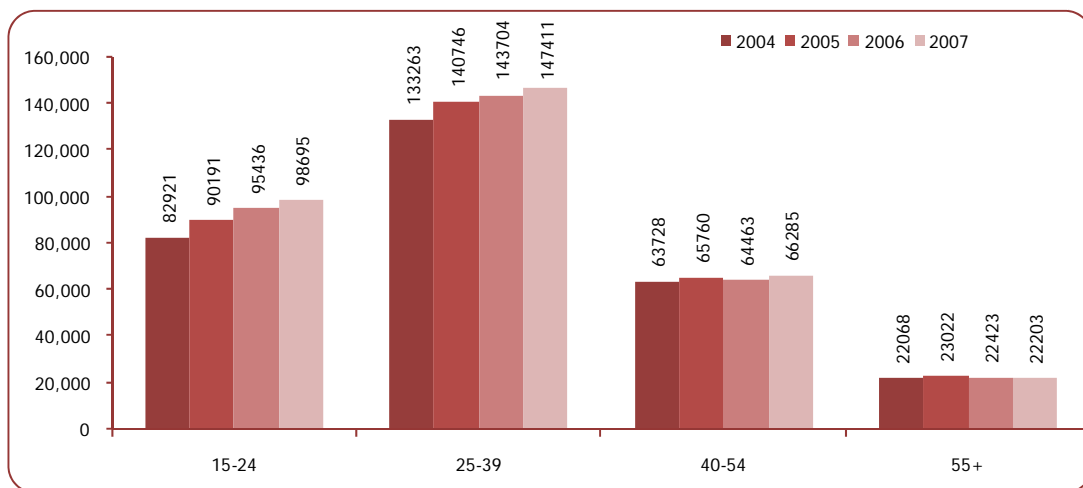
Figure 8. Unemployment of Kosovo, by regions, in %



Source: Ministry of Labor and Social Welfare

Majority of the registered job-seekers are concentrated in Prishtina and Prizreni region. This does not imply that the highest level of unemployment is in these two regions, but this is due to high density of the population in these regions. As shown in the Figure 9, in 2007, the regional structure of registered unemployment remained broadly stable compared to 2006. The lowest concentration of registered job-seekers is in the region of Ferizaj, Gjilan, and Gjakova.

Figure 9. Number of registered job-seekers by age-groups, as of end 2007



Source: Ministry of Labor and Social Welfare

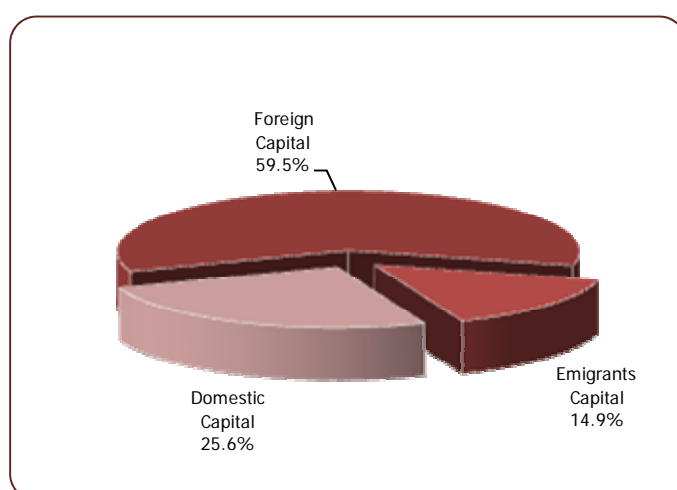
Regarding the ethnic background, Albanians represent 91.0% of total job-seekers (91.3% in 2006), Serb minority is represented by 4.0% of total job-seekers (3.7% in 2006) and other minority groups by 5% (4.8% in 2006). Regarding the age of the registered job-seekers, about 44.0% of them are of age group 25-39 years, followed by age group of 15-24 by 29.5% and 40-54 represented by 19.8%. The group that is represented by the lowest share is the group of age 55 and older (Figure 10).

3.1.4. Privatization

Privatization proceeds of Socially-Owned Enterprises (SOE) by end 2007 reached euro 405 million of which euro 130 million are sales from seven waves of privatization in 2007. The share of cumulative privatization proceeds to GDP stands at 17.1%, which is higher comparing to the average of the region standing at 12.1%.

Total privatization proceeds received by KTA to date have reached euro 362 million, while about euro 43 million are to be received. Almost euro 93 million is the value of sales using Special Spin-Off (SSO) of which euro 91.9 million have already been signed, while for the remaining preliminary winners have been announced. The cumulative committed amount to be invested is euro 191 million whereas the actual amount of investments is almost euro 91 million. Through privatization Kosovo attracted, on average, every year since 2004 euro 75.5 million of foreign capital. The flow of foreign capital in privatization process occurred in 2007 was about 60% (Figure 11).

Figure 10. FDI in Privatization process, as of 2007

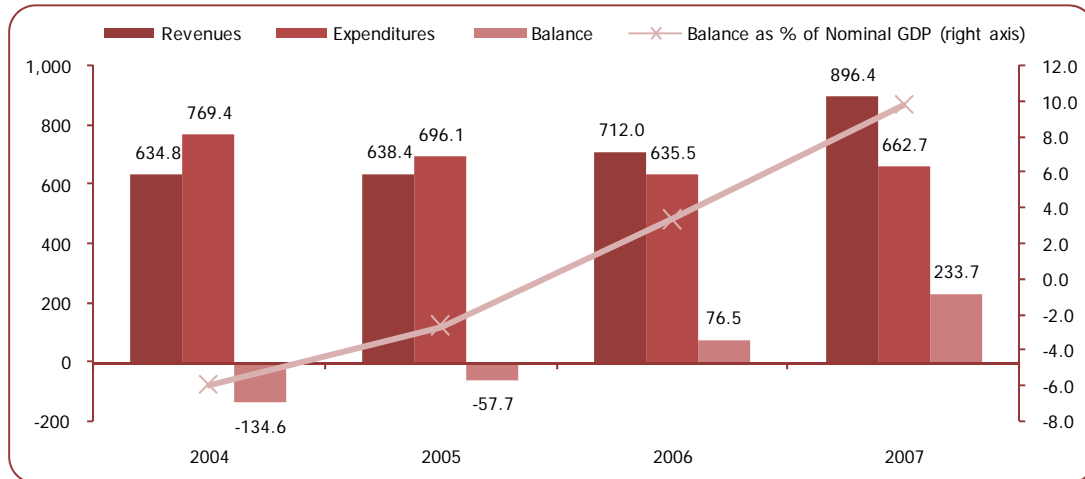


Source: KTA (2007)

3.2. Fiscal Sector

Kosovo Consolidated Budget (KCB) revenues, in 2007, increased by 25.9% compared to 2006. In 2007, revenues were also higher than planned by 31.3% reaching a total of euro 896.4 million. The KCB in 2007 accounts for 37.7% of GDP compared to 31.3% of GDP in 2006. Due to higher revenues than planned and also due to only 87.0% of the expenditures realized KCB for 2007 has experienced a surplus of euro 233.7 million which is 9.8% of GDP. As shown in the Figure 12, in last two years (2006 and 2007), KCB balance was in surplus, which compared to 2004 and 2005 deficit shows a relatively stable trend of the KCB.

Figure 11. Kosovo Consolidated Budget, in euro million, 2004-2007

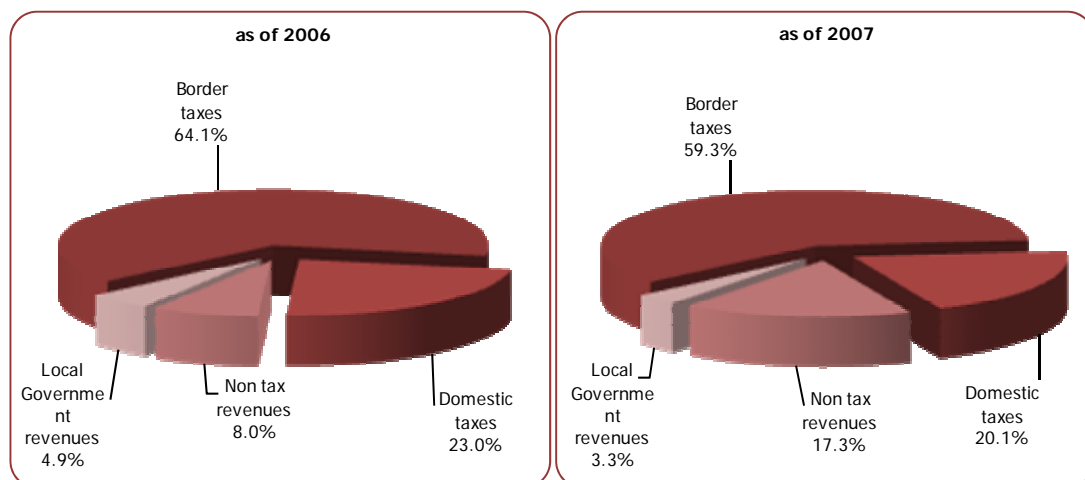


Source: Kosovo Consolidated Budget (2007)

3.2.1. Budget Revenues

Composition of the revenues was broadly similar to the previous year (Figure 13). The higher than planned revenues resulted mainly due to non-tax revenues, which increased as share to total revenues to 17.3% of total revenues (euro 154 million) from 8.0% in 2006 (Figure 14). The increase in this category is mainly attributed to the license fee of the second mobile operator granted in February 2007. Increase is recorded also in the border taxes which in 2007 amounted at euro 531 million composing 59.3% of total KCB revenues. Border tax collection was higher than in 2006 by 16.5%, and this may be attributed to the increased imports in 2007. The third category, domestic taxes in 2007 amounted at euro 180.5 million, or 20.1% of total revenues. This category has shown also an increase in terms of volume by 10.0%.

Figure 12. The structure of KCB revenues

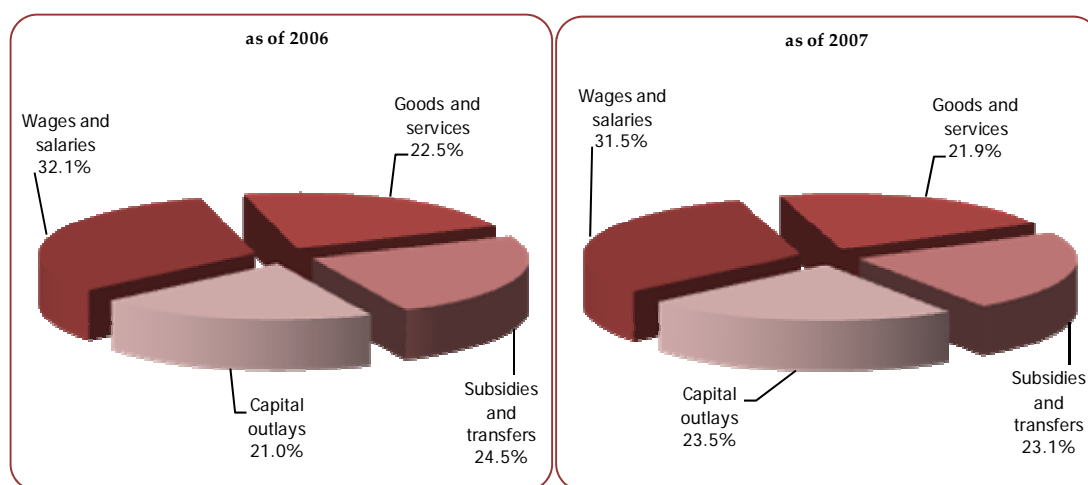


Source: Kosovo Consolidated Budget (2008)

3.2.2. Budget Expenditures

Expenditures in 2007 were euro 662 million, 4.2% higher than those of 2006 (euro 635 million). The structure of expenditures remains very similar to previous year as shown in the Figure 14. Wages and salaries still take the largest share (31.5%) of total expenditure and it is followed by capital expenditures with 23.5%. Subsidies and transfers have in 2007 account for 23.1%, while goods and services share to total expenditure is 21.9%.

Figure 13. The structure of KCB expenditures



Source: Kosovo Consolidated Budget (2008)

Wages and salaries in 2007 amounted euro 208 million which is an increase of 2.3% compared to year 2006 (amounting euro 203 million). Comparing this figure with the planned KCB on wages and salaries can be seen that planned expenditures on wages and salaries were higher (euro 216 million). The purchase of goods and services by government has also increased by 1.5% in 2007 amounting euro 145 million (euro 143 million in 2006). Subsidies and transfers have decreased in 2007 by 1.5%, amounting euro 153 million in 2007 compared to euro 155 million in 2006. The category that was realized around 70% of planned is spending on capital investments which in 2007 reached euro 155 million (planned euro 219 million). However, this is an increase of 16.6% compared to euro 133 million capital expenditures in 2006.

Projections for 2008 are that the overall expenditures will be higher by euro 456 million (68.9%) compared to 2007, reaching euro 1.1 billion. The largest share on the increased expenditures will take the capital expenditures which are expected for 2008 to reach euro 404 million (euro 155 million in 2007). The second category which will absorb significant part of increased expenditures is subsidies and transfers which in 2008 are expected to increase by 24.8% or euro 41 million, while the purchase of goods and services by government will increase by 13.7% (euro 17.5 million). With only 4.4% (euro 4 million) are going to increase wages and salaries. The surplus of KCB is much above the average of the region. Most of the regional countries have experienced a deficit in 2007 (with the exception of Montenegro), while on average in last four years (Table 2) the deficit in

regional countries is 0.9% of GDP, while for Kosovo this is a 1.2% surplus.

Table 2. Budget Balance as a share to GDP in Region, 2004-2007 average

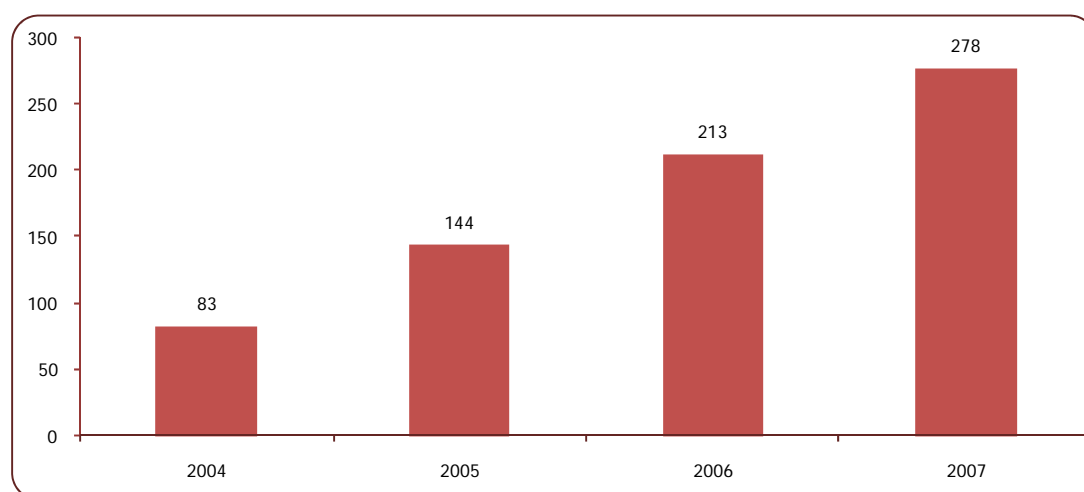
Countries	Budget balance to GDP
Montenegro	0.6
B & H	0.4
Serbia	0.3
Albania	-3.9
Croatia	-3.0
FYROM	-0.1
Kosovo	1.2

Source: Transition Report (2007)

3.2.3. Pension Scheme

Kosovo Pension Saving Trust (KPST) fund has reached by end-2007 euro 278 million. The increasing rate in 2007 was 30.5%. Up to date (end 2007), the payments that KPST carried out amounted at euro 3.5 million and these were paid to around 6830 contributors that have reached retirement age. The number of contributors to KPST has exceeded 230 thousand which is an increase of 9.7% (in 2006 there were 215 thousand contributors).

Figure 14. KPST funds, in euro million



Source: KPST (2007)

The savings at KPST are usually invested in highly secure financial markets. About 98.0% of KPST fund are invested outside Kosovo, mostly in bonds (35.6%) and mutual funds (64.4%). The remaining 2.0% of the KPST fund are placements at CBAK.

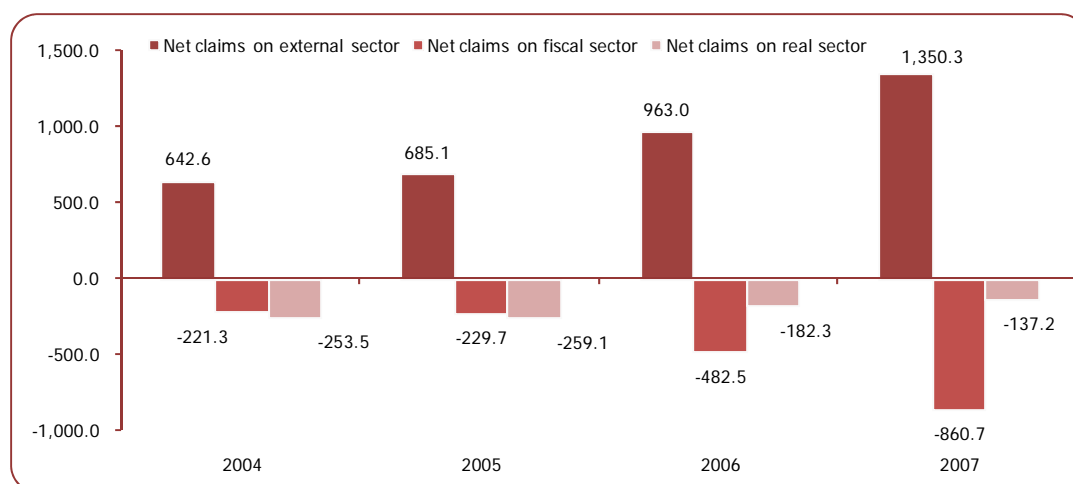
3.3. Financial Sector

3.3.1. General Characteristics

Reaching 1.4 billion, total financial sector assets grew annually by 7.0% in 2007 over 18.3% in 2006. The structure of the financial sector assets remained broadly unchanged while commercial bank assets represent 87.9% of total financial sector assets (88.9% in 2006). An increasing trend in terms of share to total financial sector assets was evident in other financial corporation assets which represent 5.9% of total financial sector assets in 2007 (5.0% in 2006). Number of financial sector institutions reached 66 in end 2007. This number was composed of eight commercial banks (six in 2006), nine insurance companies (nine in 2006), 31 financial auxiliaries (16 in 2006), 16 other financial institutions (23 in 2006) and two pension funds (three in 2006).

Net financial sector claims on the real sector amounted at euro -137.2 million compared to euro -182.3 million in 2006. Claims to the real sector are composed mainly from loans, which account for 98.9% of total claims. Liabilities to the real sector are composed of deposits. The financial sector net claims on fiscal sector reached euro -860.7 million in 2007 over -482.5 million in 2006 (Figure 16). This was mainly attributed to the annual growth of government deposits at CBAK in 2007 by 80.1%. The privatization proceeds and the budget surpluses in the previous years were the main source of the increase in the government deposits.

Figure 15. Financial corporation domestic claims, in euro million

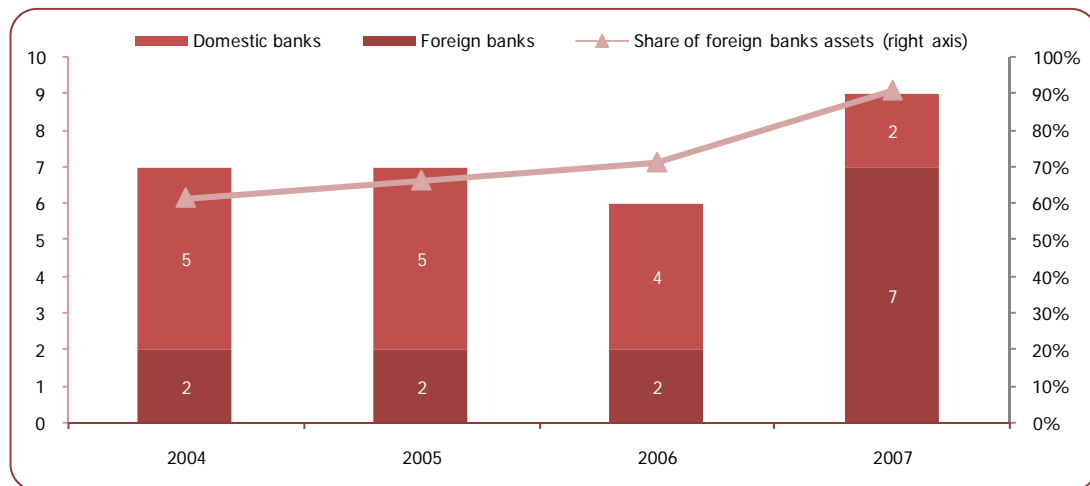


Claims on nonresidents make the largest contribution to net increase of the financial sector claims on the external sector. Reaching euro 1.4 billion, claims on the external sector grew annually by 40.2%. Higher government deposits at CBAK mainly supported the increase of claims to nonresidents in 2007. Accounting for 66.9% of total claims, deposits (as part of claims on nonresidents) stood at 954.1 million. Liabilities to nonresidents remain at lower levels compared to claims, amounting to euro 57.6 million in 2007.

3.3.2. Developments in the Banking Sector

New entries in the Kosovo banking sector increased the number of banks to nine, including a recently licensed foreign bank (Türk Ekonomi Bankasi) which started operations in January 2008 (Figure 17). During the third quarter of 2007, CBAK granted operating licenses to two foreign banks, Banka Kombëtare Tregtare (BKT) from Albania and Komercijalna Banka (BK) from Serbia. Another foreign bank, Türk Ekonomi Bankasi (TEB), was granted the operating license in the end of the fourth quarter of 2007. Consequently, foreign banks dominate the market both in terms of number of banks and in terms of share in total banking sector assets. Foreign banks in year 2007 represented seven out of nine commercial banks operating in Kosovo, while accounted for 90.9% (71.3% in 2006) of total banking sector assets.

Figure 16. Ownership structure of banks in Kosovo

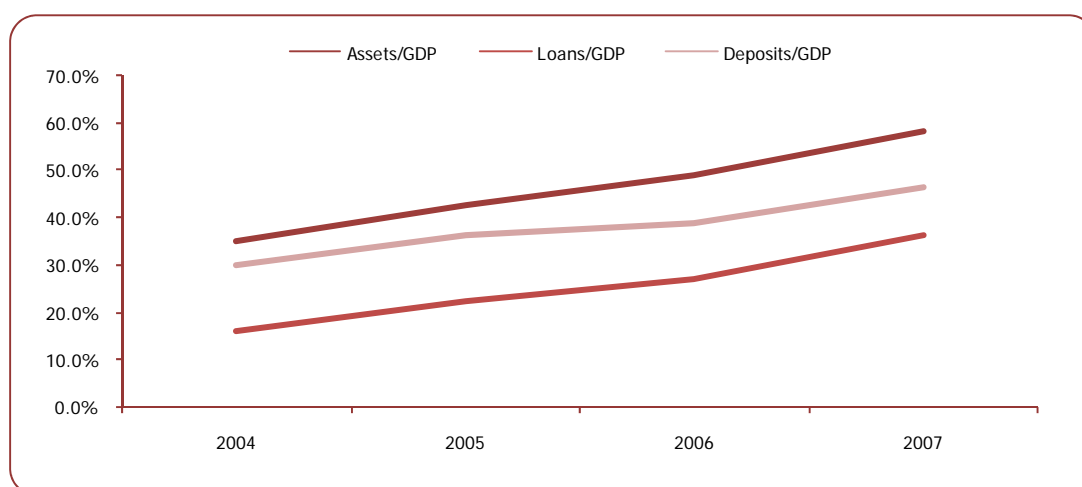


During the first quarter of 2007, Slovenian bank Nova Ljubljanska Banka (NLB) bought 50.1% of Kasabank (KSB) shares that, together with 25.1% of shares held by another Slovenian bank Factor Bank Ljubljana, increased the share of foreign capital in KSB to 75.2%. Moreover, NLB also became a shareholder of Banka e Re e Kosovës (BRK), purchasing 87.0% of its shares. This was followed by a merger between KSB and BRK into a single bank NLB Prishtina as of January 2008.

During 2007, the network of commercial banks continued to expand reaching 47 branches (43 in year 2006) and 189 sub-branches (177 in year 2006), while the number of employees reached 2,715 from 2,416 in year 2006. Banking sector is expanding its network also in terms of the number of Automated Teller Machines (ATMs) reaching 116 in 2007 (102 in 2006), and the number of Point of Sales (POS) that reached 1,750 (1,470 in year 2006). The number of accounts using e-banking has increased rapidly since 2005 when it was introduced for the first time in Kosovo. From 837 in 2005, the number of accounts using e-banking reached 3,316 in year 2006 and 5,733 in year 2007. All this expansion of the banking network through additional banking units and additional services such as ATMs, POS and e-banking has improved the accessibility of clients to banking services.

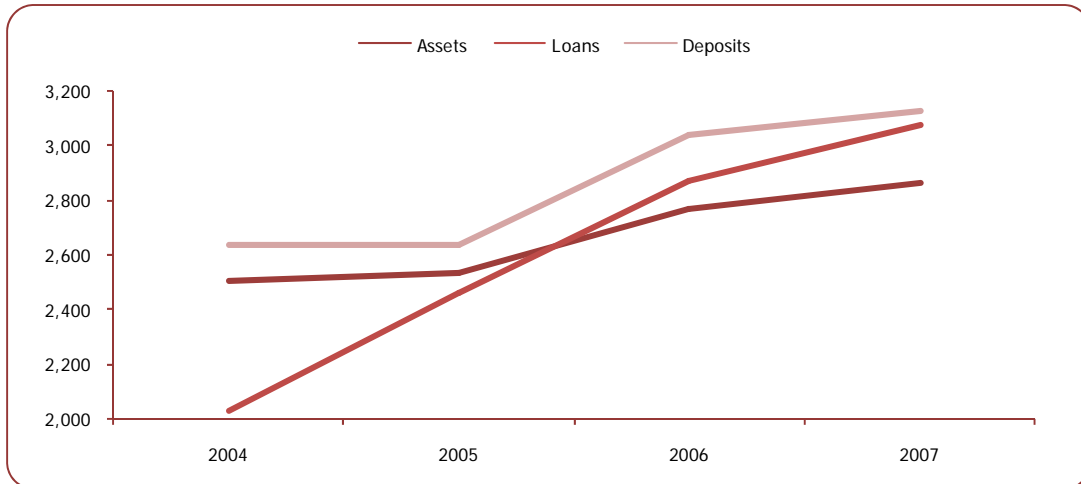
The banking sector in Kosovo is continuously expanding the activities, what is regarded as an increase in the degree of financial intermediation. This is shown by continuous increase in the share of assets, loans, and deposits as a share to GDP indicating an increase in the importance of banking sector for the overall economic activity. The share of banking sector assets to GDP increased to 58.5% in 2007 from 49.0% in 2006 (Figure 18). This is mainly due to the increase in the volume of loans extended by the banking sector that reached 36.3% of GDP, which mainly resulted from the growth in deposits that reached 46.6% of GDP.

Figure 17. Financial intermediation of banking sector



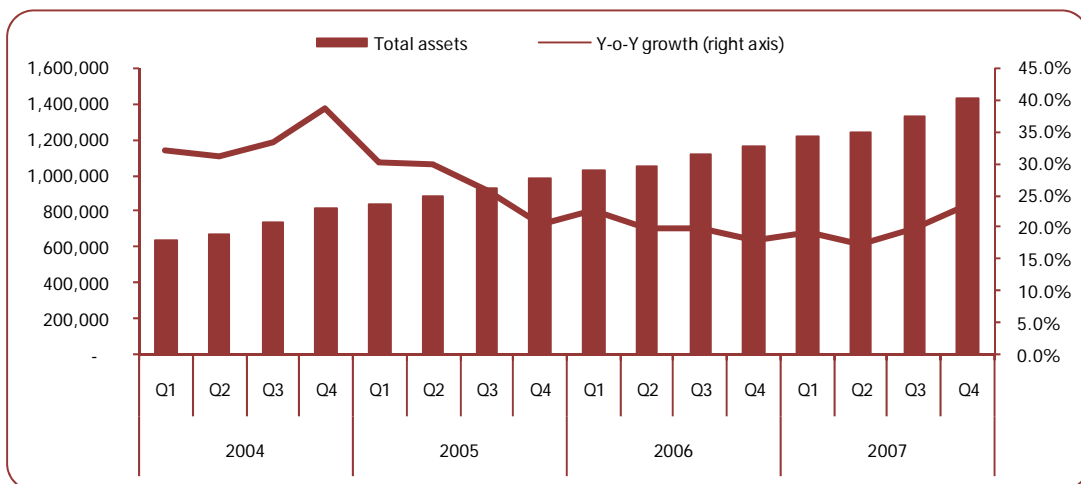
Kosovo banking sector remains highly concentrated. This is shown by the market share of three largest banks (C3) that accounted for 83.3% of total banking sector assets in 2007. The high concentration in the banking sector is shown also by the Herfindahl-Hirschman Index (HHI). The highest concentration rate stood for deposits with HHI at 3,126, while for loans and assets HHI recorded 3,081 and 2,868 points, respectively (Figure 19). The concentration rate in the Kosovo banking sector has been growing since 2004. Due to the high level of concentration, larger banks might have exerted some monopoly power which, to some extent, might result in higher rates on loans. However, the increase in the number of banks that occurred during 2007 may play an important role in increasing the competition in this sector.

Figure 18. HHI for the banking sector



Structure of Assets. Assets of the banking sector reached euro 1.4 billion in year 2007, which is an increase of 23.5% compared to 2006. The growth of the banking sector assets originates from expansion in the lending activity. On average, larger banks tend to grow faster than smaller banks and represent the main contributor for the increase in total banking sector assets.

Figure 19. Total assets and Y-o-Y growth



The structure of assets during 2007 was characterized by a shift from balances with commercial banks and securities towards lending. The share of balances with commercial banks (abroad) to total assets declined to 14.4% in 2007 from 20.9% in 2006, following an annual decline of 14.8% in volume. This shows that commercial banks that operate in Kosovo are reducing placements at commercial banks operating abroad, which to some extent may contribute in minimizing the potential contagion risk (Table 3). In addition, after an annual decline of 20.6% in volume, investments in securities accounted for 5.5% of total assets which is for 3.1pp lower than in 2006.

On the other hand, loans extended to the economy increased their share from 54.8% in 2006 to 62.2% of total assets in 2007. In volume, loans grew by 40.0%, mainly financed from the increase in deposits.

Table 3. Structure of assets, in euro thousand

Description	2004	2005	2006	2007
Cash and balances with CBAK	116,490	131,738	141,068	189,011
Balances with commercial banks	186,009	221,936	243,270	207,159
Securities	112,281	82,946	99,428	78,905
Gross loans and lease financing	373,661	513,856	636,613	891,201
Fixed assets	15,878	16,933	22,954	26,528
Other assets	12,219	17,003	17,893	40,910
TOTAL ASSETS	816,538	984,412	1,161,227	1,433,715

Of total loans extended by the banking sector, 22.5% are received by households, a share that has been constant over time. However, the share of lending to households to total banking sector loans in Kosovo is lower than in other countries of the region, where the average share of household loans to total loans stood at 41.9% in 2006. The low level of credit to households is mainly a consequence of the persisting high unemployment rate and the low wages. In addition, the high level of unregistered employment may represent a discouraging factor for lending to households, since it preserves the potential borrowers from fulfilling one of the key conditions for getting a loan, which is to receive income through the banking sector.

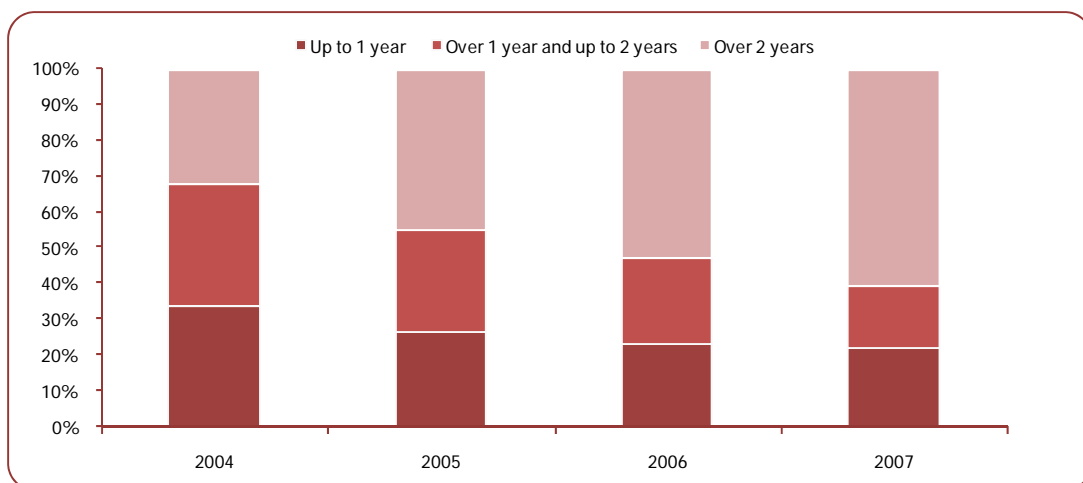
The largest share of banking sector loans is extended to NFC that absorbed 77.5% of total loans. The structure of NFC loans remains stable with the trade sector being granted the largest share of loans that accounted for 58.5% of total loans granted to NFC (Figure 21). This reflects the high reliance of the Kosovo economy on trade. The share of loans granted to the agriculture sector stood at 3.9% of total NFC loans, which is for 0.5pp higher than in 2006. Whereas, loans extended to the manufacturing sector recorded a decline of 90 basis points compared to 2006, standing at 11.7% of total NFC loans in 2007. Loans to mining and construction sector did not experience any significant change standing at 0.1% and 0.7% of total NFC loans, respectively.

Figure 20. Structure of NFC loans



Commercial banks are continuously increasing the share of loans with longer maturities in their loan portfolios showing that commercial banks are gaining more confidence in the domestic market. Loans with maturity over 2 years reached 60.8% of total loans in 2007 from 52.8% in 2006, while loans with maturity over 1 year and up to 2 years declined 17.0% (23.9% in 2006). Loans with maturity up to 1 year remained fairly stable, representing 23.3% of total loans (22.3% in 2006).

Figure 21. Loans by maturity



As the lending activity is expanding, the quality of loan portfolio in the Kosovo banking sector is showing some deterioration. Non-performing loans that represent doubtful and loss loans accounted for 4.1% of the total loan portfolio, which is an increase of 0.4pp compared to 2006. However, the growth of NPL was accompanied by growth in total reported reserves that cover the existing level of NPL by 118.7%, what may be considered as a satisfactory level of coverage. The coverage level that was recorded in 2007 is for 18.7pp lower than in 2006; hence, special attention is required in observing the developments in the quality of the loan portfolio and ensure that the right measures, in terms of capital requirements, are undertaken to safeguard the coverage of non-performing loans.

Structure of Liabilities. Similar to assets, also the structure of liabilities remains fairly the same with only slight changes in some categories. Following a decline of 14.8% in volume, balances with commercial banks declined to 2.6% (1.8% in 2006) of total liabilities (Table 4). Whereas, an increase is noticed in the share of own resources to total liabilities that reached 9.9% in 2007 from 8.0% of total liabilities in 2006. The growth of own resources is mainly generated from the share capital that recorded an annual increase of 43.6%, reflecting to some extent the entry of new banks in the Kosovo banking sector.

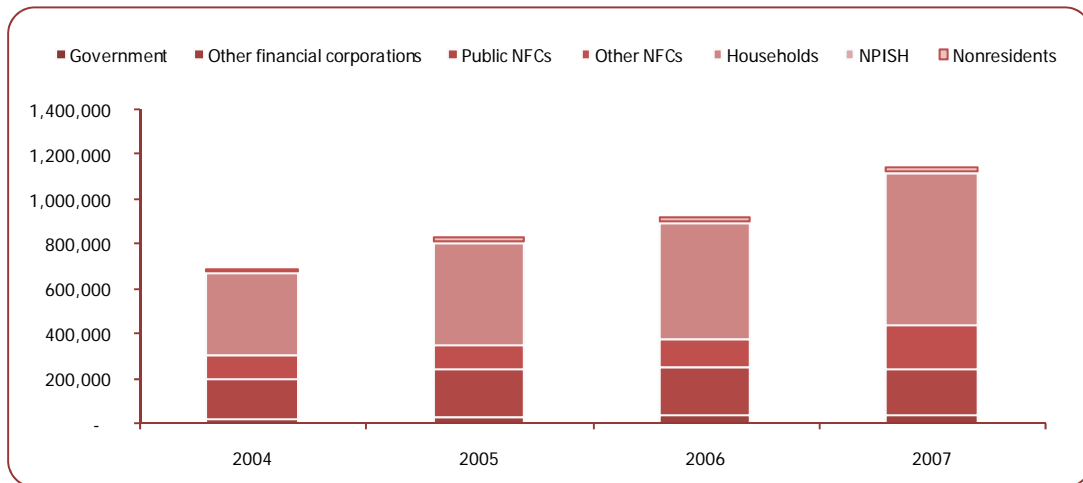
Table 4. Structure of liabilities

Description	2004	2005	2006	2007
Balances from other banks	14,276	23,034	30,340	25,837
Deposits	694,533	836,657	924,281	1,141,898
Other borrowings	1,399	6,391	4,167	2,682
Other liabilities	27,891	37,344	102,267	113,994
Subordinated debt	9,318	6,999	7,003	7,007
Own resources	69,122	73,988	93,170	142,297
TOTAL LIABILITIES	816,538	984,413	1,161,227	1,433,714

The main item in the liabilities of the banking sector remain deposits which represent 79.6% of total liabilities, a level which is in line with year 2006. The high reliance of the Kosovo banking sector on the domestic economy deposits as a financing source has made the commercial banks operating in Kosovo resistible to liquidity shortages that have occurred in the international banking market in 2007, due to the financial turmoil in US which, to some extent, reflected also in Europe.

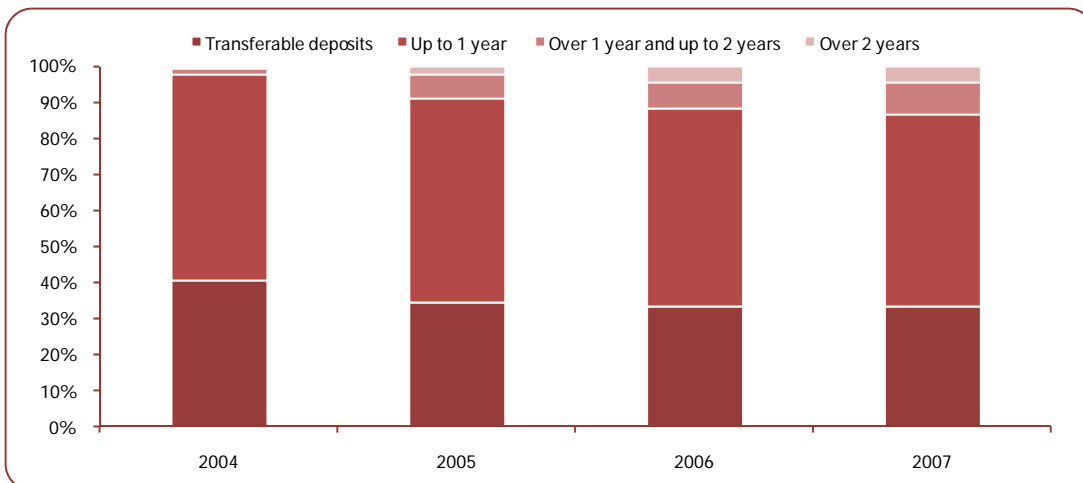
Received deposits by the banking sector reached euro 1.14 billion in 2007, which is for 23.5% higher than in 2006. The largest share of deposits consists of household deposits that accounted for 59.1% of total deposits in 2007 (55.8% in 2006). NFC deposits declined by 1.8pp, standing at 35.2% of total deposits in 2007 (Figure 23). This decline results from public NFC deposits that recorded an annual decline of 4.7% in volume, while as a share to total deposits declined to 18.2% (23.5% in 2006).

Figure 22. Structure of deposits



With regard to maturity, the structure of deposits was not subject to significant changes during 2007. Transferable deposits stood at 33.2% of total deposits (33.4% in 2006), while other deposits (time and saving) stood at 66.8% in 2007 (66.6% in 2006). Some changes are recorded in the structure of other deposits, where it is shown a slight increase in maturity (Figure 24). Deposits with maturity up to 1 year declined to 79.2% of total other deposits in 2007 (81.9% in 2006), while deposits with maturity over 1 year and up to 2 years increased to 13.7% (11.3% in 2006). Deposits with maturity over 2 years reached 7.1% of total other deposits, which is an increase of 0.3pp compared to 2006.

Figure 23. Maturity structure of deposits



Income statement. Kosovo banking sector ended year 2007 with a net profit of euro 33.8 million (Table 5). The profit realized in 2007 represents an annual growth of 67.7%, which is mainly due to the banking sector income growing faster than expenditures. The high and sustaining profit is mainly generated by the continuous expansion of lending activity and the high interest rate spread prevailing in the Kosovo banking sector. Year 2007 was profitable for all banks in Kosovo apart of one bank that ended the year with a moderate loss.

Income received by the banking sector during year 2007 amounted at euro 157.4 million, which is for 38.1% higher than in 2006. The proportion of income generated by interest earnings continues to decline, but still maintains the position of the main source of income representing 74.8% of total banking sector income (77.9% in 2006). Interest income is mainly generated by earnings from loan interest that recorded an annual growth of 29.7% in volume, but its share to total interest income declined to 87.4% from 89.4% in 2006. This is mainly due to a faster increase in some other categories, such as interest from balances with commercial banks that increased by 68.1% in volume even though the stock of balances with commercial banks declined by 14.8%. The share of interest income from investments in securities to total interest income remained fairly stable standing at 2.3% of total interest income (2.5% in 2006).

Non-interest income reached 39.6 million in 2007, which is a growth of 57.4% compared to 2006. As a share to total income, non-interest income increased to 25.2% from 22.1% in 2006. However, the increase in non-interest income derives from a large increase in other operating income which is mainly due to changes in the reporting and not due to any significant increase in the non-interest earnings.

Table 5. Income statement

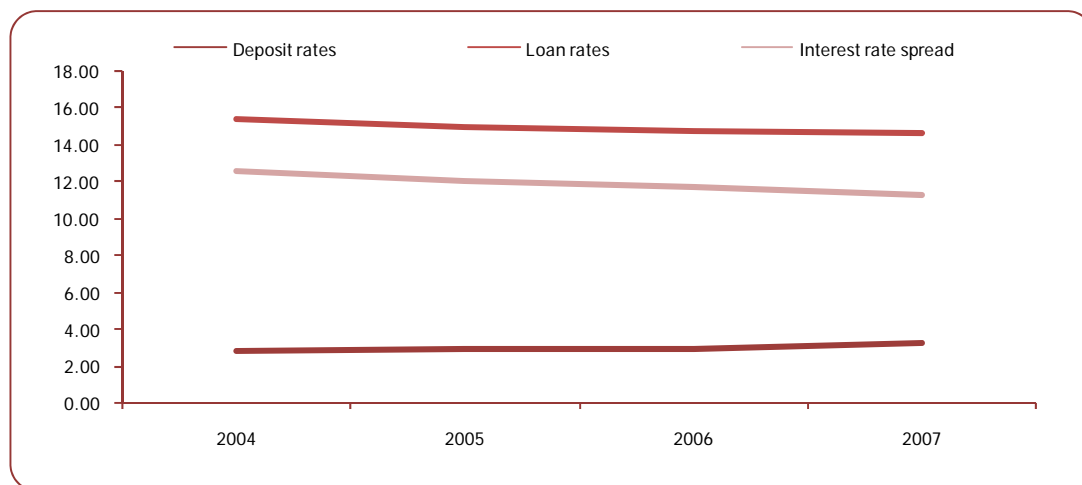
Description	2004	2005	2006	2007
INCOME				
Interest Income	53,999	74,612	88,806	117,776
Non-interest income 1/	19,449	19,697	25,188	39,645
Total income	73,448	94,309	113,994	157,421
EXPENDITURES				
Interest expenditures	9,978	15,389	19,910	25,864
Non-interest expenditures	11,071	13,419	13,713	22,194
General and administrative expenses 1/	37,820	49,175	54,839	69,082
Total expenditures	58,869	77,983	88,463	115,089
NET INCOME				
Net operating income	14,579	16,327	25,531	42,332
Net income before tax	15,059	16,916	26,563	41,862
Provisions for taxes	2,104	3,389	6,396	8,048
Net profit/loss for period	12,955	13,527	20,167	33,814
Retained profit	12,955	13,527	20,167	33,814

1/ Methodological break since November 2007

Expenditures of the banking sector in 2007 reached euro 115.1 million, which is for 30.1% higher than in 2006. The main spending category for the banking sector remains general and administrative expenditures that stood at euro 69.1 million or 60.0% of total expenditures in 2007. In volume, general and administrative expenditures recorded an annual growth of 26.0% which is higher than the annual growth of assets (23.5%). However, it must be taken into account that part of growth in this category reflects methodological changes that resulted in the inclusion of additional spending items in the general and administrative costs. Interest expenditures maintained their share to total expenditure at 22.0% (euro 25.9 million), while in volume grew by 29.9%. Non-interest expenditures increased their share to total expenditures by 2pp, standing at 17.5% (euro 20.1 million), while in volume they grew by 46.9%. The growth of non-interest expenditures is mainly driven by provisions for loan losses that grew by 31.9%, representing 89.8% of total non-interest expenditure. Following the introduction of new reporting forms, under non-interest expenditure, banking sector started to report as a separate item also banks' expenditures for fees and commissions that amounted at euro 2.1 million in 2007.

Interest rates.⁵ Declining loan interest rates, on the one hand, and increasing deposit interest rates, on the other hand, led to an interest rate spread lower than in previous periods (Figure 25). The interest rate spread in 2007 declined to 11.32pp from 11.77pp in 2006. The decline in the overall interest rate spread is driven by the decline in the NFC interest rate spread from 11.88pp in 2006 to 11.49pp in 2007, while the opposite situation was for Household interest rate spread that recorded an annual increase of 0.22pp, standing at 9.97pp in 2007.

Figure 24. Interest rates



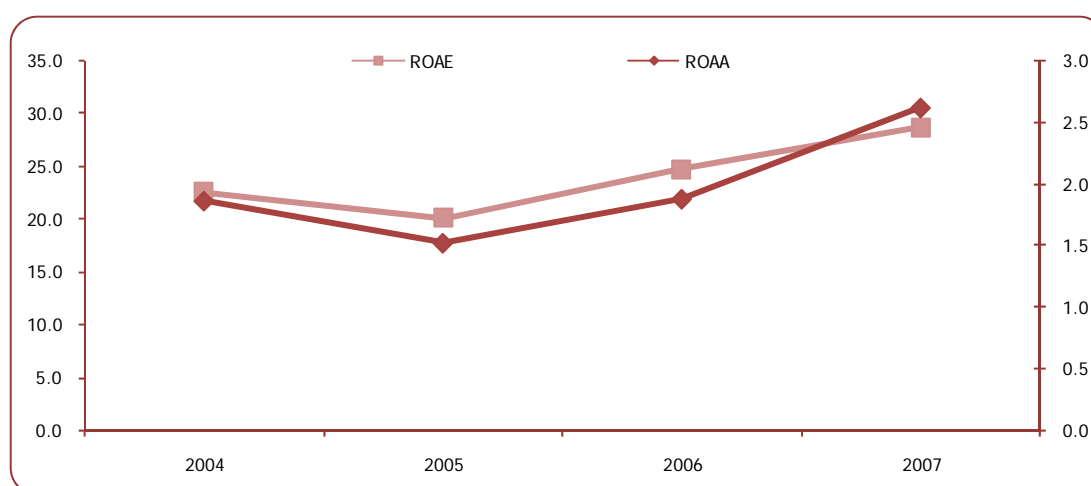
Overall loan interest rates in 2007 stood at 14.63%, which is a decline of 10 basis points compared to 2006. However, the decline is noticed only in NFC loan interest rates which declined to 15.10% in 2007 from 15.16% in 2006. Whereas, interest rates on household loans recorded an annual increase of 40 basis points, standing at 12.92% in 2007. Contrary to loans, deposit interest rates moved in the same direction for both NFC and households. Deposit interest rates for NFC reached 3.61% in 2007, which is an increase of 34 basis points compared to 2006, while interest rates on household deposits

⁵ Interest rates are weight averaged between different products and maturities.

stood at 2.94%, an increase of 19 basis points compared to 2006. Relatively lower interest rates for household deposits may be explained by the fact that in general these deposits tend to be in lower amounts and generally yield lower interest rates.

Profitability. Kosovo banking sector recorded a ROAA ratio of 2.6% in 2007 that is for 0.7pp higher than in 2006. This increase reflects the high growth of net profit that exceeded by 44.2pp the growth of assets. The high growth of net profit is also reflected in the ROAE that increased by 4pp, standing at 28.7% in 2007. Kosovo banking sector recorded better profitability than banking sectors of Albania, BiH, Croatia, FYROM, Montenegro, and Serbia that in 2006 recorded an average ROAA of 1.4% and average ROAE of 11.7%.

Figure 25. Profitability Indicators

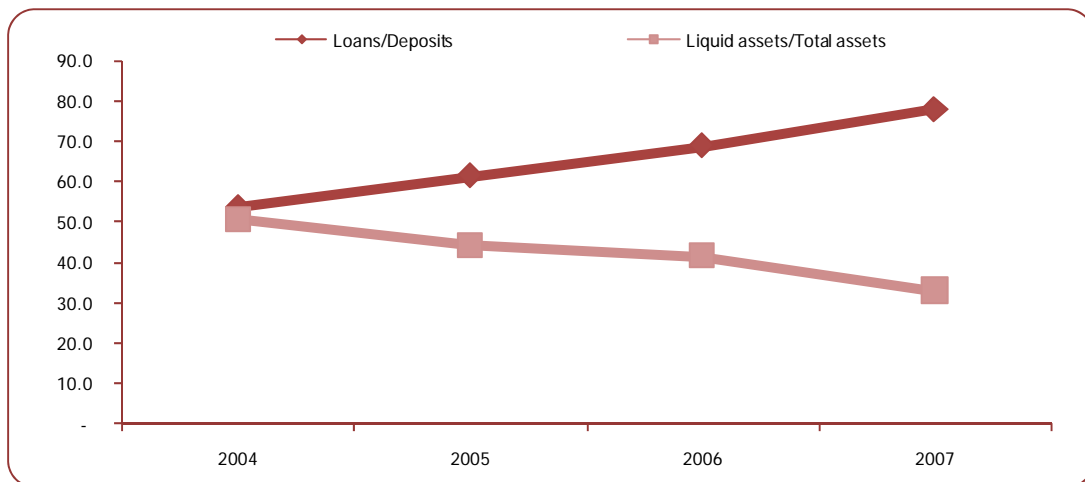


The Net Interest Margin (NIM) of 7.1%, in 2007, is another indicator that places the performance of the Kosovo banking sector above that of neighboring countries that averaged at 4.4% in 2006. The high NIM in the Kosovo banking sector is mainly due to the high interest rate spread (11.32pp in 2007). The NIM recorded in 2007 was for 0.7pp higher than in 2006.

Liquidity and solvency. Kosovo banking sector during 2007 was liquid, but with a slightly lower liquidity position compared to last year. The growth of 40.0% in the volume of loans over the growth of 23.5% in deposits, led to a decline in the liquidity position of the banking sector by raising the loan to deposit ratio at 78.0% (68.9% in 2006) that is close to the upper limit of the regulatory recommended margin that is 70%-80%. Loan to deposit ratio recorded in Kosovo is in line with the average of neighboring countries that also stood at 78.0% in 2006. The decline in the

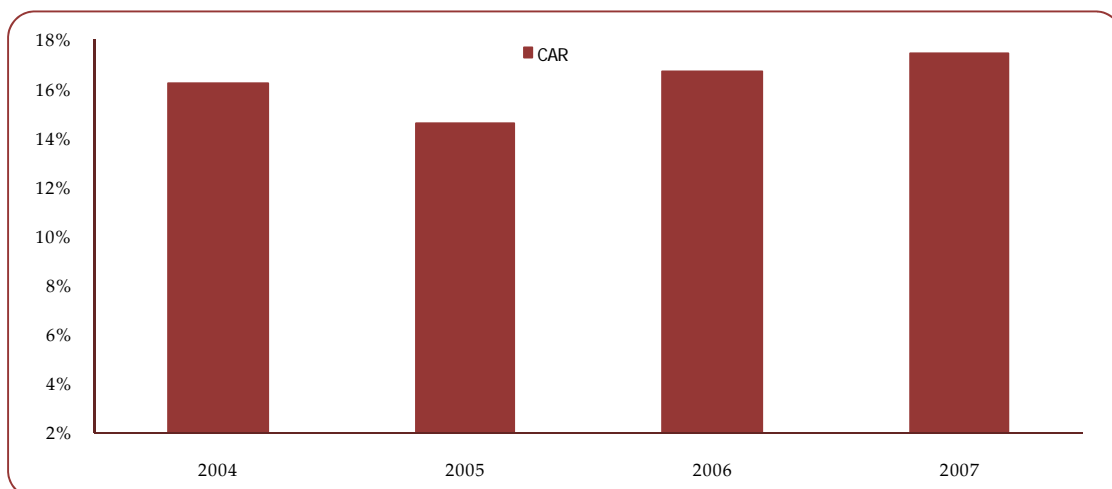
liquidity position is also shown by the liquid assets to total assets ratio that declined to 33.1% in 2007 from 41.7% in 2006. This reflects, the fast growth of loans, in one hand, and the decline in balances with commercial banks and investments in securities, on the other hand.

Figure 26. Liquidity indicators



The Capital Adequacy Ratio (CAR) of 17.5% (18.8% in neighboring countries) which is well above the minimum regulatory requirement of 12.0% shows that Kosovo banking sector remains solvent (Figure 28). This ratio has been continuously increasing during the recent years due to a faster growth in capital than in risk-weighted assets. In year 2007, all the banks had an above 12.0% CAR, including a bank that had a below 12.0% CAR in 2006. A stable solvency position of the banking sector is shown also by an increasing share of equity capital to total assets, which reached 11.5% in 2007 from 9.4% in 2006.

Figure 27. Solvency indicators



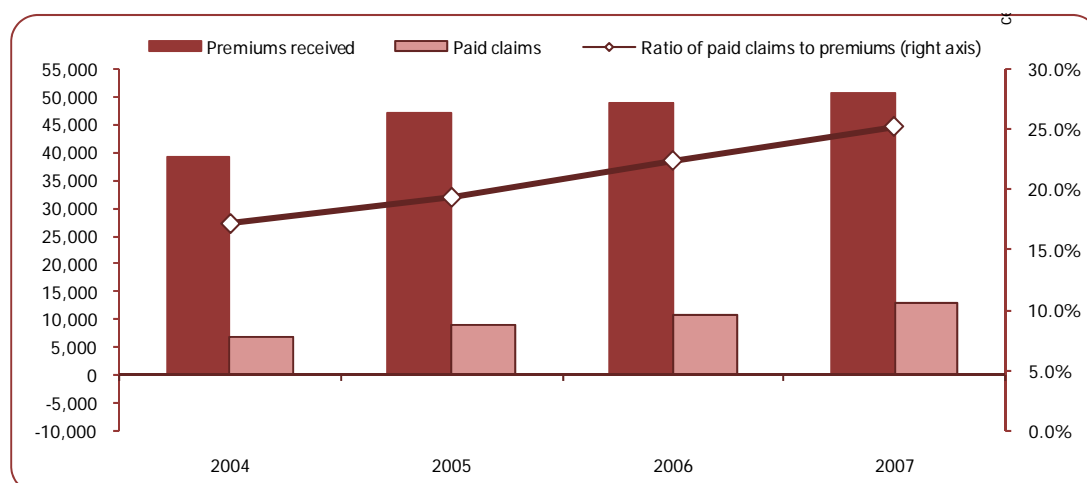
3.3.3. Developments in Insurance Companies

The number of insurance companies in 2007 remained at nine, of which three domestic and six foreign owned companies. Foreign companies dominate the insurance market in Kosovo also in terms of assets, representing 69.7% of total insurance companies' assets. The insurance market in Kosovo is mainly operated by the three largest companies that managed 48.6% of total insurance companies assets (51.1% in 2006).

Insurance companies assets reached euro 70.8 million in 2007, which is for 12.5% higher than in 2006. The growth of assets is mainly driven by time deposits that grew by 38.9%, reaching euro 40.6 million (57.4% of total assets) in 2007. The asset growth was mainly financed by the shareholders equity that recorded an annual growth of 15.6% in volume. Shareholders equity accounts for the largest share of insurance companies liabilities (48.4%), followed by unearned premiums that account for 22.5% of total liabilities.

The amount of total premiums received by insurance companies in year 2007 reached euro 50.8 million, which is an annual growth of 4.3% (Figure 29). The activity of insurance companies continues to be concentrated mainly in TPL policies that generated 68.7% of total premiums received, while premiums received through border policies accounted for 20.0% (19.6% in 2006). Insurance policies other than TPL represent 11.3% of total premiums received, which is an increase of 1.9pp compared to 2006. Premiums received through this type of insurance grew by 25.0% in volume and represented the main contributor for the overall growth in received premiums, while the smallest contributor were TPL policies that grew only by 0.5% compared to 2006. The low growth in this category of premiums reflects the decline in the number of sold TPL policies which recorded 7.5% lower than in 2006.

Figure 28. Insurance companies activity, in thousands of euro

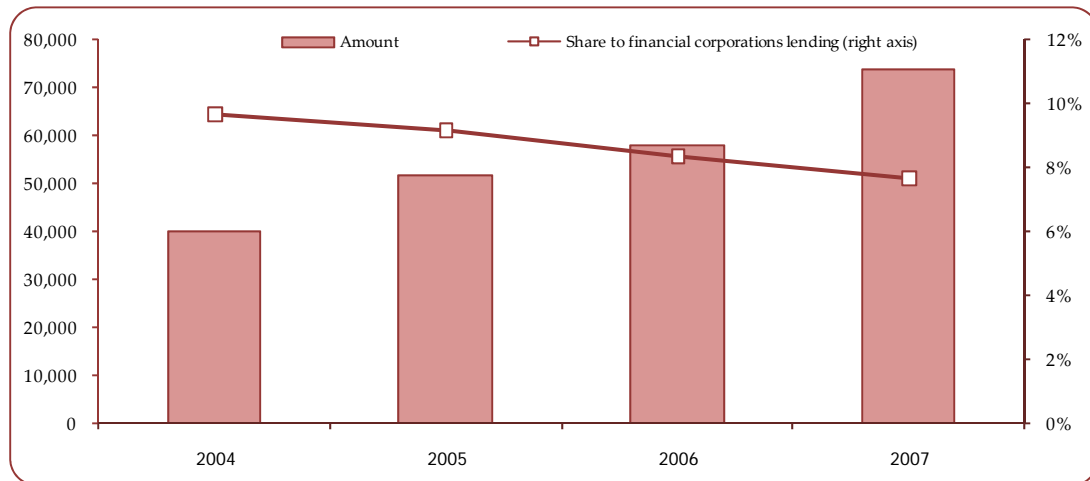


The growth in premiums received was followed by a higher growth in claims paid, which reached euro 12.8 million (10.9 million in 2006). This led to an increase in the share of claims paid to premiums received from 22.4% in 2006 to 25.2% in 2007, what means that one fourth of every euro received as a premium is paid back for policy holders claims. The largest amount of claims comes from TPL policy holders, which accounted for 84.8% of total claims. This ratio declined by 5.0pp compared to 2006, while the share of claims from non-TPL policy holders to total claims increased to 5.7% in 2006 to 9.8% in 2007. The increase in claims from non-TPL policy holders is in line with the increase in the number of non-TPL policies sold.

3.3.4. Other Financial Intermediaries Developments

In addition to commercial banks, Other Financial Intermediaries (OFI) represent another important factor in the lending market in Kosovo. The volume of loans extended by OFIs is continuously growing. Outstanding amount of OFI loans in 2007 reached euro 73.8 million, which is in increase of 27.9% compared to 2006 (Figure 30). However, even though OFI loans increased in volume, as a share to total financial corporation loans they marked a decline standing at 7.7% compared to 8.3% in 2006. The share of OFI loans to total financial corporation loans has been continuously declining since 2004 what shows that banking sector is being more active than OFIs in expanding their lending activity.

Figure 29. OFI lending activity, in thousands of euro

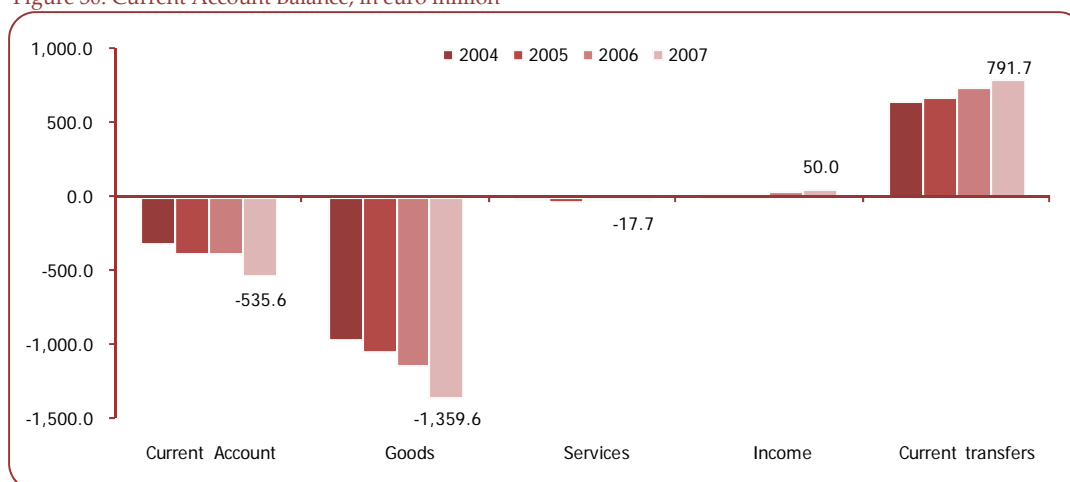


Lending activity of OFIs is mainly financed by credit lines since their ability to receive deposits is limited by regulation. The main beneficiaries of OFI loans are households and small enterprises, which is shown also by the average amount per loan extended by OFIs which stood at euro 1,700 in 2007.

3.4. External Sector

Amounting at euro -535.6 million in 2007, the Kosovo CA recorded and increase by 37.6% in 2006 (euro -389.1 million). Estimated in percent to GDP, the CA deficit accounted for 22.5% of GDP in 2007 compared to 17.1% in 2006. The deficit in the category of goods mainly triggered the CA deficit, with prevailing high level of imports, whereas current transfers remain the main offsetting item within the CA.

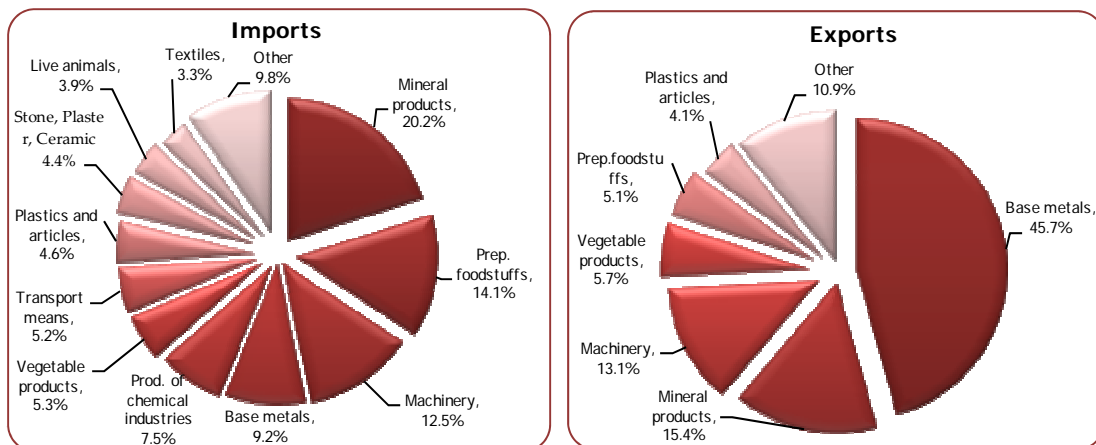
Figure 30. Current Account Balance, in euro million



The export growth marked in 2007 continues to be offset by strong import growth. Although exports increased by 32.3% in 2007 over 2006, they account for only 9.3% of total imports. With exports amounting at euro 146 million in 2007, and imports amounted to euro 1.6 million, the trade deficit stood at euro 1.4 million in 2007 (60.1% of GDP). In terms of volume, this trade deficit in 2007 over 2006 increased by 19.1%.

The structure of trade in goods remained broadly unchanged, both as regards to exports and imports. Despite of an annual decrease of 2.3 pp in 2007, the category of base metal and related remains the main exported category in Kosovo representing 45.7% of total exports. Exports of this category reached euro 67.0 million in 2007, against euro 53.1 million in 2006 (Figure 32). The mineral products represent second largest category that in 2007 accounted for 15.4% of total exports (euro 22.6 million in 2007 compared to euro 18.8 million in 2006). Reaching 13.1% as a share to total exports, the third largest category within the structure of Kosovo exports was machinery, appliances, electrical appliances etc, which amounted to euro 19.2 million in 2007, compared to euro 7.7 million in 2006.

Figure 31. Imports and Exports by commodity groups as share to total, as of 2007

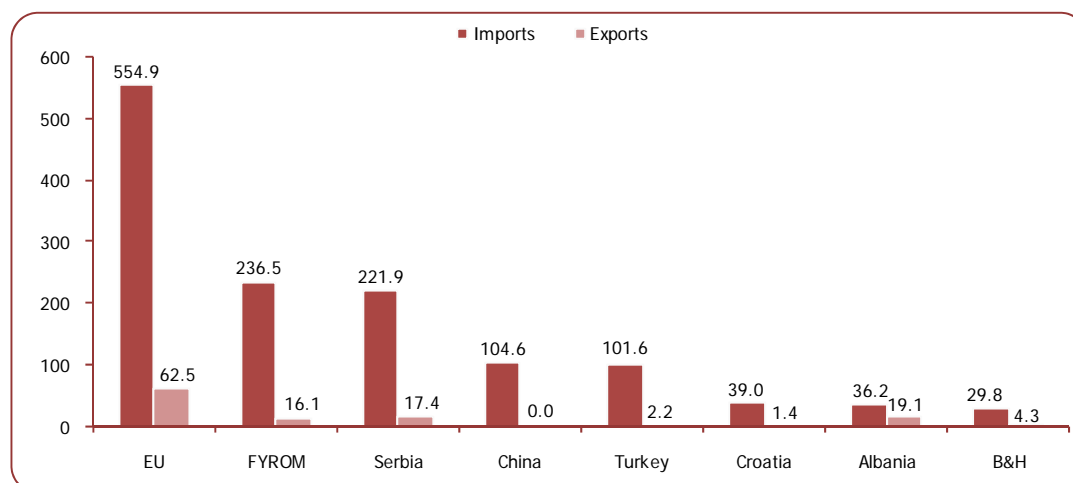


Mineral products remain the most imported category in the Kosovo trade in 2007, representing 20.2% of total imports. Total value of imports of this category reached euro 317.6 million in 2007, compared to euro 241.7 million in 2006. Representing 81.6% of total imported mineral products, the import of mineral fuels and oils mostly supported the high level of imports of this category in 2007. The imports of prepared foodstuff, beverages and tobacco amounted at euro 222.7 million in 2007 from euro 180.6 million in 2006, ranking this category the second largest in terms of imports (14.1% of total Kosovo imports). Machinery, appliances, electrical and related reached euro 196.6 million in 2007 against euro 153.3 million in 2006 and accounted for 12.5% of total imports. While the high level of imports of prepared foodstuff, beverages and tobacco to some extent represents the underutilization of the domestic agricultural resources, the increasing trend of imports in the category of machinery, appliances, electrical and related indicates an increase in the domestic activity which might have implication in the recent trends of the GDP.

The CEFTA countries⁶ as well as the European Union (EU) remain the main Kosovo's trading partners in 2007. The CEFTA countries represented 38.9% of total Kosovo's exports and 41.3% of total Kosovo's imports, while the EU countries share to total imports in 2007 was 28.9% and share to total exports 42.6%. The CEFTA countries were mainly represented by FYROM, Serbia and Albania. In 2007, FYROM accounted for 21.2% of total imports of Kosovo and 11.0% of total exports. This country was followed by Serbia, which represented 12.0% of total Kosovo imports and 11.9% of total exports. While imports to Albania accounted for only 1.4% of total imports, this country's exports represented 13.0% of total Kosovo exports. Within the group of EU countries, Germany represents the largest share in total Kosovo's imports (7.7%) as well as exports (10.3%). While imports from China followed an increasing trend since 2004, accounting for 6.6% of total Kosovo imports in 2007, imports from Turkey's marked a slowdown during the same period, representing 6.4% of total imports in end 2007.

⁶ The group of CEFTA countries comprises: Albania, BiH, Croatia, FYROM, Montenegro and Serbia.

Figure 32. Imports and Exports by country, as of 2007, in euro million



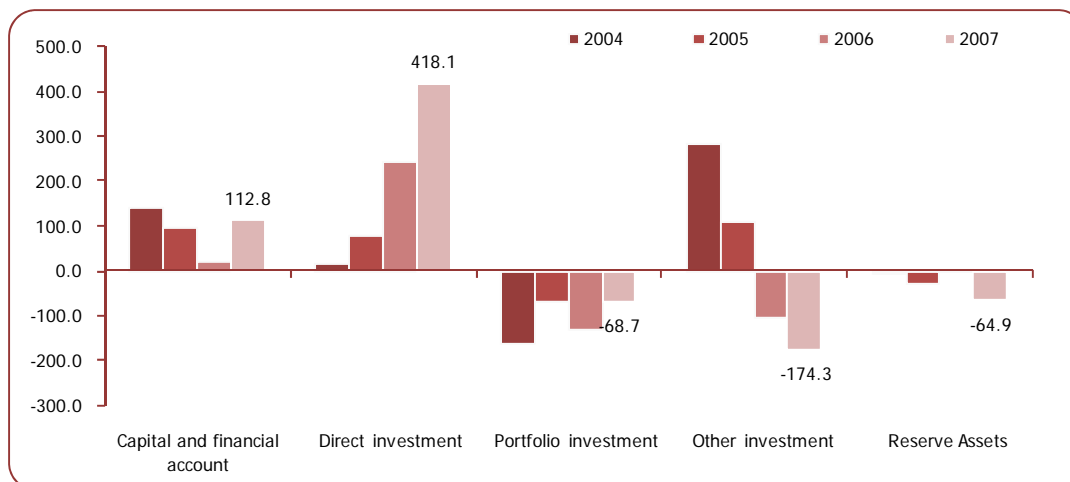
The three largest importing countries in 2007 were FYROM and Serbia (CEFTA), and Germany (EU). Imports from FYROM are mainly composed from mineral products (62.1% of total imports from this country) while Serbia imports consist mostly of prepared foodstuff, beverages and tobacco (30.7% of total imports). Imports from Germany are composed of vehicles and other transport means (48.1% of total imports from Germany), and machinery, appliances and electrical materials (16.5% of total German imports).

Amounting at euro -17.7 million, the services deficit deepened by 20.6% in 2007 over 2006 (euro -14.7 million in 2006). The export of services amounted to euro 191.7 million in 2007 compared to euro 174.0 million in 2006 while the import of services amounted to euro 209.4 million in 2007 compared to euro 188.7 million in 2006. Transportation (euro -58.1 million) and travel (euro -39.1 million) are the main contributors to the deficit encountered in this account, while the communication services (euro 41.3 million) balance corrected to some extent the services negative balance.

Net income in 2007 amounted to euro 50.0 million, an annual increase of 72.5%. Earnings from investments represented around 70% of total income in 2007, compared to 25.7% in 2006. The explanation behind the increase may be attributed to the increase in the KPST and financial sector (CBAK mainly) investments abroad (euro 80.1 million in 2007 against euro 40.5 million in 2006). Within the income account, the income on portfolio investments amounted at euro 43.3 million, while income generated based on other investments (deposits) stood at euro 34.0 million.

Growing annually by 7.3%, the net current transfers stood at euro 791.7 million in 2007. The most significant component not only in this account but also in the overall Kosovo BOP remains the worker remittances. These inflows composed from the Kosovar remittances living abroad, in 2007, stood at euro 521.7 million (year-on-year increase by 11.7%). However, there are outflow remittances due to the international presence in Kosovo (UNMIK) that in 2007 totaled at euro 173.4 million. Nevertheless, net remittances in 2007 were euro 348.3 million (euro 293.4 million in 2006).

Figure 33 Capital and Financial account (2004-2007), in euro million



Reaching a net amount of euro 112.8 million (net), the Kosovo financial and capital account is maintained mainly from the direct investments, which in 2007 totaled euro 418.1 million (Figure 34). An offsetting effect was caused from portfolio investments and other investments, which in 2007 scaled down the financial account by euro 68.7 million and euro 174.3 million respectively.

The Foreign Direct Investments (FDI) in 2007 over 2006 grew by 70.1% (euro 245.7 million). FDI account was generally composed from investments in the equity capital (euro 308.0 million), being mainly an outcome of the privatization proceeds. Also there are FDI in the form of reinvested earnings that in 2007 totaled euro 42.9 million.

Portfolio investments are investments in securities and the largest contributor to the total outflows in 2007 were the KPST investments (euro 63.4 million). Also, the CBAK marked a net outflow of euro 25.8 million in 2007 (euro 44.2 million in 2006), mainly composed of investments in securities other than shares. Represented mainly from investments in deposits, other investments in 2007 amounted to euro -174.3 million. The CBAK represents the largest share of investments in deposits abroad, amounting at euro 321.9 million. The reserve assets grew to euro 64.9 million in 2007, mainly due to an increase in the commercial bank deposits at CBAK (considering them as reserve assets).

4. Financial Supervision

4. Financial Supervision

The CBAK has regulatory and enforcement authority for all financial institutions in Kosovo and participates in developing and modernizing the financial sector, which currently covers the banking industry, insurance industry, pension funds and other financial institutions (micro finance institutions, non-bank financial institutions, exchange bureaus and money transmitters).

The CBAK's goal is to have a financial supervision and regulatory process that is effective, flexible and promotes a competitive market-based financial sector, which meets the best principles of international standards in the financial sector development.

The supervisory approach of the CBAK has evolved consistent with the evolution of international best practice for supervisors, from a "rules-based" approach to a "risk-based" approach, formulated upon the Basel Core Principles and Pillar 2 of Basel II for banks, and a risk-based solvency regime that is being adopted internationally for insurance companies.

The risk based approach is intended to enable the CBAK to appropriately allocate its supervisory resources to those areas of greatest risk, within individual financial institutions and the financial sector in general. Banking supervision by risk focuses on the ability of management to identify measure, monitor and control risk, whereas insurance supervision by risk focuses on solvency requirements and creates prudential framework that more accurately reflects the risks undertaken by insurers. The goal is to create an effective and well-balanced supervision of the insurance sector that will ensure the solvency perspective as well as other issues of importance for insurance supervision that could lead to tariff liberalization.

In accordance with legislation governing its statutory functions (UNMIK Regulations No. 1999/21, No.2001/25, No.2005/20 and No. 2006/47), the CBAK has set out detailed supervisory standards and requirements in order to achieve a well-regulated financial sector. In addition, the Regulations give the Governing Board of the CBAK power to adopt prudential supervision rules, which establish limits, operating guidelines, procedures and reporting requirements for financial institutions, and enforcement actions for non-compliance with legal requirements or for unsafe and unsound practices.

Financial institution regulations and prudential rules are continuously reviewed and updated to ensure that they continue to be in line with international best practices. They are also reviewed to ensure that they strike the right balance in providing a well-regulated environment while not imposing undue burdens to end-users of financial services.

4.1 Financial Sector Regulation Activity

As a regulator, CBAK participates in the enforcement of related UNMIK Regulations. The legal framework for governing these activities, according to EU standards, has been adapted to the current level of development of financial institutions in Kosovo and has been complemented by the CBAK rules and decisions.

Financial supervision rules framework is created early after establishment of the CBAK, since that time the financial sector has changed, as well as has CBAK approach to supervision. Based on the above mentioned factors and as per recommendations of the technical assistance, CBAK financial supervision has been working actively to review and revise the framework of rules, and establish policies and procedures. In addition, to guide the financial industry in the implementation of “best practices”, CBAK has issued “Advisory Letters” as additional supportive references.

During 2007 significant developments on completion of banking and non-banking regulations were achieved. The CBAK Governing Board during 2007 approved following amendments of supervision rules for adequate supervision of financial institutions:

Bank Supervision

- (a) **Rule II on Credit Risk Exposures** – The rule combines existing rules II and V (large exposure, which is rescinded). The aim of the rule is determination of credit risk limits for concentrations and large exposure.
- (b) **Rule VI on Licensing and Restrictions on Branches of Foreign Banks** – The amendment of the rule is the first step towards the development of a logical framework that is necessary for licensing and supervision of foreign banks.
- (c) **Rule VII on Foreign Exchange Activities** – The amended Rule determines basic criteria to be implemented in cases of exchange activities exposure.
- (d) **Rule VIII on the Governance of Banks** – The amendment of the rule is consolidation of sections in previous rule VIII and XIII (that were rescinded). In the amended Rule were added characteristics of “fit and proper” criteria, which have to do with the control of owners and main shareholders of financial institutions. In the same time it also requires a policy that incorporates code of ethics and takes into consideration the conflict of interest.
- (e) **Rule IX on Asset Classification, Provisioning for Loan Losses, Treatment of Accrued Interest and Treatment of Rescheduled Credit Exposures** - The Rule includes loans, all credit exposures and all off-balance sheet exposures; redefines classification of categories by determining delinquency status and credit factors; emphasizes potential loss due to lack of documents; incorporates treatment of overdraft lines. It also allows banks to reschedule credit exposures if the examination shows that credit factors have changed. Furthermore, it treats the multiple credits to a single borrower by classification of a single borrower. The Rule avoids classification and provisioning requirements “Standard” and “observation”, and explains that banks must allocate general provisions based on the historical loss experience evidences. The Rule also establishes the treatment of re-registration for written-off exposures, rescheduling of trouble loans and treatment of accrued interest.

- (f) **Rule X on Prevention of Money Laundering and Terrorist Financing** – This Rule includes all criteria to be implemented by financial institutions to ensure internal anti money launder compliance function; relevant internal policies and procedures; guidelines for enduring proper client identification; monitoring client’s relationship and transactions; record-keeping and reporting requirements;
- (g) **Rule XI on Reporting of banks and Kosovar Branches of Foreign Banks** – Reporting frequency requirements for banks and all financial institution have changed.
- (h) **Rule XVII on Minimum Required Liquidity Reserves maintained within the Central Banking Authority of Kosovo** - This Rule determines the minimum liquidity requirement to be met by all banks and deposit-taking institutions. The liquidity requirement is not an average maintenance but as a minimum requirement to be maintained every day.
- (i) **Rule XX on Credit Restrictions to Related Persons** – This amended Rule incorporates the definitions of “significant interest” and “main shareholder” by extending the Rule in order to include those exposures that were used to avoid restrictions and which used to cause institutional problems.
- (j) **Rule XXVII on Minimum security Devices and Procedures for Kosovar banks**- It requires each bank to adopt appropriate security procedures to discourage robberies, burglaries, and larcenies and to assist in identifying and apprehending persons who commit such acts.
- (k) **Rule XXIX on Direct and Indirect Disbursement of Loans in Cash** - This Rule addresses the practice of disbursing loan proceeds to borrowers either in the form of cash or by allowing the withdrawal of loan proceeds from customer accounts in cash.

Insurance Supervision

- (l) **Rule VIII on Deposit of Assets as a Security, Capital Inadequacy, Financial Reporting, Risk Management, Investment and Liquidation**- This rule sets the framework of the : “Based Risk Supervision” approach, which is further described below. The approval of this rule has rescinded following insurance rules: VII, IX, X, XI, XII, XIIa, XIII, XIV, XV, XVI, XIX, XX, XXIII and XXV. Following the implementation of this rule, by the end of 2007, three company branches that operate in Kosovo: Insig, Sigal and Sigma have increased the amount of paid –in-capital up to three (3) million Euros pursuant to this rule requirement.
- (m) **Rule V on Amending Rule on form of Insurance product selling and licensing of compulsory insurance intermediaries, agents, and brokers** - This rule as amended has improved the legal basis for Third Party Liability insurance product selling. The rule implementation has canalized the selling of TPL products through operators. During 2007, the CBAK has balanced the number of licensed operators in accordance with the companies’ points of sale. In order to reduce the expenses and to increase the quality of services offered to clients, the number of intermediaries has decreased for fifty (50%). As the result, intermediaries have continued to conduct the selling of voluntary insurance products.

- (n) Rule IX on Life Insurance - The aim of this rule was to create legal basis for establishment of the life insurance companies that will deal with the life insurance activities. Due to the lack of legal infrastructure, until now, Kosovo insurance market was not able to offer this insurance product. The approval of the Rule on Life Insurance has enabled the extend of insurance activities in Kosovo; therefore citizens and businesses apart of other insurances products can also contract life insurance for themselves or on behalf of someone else, whereas as a beneficiary is considered the legal inheritor or any other person that is determined with the insurance contract that has an interest known as a interest insured. The aim of the rule is regulation of life insurance activities including different investment activities and derivatives, risk management, maintenance of required level of technical provisions, solvency margins, insurance requirements, claims settlement and complaints, disclosure and transparency of this activity, etc.
- (o) Rule V b on Licensing of Surplus Line Brokers has been abrogated on December 2007. This rule has regulated licensing activity of surplus line brokers for offering life insurance products outside Kosovo territory just temporary pending for insurance companies that operate in Kosovo and which are licensed by the CBAK get the license for offering this product. Given that some of insurance companies that operate in Kosovo have the CBAK license to sell this product, allowing the surplus line brokers to provide these services would be in contradiction with the regulation in force.

Pension Supervision

- (p) Rule IV on Licensing of Asset Managers of Pension Assets- for effective implementation of UNMIK regulation 2001/25. In line with the above-mentioned rule, the CBAK has issued Instruction 01/2007 on capital Investment by the Asset managers Company. The Instruction 01/2007 is a guideline regarding investment of pension assets and is based in the best international practices.

In the field of supervision of Micro Finance institution The CBAK Governing Board during 2007 has also approved the new Draft Rule on Licensing Supervision and Regulation of Micro Finance Institutions and Amended Regulation 1999/21 on Licensing, Supervision and Regulation of Banks, which have been proceeded for approval by UNMIK Legal Office. Amended Rule XIV on Licensing, Supervision and Regulation of Micro Finance Institutions and the Rule XVI on Registration, Supervision and activities of non-banking financial institutions were approved, but shall enter into force only after the approval of the Regulation on Micro Finance Institutions by UNMIK Legal Office. It is in the final stage of the procedure to be signed by the Special Representative of Secretary General (SRSG) of United Nations.

4.2 Licensing and Structure

In accordance with legislation governing its statutory function, the CBAK has the authority to set criteria for the licensing of financial institutions and to reject those which do not meet these standards.

The CBAK's vision is a stable and growing financial sector driven by market forces, but operating within a prudent regulatory and supervisory policy framework harmonized to EU/EC directives.

The CBAK's strategy in the field of financial institutions licensing is centered on attracting investors who have strong financial positions, meet the criteria of fit and proper for shareholders and management, are able to pursue a cautious approach to business to protect the interest of clients, thus helping to strengthen the financial system and increase its credibility.

Banking licensing activity of the CBAK during 2007 was primarily related to the opening of new branches and changes in banks' ownership structures and incoming of new banks. During 2007 the CBAK Governing Board approved permanent licenses for two foreign branches after meeting legal framework requirements. These banks are Banka Kombetare Tregtare (BKT) from Albania and Komercijalna Banka (KB) from Serbia.

During 2007, Nova Ljubljanska Banka has purchased the ownership majority from two domestic banks: Banka e Re e Kosoves and Kasabank. As the result of it on December 2007 has been approved the merger of two local banks NLB-Kasabank dhe NLB-Banka e Re of Kosova in one integrated bank NLB-Prishtina. The CBAK Governing Board has approved the final license for the new bank Turkish Economic Bank (TEB) sha (with the shareholder TEB Mali Yatirimlar from Turkey). The increase of foreign banks number is an important aspect for increase of competition in banking system and for the increase of efficiency and quality in providing of various products and services. During 2007, banks network expanded in a network of eight banks with 236 branches and sub-branches.

Insurance Companies. During 2007 their insurance activity continued nine (9) insurance companies that present the same number as before apart from the changes in ownership of some of them. During 2007, Insurance Company Sigma has sold 76% of its shares to Insurance Company Joint Vinea Group from Austria. Insurance Company Dukagjini has also sold 51% of shares to Insurance Company Sava e Re from Slovenia; and 46% of shares from Insurance Company Sigal to INIQA Group from Austria.

Pension Funds. During 2007 pension funds activities continued to develop a modest trend. The liquidation of Supplementary Pension Funds has continued. In July 2007, the final license approval was granted to Supplementary Individual Pension Provider – American Capital partners – ACP. But after a while the license of ACP has been revoked due to the breaches of CBAK regulation on pension funds functioning.

Micro Finance Institutions. At the end of 2007, 15 micro finance institutions and three other non-bank financial institutions were operating throughout Kosovo.

During 2007 has been registered Non-banking Financial Institution "E&S" Efficacy & Safety Sh.p.k. for conducting of financial activities as an adviser for investments (to provide information and advisory services on investments as well as additional activities related to financial intermediation)

Exchange Bureaus and Money Transfer Offices. Seven exchange bureaus registered with CBAK during 2007. At the end of 2007, 23 exchange bureaus and three agencies for money transfers were operating in Kosovo. The large increase in the number of licensed exchange bureaus during 2007 is a result of a joint campaign of CBAK, UNMIK Police, Kosovo Police Service and Financial Information Center to legalize the street dealers.

Table 6: Banks Licensing Activity, 2003 – 2007

Description	2003	2004	2005	2006	2007
Prior Licensed	7	7	7	6	8*
Preliminary approval*	0	0	0	2	1
Revocation of license	0	0	0	-1	0
TOTAL	7	7	7	8	9

*Merge of NLB-KSB shall be effective as of January 2, 2008

Table 7: Insurance Companies licensing activity, 2003 – 2007

Description	2003	2004	2005	2006	2007
Prior Licensed	8	8	8	8	9
Licensed	1	2	1	1	0
Canceled	-1	-2	-1	0	0
TOTAL	8	8	8	9	9

Table 8: Pension Funds licensing activity, 2003 – 2007

Description	2003	2004	2005	2006	2007
Compulsory Pension Funds	1	1	1	1	1
Supplementary Pension Funds	6	6	6	6	1
Individual Pension Funds	0	0	0	1	1
TOTAL	7	7	7	8	3

Table 9: Non Bank Financial Institution Licensing Activity, 2003 – 2007

Description	2003	2004	2005	2006	2007
Prior Registered / Licensed	14	15	18	19	18
Registered/ Licensing	1	3	1	1	1
Withdraw of Registration	0	0	0	-2	0
TOTAL	15	18	19	18	19

Tabela 10: Intermediary licensing activity, 2003-2007

Description	2003	2004	2005	2006	2007
Agents	307	446	658	784	347
Surplus Line Brokers	1	3	3	3	3
Brokers	0	0	2	2	3
Loss adjusters	0	1	2	2	2
Independent Complaint Adjusters	0	2	3	3	3

Table 11: Money transmitters Agencies Licensing Activity, 2003 – 2007

Description	2003	2004	2005	2006	2007
Prior Licensed	1	1	1	2	3
Licensed	0	0	1	1	0
TOTAL	1	1	2	3	3

Table 12: Money Exchange Offices Licensing Activity 2003 – 2007

Description	2003	2004	2005	2006	2007
Prior Licensed	3	4	3	6	16
Licensed	1	0	4	10	7
Withdraw registration	0	-1	-1	0	0
TOTAL	4	3	6	16	23

4.3 Activity of Financial Supervision

One of the main functions of CBAK is to ensure supervision and regulation of financial institutions, with the purpose of creating a sound financial system, achievable as well as competitive, a system that is reliable and that offers a wide scope of financial services. In achieving this mission, the Directorates of Banks, Insurance and Pensions Supervision are responsible for licensing, regulation and control of financial institutions and non-bank financial institutions that operate in Kosovo.

Banking Supervision has the aim of safeguarding the funds of depositors and maintaining a stable financial system by looking after an efficient and financial competitive environment. The Banking Supervision Directorate promotes these aims through:

A stable financial, banking and non-banking system

Promoting a secure, sound and stable financial system is one of the essential reasons of supervision and regulation of financial institutions. A stable financial system ensures depositors a secure place to maintain their money. It also ensures businesses and individuals a reliable framework for the performance of monetary transactions.

A competitive Financial, Banking and Non-banking system

Another main purpose of supervision and regulation of financial institutions is the establishment of a competitive financial system. A competitive financial system ensures consumers products and financial services with lower prices, better financial goods and services.

A favorable Financial, Banking and Non-banking system

Another very important objective of regulation is the protection of consumers. Fit rules and regulations require financial institutions to unfold information that helps consumers value open product options, such as loan cost, their rights and potential obligations, as well as the real scale of return in their deposits.

CBAK Rules and UNMIK Regulations direct a lot of financial, banking and non-banking institutional aspects. Issues such as: who owns; controls and administers financial institutions; what loan amounts can financial institutions give to an only consumer or a group of consumers; how much capital financial institutions should have; where can financial institutions establish their offices, and what kind of services can they offer, are all issues that are regulated by banking and non-banking rules and regulations.

The main objective of the supervision process is the security and efficiency evaluation of financial institutions. This evaluation includes valuing the risk management systems of the institution, the financial condition, loan portfolio as well as the compliance with applicable banking and non-banking rules and regulations.

The supervision process includes on-site examination and examination and monitoring through external analysis. In general, the CBAK staff performs on-site examinations of banks and non-bank financial institutions at least every 12 months. This routine can be supported with more "limited"

frequent examinations, with the purpose of following up on the application of previous recommendations.

CBAK examines the activities of financial institutions through:

External Analysis – gathering information (reports, information and data that are submitted to CBAK by banks and non-bank financial institutions), and indicator **evaluations** of their operations and their comparison with determined limits, previous data and international accepted standards. External analysis is a valid instrument that can require to be further enriched with deeper analysis, so that the inspector can attain an understanding of the quality and uniformity of the banks income. After the inspector has performed an analytic review of the bank, he will form his opinion on the financial condition and bank operation results.

The primary functions of review and external analysis are to identify changes and conditions of the institution, to identify financial trends in each institution and in the financial system, to monitor the weakness and deficiency improvement progress, to monitor compliance with the supervision orders as well as obligatory measures/supervision directives, and to determine compliance with laws and regulations. The review and external analysis system is one of the primary means on behalf of which CBAK monitors the institution in the financial system between internal examinations.

On-site examination – The performance of qualitative evaluation of the activities of banks and non-bank financial institutions through control of their internal data in conformity with the risk profile of the institution.

The CBAK on-site examination team performs in-depth evaluations of formal scopes of policies, procedures and practices that were used by financial institutions to manage the activity of the institution in general, as well as in particular the creditor risk management. The purpose of this specific loan review is identifying problems in the area of loans, since loans present a large source of risk for financial institutions. This risk is restricted by means of CBAK rules and regulations.

On-site examination is the supervision phase for finding facts. Facts are analyzed to determine the condition of the financial institution. By using these facts, the risk profile of the financial institution is determined, which determines the manner in which the institution will be treated by supervisors during the future supervisory cycle. These findings are summarized in the Examination Report. The Examination Report serves to communicate to CBAK and to the Governing Board of the examined institution, the actual condition, problems, progress and future direction. The Examination Report also ensures the Governing Board of the institution a summary of the issues, and their address that require corrective measures.

Supervision focused on risk – Given that banking and non-banking financial institutions are increasing as in size also in complexity, CBAK is slowly moving towards a supervisory approach focused on risk, which is a continuous process rather than an examination of the moment. The purpose of the risk focused supervisory process is the identification of larger risks of a financial institution and valuing the management ability of the institution in order to identify, monitor and control these risks.

For this reason, CBAK uses the CAMEL approach for risk evaluation. The supervisory system of the CAMEL evaluation is a supervision tool that most supervisors in developed places use. This supervisory system is an acronym for five components of the evaluation system: **C**-Capital Adequacy, **A**-Quality of Assets, **M**-Management and Administration, **E**-Incomes, and **L**-Liquidity. Each CAMEL component is valued from 1 to 5, where 1 indicates the highest evaluation and 5 the lowest. The financial institution is also given a general evaluation from 1 to 5, the evaluation which results from individual components.

Each bank and large financial non-banking institution is determined with the evaluation of component evaluations, based on the evaluation of relevant financial and operational standards in accordance with standardized criteria's and principles:

Capital Adequacy – The adequacy of the base capital, net value and reserves to support actual operations, risk development, and further increase of the financial institution. To value the suitability and stability of the current and planned level of capital and dividend policy in the light of existing conditions and future plans. Determining the capital adequacy of a bank is important not only in valuing the power of a certain bank but also in valuing the progress and security of the banking system in general.

Asset Quality – Quality of loans, investments and other means. To determine if policies, practices, procedures and internal controls are sufficient, regarding management of the loan portfolio, to judge on the quality of the loan portfolio and how this quality affects the banks progress.

Management Quality– Management skills to properly administer all business aspects of the financial institution, and to plan future needs and unexpected circumstances. To determine if the Governing Board has elaborated fit objectives and policies that are applied in the entire system.

Incomes – Ability to generate income for coverage of their own expenses, including adequate provision for possible loan losses, interest payment on deposit and appropriate depositor fund insurance. So that a clear and full idea is created of the banking activity, essential is knowing the banks operational strategy. The operational strategy should be determined in its business plan, or by determining its income and fund sources. Elements of profit include such items as income from interest and interest expenses, income and expenses from non interest and base income. The management of funds is a process of managing items inside and outside of the balance sheet, to maximize and safeguard the net result between the earned interest and the paid interest, parallel to ensuring the banks ability to settle obligations and to finance the increase of assets.

Liquidity – Maintenance of sufficient liquid assets for coverage of current needs, in particular for withdrawals made by depositors. Liquidity represents a banks capacity to respond to the decline of deposits “including flows from purchased liabilities” to finance the increase of assets. Bank funds (passives) have to be available with reasonable prices compared to competitors and with such like maturities, to support mid-term and long-term assets. Liquidity is important for all banks, to compensate expected and unexpected fluctuations of the balance sheet and to secure funds for increase.

On-site examination results are reported to the board of directors and management of the financial institution into one examination report, based on the supervisory system of the CAMEL evaluation.

Furthermore, to help financial institutions in identifying, controlling, managing, and monitoring the risk, CBAK classifies the main risks that follow the banking activity in four main groups such as: operational risk, liquidity risk, loan issuance risk and risk. The evaluation and measure of these risks helps banks focus their attention in the most critical areas of their activities. Whereas in the supervisory aspect it offers CBAK the placement of supervisory resources in necessary areas that need approximate monitoring.

Table 13: Banking Supervision: On-site examinations performed during 2007

Description	Number of Examinations
Banks - complete	3
Banks - focused	8
Banks - branches - pre- openings and re-displacement	40
Micro Financial Institutions - complete	11
Money Transfers Agencies - complete	1
Foreign Exchange Offices - complete	10
Examination on anti - money laundering	24

Insurance Supervision. The main objective of CBAK is maintaining a secure, stable and efficient market, the protection of policyholders, offering an adequate environment for shareholders and the development of fair competition. In compliance with the governance legislation (UNMIK Regulation 2001/25) at the end of 2006, CBAK has set supervision standards and requests with the purpose of achieving an Insurance Industry well-regulated and oriented towards qualitative service and product offers.

The supervision process includes on-site examination and examination and monitoring through external analysis. In general, the CBAK staff performs on-site examinations of insurance companies at least every 12 months. This routine can be supported with more "limited" frequent examinations, with the purpose of following up on the application of previous recommendations. CBAK examines the activities of financial institutions through:

External analysis (off-site) – gathers data (reports, information and data that are offered by Insurance Companies on daily, weekly, monthly, quarterly and annual basis. These data are valued and serve to calculate the different financial indicators that present the progress of IC activities such as:

- Solvency Margin
- Financial power
- Report on Losses, Expenses, and paid Claims,
- Technical provisions, exposed risk and maximum risk holding
- Re-insurance and a comparison as to how much they comply with International standards

External analyses serve to identify mentioned high indicators which are verified through on-site examination, for correctness and for real reasons of the company. The review and external analysis system is one of the primary means on behalf of which CBAK monitors the institution in the financial system between internal examinations.

On-site Examinations - On-site Examinations are an essential part of the supervision process, closely tied to External Analysis. In order to perform this activity, CBAK uses the grading (evaluation) system which contains grades from 1 to 5. Grade 1 is identified with high risk; grade 2 with lower risk, grade 3 with medium risk, grade 4 is valued as good whereas grade 5 is valued as excellent. This type of inspection offers CBAK the possibility to value the quality of assets, internal controls, technical provisions, re-insurance and risk management.

Through on-site inspection, CBAK is secured that Insurance Companies operate in compliance with UNMIK Regulations, CBAK Rules, with Standards of the International Association of Insurance Supervisors (IAIS), and the International Accounting Standards (IAS).

On-site examination is the supervision phase for finding facts. Facts are analyzed to determine the condition of the financial institution. By using these facts, the risk profile of the financial institution is determined, which determines the manner in which the institution will be treated by supervisors during the future supervisory cycle. These findings are summarized in the Examination Report. The Examination Report serves to communicate to CBAK and to the Governing Board of the examined institution, the actual condition, problems, progress and future direction. The Examination Report also ensures the Governing Board of the institution a summary of the issues, and their address that require corrective measures. On-site inspections can be complete and partial.

Table 14: Insurance Companies: performance of on-site examinations during 2006-2007

Description	No. of Examinations	
	2006	2007
Insurance Company - complete	6	8
Insurance Company - focused	9	18
Insurance Company - agent offices	185	226
Additional Lines Brokers	3	3
Insurance Brokers	3	0
CIU & GFK	2	1

Supervision focused on risk is designed with the purpose of securing CBAK with necessary instruments for the development of the industry that leads to the increase and maintaining capital requests at optimal level. This approach offers necessary infrastructure for the liberalization of compulsory insurance tariffs towards third parties, at the same time it also creates financial power of Insurance Companies. During 2007 CBAK in collaboration with the Insurance Industry worked with the purpose of creating a liberalization framework. This collaboration was finalized during the Workshop held on November 28-29 in Durrës-Albania, in which it was decided that 2008 be the year of controlled liberalization, to be followed by 2009 with the entire liberalization of tariffs. The essential element of this approach was CBAK's request towards insurance companies in order to divide risk insurance (variable collateral). At the end of 2007 the calculated risk insurance reached an amount of nearly 13 million euros.

The Approach "Supervision focused on risk depends on:

- Minimum required (obligatory) capital and variable capital
- Solvency requests
- Risk bearing and management of investments

All of these above-mentioned requests are related to minimum capital requests that are essential in achieving financial stability. Furthermore, Insurance Companies aside from the minimum capital amount from 3 million euros were obligated to divide reserves for the variable capital which results as a function of risk insurance requests.

Liberalization of compulsory insurance tariffs towards third parties, the Liberalization process of these tariffs implies controlled liberalization where CBAK sets the minimum basis of the risk insurance level. Based on Risk Insurance, Insurance Companies will create the price of these tariffs based on actuary calculations.

The primary object of the controlled liberalization process is:

- To secure product tariffs in word that will be, fair, adequate and non-discriminatory
- To foster development respectively increase the insurance market based on exposed risk
- Assign controls in risk insurance which is foreseen from MTPL policy

Passing from controlled tariffs to those partially liberalized, where the price is determined by the market will lead to a real competition.

Through this rule, CBAK creates an adequate infrastructure for the liberalization of tariffs and the insurance market in general, at the same time it also increases minimum solvency requests and offers possibilities to easily pass to Solvency II, which EU will reinforce from 2012.

Pension Supervision. During 2007, the liquidation process of all supplementary pension funds that operated in different public companies continued. The liquidation of these funds was made as a result of un-financed obligations, failure to pay obligations from companies that have established these schemes or changes in property of these companies as a result of the privatization process. Each of these funds, at the end of the liquidation process, has transferred its pension funds to Pension Fund Providers, in certain cases also in reliable accounts in commercial banks, in the name of each pensioner; and their rights as pensioners, is expected to be paid to beneficiaries.

Table 15: Pension Funds: performance of on-site examinations during 2007

Description	Number of Examinations 2007
KPST	1
Supplementary Pension Funds in Liquidation - focused	12
FSKP - focused	6
ACP - SPPI - focused	6

4.4 Obligatory Enforcement Measures

The spread and frequency of internal and external supervision activities will increase in cases when the risk profile of an institution worsens. The more the risk profile is unfavorable, the larger will the supervision interference scale be, and the larger will the probabilities be of undertaking corrective measures and fines as enforcement measures of reconcilability or securing the return in a safe and sound condition.

Regardless of the attempts of supervisors, situations were created when financial institutions have failed to achieve prudent supervision requests or insecure or unsound banking and insurance practices were used. Special supervision, improvement measures and fines were imposed in a manner so that they are transparent and impartial; what has reflected the worrying supervision on behalf of CBAK, taking into account collaboration and perception of the institutions management competency.

As a result of the violation of regulations or insecure or unsound banking practices, CBAK has initiated 10 obligatory actions towards banks during 2007, whereas insurance supervision has initiated 16 obligatory actions against insurance companies.

Obligatory actions undertaken in 2007 based on Regulation No. 1999/21 and 2001/25 extend starting from remarks in writing, administrative instructions and were based on the violation leves, risk exposure, repeated violations, etc. The types of obligatory actions undertaken by CBAK including oral communications and in writing, restriction of certain activities, formal agreements between CBAK and financial institutions, and requests in increasing the share capital, increasing technical reserves, claims payment and monetary punishments. Obligatory actions towards financial institutions have resulted in better financial positions of financial institutions and have reduced the risk.

Box 1. License revocation of pension Provider SPPT - AK

The Governing Board of CBAK in its meeting held on 27.11.2007, based on UNMIK Regulation 2006/47 and UNMIK Regulation 2005/20

took the decision to revoke the license of Individual Supplementary Pension Provider ACP SPPT AK. The license revocation proceeded as a result of:

- the funds failure to contain to the CBAK licensing conditions, and
- performance of promoting activities that have come across contradiction with CBAK rules and regulations.

The license revocation of ACP SPPT AK as Individual Supplementary Pension Provider did not have influence on other activities of ACP Group and will not at all place into risk the pensioners money.

4.5 International Cooperation

A more specific attention has been put on International Collaboration with international authorities of banking supervision during 2007. Collaboration with the Central Bank of Albania, Serbia, Slovenia and the Regulative Supervision Authority in Turkey was further extended during 2007, in the occasion of visits made by the banking supervision directorate in these places and vice-versa. These mutual visits had a great impact in strengthening collaboration in the banking system, in the view of foreign investments that result during the year. A lot of supervisory information has also been exchanged during the application review process for the branch of Banka Kombëtare Tregtare from Albania and Komercijalna Banka from Serbia, NLB Prishtina from Slovenia for the purchase of two local banks (Kasabank and Banka e re e Kosovës) and TEB from Turkey to open a bank. Since 2005, CBAK is a member of the International Association of Insurance Supervisors (IAIS) and the International Organization of Pension Supervisors (IOPS). CBAK's membership into these professional Associations is relevant and rather beneficial. During 2007 CBAK personnel has gained from participation in committees and sub-committees of these associations regarding actual trend issues of the insurance industry, as well as different trainings in the area of insurance. It is also worth mentioning collaboration and technical assistance from international financial and advisory institutions such as USAID, International Monetary Fund and FIRST Initiative in increasing supervision capacity and in fulfilling the legal regulative has continued in a productive, dynamic and very effective manner during 2007.

5. Services provided to the Authority, to the financial community and to the public

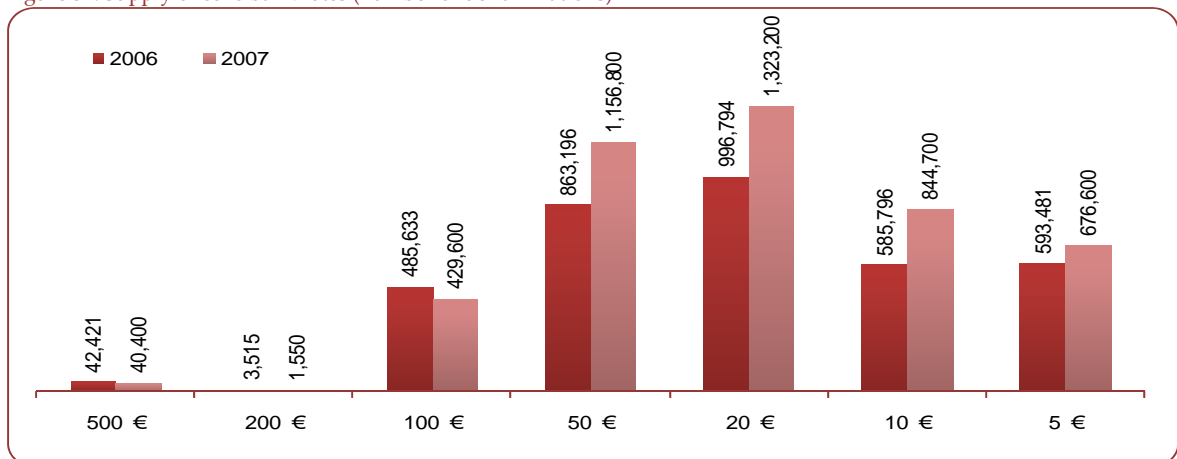
5. Services provided to the Authorities, to the financial community and to the public

The CBAK provides public institutions, financial institutions, and the public with the usual financial services offered by a central bank, with the exception of any credit facility or temporary liquidity as the CBAK is not an issuing bank. The currency permitted to be used in Kosovo is the euro.

5.1. Cash Operations and Management

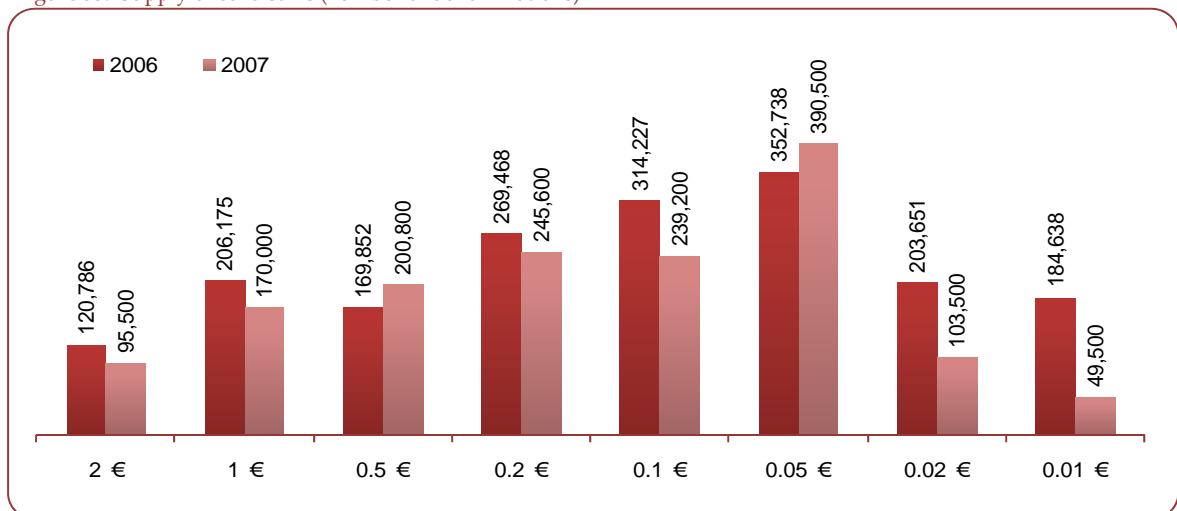
The CBAK is responsible to ensure an adequate supply of banknotes and coins for the settlement of cash transactions in the economy. As the euro is the principal currency permitted to be used in Kosovo, the CBAK’s responsibilities regarding cash operations and management relate to euro.

Figure 34: Supply of euro banknotes (number of denominations)



Source: CBAK (2008)

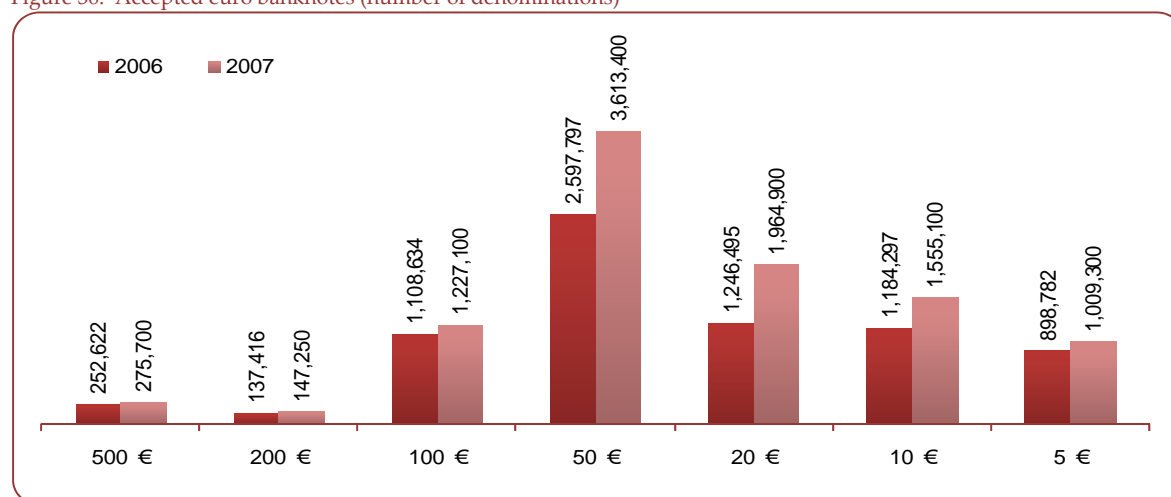
Figure 35: Supply of euro coins (number of denominations)



Source: CBAK (2008)

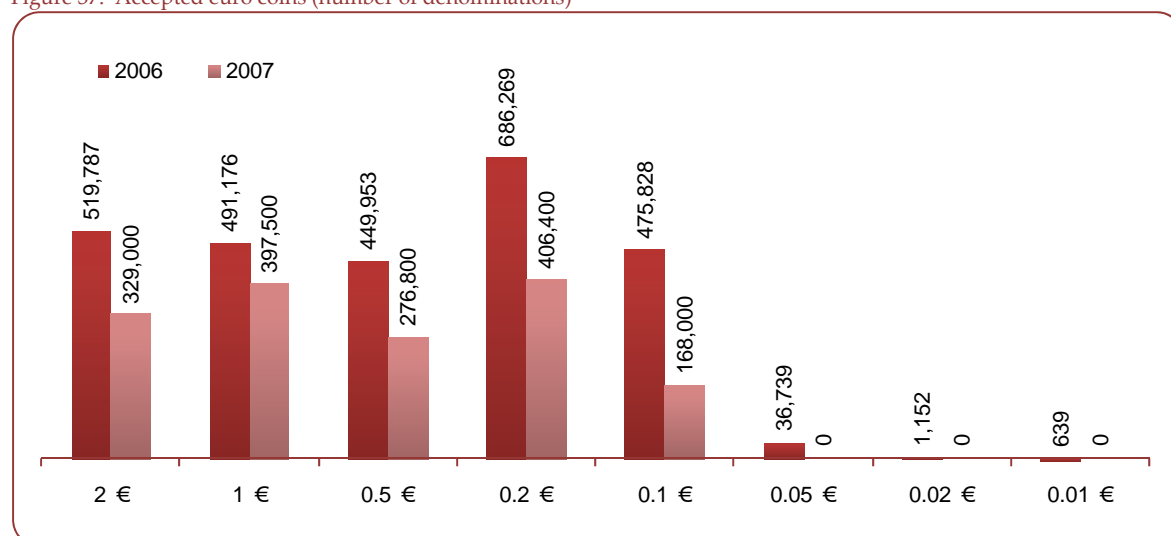
As it is shown in the figures above, during the course of 2007, the CBAK supplied commercial banks and other institutions with nearly 4.5 million pieces of euro banknotes amounting to nearly euro 160 million and 1.5 million pieces of euro coins amounting to nearly euro 0.55 million. In terms of total value, the cash supplied in 2007 increased by nearly 12 percent compared to 2006, while the structure of cash supply according to denominations varied noticeably year-on-year. While the supply of euro banknotes with denominations from 5 to 50 increased, the supply of those with larger denominations decreased. Then, while the supply of 0.5 and 0.05 euro coins increased, the supply of other euro coins with denominations 2, 1, 0.2, 0.1, 0.02 and 0.01 decreased. The decrease of the supply of 1 and 2 eurocent coins occurred although the CBAK promoted their use and made them available like previous years. The decrease of their supply reflects the decrease of need for them primarily caused by relative price rounding practices of retailers.

Figure 36: Accepted euro banknotes (number of denominations)



Source: CBAK (2008)

Figure 37: Accepted euro coins (number of denominations)

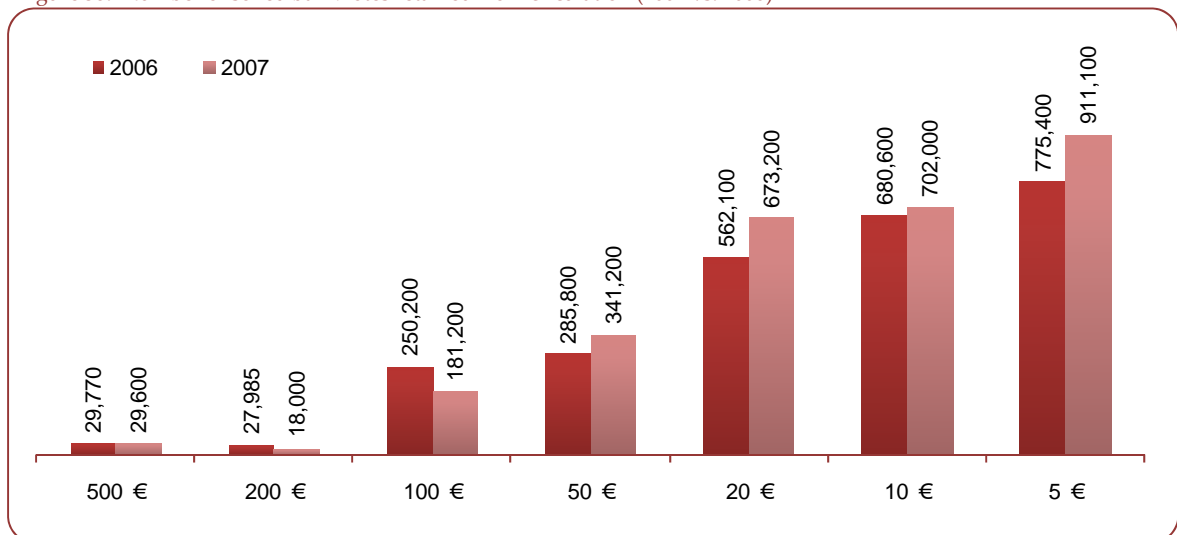


Source: CBAK (2008)

In 2007 the CBAK accepted nearly 9.8 million pieces of euro banknotes and more than 1.5 million pieces of euro coins as cash deposits by commercial banks and other institutions. Expressed in value, these deposits reached nearly euro 530.6 million and nearly euro 1.3 million, respectively. Similarly to the cash supplied, the total value of cash deposited shows an increase of 21.5 percent compared to the previous year.

Comparable to previous years, in 2007, the cash deposited was higher than the cash supplied. As a matter of fact, reaching around euro 371.7 million, the difference was considerably higher than in the previous two years when it was around euro 294.7 million and euro 249.8 million, respectively. As the CBAK keeps in vaults only the required level of cash by shipping to the euro area the excess, where it is transformed into interest-earning assets, the year-on-year increase of the cash deposited over cash supplied lead also to increase of the annual net cash shipment abroad. The 2007 net cash shipment abroad amounting to euro 318.9 million was higher than in 2006 and 2005, when it was euro 306.8 million and euro 237.5 million, respectively.

Figure 38: Number of soiled banknotes retained from circulation (2007 vs. 2006)

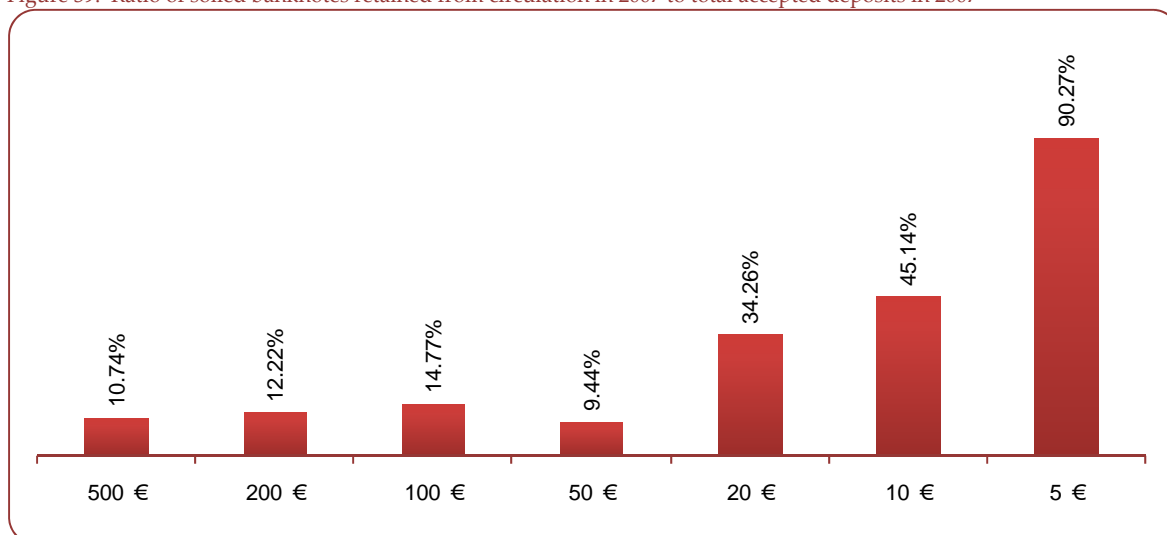


Source: CBAK (2008)

Cash operations in 2007 continued to be carried out according to standard rules and by means of modern processing equipment. The CBAK upgraded the pool of cash processing and related equipment with several items. Cash operations were further enhanced with the completion of relevant components of the CBAK security upgrade project. They include a new cash processing area and new retail and wholesale cash transaction areas.

During the year, nearly 2.8 million pieces of euro banknotes (29.2 percent of euro banknotes deposited) were classified as soiled and retained from circulation, and they were shipped to euro area central banks. Such a considerable volume of soiled euro banknotes retained contributed significantly to the improvement of the quality of cash in circulation.

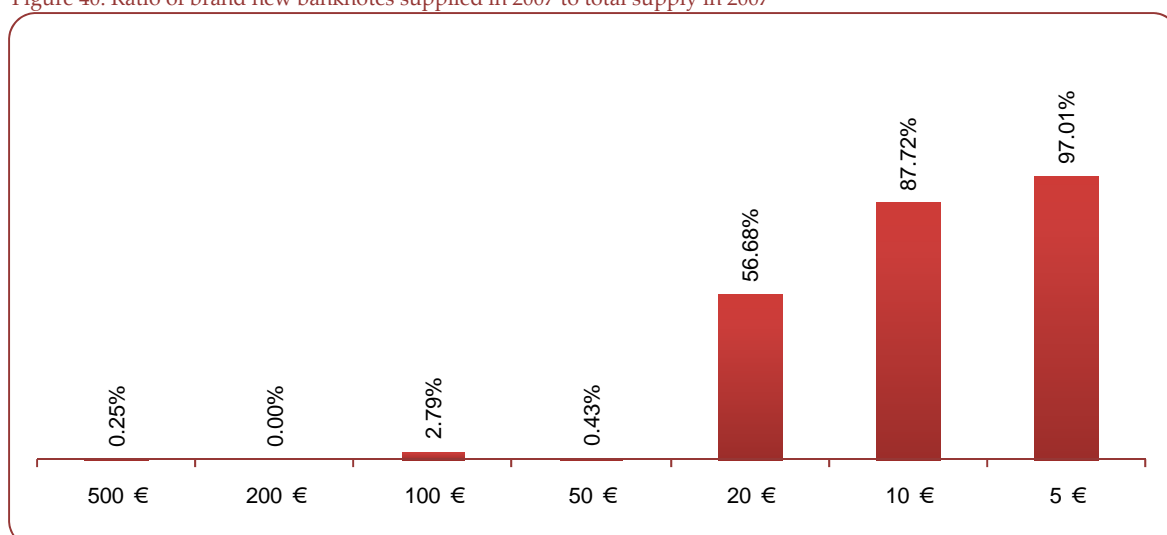
Figure 39: Ratio of soiled banknotes retained from circulation in 2007 to total accepted deposits in 2007



Source: CBAK (2008)

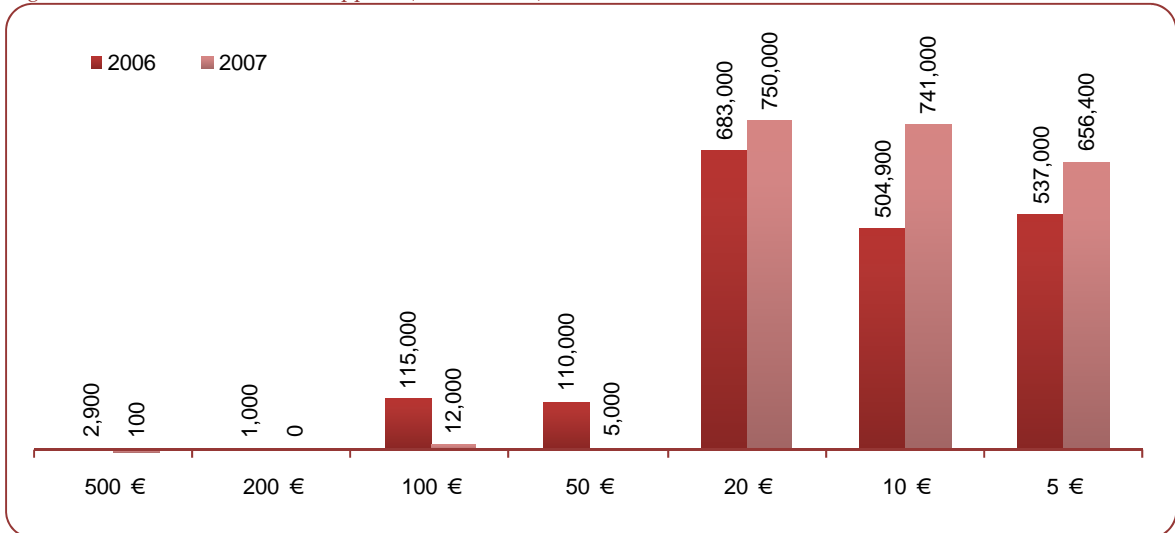
The quality of cash in circulation was also improved through supply of brand new euro banknotes, which were shipped from the euro area. During 2007, the CBAK supplied nearly 2.2 million pieces of brand new euro banknotes (48.4 percent of all pieces of euro banknotes supplied). Most of brand new banknotes supplied were low denomination banknotes, which were mainly supplied to commercial banks for the purpose of furnishing their ATMs. As a matter of fact, also all of used euro banknotes supplied were of the highest standard quality (ATM standard).

Figure 40: Ratio of brand new banknotes supplied in 2007 to total supply in 2007



Source: CBAK (2008)

Figure 41: Brand new banknotes supplied (2007 vs. 2006)



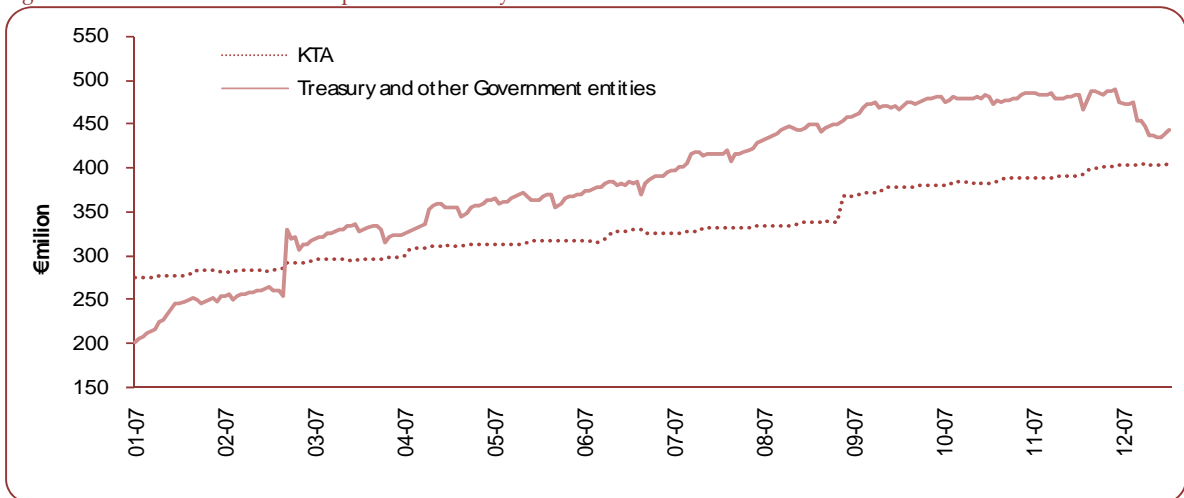
Source: CBAK (2008)

Regarding anti-counterfeit measures, the CBAK continued to analyze cases of counterfeit currency throughout 2007. In addition, it continued to cooperate with the authorities regarding the reporting of counterfeits and training on counterfeits.

5.2. Account Maintenance and Transactions

The function of the banker – or more appropriately of a financial services provider- for the Treasury and other Kosovo Government institutions, the Kosovo Trust Agency, public enterprises, financial institutions, institutions of the United Nations Interim Administration Mission in Kosovo, and international organizations was given to the CBAK based on the Regulation. In 2007, like in previous years, these services mainly consisted of account maintenance and payment transactions to the exclusion of any credit facility.

Figure 42: Movement of levels of deposits of Treasury and other Kosovo Government institutions and KTA



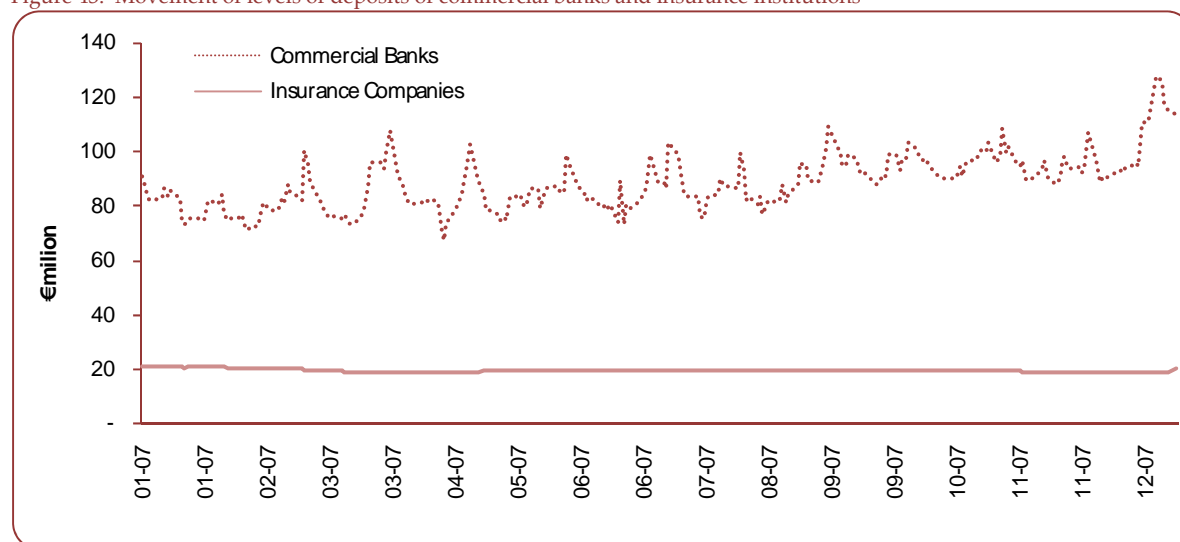
Source: CBAK (2008)

The Treasury and other Kosovo Government institutions deposits together with Kosovo Trust Agency deposits constituted the majority of the total deposits held in accounts with the CBAK in 2007 (83 percent). As of 31 December 2007, the Treasury and other Kosovo Government institutions deposits amounted to euro 445.3 million. During the year, Kosovo Trust Agency deposits increased as the privatization process moved forward, reaching euro 405.9 million at the end of the year. The development of deposits of the Treasury and other Kosovo Government institutions and the Kosovo Trust Agency held in accounts with the CBAK is presented in the figure above.

In addition, the majority of domestic payment transactions are conducted on behalf of and for the account of the Treasury. As for the international payment transactions of Treasury, in 2007, all of them started to be performed by the CBAK. Consequently, also the majority of international payment transactions executed by the CBAK concern the Treasury.

During 2007, the CBAK continued to support enhancement of Treasury and other entities transaction and reconciliation processes. In particular, international payment forms were customized for Treasury based on their requirements, and a special advanced telecommunication link for the purposes of account reporting was configured between the two institutions. Also, the access of the Treasury to the EICS was established, and it has started to be used by the Treasury for receiving government revenue payment details, but its use may be upgraded as needed in the future.

Figure 43: Movement of levels of deposits of commercial banks and insurance institutions



Source: CBAK (2008)

Among other accountholders, commercial banks and insurance institutions are the most significant in terms of levels of deposits held in accounts with the CBAK. On the other hand, they are only limited users of CBAK payment services. While all commercial banks generate themselves payment transactions, insurance institutions carry out most of their payments through commercial banks. Actually, all other accountholders use payment services provided by the CBAK in a limited manner as all of them maintain operating accounts with commercial banks.

Deposits of commercial banks and insurance institutions maintained with the CBAK mainly have to do with their regulatory requirements. They constituted 13 percent of the total deposits held in accounts with the CBAK in 2007. As of 31 December 2007, the deposits of commercial banks and insurance companies amounted to euro 133.5 million. During the year, deposits of commercial banks became more significant due to entering into the market of new commercial banks and increase of the level of the deposit base of most commercial banks. Deposits of insurance institutions remained relatively unchanged in the course of the year. The development of deposits of commercial banks and insurance institutions held in accounts with the CBAK is presented in the figure above.

5.3. Asset Management

The CBAK manages funds originating from deposits of the Treasury and other Kosovo Government institutions, the Kosovo Trust Agency, financial institutions, institutions of the United Nations Interim Administration Mission in Kosovo, international organizations, and public enterprises. Most of the funds relate to the Treasury (the government budget), the Kosovo Trust Agency (proceeds from the privatization process) and financial institutions (required reserves).

As at 31 December 2007, the total investment assets managed by the CBAK amounted to euro 990 million. In accordance with the Regulation, the Governing Board determines the investment policy to be followed by the management, and under its control, by the Asset Management Unit. Since the largest amount of the funds relates to public money that could be redeemed at a short notice, a special attention is paid to safety and liquidity as well as to a satisfactory return.

All investment operations are carried out with financial institutions which have top ratings from international rating agencies such as Moody's, Fitch and Standard & Poor's. Invested assets are placed in euro currency, either in bank term deposits (66 percent as of end of 2007) or in European Union government securities (34 percent) with a maturity of less than one year and a high investment grade. A limited amount is maintained in current accounts with counterparty banks for the purposes of performing international transactions. Exposures per counterparty and per country are limited and strictly observed. The compliance with the approved internal investment rules is followed on a daily basis by the Asset Management Unit, while all operations are booked daily by a segregated Back Office and reported to the Managing Director. Furthermore, analyses of counterparties as well as audits of the asset management functions are regularly carried out.

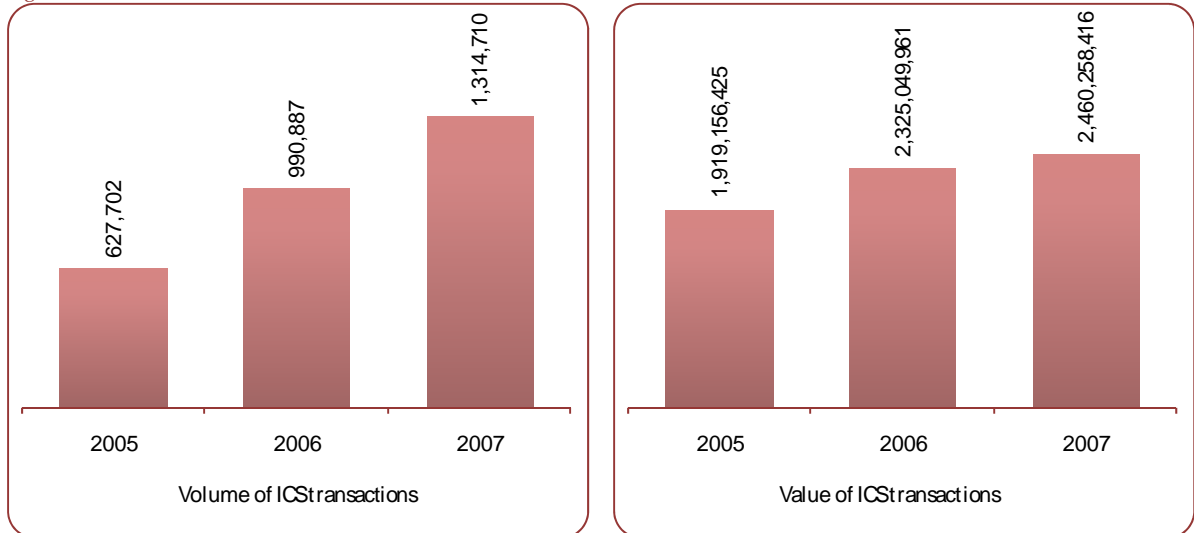
Deposits of CBAK accountholders are remunerated with reference to the European Central Bank (ECB) deposit facility rate, while on average the return on investments obtained by the CBAK is close to the ECB minimum bid rate. The CBAK earns a margin which contributes to its revenues.

5.4. Interbank Payment System

Since its establishment, the CBAK has actively engaged in developing an efficient and safe system for domestic payments. A major achievement was made in 2001 with the establishment of the Electronic Interbank Clearing System (EICS), which is designed to facilitate domestic payment operations through the banking system. The CBAK not only operates and oversees the EICS but also participates directly in its operations along with all commercial banks.

The volume and the value of transactions routed through the EICS have been steadily increasing, reflecting the relative increase of non-cash payments and the growth of confidence in the domestic banking system. Meanwhile, the EICS has undergone continuous technological development as the means of transactions have been streamlined and enriched.

Figure 44: Annual volume and value of EICS transactions

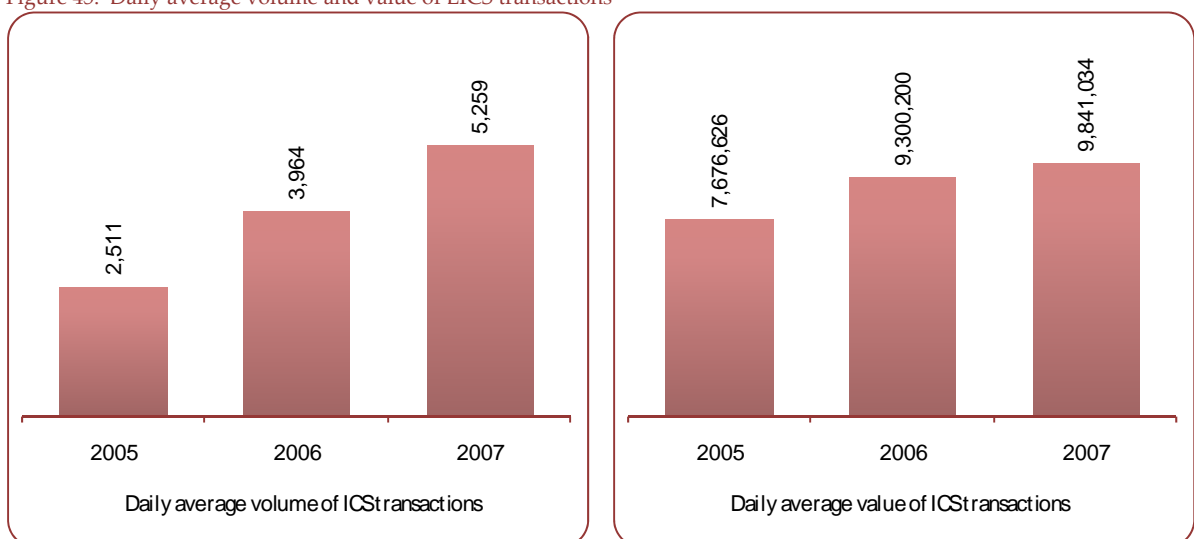


Source: CBAK (2008)

Like previous years, in 2007, the year-on-year increase of both volume and value of EICS transactions was significant. During 2007, around 1.3 million transactions with a total value of nearly euro 2.5 billion were channeled through the EICS. Compared to the EICS transactions in the previous year, the volume of transactions increased 33 percent, and the value of transactions increased 6 percent.

The significant growth of the EICS transactions can also be seen from the daily average data. The daily value of EICS transactions in 2007 was around euro 9.9 million, compared to around euro 9.3 million in 2006. Then, the daily volume of EICS transactions in 2007 was around 5.3 thousand, compared to around 4.0 thousand in 2006.

Figure 45: Daily average volume and value of EICS transactions

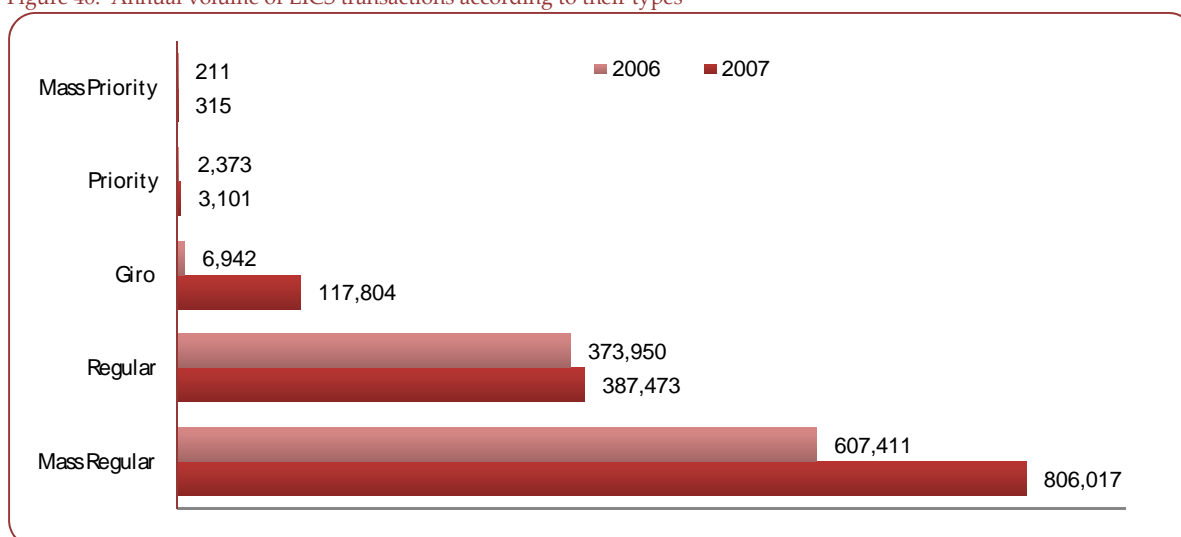


Source: CBAK (2008)

There are five distinct types of EICS transactions: 1) priority – mass, 2) priority – individual, 3) Kosgiro, 4) regular – individual, and 5) regular - mass. Their volume and value comparative levels for 2007 and 2006 are provided in the figures below.

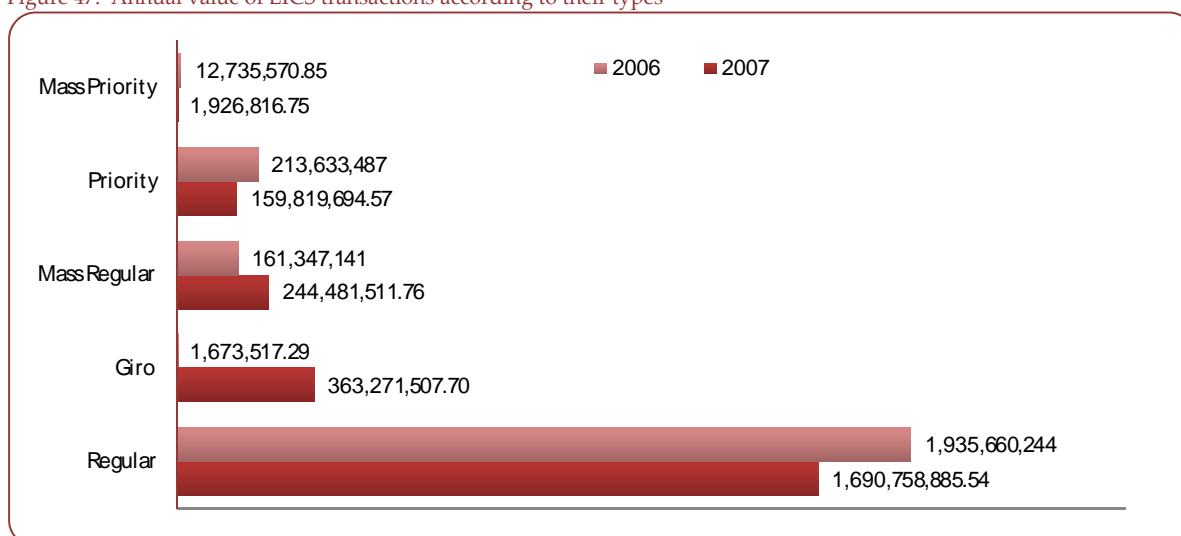
Regular transactions constitute around 90 percent of EICS transactions, and they are channeled through EICS as either individual (one-to-one) transactions or mass (one-to-many or many-to-one) transactions. They are cleared through regular clearing sessions and settled on a net basis. It has to be mentioned that in 2007, the third daily clearing session was introduced due to the increase of the volume of regular transactions.

Figure 46: Annual volume of EICS transactions according to their types



Source: CBAK (2008)

Figure 47: Annual value of EICS transactions according to their types



Source: CBAK (2008)

Kos-giro transactions represent a distinct type of regular transactions that are also cleared through clearing sessions and settled on a net basis. They are channeled through EICS as mass (many-to-one) transactions. Whereas the individual regular transactions are designed for payments in general and mass regular payments are designed for payments and collections of various entities, the Kos-giro transactions are designed for standardized and automated collections of large billing institutions. The scheme for Kos-giro transactions was introduced two years earlier and had a major development in 2007. A significant increase of Kos-giro transactions in terms of both volume and value, as it is shown above, is due to joining of the Customs Service to the scheme in 2007. The Interbank Payments Systems Department has continued to promote further use of Kos-giro scheme, and improvements have been made regarding Kos-giro transactions of KEK. Also preparations have been made for insurance sector institutions joining the scheme.

Priority transactions are cleared and settled immediately on a gross basis. Similar to regular transactions, priority transactions can be channeled through EICS as either individual or mass transactions. They still represent a small fraction of overall EICS transactions. In 2007, their volume increased significantly in relative terms, but their value fell considerably. Apparently, this development relates to the introduction of the third daily clearing session in 2007 (following the introduction of the second one in 2006) that has enabled execution of regular transactions few times during the day and made the use of the priority types of EICS transactions mainly for unanticipated or very urgent payments of the public.

The five distinct types of EICS transactions can be grouped into two categories depending on whether they are settled on a net or gross basis as described above. Transactions settled on a net basis continue to dominate over transactions settled on a gross basis. In terms of volume, transactions settled on a gross basis, despite their annual increase in 2007, continue to represent less than one percent of EICS transactions. In terms of value, transactions settled on a gross basis decreased significantly in 2007 but continue to represent more than five percent of EICS transactions.

As a direct participant in the EICS, the CBAK takes part in the channeling of domestic payment orders on behalf of and for the account of its accountholders. During 2007, the CBAK sent through EICS over 130 thousand outgoing payment orders, and it received 90 thousand incoming payment orders. Expressed in value, the amount of outgoing payment orders in 2007 was nearly euro 0.7 billion, and the amount of incoming payment orders was over euro 1.0 billion. The CBAK remained in terms of both value and volume of transactions the largest participant in the EICS.

5.5. Credit Registry

Providing to the credit community, namely credit providing institutions and credit subjects, required individual credit information through the Credit Registry of Kosovo (CRK) system is one important service of the CBAK. The CRK had been introduced only a year earlier, and it was being enhanced further in 2007. The CRK is designed as a web-based application and is accessible online and in real time by credit providing institutions. In the CRK, credit providing institutions enter and update data on their granted credits, and they may obtain from the CRK a summary report on level and status of credits related to their individual borrowers or credit applicants. The CRK is designed also that through CBAK each interested person (existing or potential borrower) could obtain own credit details. Then, it also serves for the supervisory purposes of the Bank Supervision Directorate.

The CRK provides an important tool for functioning of the credit market. It enables better assessment of creditworthiness and risks of the borrower / credit applicant and, as a result, it greatly facilitates the credit granting process.

During 2007, the CRK was improved in functionality and its role was promoted further. The newly established Credit Registry Unit operated the system and managed relations with credit providing institutions, credit subjects, and the Bank Supervision Directorate. Apart from managing the system, this unit also coordinated its further development and monitored technical compliance of credit providing institutions. The role of the credit registry was promoted actively among credit providing institutions as well as the public.

5.6. Economic Analysis and Statistics Activities

Since the first quarter of 2007, the Research and Statistics Department has been reorganized and renamed to Directorate for Economic Analysis and Statistics (DEAS). DEAS employs 12 people and consists of two departments: Economic Analysis Department (EAD) and Statistics Department (SD). EAD consists of Financial Sector Analysis Unit, and Publication and Library, while SD is composed of Monetary and Financial Statistics Unit, and External Sector Statistics Unit.

During the year 2007, three existing statistical projects (International Transactions Reporting System, Statistical Bank Report, and Interest Rate Report) has been upgraded with the aim of following the changes in the financial sector as well as international standards for compilation of financial and external sector statistics. New version of International Transactions Reporting System was implemented at the end of 2007, while new versions of Statistical Bank Report and Interest Rate Report are implemented since January 2008.

In terms of publications, for the second time DEAS produced yearly Kosovo Balance of Payments (BOP) statistics covering the period 2004-2006 fully consistent with the international standards. The BOP statistics are published in the CBAK Bulletin no.5. Apart from BOP statistics, the CBAK Bulletin no.5 includes also two studies initiated in 2006, namely "Privatization in Kosovo" and "Costs of Intermediation in the Kosovo Banking Sector".

During the course of 2007, DEAS prepared CBAK Bulletin no.6 covering the data as of June 2007, stressing the main activities and trends within the Kosovo financial sector. DEAS is in process of transforming the Monthly Statistics Bulletin into Economic Bulletin, as it is one of the objectives of the DEAS for the year 2008.

6. Internal Developments

6. Internal Developments

6.1. Physical Security Upgrade Project

The project on the physical security upgrade of the CBAK premises, which had been started in 2006, was completed in 2007. The main objective of this project was to enhance the safety and security of CBAK staff and property in carrying out day-to-day activities, especially cash operations. Although the main focus was on cash operations, the project addressed also different administrative aspects of CBAK building and grounds. Specially designated sections and systems were built or upgraded according to high technological security standards. In particular, a comprehensive access control system was put in place and restricted areas were provided with electronic and biometric access controls, a new system of monitoring cameras for the entire building and grounds was configured, and an intruder alarm system and a fire alarm system were set up.

In addition, complete IT, telecommunication, and power internal networks were put up. Then, internal office space was rearranged to better suit the performance of operations and the administration. Outside sections of the building were refurbished as well.

The entire security upgrade project was implemented without any discontinuation of CBAK's activities. As of the end of 2007, all relevant components of the project were up and running. The project has enhanced not only the performance of CBAK operations, but it has also positively affected related logistics activities of institutions provided with CBAK services.

6.2. Governance and Internal Control

General governance structure

The Governing Board formulates policies for the operations of the CBAK and supervises their implementation. The management reports to the Governing Board on the conduct of operations and policies as well as relevant economic conditions in Kosovo.

The Governing Board of the CBAK is composed of five members appointed by the Special Representative of the Secretary General: the Chairperson, who is a non-executive director, the Managing Director, as the only executive director, and three other non-executive directors. The Chairperson and another non-executive director were appointed in 2007.

The management of the CBAK is composed of the Managing Director and the two Deputy Managing Directors, who are proposed by the Managing Director and appointed by the Governing Board. Both Deputy Managing Directors were appointed in 2007.

Office of the Inspector General

The Inspector General is appointed by the Managing Director with the approval of the Governing Board, and he or she could be removed from office only by a decision of the Special Representative of the Secretary General. The present Inspector General was appointed in February 2007. The duties and responsibilities of the Inspector General include:

- Evaluating the quality of existing and proposed management and financial control systems;
- Assessing the operation of those systems and the reliability and integrity of information and transactions generated;
- Assessing the adequacy of controls for safeguarding the assets of the CBAK and, when appropriate, verifying the existence of assets;
- Assessing compliance with laws, regulations, administrative directions, rules, orders and policies governing the operations of the CBAK;
- Conducting reviews of the effective and efficient use of the resources of the CBAK and making appropriate recommendations to management; and
- Performing special reviews when requested by management and liaising with auditors of the CBAK.

The Inspector General provides a summary of his findings and suggestions in reports presented every six months to the Audit Committee / Governing Board. The Inspector General, in addition to this, reports to the Audit Committee / Governing Board at any time whenever he or she considers it necessary.

The Office of the Inspector General comprises internal audit and budget control (operations analysis and cost accounting).

Internal audit

Internal Audit in 2007 worked according to the annual plan approved by the Governing Board and based on a risk approach. Based on the risk assessment and taking into consideration potential losses, the audits were performed on monthly, quarterly, semiannually and annually bases. The following were defined as the riskiest areas:

- foreign investments
- cash operations
- interbank clearing system
- IT operations

In addition to periodical audits, several ad hoc audits were performed as requested by the Inspector General and the management.

The aim of Internal Audit is to examine, evaluate and report on the adequacy of systems of internal controls by making suggestions and recommendations for improvements. Based on the examination and the evaluation of the internal control system, the testing of transactions, and the verifying of the compliance with laws, rules and regulations in force, the Internal Audit prepares

written reports, which include management responses on findings and recommendations. The internal audit reports after clearance by the Inspector General are submitted to the Managing Director. In order to follow up the implementation of recommendations, the Internal Audit is updating the follow-up tabulated form report with all relevant information. Such reports are used as tools of transparency and communication to convey to the Governing Board the status of the implementation of recommendations.

It has to be mentioned that during the year 2007, the Internal Audit checked the cash re-counting process for cash shipments to abroad in order to enhance controls in cash operations. Then, it successfully conducted the audit of the ITS department related to the off-site back-up system, giving significant recommendations for its improvement. In addition, the Internal Audit examined on a weekly basis investment operations in securities and time deposits.

Budget control

Budget Control ensures the conformity of expenditures with the budgetary lines approved by the Governing Board; it also gives a special focus on the compliance of procurement and finance processes and documentation of expenses. In 2007, it developed a detailed cost accounting system.

In controlling of 2007 budget implementation, duties were performed in a manner so that the most rational and effective usage of available resources was made in accordance with the approved budget by the Governing Board. The duties were also performed according to CBAK policies, instructions and procedures. The control of budget implementation in 2007 closely followed the objectives of the CBAK Business Plan 2007-2009. Operational analysis reports were prepared for each month outlining budget performance and highlighting significant budget developments.

Monitoring of procurement and related finance processes was performed through participation in meetings of the procurement committee as well as verification and supervision of operating and capital expenditures compared to approved budget lines. Regarding CBAK incomes there is a qualitative approach in control/verification and supervision of incomes, especially incomes that are realized from the interest in term deposit placements with foreign banks and in treasury bills. In relation to this, client deposits with the CBAK are closely monitored and analyzed.

Cost Accounting System Project

As planned, in 2007 the practical improvement and development of the cost accounting system in coordination with the Inspector General was achieved. In this regard, through the enhanced cost accounting system, the expenses reflect the actual usage of resources, the strict control of expenses is observed, and the rational decision making is facilitated.

The costs are assigned among four major areas under the direct authority of the Managing Director, the Deputy Managing Director for Financial Institution Supervision, the Deputy Managing Director for Central Banking Operations, and the Inspector General, respectively. Subsequently, each unit, department and directorate has its own cost records. The system is comprehensive and takes fully into account both direct and indirect costs.

In the course of implementation of the final phase of the project, the main priorities in the development of the cost accounting system are:

- Implementation of the cost accounting system through the core banking system – expected to be realized during the following period, and
- Distribution of direct and indirect expenses according to main activities – the final phase of the project.

6.3. Human Resources Development

Human resources development is managed based on provisions of the CBAK Staff Training and Development Policy and in accordance with comprehensive long-term training plans. The training needs and professional development of staff is continually assessed with the overall aim of building a high quality organization that is cost effective and, through provision of tailor-made training at every level of work experience, efficient.

In addition to a structured and supervised on-the-job training, the CBAK organized in-house trainings on various topics for groups of employees in similar positions. For more specialized or individual training needs, CBAK employees attended seminars at other institutions, both within and outside of Kosovo. Also, the CBAK continued to sponsor employees' relevant academic programs.

Apart from a number of in-house training events, during the year 2007, more than 42% of all CBAK staff participated in relevant courses organized by international institutions (IMF - Joint Vienna Institute, European Central Bank, Deutsche Bundesbank, Banque de France, Austrian National Bank, The Federal Reserve Bank of New York, Bank of Japan etc.) and institutions in Kosovo (Kosovo Bankers Association, Society of Certified Accountants and Auditors of Kosovo, etc.). In addition, a special one-year professional development program and a three-month executive leadership program sponsored by the USAID have been attended by managerial staff of the CBAK. Last but not least, several staff have pursued their job-related university studies with support of the CBAK.

During 2007, the average number of CBAK employees stood at 140, which is for one employee less compared to 2006. In terms of the demographic structure, 46 percent were female and 4 percent were minorities, whereas in terms of qualifications around 61 percent of the employees held university degrees (16 percent of them held master degree).

6.4. Reorganization of the CBAK

In order to respond accurately to changing and new operations and to take into consideration best international practices, the CBAK adjusted its organization structure in 2007. The primary objective was to further promote CBAK's development by strengthening its capacity to deliver its strategic agenda through a carefully designed efficiency-focused organizational structure. The new organization structure was designed to better suit CBAK's activities, and it was implemented in ways that maximize results of its operations and administration and maintain its institutional sustainability.

Specifically, aimed to facilitate and support coordinating and overseeing processes of its senior managerial staff and to upgrade outcomes with respect to central banking operations and financial institution supervision, the positions of the Chief Operations Officer and the Chief Supervision Officer were reintroduced. In addition, in the course of the year, within the central banking operations area, an organizational unit to be in charge of CRK system was set up, and the organizational unit responsible for accounting operations and back office was incorporated in the newly established Financial Planning and Reporting Department, which is also responsible for financial statement preparation and budgeting.

Regarding CBAK Kosovarisation process in 2007, it is to be mentioned that only one international person continued to carry out executive functions (the Managing Director), while two other expatriate experts held the following positions: the Adviser for Financial Institution Supervision and the Personal Assistant to the Managing Director.

6.5. Regional and International Cooperation

Regional and international cooperation is a very important component of the CBAK activities and intensive efforts have been made in 2007 in order to enhance and foster relationships with other central banks, supervisory authorities and international financial institutions. Indeed, on the side of the CBAK there is a clear will to promote and adopt the best standards in terms of international practices, to discover and implement new methodologies of work, to gain from experiences in the region and to exchange views and information on a regular basis. This cooperation can also be materialized by technical assistance and an extension of the existing network of contacts. Consequently, several examples of cooperation can be highlighted for the year 2007. Among many visits and initiatives, we can point out a study visit to the Financial Supervisory Authority of Croatia, a working visit to the Inspector General of the Central Bank of Macedonia, study visit to the banking operations department of the Central Bank of Bosnia & Herzegovina, a workshop in Vienna (Austria) concerning the institutional challenges on the road to the European Union, participations to the annual conferences of the Bank of Albania, the Financial Market Authority of Austria, Central bank of the Republic of Turkey, the annual conference of the European Insurance Supervisory Services that took place in Sofia (Bulgaria), etc.

6.5.1. International agreements

On the course of 2007, the CBAK continued its efforts to sign MoUs with home supervisors of foreign financial institutions operating in Kosovo. It should be noted that such MoUs are requested in order to comply with the EU *acquis communautaire* which, in this field allow the CBAK and foreign supervisors to exchange confidential and sensitive information on a legal basis. Many efforts are undertaken in that regard and the CBAK is expecting 3 MoUs to be signed in a near future: a. with the Turkish supervisory authorities (pending on Turkish Government's clearance); b. Austrian supervisory authorities (prior, an amendment of the CBAK Regulation will be required more especially regarding the section on "professional secrecy" – the work is on going), and; c. German supervisory authorities (the negotiations are at their early stages). Also, during the first half of 2007, several MoUs were signed in the field of Internal Audit, most notably with the National Bank of Macedonia, the Bank of Albania, and the Bank of Slovenia.

6.5.2. Memberships in international associations and organizations

CBAK has continued in its efforts to ensure Kosovo's membership in various international mechanisms and associations. For example, in February 2007, CBAK became a full member of the Institute of Internal Auditors (US).

7. Financial Statements of the Central Banking Authority of Kosovo

Central Banking Authority of Kosovo

Financial statements

as at and for the year ended 31 December 2007

(with independent auditor's report thereon)

Central Banking Authority of Kosovo

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KPMG Albania Sh.p.k. - Kosovo
Sulejman Vokshi, No. 14
Pristina, Kosovo

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E-mail office@kpmg.al

Independent Auditors' Report

To the Governing Board of the Central Banking Authority of Kosovo:

We have audited the accompanying financial statements of the Central Banking Authority of Kosovo ("the CBAK"), which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the CBAK as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 4 (f) to the financial statements which states that according to the UNMIK Regulation No 2006/47 the capital and the General reserve accounts of the CBAK shall be at least equivalent to five percent of the aggregate amount of the credit balances of all accounts maintained on the books of the CBAK by account holders shown on the balance sheet for the end of each financial year. As at 31 December 2007 and 2006 this requirement was not satisfied.

KPMG Albania Sh.p.k. - Kosovo Branch

A handwritten signature in blue ink that reads 'KPMG Albania'.

21 April 2008
Pristina, Kosovo

Central Banking Authority of Kosovo

Balance sheet

As at 31 December

<i>In thousands of euro</i>	Note	2007	2006
Assets			
Cash on hand	7	63,817	11,136
Current accounts with non resident banks	8	1,946	22,480
Treasury bills	9	229,277	203,398
Deposit accounts with non resident banks	10	762,579	404,025
Property and equipment	11	2,108	1,262
Intangible assets	12	122	144
Other assets	13	295	177
Total assets		1,060,144	642,622
Liabilities			
Due to domestic banks	14	113,554	94,477
Due to local governmental institutions	15	856,730	475,821
Due to public and commercial entities	16	48,381	45,076
Other domestic liabilities	17	7,743	2,658
Total liabilities		1,026,408	618,032
Capital and reserve			
Statutory fund	18	20,000	10,000
Reserve fund	19	13,736	14,590
Total capital and reserve		33,736	24,590
Total liabilities, capital and reserves		1,060,144	642,622

The notes on pages 5 to 41 are an integral part of these financial statements.

These financial statements set out on pages 1 to 41 were approved by the Management of the CBAK on 21 April 2008 and signed on its behalf by:


Hashim Rexhepi

Managing Director




Gani Gerguri

Deputy Managing Director

Central Banking Authority of Kosovo

Income statement

For the year ended 31 December

<i>In thousands of euro</i>	Note	2007	2006
Interest income		34,275	15,187
Interest expense		(24,371)	(8,731)
Net interest income	20	<u>9,904</u>	<u>6,456</u>
Fee and commission income		743	744
Fee and commission expense		(226)	(250)
Net fee and commission income	21	<u>517</u>	<u>494</u>
Grant revenue	22	453	317
Other operating income	23	956	792
Operating income		<u>11,830</u>	<u>8,059</u>
Personnel expenses	24	(1,412)	(1,254)
Depreciation and amortisation	11,12	(449)	(282)
General and administrative expenses	25	(823)	(870)
Operating expenses		<u>(2,684)</u>	<u>(2,406)</u>
Profit for the period		<u>9,146</u>	<u>5,653</u>

The notes on pages 5 to 41 are an integral part of these financial statements.

Central Banking Authority of Kosovo

Statement of changes in equity for the year ended 31 December

<i>In thousands of euro</i>	Statutory fund	Reserve fund	Retained Earnings	Total
Balance at 1 January 2006	10,000	9,722	-	19,722
Profit for the period	-	-	5,653	5,653
Total recognized income and expense	-	-	5,653	5,653
Payments to the Ministry of Finance and Economy	-	(785)	-	(785)
Transfer to reserve fund	-	5,653	(5,653)	-
Balance at 31 December 2006	10,000	14,590	-	24,590
Balance at 1 January 2007	10,000	14,590	-	24,590
Profit for the period	-	-	9,146	9,146
Total recognized income and expense	-	-	9,146	9,146
Transfer to statutory fund	10,000	(10,000)	-	-
Balance at 31 December 2007	20,000	4,590	9,146	33,736

The notes on pages 5 to 41 are an integral part of these financial statements.

Central Banking Authority of Kosovo

Statement of cash flows

For the year ended 31 December

<i>In thousands of euro</i>	Note	2007	2006
Cash flows from operating activities			
Profit for the period		9,146	5,653
<i>Adjustments for:</i>			
Depreciation	11	353	137
Amortization	12	94	145
Grant revenue for the year	22	(252)	(124)
Gain on sale of equipment		(4)	(9)
Interest income	20	(34,275)	(15,187)
Interest expense	20	24,371	8,731
		(567)	(654)
Change in treasury bills		(117,269)	(57,178)
Change in deposit accounts with non resident banks		(182,467)	(24,254)
Change in other assets		(118)	200
Change in due to domestic banks		19,077	11,959
Change in due to local governmental institutions		380,909	245,930
Change in due to public and commercial entities		3,305	(19,050)
Change in other domestic liabilities		5,337	(5)
		<u>108,207</u>	<u>156,948</u>
Interest received		29,912	13,875
Interest paid		(24,371)	(8,731)
Net cash from operating activities		113,748	162,092
Cash flows from investing activities			
Proceeds from sale of equipments		4	9
Purchase of equipment	11	(1,199)	(1,070)
Purchase of intangible assets	12	(72)	(124)
Net cash used in investing activities		(1,267)	(1,185)
Cash flows from financing activities			
Payments to Ministry of Finance and Economy	19	-	(785)
Proceeds from grants	17	-	42
Net cash from financing activities		-	(743)
Net (decrease)/increase in cash and cash equivalents		112,481	160,164
Cash and cash equivalents at 1 January		508,998	348,834
Cash and cash equivalents at 31 December	26	621,479	508,998

The notes on pages 5 to 41 are an integral part of these financial statements

Central Banking Authority of Kosovo

Notes to the financial statements

(In thousands of euro, unless otherwise stated)

1. Reporting entity

The Central Banking Authority of Kosovo (the "CBAK"), a successor to the Banking and Payments Authority of Kosovo (BPK) is a distinct public entity with the authority to license, supervise and regulate financial institutions in the territory of Kosovo. The CBAK was established in accordance with the provisions of the United Nations Interim Administration Mission in Kosovo ("UNMIK") Regulation no. 1999/20 issued on November 15, 1999 (as amended on October 1, 2001, by regulation 2001/24) "On the Banking and Payments Authority of Kosovo". Furthermore, on August 24, 2006 Special Representative of the Secretary General has signed a new Regulation on Central Banking Authority of Kosovo and transformed the Banking and Payments Authority of Kosovo into Central Banking Authority of Kosovo (Regulation 2006/47). Under this Regulation the CBAK's principal objectives are to:

- Foster the soundness, solvency and efficient functioning of a stable market based financial system, encouraging market emergence of safe financial instruments; and
- Support the general economic policies in Kosovo with a view to contributing to an efficient allocation of resources in accordance with the principles of an open market economy.

The CBAK has, among others, the following specific powers to:

- Recommend broad policy guidelines to the Special Representative of the Secretary-General of the United Nations and Provisional Institutions of Self Government in areas under its responsibility;
- Formulate and implement measures for, and oversee and regulate, payments and settlement systems for transactions in domestic and foreign currency in Kosovo;
- Own and operate one or more payments systems;
- Act as banker and fiscal agent to the Ministry of Finance and Economy and, to provide financial advice at its request;
- Hold foreign currency deposits of banks, Ministry of Finance and Economy and other public entities;
- Ensure an adequate supply of bank notes and coins for the settlement of cash transactions;
- License, supervise and regulate financial institutions; and
- Conduct regular economic and monetary analysis of the Kosovo economy, make public the results, and submit proposals and measures to the United Nations Interim Administration Mission in Kosovo and the Provisional Institutions of Self Government on the basis of such analysis.

The CBAK operates from the premises located in Pristina.

The address of the registered office of the CBAK is as follows:

33, Garibaldi Street,
Pristina,
Kosovo.

Central Banking Authority of Kosovo

Notes to the financial statements

(In thousands of euro, unless otherwise stated)

1. Reporting entity (continued)

Governing Board

The Governing Board determines policies for the operations of the CBAK and supervises their implementation. Under UNMIK regulations, the Board is composed of five members appointed the Special Representative of the Secretary General.

As at 31 December 2007 the Governing Board of CBAK comprised of the following members:

- Mr Gazmend Luboteni, Chairperson of Governing Board, Non-executive Director
- Mr Michel Svetchine, Managing Director of CBAK
- Ms Chiara Bronchi, Non-executive Director
- Mr Lulzim Ismajli, Non-executive Director
- Mr. Isa Mustafa, Non-executive Director

2. Basis of preparation

(a) Statement of compliance

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

During the period CBAK adopted IFRS 7 *Financial Instruments: Disclosures* and IAS 1 *Presentation of Financial Statements - Capital Disclosures*, which increased the level of disclosure in respect of financial instruments and capital, but had no impact on the reported profits or financial position of the CBAK. In accordance with the transitional requirements of the standards, the CBAK has provided full comparative information.

(b) Basis of measurement

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

(c) Functional and presentation currency

These financial statements are presented in euro ("EUR"), which is the CBAK's functional currency. Except as indicated, financial information presented in euro has been rounded to the nearest thousand.

(d) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Central Banking Authority of Kosovo

Notes to the financial statements

(In thousands of euro, unless otherwise stated)

2. Basis of preparation (continued)

(d) Use of estimates and judgments (continued)

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in note 5.

3. Significant accounting policies

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

(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 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.

The CBAK deals predominantly in EUR, while the foreign currencies the CBAK deals with are predominantly United States Dollars (USD). The exchange rates used for translation at 31 December 2007 and 2006 were as follows:

	2007	2006
	EUR	EUR
1 USD	0.679	0.759

(b) Interest

Interest income and expense are recognised in the income statement 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 income statement include:

- interest on financial assets and liabilities at amortised cost on an effective interest rate basis.

Central Banking Authority of Kosovo

Notes to the financial statements

(In thousands of euro, 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 of transaction fees for operating accounts, fund transfers and licensing fees are recognized as the related services are performed.

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

(d) Employee benefits

(i) Defined contribution plans

The CBAK makes compulsory social security contributions that provide pension benefits for employees upon retirement. The local authorities are responsible for providing the legally set minimum threshold for pensions in Kosovo under a defined contribution pension plan. The CBAK's contributions to the benefit pension plan are charged to the income statement as incurred.

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

(ii) Short-term benefits

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

(e) Taxation and profit allocation

The CBAK is exempt from income tax according to the UNMIK Regulation 1999/20 issued on 15 November 1999 (as amended on 1 October 2001) "On the Banking and Payments Authority of Kosovo" replaced with the new UNMIK Regulation 2006/47 issued on 24 August 2006 "On Central Banking Authority of Kosovo" and is required by law to pay any balance of its net income directly to the Ministry of Finance and Economy after allocation to replenish the levels of reserve funds.

(f) Financial assets and liabilities

(i) Recognition

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

Central Banking Authority of Kosovo

Notes to the financial statements

(In thousands of euro, unless otherwise stated)

3. Significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

(ii) Derecognition

The CBAK 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 the CBAK is recognized as a separate asset or liability.

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

(iii) Offsetting

Financial assets and liabilities are set off and the net amount is presented in the balance sheet when, and only when, the CBAK 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

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

(vi) Identification and measurement of impairment

At each balance sheet date the CBAK 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.

Central Banking Authority of Kosovo

Notes to the financial statements

(In thousands of euro, unless otherwise stated)

3. Significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

(vi) Identification and measurement of impairment (continued)

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a placement or advance by the CBAK on terms that the CBAK 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 the CBAK, or economic conditions that correlate with defaults in the Bank.

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

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

(vii) Designation at fair value through profit or loss

The CBAK has designated financial assets and liabilities at fair value through profit or loss when either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

CBAK has no financial assets designated at fair value through profit or loss as at 31 December 2007 and 31 December 2006.

(g) Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost in the balance sheet.

(h) Investment securities

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

Central Banking Authority of Kosovo

Notes to the financial statements

(In thousands of euro, unless otherwise stated)

3. Significant accounting policies (continued)

(h) Investment securities (continued)

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the CBAK has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale. 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 the CBAK from classifying investment securities as held-to-maturity for the current and the following two financial years.

(i) Property and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

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

(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:

	2007	2006
• Vehicles	5 years	5 years
• Office and other equipment	5 years	5 years
• Computer equipment	3 years	3 years
• Leasehold improvement	20 years	-

Central Banking Authority of Kosovo

Notes to the financial statements

(In thousands of euro, unless otherwise stated)

3. Significant accounting policies (continued)

(i) Property and equipment (continued)

(iii) Depreciation (continued)

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

(j) Intangible assets

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

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

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful life of software is three years (2005: 3 years).

(k) Impairment of non-financial assets

The carrying amounts of the CBAK'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) Deposits and other financial liabilities

Deposits are the CBAK's sources of funding. They are initially measured at fair value plus transaction costs, and subsequently measured at their amortized cost using the effective interest method, except where the CBAK chooses to carry the liabilities at fair value through profit or loss.

Central Banking Authority of Kosovo

Notes to the financial statements

(In thousands of euro, unless otherwise stated)

3. Significant accounting policies (continued)

(m) Grant revenue

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the CBAK 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 the CBAK 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 members of the management of the CBAK are international experts appointed by international organisations who provide financial support to the CBAK. In addition these international organisations also appoint short term experts and consultants as the need arises. The financial support of these international organisations includes but it is not limited to the payment of the salaries to these management and consultant appointments. As this assistance is paid by international directly to the appointee the extent of the payments are not known nor are they included in these financial statements.

(o) Fiduciary activities

In certain specific instances the CBAK acts as fiscal agent and paying agent of the Ministry of Finance and Economy. Assets and income arising from these activities are excluded from these financial assets where the CBAK acts in fiduciary capacity such as nominee or agent.

(p) Provisions

A provision is recognised if, as a result of a past event, the CBAK 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 the CBAK 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, the CBAK recognises any impairment loss on the assets associated with that contract.

(q) Reserve fund

In accordance with UNMIK Regulation No 2006/47 (which superseded UNMIK Regulation 2001/24) each year the CBAK shall allocate net income to the general reserve fund until the capital and the general reserve fund amount to 5% of the aggregate amount of the credit balance of all accounts maintained on the books of the CBAK by account holders shown on the balance sheet of the CBAK for the year ended of each financial year.

Central Banking Authority of Kosovo

Notes to the financial statements

(In thousands of euro, unless otherwise stated)

3. Significant accounting policies (continued)

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these financial statements:

- Revised IFRS 2 *Share-based Payment* (effective from 1 January 2009). The revised Standard will clarify the definition of *vesting* conditions and *non-vesting* conditions. Based on the revised Standards failure to meet non-vesting conditions will generally result in treatment as a cancellation. Revised IFRS 2 is not relevant to the CBAK's operations as the CBAK does not have any share-based compensation plans.
- Revised IFRS 3 *Business Combinations* (effective for annual periods beginning on or after 1 July 2009). The scope of the revised Standard has been amended and the definition of a business has been expanded. The revised Standard also includes a number of other potentially significant changes including:
 - All items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date, including contingent consideration.
 - Transaction costs are not included in the acquisition accounting.
 - The acquirer can elect to measure any non-controlling interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree.
 - Acquisitions of additional non-controlling equity interests after the business combination must be accounted for as equity transactions.Revised IFRS 3 is not relevant to the CBAK's operations as the CBAK does not have any interests in subsidiaries that will be affected by the revisions to the Standard.
- IFRS 8 *Operating Segments* (effective from 1 January 2009). The Standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The standard is not relevant to the CBAK's operations.
- Revised IAS 1 *Presentation of Financial Statements* (effective from 1 January 2009). The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The CBAK is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.
- Revised IAS 23 *Borrowing Costs* (effective from 1 January 2009). The revised Standard will require the capitalization of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Revised IAS 23 is not relevant to the CBAK's operations as the CBAK does not have any qualifying assets for which borrowing costs would be capitalised.

Central Banking Authority of Kosovo

Notes to the financial statements

(In thousands of euro, unless otherwise stated)

3. Significant accounting policies (continued)

(r) New standards and interpretations not yet adopted (continued)

- Revised IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009). In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. The standard is not relevant to the CBAK's operations.
- IFRIC 11 *IFRS 2 - Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007). The Interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent should be accounted for as cash-settled or equity-settled in the entity's financial statements. The Interpretation is not relevant to the CBAK's operations.
- IFRIC 12 *Service Concession Arrangements* (effective from 1 January 2008). The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. The Interpretation is not relevant to the CBAK's operations.
- IFRIC 13 *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008). The Interpretation explains how entities that grant loyalty award credits to customers who buy other goods or services should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations. The CBAK does not expect the Interpretation to have any impact on the unconsolidated financial statements.
- IFRIC 14 *IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interactions* (effective for annual periods beginning on or after 1 January 2008). The interpretation addresses when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available, how a minimum funding requirements (MFR) might affect the availability of reductions in future contributions and when a MFR might give rise to a liability. No additional liability need be recognised by the employer under IFRIC 14 unless the contributions that are payable under the minimum funding requirement cannot be returned to the company. The Interpretation is not relevant to the CBAK's operations.

(s) Comparatives

The comparative information is presented consistently applying the CBAK's accounting policies. When necessary, comparative figures are reclassified for the purposes of comparability.

Central Banking Authority of Kosovo

Notes to the financial statements

(In thousands of euro, unless otherwise stated)

4. Financial risk management

(a) Introduction and overview

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

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

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

Risk management framework

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

The CBAK's risk management policies are established to identify and analyze the risks faced by the CBAK, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The CBAK, 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.

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

(b) Credit risk

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

Management of credit risk

Investments and exposure to other banks

The CBAK limits its exposure to credit risk by investing only in securities issued by the governments of the 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 Banking Authority of Kosovo

Notes to the financial statements

(In thousands of euro, unless otherwise stated)

4. Financial risk management (continued)

(b) Credit risk (continued)

Exposure to credit risk

The maximum exposure to credit risk as at 31 December 2007 and 31 December 2006 is presented by the carrying amount of its cash on hand, current accounts with non resident banks, treasury bills and deposit accounts with non resident banks. For details on the exposures see Notes 7, 8, 9 and 10.

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

(c) Liquidity risk

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

Management of liquidity risk

The CBAK'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 the CBAK's reputation.

Policies to monitor and address the liquidity risk are set by the Governing Board. The CBAK manages its liquidity risk by investing in short term deposits with non resident banks. Liquidity management policies are set to ensure that even under adverse conditions the CBAK 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 CBAK management. Daily reports cover the liquidity position of CBAK are regularly submitted to the Investment Committee members by the Asset Management Department.

Central Banking Authority of Kosovo

Notes to the financial statements

(In thousands of euro, unless otherwise stated)

4. Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk

Residual contractual maturities of financial liabilities

	Note	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1-3 months	3 Months to 1 year
31 December 2007						
<i>Non-derivative liabilities</i>						
Due to domestic banks	14	113,554	(113,554)	113,554	-	-
Due to local governmental institutions	15	856,730	(856,730)	856,730	-	-
Due to public and commercial entities	16	48,381	(48,381)	37,825	-	10,556
Other domestic liabilities	17	7,516	(7,516)	7,516	-	-
		1,026,181	(1,026,181)	1,015,625	-	10,556
31 December 2006						
<i>Non-derivative liabilities</i>						
Due to domestic banks	14	94,477	(94,477)	94,477	-	-
Due to governmental institutions	15	475,821	(475,821)	475,821	-	-
Due to public and commercial entities	16	45,076	(45,076)	37,108	5,950	2,018
Other liabilities	17	2,140	(2,140)	2,140	-	-
		617,514	(617,514)	609,546	5,950	2,018

The previous table shows the undiscounted cash flows on the CBAK's financial liabilities on the basis of their earliest possible contractual maturity. The Gross nominal inflow / (outflow) disclosed in the previous table is the contractual, undiscounted cash flow on the financial liability or commitment.

(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 the CBAK's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Central Banking Authority of Kosovo

Notes to the financial statements

(In thousands of euro, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

Management of market risks

The CBAK'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, the CBAK is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the savings rate, LIBOR and different types of interest.

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

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

Exposure to interest rate risk - non-trading portfolios

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

Central Banking Authority of Kosovo

Notes to the financial statements

(In thousands of euro, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

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

	Note	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years
31 December 2007						
Cash on hand	7	63,817	63,817	-	-	-
Current accounts with non resident banks	8	1,946	1,946	-	-	-
Treasury bills	9	229,277	9,924	199,591	19,762	-
Deposit accounts with non resident banks	10	762,579	545,792	77,287	139,500	-
		1,057,619	621,479	276,878	159,262	-
Due to domestic banks	14	(113,554)	(113,554)	-	-	-
Due to local governmental institutions	15	(856,730)	(856,730)	-	-	-
Due to public and commercial entities	16	(48,381)	(43,225)	-	(5,156)	-
Other domestic liabilities	17	(7,516)	(7,516)	-	-	-
		(1,026,181)	(1,021,025)	-	(5,156)	-
		31,438	(399,546)	276,878	154,106	-
31 December 2006						
Cash on hand	7	11,136	11,136	-	-	-
Current accounts with non resident banks	8	22,480	22,480	-	-	-
Treasury bills	9	203,398	101,616	101,782	-	-
Deposit accounts with non resident banks	10	404,025	373,766	5,062	25,197	-
		641,039	508,998	106,844	25,197	-
Due to domestic banks	14	(94,477)	(94,477)	-	-	-
Due to local governmental institutions	15	(475,821)	(475,821)	-	-	-
Due to public and commercial entities	16	(45,076)	(37,108)	(5,400)	(2,568)	-
Other domestic liabilities	17	(2,140)	(2,140)	-	-	-
		(617,514)	(609,546)	(5,400)	(2,568)	-
		23,525	(100,548)	101,444	22,629	-

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the CBAK's financial assets and liabilities to various standard and non-standard interest rate scenarios. An analysis of the CBAK's sensitivity to an increase or decrease in market interest rates and forecasted movements in balance sheet position is as follows:

Central Banking Authority of Kosovo

Notes to the financial statements

(In thousands of euro, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

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

2008	Scenario A		Scenario B		Scenario C	
	Total	Average	Total	Average	Total	Average
Liabilities		964,043		849,624		849,624
Current accounts		875,754		761,335		761,335
Time deposit		88,289		88,289		88,289
Capital and reserves		34,094		34,094		34,094
Capital		20,000		20,000		20,000
Reserves		14,094		14,094		14,094
Total		998,137		883,718		883,718
Cash on hand		(76,963)		(76,963)		(76,963)
Funds available for investment		921,174		806,755		806,755
Net interest income						
Gross interest income	34,007		29,373		11,287	
Gross interest expenses	(23,490)		(20,744)		(5,274)	
Total	10,517		8,629		6,013	
Net interest marginal rate	8,348		7,204		5,396	
Operating income and expenses	(1,144)		(1,144)		(1,144)	
Income from operating activities	1,879		1,879		1,879	
Expenses from operating activities	(3,023)		(3,023)		(3,023)	
Net position profit and loss	9,372		7,484		4,869	
Net position profit and loss (marginal rate)	7,204		6,060		4,252	

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(In thousands of euro, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

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

2009	Scenario A		Scenario B		Scenario C	
	Total	Average	Total	Average	Total	Average
Liabilities						
Current accounts		729,057		446,490		446,490
Time deposit		609,952		349,940		349,940
		119,105		96,550		96,550
Capital and reserves		35,002		21,366		21,366
Capital		20,000		20,000		20,000
Reserves		15,002		1,366		1,366
Total		764,059		467,856		467,856
Cash on hand		(76,963)		(35,719)		(35,719)
Funds available for investment		687,096		432,137		432,137
Net interest income						
Gross interest income	27,901		15,544		6,740	
Gross interest expenses	(17,974)		(11,102)		(2,872)	
Total	9,928		6,442		3,868	
Net interest marginal rate	6,841		4,291		3,211	
Operating income and expenses	(1,260)		(1,260)		(1,260)	
Income from operating activities	1,850		1,850		1,850	
Expenses from operating activities	(3,110)		(3,110)		(3,110)	
Net position profit and loss	8,697		5,211		2,637	
Net position profit and loss (marginal rate)	5,581		3,031		1,951	

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Central Banking Authority of Kosovo

Notes to the financial statements

(In thousands of euro, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

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

2010	Scenario A		Scenario B		Scenario C	
	Total	Average	Total	Average	Total	Average
Liabilities		598,830		279,453		279,453
Current accounts		464,430		228,363		228,363
Time deposit		134,400		51,090		51,090
Capital and reserves		34,094		20,000		20,000
Capital		20,000		20,000		20,000
Reserves		14,094				
Total		634,924		299,453		299,453
Cash on hand		(76,963)		(24,341)		(24,341)
Funds available for investment		555,961		275,112		275,112
Net interest income						
Gross interest income	22,007		10,794		4,141	
Gross interest expenses	(14,910)		(6,911)		(1,779)	
Total	7,098		3,882		2,362	
Net interest marginal rate	5,386		2,631		1,966	
Operating income and expenses	(1,190)		(1,190)		(1,190)	
Income from operating activities	1,930		1,930		1,930	
Expenses from operating activities	(3,120)		(3,120)		(3,120)	
Net position profit and loss	5,919		2,704		1,183	
Net position profit and loss (marginal rate)	4,196		1,441		766	

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Notes to the financial statements

(In thousands of euro, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

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

The forecasts are based on historical trends and information regarding some events that could happen during 2008 - 2010. According to the CBAK management investment policy the marginal rate is around 1% (+/-) for current account deposit and 0.5% for time deposit. In the below scenarios there are presented two net position of interest expenses, the first follows the trend of time deposits and current accounts and the second net position of interest is based on marginal interest rate calculation.

Scenario A is based in more optimist trends of CBAK deposits with slight reduction during period of 2008 - 2010, as a result of this net position is much higher then expectation on scenario B and C. It is to mention that scenario A does not take under consideration at all interest rate changes. This scenario is more close to previous year figures, with a slightly reduction of government and KTA deposits.

Scenario B takes under consideration a very high reduction of government and KTA deposits (having in mind that the new Kosova Government is planning to use as much as possible the budget funds and disbursement of KTA funds to borrowers and employees).

Scenario C considers also facts mentioned to the scenario B and decrease on interest rate. The interest rate increase does not have any negative impact on the results of the operations of the Bank. The calculation of net income for scenario C is still positive, so CBAK even when the interest rate falls on level 1.5% on market it has ability to cover the Bank's expenses (interest expenses and operating expenses).

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Notes to the financial statements

(In thousands of euro, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

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

An analysis of the CBAK's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

<i>Effect in thousands of euro</i>	(Loss) / profit for the period
2007	
Interest income (1% increase)	11,552
Interest income (1% decrease)	(11,552)
Interest expense (1% increase)	(8,959)
Interest expense (1% decrease)	8,959
2006	
Interest income (1% increase)	5,498
Interest income (1% decrease)	(5,498)
Interest expense (1% increase)	(4,813)
Interest expense (1% decrease)	4,813

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

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

Central Banking Authority of Kosovo

Notes to the financial statements

(In thousands of euro, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

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

	EUR	USD	Total
31 December 2007			
Assets			
Cash on hand	63,805	12	63,817
Current accounts with non resident banks	1,946	-	1,946
Treasury bills	229,277	-	229,278
Deposit accounts with non resident banks	762,579	-	762,578
Other assets	295	-	295
Total	1,057,902	12	1,057,914
Liabilities			
Due to domestic banks	113,554	-	113,554
Due to local governmental institutions	856,730	-	856,730
Due to public and commercial entities	48,381	-	48,381
Other domestic liabilities	7,743	-	7,743
Total	1,026,408	-	1,026,408
Net foreign currency position	31,492	12	31,504
31 December 2006			
Assets			
Cash on hand	11,123	13	11,136
Current accounts with non resident banks	22,480	-	22,480
Treasury bills	203,398	-	203,398
Deposit accounts with non resident banks	404,025	-	404,025
Other assets	177	-	177
Total	641,203	13	641,216
Liabilities			
Due to domestic banks	94,477	-	94,477
Due to local governmental institutions	475,821	-	475,821
Due to public and commercial entities	45,076	-	45,076
Other domestic liabilities	2,658	-	2,658
Total	618,032	-	618,032
Net foreign currency position	23,171	13	23,184

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Notes to the financial statements

(In thousands of euro, unless otherwise stated)

4. Financial risk management (continued)

(e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the CBAK'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 the CBAK's operations and are faced by all organization units.

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

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

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

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

Central Banking Authority of Kosovo

Notes to the financial statements

(In thousands of euro, unless otherwise stated)

4. Financial risk management (continued)

(f) Capital management

Regulatory capital

UNMIK Regulation No 2006/47 approved on 24 August 2006 from the Special Representative of the Secretary General, sets capital requirements for the CBAK.

According to this regulation, the authorized capital of CBAK shall be EUR 20,000 thousand. In implementing current capital requirements the CBAK should maintain a prescribed ratio of total capital and reserves to total aggregated amount of the credit balances of all accounts maintained on the books of the CBAK by account holders shown on the balance sheet for the end of each year at least equivalent to 5%. The capital may be increased for such amounts as may be determined by the CBAK Governing Board and approved by the Special Representative of the Secretary-General. Whenever the net profit of CBAK for any financial year is insufficient to increase the capital and the General Reserve accounts of the CBAK to a level equivalent to 5% of the aggregate amount of the credit balance of all accounts maintained on the books of the CBAK by account holders shown on the balance sheet of the CBAK for the end of that financial year, the Ministry of Finance and Economy shall, within one month after publication of that balance sheet, make a capital contribution to CBAK in such amount or amounts as shall be necessary to remedy this deficit.

The net income shall be allocated in each year to the General Reserve account until the capital and General Reserve account are equal to 5% of the aggregated amount of the credit balance of all accounts maintained on the books of the CBAK by account holders shown on the balance sheet of the CBAK for the end of each financial year. Any balance in excess to such amount should be transferred to the Ministry of Finance and Economy as revenue for the budget.

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

	Note	2007	2006
Capital and General Reserve			
Statutory Fund	18	20,000	10,000
Reserve Fund	19	4,590	14,590
Retained earnings	19	9,146	-
Total		<u>33,736</u>	<u>24,590</u>
Accounts maintained in the books of CBAK as at 31 December			
Due to domestic banks	14	113,554	94,477
Due to local governmental institutions	15	856,730	475,821
Due to public and commercial entities	16	48,381	45,076
Other domestic liabilities	17	1,612	2,139
Total		<u>1,020,277</u>	<u>617,513</u>
Capital/ Accounts maintained in the books of CBAK as at 31 December		3.305%	3.982%
Ratio required as per Regulation no 2006/47		5%	5%

Central Banking Authority of Kosovo

Notes to the financial statements

(In thousands of euro, unless otherwise stated)

4. Financial risk management (continued)

(f) Capital management (continued)

That 2006 and 2007 actual end-of-year ratios of CBAK total capital and reserves to total credit balances of all accounts maintained by account holders with the CBAK fall short of 5%, the Ministry of Economy and Finance was let to know. Following the audit for the financial year 2007, the CBAK will officially advise the Ministry of Economy and Finance of this shortfall. The CBAK does not consider it critical for properly carrying out its operations under UNMIK Regulation 2006/47, especially taking into account that balances of the Ministry of Finance and Economy and the Kosovo Trust Agency accounts, which constitute most of the total credit balances of all accounts maintained by account holders with the CBAK, have been foreseen to decline considerably in a very near future, thus enabling an increase in the above ratio.

5. Use of estimates and judgments

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

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

Key sources of estimation uncertainty

Allowances for impairment losses on loans and advances

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

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

Critical accounting judgments in applying the CBAK's accounting policies

Critical accounting judgements made in applying the CBAK's accounting policies include:

Financial asset and liability classification

The CBAK'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, the CBAK 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)(i).

Central Banking Authority of Kosovo

Notes to the financial statements

(In thousands of euro, unless otherwise stated)

6. Financial assets and liabilities

Accounting classifications and fair values

The table below sets out the CBAK's classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest).

<i>In thousands of EUR</i>	Note	Loans and receivables	Held-to-maturity	Other amortised cost	Total carrying amount	Fair value
31 December 2007						
Cash on hand	7	63,817	-	-	63,817	63,817
Current accounts with non resident banks	8	1,946	-	-	1,946	1,946
Treasury bills	9	-	229,277	-	229,277	229,315
Deposit accounts with non resident banks	10	757,056	-	-	757,056	757,056
		822,819	229,277	-	1,052,096	1,052,134
Due to domestic banks	14	-	-	113,554	113,554	113,554
Due to local governmental institutions	15	-	-	856,730	856,730	856,730
Due to public and commercial entities	16	-	-	48,381	48,381	48,381
Other domestic liabilities	17	-	-	7,696	7,696	7,696
		-	-	1,026,361	1,026,361	1,026,361
31 December 2006						
Cash on hand	7	11,136	-	-	11,136	11,136
Current accounts with non resident banks	8	22,480	-	-	22,480	22,480
Treasury bills	9	-	203,398	-	203,398	203,398
Deposit accounts with non resident banks	10	402,563	-	-	402,563	402,563
		436,179	203,398	-	639,577	639,577
Due to domestic banks	14	-	-	94,477	94,477	94,477
Due to local governmental institutions	15	-	-	475,821	475,821	475,821
Due to public and commercial entities	16	-	-	45,076	45,076	45,076
Other domestic liabilities	17	-	-	2,357	2,357	2,357
		-	-	617,731	617,731	617,731

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Notes to the financial statements

(Amounts in EUR '000, unless otherwise stated)

7. Cash on hand

Cash on hand is denominated as follows:

	2007	2006
EUR	63,805	11,123
USD	12	13
Total	63,817	11,136

The exchange rate used is 1 EUR = 1.4721 USD (31 December 2006: 1 EUR = 1.3173 USD)

8. Current accounts with non resident banks

These accounts were held at the following banks:

	2007	2006
Deutsche Bundesbank	1,343	21,967
Raiffeisen Zentralbank Osterreich AG	255	237
Svenska Handelsbanken	197	211
Dresdner Bank	112	48
Commerzbank AG	39	17
Total	1,946	22,480

9. Treasury bills

Treasury bills are discounted debt securities issued by governments of countries part of the European Union with maturities from three to six months. All bills are denominated in EUR and are to be held to maturity with effective interest rates ranging from 3.83% to 4.18% (2006: from 3.07% to 3.59%). They all have highest grade credit rating graded by the three credit rating agencies – Standard & Poor's, Fitch Ratings, or Moody's.

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Notes to the financial statements

(Amounts in EUR '000, unless otherwise stated)

10. Deposit accounts with non resident banks

Deposit accounts with non resident banks are composed of:

	2007	2006
Time deposits		
Raiffeisen Zentralbank Osterreich AG	103,800	69,818
Svenska Handelsbanken	90,800	53,400
HBOS Treasury Service Plc	70,268	50,368
ING Bank	107,330	49,646
Dresdner Bank	92,600	46,300
Deutsche Bundesbank	101,800	45,000
KBC	66,488	44,612
Rabobank	32,754	21,680
Danske Bank	20,016	14,639
Commerzbank AG	71,200	7,100
	757,056	402,563
Interest accrued on time deposits		
Raiffeisen Zentralbank Osterreich AG	426	75
Svenska Handelsbanken	971	279
HBOS Treasury Service Plc	825	243
ING Bank	901	278
Dresdner Bank	701	190
Deutsche Bundesbank	477	72
KBC	540	165
Rabobank	214	146
Danske Bank	337	6
Commerzbank AG	131	8
	5,523	1,462
Total	762,579	404,025

Deposits placed with non resident banks are denominated in EUR and earn interest at effective interest rates ranging from 3.00% to 4.80% (2006: 3.16% to 3.79%) and have original maturities from 1 to 368 days (2006: from 7 to 367 days).

Central Banking Authority of Kosovo

Notes to the financial statements

(Amounts in EUR '000, unless otherwise stated)

11. Property and equipment

	Lease hold improvement	Equipment	Computers	Vehicles	Assets in course of construction	Total
Cost						
Balance at 1 January 2006	-	469	288	99	61	917
Acquisitions	-	-	63	27	980	1,070
Disposals	-	-	-	(39)	-	(39)
Balance at 31 December 2006	-	469	351	87	1,041	1,948
Balance at 1 January 2007	-	469	351	87	1,041	1,948
Acquisitions	-	68	94	32	1,005	1,199
Transfers	1,279	767	-	-	(2,046)	-
Disposals	-	(33)	-	-	-	(33)
Balance at 31 December 2007	1,279	1,271	445	119	-	3,114
Depreciation						
Balance at 1 January 2006	-	337	179	72	-	588
Depreciation for the period	-	68	50	19	-	137
Disposals	-	-	-	(39)	-	(39)
Balance at 31 December 2006	-	405	229	52	-	686
Balance at 1 January 2007	-	405	229	52	-	686
Depreciation for the period	64	200	74	15	-	353
Disposals	-	(33)	-	-	-	(33)
Balance at 31 December 2007	64	572	303	67	-	1,006
Carrying amounts						
Balance at 1 January 2006	-	132	109	27	61	329
Balance at 31 December 2006	-	64	122	35	1,041	1,262
Balance at 31 December 2007	1,215	699	142	52	-	2,108

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Notes to the financial statements

(Amounts in EUR '000, unless otherwise stated)

11. Property and equipment (continued)

Assets in course of construction relate to security improvements on the premises where the CBAK is exercising its activity. According to section three of UNMIK Regulation no 2006/47 on the Central Banking Authority of Kosovo the CBAK may for its official business purpose utilize and administer on behalf of the United Nations Interim Administration Mission in Kosovo ("UNMIK") the property and facilities, including moveable and immovable property, located at Garibaldi Street 33, Pristina, Kosovo and previously used by the Public Accounting Service of Kosovo. There are no assets pledged as collateral as at 31 December 2007 (2006: none).

12. Intangible assets

	<u>Software</u>
Cost	
Balance at 1 January 2006	821
Acquisitions	22
Disposals	-
Transfers	102
Balance at 31 December 2006	<u>945</u>
Balance at 1 January 2007	945
Acquisitions	72
Disposals	-
Transfers	-
Balance at 31 December 2007	<u>1,017</u>
Amortization	
Balance at 1 January 2006	656
Amortisation for the period	145
Disposal	-
Balance at 31 December 2006	<u>801</u>
Balance at 1 January 2007	801
Amortisation for the period	94
Disposal	-
Balance at 31 December 2007	<u>895</u>
Carrying amounts	
Balance at 1 January 2006	<u>165</u>
Balance at 31 December 2006	<u>144</u>
Balance at 31 December 2007	<u>122</u>

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(Amounts in EUR '000, unless otherwise stated)

13. Other assets

	2007	2006
Accrued fee income	264	159
Accounts receivable and prepayments	31	18
Total	295	177

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

14. Due to domestic banks

Under the CBAK supervision regulation Rule XVII commercial banks operating in Kosovo are required to maintain liquidity reserve amounting to 10% of their respective total customer deposits. At least half of these reserve balances must be kept in accounts at the CBAK.

The CBAK shall pay interest on the balances held at the CBAK up to the amount of the 10% minimum required reserve ratio. The interest rate as at 31 December 2007 was 3% (31 December 2006: 2.25%).

	2007	2006
ProCredit Bank Kosovo	21,889	19,039
Raiffeisen Bank Kosovo	19,219	15,232
Kasabank	4,880	5,105
New Bank of Kosovo	1,985	2,270
Economic Bank of Pristina	1,927	2,030
Bank for Business	1,460	1,650
National Commercial Bank of Albania	124	
Credit Bank of Pristina	-	-
Total required liquidity reserves	51,484	45,326
ProCredit Bank Kosovo	12,551	5,354
Raiffeisen Bank Kosovo	18,854	11,225
Kasabank	11,037	12,133
New Bank of Kosovo	4,206	4,840
Economic Bank of Pristina	1,701	4,008
Bank for Business	5,869	6,487
Credit Bank of Pristina	72	99
National Commercial Bank of Albania	5,731	5,005
Komercialna Banka	2,029	
Turk Economic Bank	20	-
Total current accounts	62,070	49,151
Total	113,554	94,477

Central Banking Authority of Kosovo

Notes to the financial statements

(Amounts in EUR '000, unless otherwise stated)

15. Due to local governmental institutions

Due to local governmental institutions include current accounts from the following:

	2007	2006
Kosovo Trust Agency	405,895	275,022
Ministry of Finance and Economy	447,469	200,049
Other governmental institutions	3,342	578
UNMIK	24	172
Total	856,730	475,821

The effective interest rate for current accounts as at 31 December 2007 is 3% (31 December 2006: 2.25%).

16. Due to public and commercial entities

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

	2007	2006
Current accounts		
Insurance companies	14,866	18,525
Public utility corporations	20,986	10,369
Pension funds	1,916	8,167
Other	2	18
	37,770	37,079
Time deposits		
Insurance companies	5,204	2,025
Pension funds	-	5,972
Public Utilities	5,407	-
	10,611	7,997
Total	48,381	45,076

The effective interest rate for current accounts as at 31 December 2007 is 3% (31 December 2006: 2.25%) and for time deposits are between 1.6% and 4.05% as at 31 December 2007 (31 December 2006: 2.35% to 3.39%).

17. Other domestic liabilities

	2007	2006
Liabilities to the Kosovo Government	1,094	1,636
Deferred grant revenue	49	301
Liabilities to the Former National Bank of Kosovo	480	467
Sundry creditors and accruals	178	218
Suspense account	5,904	-
Other domestic liabilities	38	36
Total	7,743	2,658

Central Banking Authority of Kosovo

Notes to the financial statements

(Amounts in EUR '000, unless otherwise stated)

17. Other domestic liabilities (continued)

The balance of due to the Kosovo Government as at 31 December 2007 refers to EUR 1,094 thousand (2006: EUR 1,038 thousand) of rent collected for public buildings until establishment of ownership and EUR 1 thousand (2006: EUR 598 thousand) of supervisory penalties collected from financial institutions. On 18 May 2007 the amount of EUR 598 thousand collected since 24 April 2002 and related interest remunerated on this account was paid back to Government.

Liabilities to the Former National Bank of Kosovo arise from the following. Upon inception, the CBAK inherited certain amounts in cash, in various currencies, from the former National Bank of Kosovo. Also in this balance are included the related interest accumulated during the years since 5 January 2004. The cash was initially converted into DEM 872 thousand on 22 December 2000 and subsequently physically transferred and deposited in the CBAK's account at the Commerzbank AG Frankfurt. Balance of the account as at 1 January 2002 was converted in EUR 446 thousand and the resulting balance as at 31 December 2007 and 31 December 2006 includes this balance and interest remunerated as of those dates.

Suspense account amounting EUR 5,904 thousand (2006: EUR 0 thousand) relates to an outgoing transfer for KEK (Kosovo Electric Supplier). The amount was settled on 2 January 2008.

The movement in deferred grant revenue was as follows:

	Central Fiscal Authority/Ministry of Economy and Finance	World Bank/Other	Total
Deferred grant revenue at 31 December 2005	222	161	383
Deferred grant revenue at 1 January 2006	222	161	383
Grants received during the year	-	42	42
Grant revenue for the year	(73)	(51)	(124)
Deferred grant revenue at 31 December 2006	149	152	301
Deferred grant revenue at 1 January 2007	149	152	301
Grants received during the year	-	-	-
Grant revenue for the year	(149)	(103)	(252)
Deferred grant revenue at 31 December 2007	-	49	49

18. Statutory fund

The initial statutory fund of the CBAK, totaling DEM 5,000 thousand (EUR 2,556 thousand) was contributed by the Central Fiscal Authority on 31 March 2000. As at 8 June 2004 based on the decision of DSRSG (Deputy of Special Representative of the Secretary General) Pillar IV the statutory fund was increased from EUR 2,556 thousand to EUR 10,000 thousand.

On 15 June 2007 the amount of EUR 10,000 was transferred from reserve fund to statutory fund upon the approval from the board of directors. The CBAK is reporting directly to the Special Representative of the Secretary General of the United Nations Organisation. The CBAK capital is not subject to encumbrance.

Central Banking Authority of Kosovo

Notes to the financial statements

(Amounts in EUR '000, unless otherwise stated)

19. Reserve fund

The reserve fund was created during the period up to 31 December 2006, in accordance with Regulation 2001/24 (amending Regulation 1999/20), amended by Regulation 2006/47 dated 24 August 2006 and the decision of the CBAK's Governing Board. All net profit for the year in 2005 was transferred to the reserve fund. For the year 2007 the decision is not yet taken but since the reserve is under the limits determined in the regulation the whole profit of the year is expected to be transferred to the reserve fund.

In 2006 the CBAK paid to the Ministry of Finance and Economy the amount of EUR 785 thousand (2005: EUR 382 thousand), representing the excess of its reserve fund over limits prescribed by the UNMIK Regulation 1999/20 issued on 15 November 1999 (as amended by Regulation 2001/24 in 1 October 2001) "On the Banking and Payment Authority of Kosovo". In 2007 no payments have been paid to the Ministry of Finance and Economy (2006: EUR 785 thousand)

20. Net interest income

Net interest income is composed as follows:

	2007	2006
Interest income		
From fixed term placements	25,447	9,493
From treasury bills	8,639	5,099
From current account placements (balances)	189	595
	34,275	15,187
Interest expense		
From current account deposits of non-bank entities	20,477	8,116
From eligible current account deposits of banks	1,624	492
From fixed term deposits	2,270	123
	24,371	8,731
Net interest income	9,904	6,456

21. Net fee and commission income

Net fee and commission income is composed as follows:

	2007	2006
Fee income		
From cash deposits	124	116
From foreign incoming transfers	197	196
From foreign outgoing transfers	283	291
From inter-bank clearing system	122	127
Other fees	17	14
	743	744
Fee expenses		
For cash export/import	197	204
For correspondent bank transactions	29	42
Other fees	-	4
	226	250
Net fee and commission income	517	494

Central Banking Authority of Kosovo

Notes to the financial statements

(Amounts in EUR '000, unless otherwise stated)

22. Grant revenue

Grant revenue is composed as follows:

	2007	2006
MEF-World bank	275	142
EU	178	175
Total	453	317

23. Other operating income

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

24. Personnel expenses

	2007	2006
Wages and salaries	999	904
Social security and health insurance cost	259	224
Staff training	87	86
Governing Board remuneration	37	22
Other	30	18
Total	1,412	1,254

The number of employees of the CBAK as at 31 December 2007 was 141 (31 December 2006: 143).

25. General and administrative expenses

	2007	2006
Insurance expenses	191	240
Repairs and maintenance	67	89
Software maintenance	93	88
Communication expense (telephone, telex and internet)	62	85
Utilities	80	76
Audit and consulting expense	20	58
Security and cash transportation expenses (guard services)	46	53
Travel and transportation	75	42
Vehicle operating expenses	20	15
Stores and stationery	18	12
Food and restaurant expenses	10	11
Computer and other consumables expense	38	10
Publication and Literature Expenses	29	-
Other	74	91
Total	823	870

Central Banking Authority of Kosovo

Notes to the financial statements

(Amounts in EUR '000, unless otherwise stated)

26. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	Note	2007	2006
Cash on hand	6	63,817	11,136
Current accounts with non resident banks	7	1,946	22,480
Treasury bills with maturity up to three months	8	9,924	101,616
Deposit accounts with non resident banks with maturity up to three months	9	545,792	373,766
Total		621,479	508,998

27. Commitments and contingencies

Legal

The CBAK is involved in routine legal proceedings in the ordinary course of business. It is the management's opinion that the final outcome of these lawsuits will not have a material effect on the CBAK's results.

Credit related commitments

As at 31 December 2007, the CBAK had commitments to place deposits in total amount of EUR 28,191 thousand (31 December 2006 EUR 30,916 thousand).

Other commitments

Other commitments are composed as follows:

2007

	Not later than 1 year	Later than 1 year and not later than 5 years
Premises security upgrade (works and consulting)	92	-
Software maintenance	48	-
Total	140	-

2006

	Not later than 1 year	Later than 1 year and not later than 5 years
Premises security upgrade (works and consulting)	941	29
Purchase of equipment	51	-
Total	992	29

Central Banking Authority of Kosovo

Notes to the financial statements

(Amounts in EUR '000, unless otherwise stated)

28. Related party transactions

As defined in IAS 24 "Related Party Disclosures", a related party is any party that has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

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

	2007	2006
Governing Board remuneration	29	14
Management remuneration	65	50
Total	94	64

Management remuneration does not include the remuneration to the Managing Director of the CBAK, which is paid by the International Monetary Fund.

29. Subsequent events

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

8. Statistical Appendix

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Table 1.

Financial corporations survey

(Outstanding amounts, end of period, in millions of EUR)

Description	2004	2005	2006	2007
Net foreign assets	642.6	685.1	963.0	1,350.3
Claims on nonresidents	691.8	748.7	1,035.1	1,425.8
of which: Deposits	384.0	422.6	660.0	954.1
of which: Securities other than shares	236.7	242.4	303.1	311.9
less : Liabilities to nonresidents	49.2	63.6	72.1	75.5
Domestic claims	202.8	348.7	231.5	124.0
Net claims on central government	-215.2	-223.5	-472.8	-851.7
Claims on central government	—	—	—	—
less: Liabilities to central government	215.2	223.5	472.8	851.7
Claims on other sectors	418.0	572.2	704.3	975.7
Loans	413.5	565.6	694.3	965.0
Public nonfinancial corporations	...	...	...	0.2
Other nonfinancial corporations	329.8	439.6	548.2	764.2
Other resident sectors	83.7	126.0	146.1	200.6
Households	83.7	126.0	146.1	200.6
Other claims	4.5	6.7	10.0	10.7
Deposits	675.3	834.5	892.9	1,121.9
Transferable deposits	278.4	318.9	306.9	392.9
of which: Other nonfinancial corporations	81.3	76.8	96.4	137.8
of which: Households	145.5	155.5	156.2	185.9
Other deposits	396.9	515.6	586.0	729.0
of which: Public nonfinancial corporations	149.3	181.3	193.3	180.3
of which: Households	222.5	298.9	359.5	489.2
Insurance technical reserves	23.6	30.8	38.0	38.1
Shares and other equity	145.1	165.8	199.2	263.5
Funds contributed by owners	91.2	95.3	121.2	171.7
Retained earnings	11.3	13.3	27.8	17.1
General and special reserves	10.3	14.0	15.6	6.8
Profit/loss of the year	12.7	17.6	6.3	37.3
Grants from donors	19.6	25.6	28.3	30.6
Other items (net)	-0.9	-0.3	61.0	50.8
Other liabilities	37.3	42.3	109.9	127.1
less: Other assets	37.9	43.5	54.2	86.2
plus: Consolidation adjustment	-0.2	0.9	5.3	10.0

Table 2.

Depository corporations survey

(Outstanding amounts, end of period, in millions of EUR)

Description	2004	2005	2006	2007
Net foreign assets	648.5	695.0	974.0	1,371.2
Claims on nonresidents	687.6	744.3	1,034.2	1,419.8
of which: Deposits	384.0	422.6	660.0	954.0
of which: Securities other than shares	236.7	242.4	303.1	308.4
less: Liabilities to nonresidents	39.2	49.3	60.2	48.6
Domestic claims	158.5	290.4	163.8	39.5
Net claims on central government	-215.2	-223.5	-472.8	-851.7
Claims on central government	—	—	—	—
less: Liabilities to central government	215.2	223.5	472.8	851.7
Claims on other sectors	373.7	513.9	636.6	891.2
Loans	373.7	513.9	636.6	891.2
Public nonfinancial corporations	—	—	...	0.2
Other nonfinancial corporations	289.9	387.9	490.5	690.4
Other resident sectors	83.7	126.0	146.1	200.6
Households	83.7	126.0	146.1	200.6
Deposits included in broad money	717.2	867.6	915.4	1,128.4
Transferable deposits	305.2	347.8	338.6	414.3
of which: Other nonfinancial corporations	81.3	76.8	96.4	137.8
of which: Households	145.5	155.5	156.2	185.9
Other deposits	412.1	519.8	576.8	714.1
of which: Public nonfinancial corporations	149.3	181.3	193.3	180.3
of which: Households	220.6	279.6	322.4	438.9
Deposits excl. from broad money 1/	4.0	20.0	40.1	52.3
Other nonfinancial corporations	2.1	0.7	3.0	2.0
Households	1.9	19.3	37.1	50.3
Shares and other equity	87.1	94.4	118.7	176.1
Funds contributed by owners	67.7	72.4	93.7	140.2
Retained earnings	2.7	0.4	11.9	-3.0
General and special reserves	5.3	7.2	7.8	5.1
Grants from donors	0.5	0.8	0.7	...
Profit/loss of the year	11.0	13.5	4.7	33.8
Other Items (net)	-1.3	3.4	63.5	53.8
Other liabilities	28.0	37.9	102.5	120.0
less: Other assets	29.1	35.4	44.2	75.2
plus: Consolidation adjustments	-0.2	0.9	5.3	9.0

1/ Deposits with the original maturity over 2 years.

Table 3.

CBAK Survey

(Outstanding amounts, end of period, in millions of EUR)

Description	2004	2005	2006	2007
Net foreign assets	344.5	394.3	639.6	1,052.3
Claims on nonresidents	349.7	397.4	639.7	1,052.3
Currency	12.1	24.5	11.1	63.8
Deposits	213.2	213.4	424.9	759.0
Securities other than shares	124.4	159.5	203.6	229.5
less: Liabilities to nonresidents	5.2	3.1	0.1	...
Deposits	5.2	3.1	0.1	...
Net claims on central government	-215.2	-223.5	-470.8	-847.8
Claims on central government	—	—	—	—
less: Liabilities to central government	215.2	223.5	470.8	847.8
Deposits	215.2	223.5	470.8	847.8
Claims on other sectors	—	—	—	—
Liabilities to ODC	72.9	82.5	94.5	113.6
Deposits included in broad money	39.3	68.8	52.0	58.9
Transferable deposits	34.2	64.7	44.0	48.3
Other financial corporations	17.8	21.6	26.7	16.8
Local government	1.9	1.6	0.4	3.2
Social security	3.0	1.7	4.3	5.6
Public nonfinancial corp.	9.9	37.6	10.5	21.1
Other resident sectors	1.7	2.2	2.1	1.6
Other deposits	5.1	4.1	8.0	10.6
Other financial corporations	5.1	4.1	8.0	10.6
Deposits excluded from broad money	—	—	—	—
Shares and other equity	18.0	20.4	25.5	33.8
Funds contributed by owners	10.0	10.0	10.0	20.0
Retained earnings	3.0	3.0	6.4	9.2
General and special reserves	4.5	6.6	8.5	4.6
Grants from donors	0.5	0.8	0.7 ...	...
Other items (net)	-0.9	-0.9	-3.2	-1.8
Other liabilities	0.1	0.5	0.2	6.0
less: Other assets	1.0	1.4	3.4	7.8

Table 4.

Other depository corporations survey

(Outstanding amounts, end, in millions EUR)

Description	2004	2005	2006	2007
Net foreign assets	304.0	300.7	334.4	318.9
Claims on nonresidents	338.0	346.9	394.5	367.5
of which: Deposits	170.8	209.2	235.1	195.0
Securities other than shares	112.3	82.9	99.4	78.9
less: Liabilities to nonresidents	34.0	46.2	60.1	48.6
Deposits	12.7	18.4	21.4	17.9
Loans	21.3	27.9	38.7	30.7
Claims on CBAK	73.2	81.6	88.8	107.5
Net claims on central government 1/	—	0.0	-2.1	-3.9
Claims on other sectors	373.7	513.9	636.6	891.2
Loans	373.7	513.9	636.6	891.2
Public nonfinancial corporations	—	—	48.8	0.2
Other nonfinancial corporations	289.9	387.9	490.5	690.4
Other resident sectors	83.7	126.0	146.1	200.6
Households	83.7	126.0	146.1	200.6
Deposits included in broad money	677.9	798.8	863.4	1,069.6
Transferable deposits	270.9	283.0	294.5	366.0
of which: Other nonfinancial corporations	81.3	76.8	96.4	137.8
of which: Households	145.5	155.5	156.2	185.9
Other deposits	407.0	515.7	568.8	703.6
Deposits excluded from broad money	4.0	20.0	40.1	52.3
Other nonfinancial corporations	2.1	0.7	3.0	2.0
Households	1.9	19.3	37.1	50.3
Shares and other equity	69.1	74.0	93.2	142.3
Funds contributed by owners	57.7	62.4	83.7	120.2
Retained earnings	-0.3	-2.6	5.5	-12.2
General and special reserves	0.8	0.6	-0.7	0.5
Profit/loss of the year	11.0	13.5	4.7	33.8
Other items (net)	-0.1	3.4	61.0	49.5
Other liabilities 2/	27.9	37.3	102.3	114.0
less: Other assets	28.1	33.9	40.8	67.4
plus: Consolidation adjustment	0.1	...	-0.4	3.0

1/ KPST accounts;

2/ Includes loan provisioning.

Table 5.

Other financial corporations survey

(Outstanding amounts, end, in millions EUR)

Description	2004	2005	2006	2007
Net foreign assets	-5.9	-9.9	-10.9	-20.9
Claims on nonresidents	4.2	4.4	0.9	6.0
Currency	0.9	1.0	0.9	2.4
Deposits	—	—	—	—
Securities other than shares	—	—	—	3.6
less : Liabilities to nonresidents	10.1	14.3	11.9	26.9
Loans	10.1	14.3	11.9	26.9
Claims on depository corporations	45.9	53.1	62.6	57.9
CBAK	22.9	25.7	34.7	27.3
Transferable deposits	17.8	21.6	26.7	16.8
Other deposits	5.1	4.1	8.0	10.6
Other depository corporations	23.0	27.4	28.0	30.6
Transferable deposits	9.0	7.2	4.9	4.3
Other deposits	14.0	20.2	23.0	26.2
Net claims on central government	—	—	—	—
Claims on other sectors	44.3	58.4	67.7	84.5
Loans	39.9	51.7	57.7	73.8
Other nonfinancial corporations	39.9	51.7	57.7	73.8
Other claims	4.5	6.7	10.0	10.7
Deposits	—	—	—	—
Loans	...	...	...	...
Insurance technical reserve	23.6	30.8	38.0	38.1
Net equity of households in life insurance reserves	—	—	—	—
Net equity of households in pension funds	5.8	8.7	10.5	8.2
Prepayment of premiums and reserves against outstanding c	17.9	22.1	27.5	29.9
Shares and other equity	58.0	71.4	80.5	87.4
Funds contributed by owners	23.5	22.9	27.5	31.5
Retained earnings	8.6	12.9	15.8	20.1
General and special reserves	5.0	6.7	7.9	1.7
Profit/Loss for the year	1.7	4.0	1.6	3.5
Grants from donors	19.1	24.8	27.7	30.6
Other items (net)	0.5	-3.7	-2.5	-3.9
Other liabilities	9.3	4.4	7.4	7.0
less: Other assets	8.9	8.1	10.0	11.0
plus: Consolidation adjustment	...	...	...	...

Table 6.

Other depository corporations balance sheet

(Outstanding amounts, end, in millions EUR)

Description	2004	2005	2006	2007
Cash and balances with CBAK	116.5	131.7	141.1	189.0
Balances with commercial banks	186.0	221.9	243.3	207.2
of which: In EUR currency	169.2	201.0	218.8	172.4
Securities (EUR currency) 1/	112.3	82.9	99.4	78.9
In EUR currency	112.3	82.9	99.4	78.9
Gross loans and lease financing	373.7	513.9	636.6	891.2
In EUR currency	373.7	513.9	636.6	891.2
Public nonfinancial corporations	...	...	0.0	0.2
Other nonfinancial corporations	289.9	387.9	490.5	690.4
Households	83.7	126.0	146.1	200.6
Fixed assets	15.9	16.9	23.0	26.5
Other assets	12.2	17.0	17.9	40.9
TOTAL ASSETS	816.5	984.4	1,161.2	1,433.7
Balances from other banks	14.3	23.0	30.3	25.8
Debts to clients	695.9	843.0	928.4	1,144.6
Deposits	694.5	836.7	924.3	1,141.9
Transferable deposits	281.0	296.6	308.9	379.6
Central government	...	0.0	1.1	1.5
Local government	1.3	2.9	5.0	0.2
Other financial corporations	9.0	7.2	4.9	4.7
Public nonfinancial corporations	24.7	30.0	24.3	27.2
Other nonfinancial corporations	81.3	76.8	96.4	137.8
Households	145.5	155.5	156.2	185.9
NPISH	9.1	10.7	7.8	10.3
Nonresidents	10.1	13.5	13.3	12.1
Other deposits	413.5	540.1	615.4	762.3
Central government	—	0.0	1.0	2.4
Local government	—	—	—	...
Other financial corporations	14.0	20.2	23.0	26.9
Public nonfinancial corporations	149.3	181.3	193.3	180.3
Other nonfinancial corp.	24.4	33.7	27.6	56.2
Households	222.5	298.9	359.5	489.2
NPISH	0.7	1.6	5.5	3.3
Nonresidents	2.6	4.3	5.4	4.0
Other borrowings (incl non-neg. CD) 1/	1.4	6.4	4.2	2.7
Other liabilities	27.9	37.3	102.3	114.0
Subordinated debt	9.3	7.0	7.0	7.0
Own resources	69.1	74.0	93.2	142.3
In EUR currency	69.1	74.0	93.2	142.3
Share capital	57.7	62.4	83.7	120.2
Contingency reserve	0.6	0.6	-0.7	0.5
Profit loss of the year	11.0	13.5	4.7	33.8
Retained profit/loss	-0.3	-2.6	5.5	-12.2
TOTAL LIABILITIES	816.5	984.4	1,161.2	1,433.7

1/ With nonresidents.

Table 7.

EUR deposits at ODC, by original maturity

(Outstanding amounts, end, in millions EUR)

Description	2004	2005	2006	2007
Government	1.3	2.9	7.0	4.2
Transferable deposits	1.3	2.9	6.0	1.7
Other deposits	...	...	1.0	2.4
Financial corporations	34.0	34.0	34.0	34.0
Other depository corporations	3.7	8.1	0.1	3.0
Transferable deposits	2.2	1.1	0.1	...
Other deposits	1.5	7.0	...	2.9
Other financial intermediaries	3.5	5.8	2.4	2.8
Transferable deposits	2.5	3.7	1.9	1.6
Other deposits	1.0	2.1	0.5	1.2
Insurance companies 1/	15.5	18.8	24.7	26.7
Transferable deposits	5.3	3.5	2.4	2.1
Other deposits	10.3	15.3	22.3	24.6
Pension funds	.	.	0.4	0.4
Transferable deposits	.	.	0.4	0.4
Financial auxiliaries	2.9	2.8	0.5	1.1
Transferable deposits	0.2	0.0	0.2	0.4
Other deposits	2.8	2.8	0.3	0.7
Nonfinancial corporations	275.3	319.0	337.8	393.4
Public nonfinancial corporations	173.5	211.3	217.4	206.0
Transferable deposits	24.2	29.9	24.0	25.7
Other deposits	149.3	181.3	193.3	180.3
up to 1 month	34.0	23.9	19.9	105.6
over 1 month and up to 3 months	0.0	12.8	19.4	21.4
over 3 months and up to 1 year	115.3	119.5	114.3	36.6
over 1 year and up to 2 years	...	25.3	39.7	16.7
Other nonfinancial corporations	101.8	107.7	120.5	187.4
Transferable deposits	78.2	74.4	93.6	132.6
Other deposits	23.6	33.4	26.9	54.7
up to 1 month	9.0	6.3	6.2	18.9
over 1 month and up to 3 months	6.0	8.3	6.8	13.2
over 3 months and up to 1 year	6.3	13.0	9.1	16.9
over 1 year and up to 2 years	0.2	5.1	1.7	3.7
over 2 years	2.1	0.7	3.0	2.0
Other domestic sectors	360.3	440.7	499.2	644.4
Households	350.7	428.7	486.1	631.0
Transferable deposits	136.9	144.7	143.8	169.8
Other deposits	213.8	284.0	342.3	461.2
up to 1 month	63.8	87.2	111.2	156.3
over 1 month and up to 3 months	42.2	41.7	39.6	38.5
over 3 months and up to 1 year	91.8	109.3	127.9	141.5
over 1 year and up to 2 years	14.2	26.5	26.5	74.6
over 2 years	1.9	19.3	37.1	50.3
NPISH	9.6	12.0	13.1	13.4
Transferable deposits	8.9	10.4	7.6	10.1
Other deposits	0.7	1.6	5.5	3.3
Nonresidents	12.3	17.3	18.2	15.6
TOTAL	674.9	815.3	890.4	1,092

Table 8.

Non-euro deposits at ODC, by original maturity

(Outstanding amounts, end, in millions EUR)

Description	2004	2005	2006	2007
Government	—	—	—	—
Financial corporations	1.1	...	...	0.5
Other financial intermediaries	...	...	...	0.1
Transferable deposits	...	...	...	0.1
Other deposits	...	...	...	...
Insurance companies	1.1	...	...	0.4
Transferable deposits	1.1	...	...	...
Other deposits	—	—	—	0.4
over 3 months and up to 1 year	—	—	—	0.4
Nonfinancial corporations	4.4	2.8	3.7	8.1
Public nonfinancial corporations	0.5	...	0.3	1.5
Transferable deposits	0.5	...	0.3	1.5
Other nonfinancial corporations	4.0	2.8	3.5	6.6
Transferable deposits	3.1	2.4	2.7	5.1
Other deposits	0.8	0.4	0.7	1.5
up to 1 month	0.3	...	0.3	0.3
over 1 month and up to 3 months	0.2	0.1	0.2	0.2
over 3 months and up to 1 year	0.3	0.2	0.2	0.8
over 1 year and up to 2 years	—	—	0.1	0.2
Other domestic sectors	17.5	26.0	29.8	44.3
Households	17.3	25.7	29.6	44.1
Transferable deposits	8.7	10.8	12.4	16.1
Other deposits	8.7	14.9	17.2	28.0
up to 1 month	2.8	3.9	6.8	12.4
over 1 month and up to 3 months	2.2	2.5	1.8	1.8
over 3 months and up to 1 year	3.0	8.0	8.5	11.1
over 1 year and up to 2 years	0.7	0.5	0.1	2.7
over 2 years	...	...	...	...
NPISH	0.1	0.3	0.2	0.1
Transferable deposits	0.1	0.3	0.2	0.1
Nonresidents	0.3	0.5	0.5	0.4
TOTAL	23.4	29.4	34.3	53.3

Table 9.

ODC loans, by original maturity 1/

(Outstanding amounts, end, in millions EUR)

Description	2004	2005	2006	2007
Government	—	—	—	—
Financial corporations	—	—	—	—
Nonfinancial corporations	289.9	387.9	490.5	690.6
Public nonfinancial corporations	...	...	...	0.2
Over 2 years	...	...	...	0.2
Other nonfinancial corporations	289.9	387.9	490.5	690.4
Up to 1 year	111.5	117.9	128.7	173.2
Over 1 year and up to 2 years	111.3	125.2	127.7	122.6
Over 2 years	67.2	144.7	234.1	394.6
Other domestic sectors	83.7	126.0	146.1	200.6
Households	83.7	126.0	146.1	200.6
Up to 1 year	15.9	19.5	19.7	24.5
Over 1 year and up to 2 years	15.2	21.0	24.7	29.2
Over 2 years	52.6	85.4	101.7	146.9
TOTAL	373.7	513.9	636.6	891.2

Table 10.

ODC loans, by industry

(Outstanding amounts, end, in millions EUR)

Description	2004	2005	2006	2007
Agriculture	7.9	12.5	16.4	27.2
Up to 1 year	3.9	4.1	3.4	4.1
Over 1 year	4.1	8.4	13.0	23.1
Industry, energy and construction	47.8	74.2	97.7	131.9
Mining	0.0	0.5	0.5	0.5
Up to 1 year	...	0.5	0.5	0.5
Industry	35.6	48.1	61.9	80.9
Up to 1 year	16.1	11.6	12.2	14.6
Over 1 year	19.5	36.6	49.7	66.2
Manufacturing (Food, Textile, etc)	29.8	44.0	54.9	66.0
Up to 1 year	12.6	10.4	10.7	10.7
Over 1 year	17.1	33.6	44.2	55.3
Manufacturing (Oil,Chem., etc)	5.7	3.5	6.3	13.7
Up to 1 year	3.4	0.9	1.1	3.6
Over 1 year	2.3	2.6	5.1	10.1
Electricity, gas and water	0.1	0.6	0.7	1.1
Up to 1 year	0.0	0.2	0.3	0.4
Over 1 year	64.0	0.4	0.4	0.8
Construction	12.2	25.6	35.3	50.6
Up to 1 year	6.4	12.5	15.3	16.0
Over 1 year	5.8	13.1	20.0	34.6
Services	234.2	301.1	376.4	531.5
Trade	197.2	249.7	307.3	404.0
Up to 1 year	78.5	81.1	92.4	110.0
Over 1 year	118.7	168.6	215.0	294.0
Wholesale and retail trade	172.8	209.6	259.5	336.4
Up to 1 year	66.3	64.0	74.5	88.7
Over 1 year	106.5	145.5	185.0	247.7
Hotel and restaurants	18.9	28.0	29.5	43.9
Up to 1 year	9.4	12.2	10.5	14.5
Over 1 year	9.6	15.8	19.0	29.4
Other trade	5.4	12.1	18.3	23.7
Up to 1 year	2.8	4.8	7.4	6.8
Over 1 year	2.6	7.3	11.0	16.9
Fin. Services	3.2	2.7	1.1	1.5
Up to 1 year	0.1	0.1	0.2	0.3
Over 1 year	3.1	2.6	0.9	1.2
Other services	33.8	48.7	68.0	126.0
Up to 1 year	10.9	11.2	28.1	40.2
Over 1 year	22.9	37.5	39.9	85.8
TOTAL	289.9	387.9	490.5	690.6

Table 11.

ODC Effective interest rates

Description	2004	2005	2006	2007
DEPOSITS rates	2.75	3.12	3.11	4.00
Nonfinancial corporations	3.10	3.26	3.29	4.23
Households	2.43	2.89	2.95	3.31
LOANS rates	15.72	14.47	14.70	14.06
Nonfinancial corporations	16.04	14.87	14.97	14.20
Households	12.53	11.51	12.48	13.41
DEPOSITS				
Nonfinancial corporations				
Transferable deposits (outstanding amounts)	0.10	0.26	0.39	0.49
Other deposits 1/				
Less than 250.000 EUR				
Up to 1 month	1.79	2.07	2.06	2.68
Over 1 month and up to 3 months	2.30	2.37	2.85	2.93
Over 3 months and up to 1 year	3.02	3.40	4.32	4.35
Equal or more than 250.000 EUR				
Over 3 months and up to 1 year	*	3.52	3.85	*
Savings deposits (outstanding amounts)	1.99	1.71	1.53	2.46
Households				
Transferable deposits (outstanding amounts)	0.04	0.04	0.03	0.02
Other deposits 1/				
Up to 1 month	1.65	1.85	1.93	2.55
Over 1 month and up to 3 months	2.06	2.24	2.35	2.75
Over 3 months and up to 1 year	2.91	3.33	3.44	3.60
Over 1 year and up to 2 years	3.80	3.87	4.16	4.72
Over 2 years	*	4.04	4.51	5.27
Savings deposits (outstanding amounts)	1.63	1.74	1.65	2.35
LOANS				
Nonfinancial corporations				
Investment business loans				
Up to 1 year	15.16	17.34	*	13.49
Over 1 year and up to 3 years	14.51	14.01	15.08	*
Other business loans				
Up to 1 month	14.12	14.41	15.17	15.70
Over 1 month and up to 3 months	15.06	13.71	14.59	*
Over 3 months and up to 1 year	16.27	16.31	12.93	14.53
Over 1 year	15.32	14.38	15.18	14.64
Credit lines / overdrafts (outstanding amounts)	15.06	15.11	15.72	15.09
Households				
Consumer Loans	12.53	11.51	12.36	13.72

Table 12.

ODC Income statement

(Outstanding amounts, end, in millions EUR)

Description	2004	2005	2006	2007
INCOME				
Interest income	54.0	74.6	88.8	117.8
Loans	48.1	68.0	79.4	103.0
Placement with banks	2.5	4.0	6.6	11.1
Securities	3.4	2.7	2.8	3.6
Other	.	.	.	0.1
Non-Interest income	19.4	19.7	25.2	39.6
Fees and commissions	17.5	17.4	22.5	24.1
Other operating income	1.9	2.3	2.7	15.5
TOTAL INCOME	73.4	94.3	114.0	157.4
EXPENDITURES				
Interest expenditures	10.0	15.4	19.9	25.9
Deposits	9.2	13.9	17.5	23.1
Borrowings	0.7	1.5	2.4	2.8
Other	.	.	.	...
Non-Interest expenditures	11.1	13.4	13.7	20.1
Fees and commissions	.	.	.	2.1
Provisions for loan and other assets losses	11.1	13.4	13.7	18.1
General and administrative expenses 1 /	37.8	49.2	54.8	69.1
TOTAL EXPENDITURES	58.9	78.0	88.5	115.1
NET INCOME				
Net operating income	14.6	16.3	25.5	42.3
Trading profit (loss)	0.5	0.6	1.0	-0.3
Extraordinary items, adjustments	.	.	.	-0.2
Net income from ban. activ. before tax	15.1	16.9	26.6	41.9
Provision for taxes	2.1	3.4	6.4	8.0
Net profit / loss for period	13.0	13.5	20.2	33.8
less: dividend paid	...	...	...	...
Retained profit	13.0	13.5	20.2	33.8

Table 13.

Balance of payments of Kosovo

(In millions of EUR)

Description	2004	2005	2006	2007
1. CURRENT ACCOUNT	-317.3	-380.4	-389.1	-535.6
A. Goods and services	-980.3	-1,079.6	-1,155.9	-1,377.4
1. Goods	-970.8	-1,044.0	-1,141.2	-1,359.6
2. Services	-9.5	-35.6	-14.7	-17.7
2.1. Transportation	-48.2	-49.2	-49.6	-58.1
2.2. Travel	-24.4	-29.9	-33.3	-39.1
2.3. Communications	11.7	7.1	28.3	41.3
2.4. Construction	-0.9	-8.7	-5.3	-13.3
2.5. Insurance	-7.3	-7.0	-6.2	-6.7
2.6. Financial services	-0.1	-0.2	-0.4	-0.4
2.7. Computer and information	-3.5	-4.8	-4.4	-2.9
2.8. Royalties and license fees	-0.2	0.0	-0.2	-0.2
2.9. Other business	-4.7	-8.7	-5.8	-1.0
2.10. Personal, cultural and recreational	0.0	0.0	0.0	0.0
2.11. Government	68.1	65.9	62.2	62.6
B. Income	17.4	24.3	29.0	50.0
1. Compensation of employees	15.0	18.0	15.7	15.6
2. Investment income	2.4	6.2	13.3	34.4
2.1 Direct investment	-12.3	-16.8	-24.8	-42.9
2.2 Portfolio investment	5.3	16.3	23.8	43.3
2.3 Other investment (including earnings on reserve assets)	9.4	6.8	14.3	34.0
C. Current transfers	645.6	674.9	737.7	791.7
1. Central government	431.7	395.2	388.9	388.5
1.1 Other Donors	169.1	138.0	185.0	180.3
1.2 UNMIK (Budget)	262.6	257.2	203.9	208.2
2. Other sectors	213.9	279.7	348.8	403.2
2.1 Workers' remittances	162.9	227.5	293.4	348.3
2.1.1. Migrants abroad	357.0	418.0	467.1	521.7
2.1.2. UNMIK staff- long term	-147.3	-136.1	-100.7	-102.3
2.2 Other transfers	51.1	52.2	55.4	54.9
	0.0	0.0	0.0	0.0
2. CAPITAL AND FINANCIAL ACCOUNT	140.6	96.8	21.5	112.8
A. Capital account	2.4	2.0	3.2	2.6
1. Capital transfers	2.4	2.0	3.2	2.6
2. Acquisition/disposal of non-produced, non-financial assets	0.0	0.0	0.0	0.0
B. Financial account	138.2	94.8	18.3	110.2
1. Direct investment	18.6	80.0	245.7	418.1
In Kosovo	18.6	80.0	245.7	418.1
1.1. Equity capital	9.6	63.2	207.4	303.7
1.2. Reinvested earnings	9.1	16.8	24.8	42.9
1.3. Other capital	0.0	0.0	13.5	71.6
2. Portfolio investment	-162.2	-67.8	-127.7	-68.7
Assets	-162.2	-67.8	-127.7	-68.7
2.1. Equity securities	0.0	0.0	0.0	0.0
2.2. Debt securities	-162.2	-67.8	-127.7	-68.7
4. Other investment	283.6	110.6	-104.6	-174.3
Assets	227.9	44.6	-175.6	-248.1
4.1 Trade credits	14.2	12.2	5.2	5.0
4.2 Loans	-11.7	6.9	0.4	9.4
4.3 Currency and deposits	225.3	25.5	-181.1	-262.4
4.4 Other assets	0.0	0.0	0.0	0.0
Liabilities	55.8	66.0	71.0	73.8
4.1. Trade credits	49.2	51.9	62.8	81.1
4.2. Loans	9.0	10.8	8.5	-3.5
4.3. Currency and deposits	-2.4	3.4	-0.2	-3.9
4.4. Other liabilities	0.0	0.0	0.0	0.0
5. Reserve assets	-1.8	-28.0	4.9	-64.9
5.4. Foreign exchange	-1.8	-28.0	4.9	-64.9
NET ERRORS AND OMISSIONS	176.7	283.6	367.6	422.8

Table 14.

Current account of balance

(In millions of EUR)

Description	2004	2005	2006	2007
Credit				
Export of goods and services				
Export of goods	56.9	56.3	110.8	146.6
Export of services	155.4	157.4	174.0	191.7
Total export of goods and services	212.3	213.7	284.8	338.3
Income				
Compensation of employers	26.9	27.0	26.6	26.6
Investment income	15.4	24.5	40.5	80.1
Total income	42.3	51.5	67.1	106.6
Current transfers				
Central government	431.7	395.2	388.9	388.5
Other sectors	426.7	489.3	538.3	592.7
Total current transfers	858.4	884.5	927.2	981.2
Total	1,113.0	1,149.7	1,279.1	1,426.1
Debits				
Import of goods and services				
Import of goods	-1,027.7	-1,100.3	-1,251.9	-1,506.2
Import of services	-164.9	-193.0	-188.7	-209.4
Total import of goods and services	-1,192.6	-1,293.3	-1,440.6	-1,715.7
Income				
Compensation of employers	-11.9	-8.9	-10.9	-11.0
Investment income	-13.0	-18.3	-27.2	-45.7
Total income	-24.9	-27.3	-38.1	-56.6
Current transfers				
Central government	0.0	0.0	0.0	0.0
Other sectors	-212.8	-209.6	-189.5	-189.5
Total current transfers	-212.8	-209.6	-189.5	-189.5
Total	-1,430.3	-1,530.1	-1,668.3	-1,961.7
Balances				
Trade in goods and services				
Trade in goods	-970.8	-1,044.0	-1,141.2	-1,359.6
Trade in services	-9.5	-35.6	-14.7	-17.7
Trade in goods and services	-980.3	-1,079.6	-1,155.9	-1,377.4
Income				
Compensation of employers	15.0	18.0	15.7	15.6
Investment income	2.4	6.2	13.3	34.4
Total income	17.4	24.3	29.0	50.0
Current transfers				
Central government	431.7	395.2	388.9	388.5
Other transfers	213.9	279.7	348.8	403.2
Total current transfers	645.6	674.9	737.7	791.7
Total (Current balance)	-317.3	-380.4	-389.1	-535.6

Table 15.

Capital account Summary table

(In millions of EUR)

Description	2004	2005	2006	2007
Credit				
Capital transfers	2.4	2.0	3.2	4.5
Acquisition/disposal of nonproduced nonfinancial assets	0.0	0.0	0.0	0.0
Total	2.4	2.0	3.2	4.5
Debits				
Capital transfers	0.0	0.0	0.0	-1.9
Acquisition/disposal of nonproduced nonfinancial assets	0.0	0.0	0.0	0.0
Total	0.0	0.0	0.0	-1.9
Balance	2.4	2.0	3.2	2.6

Table 16.

Financial account (by sectors)

(In millions of EUR)

Description	2004	2005	2006	2007
Investments abroad				
Monetary authority (CBAK)	104.3	-47.7	-242.3	-412.6
Other Depository Corporations	-65.5	-9.0	-47.5	26.9
Central government	-0.7	3.5	1.0	0.0
Other sectors	25.7	2.0	-13.9	-50.3
Total	63.8	-51.2	-302.7	-435.9
Investments in Kosovo				
Monetary authority (CBAK)	4.9	-2.1	-3.0	-0.1
Other Depository Corporations	17.1	29.1	57.1	42.9
Central government	0.0	0.0	0.0	1.0
Other sectors	52.4	119.0	266.9	364.2
Total	74.4	146.0	321.0	408.0
Total Investment				
Monetary authority (CBAK)	109.2	-49.8	-245.3	-412.7
Other Depository Corporations	-48.4	20.1	9.6	69.8
Central government	-0.7	3.5	1.0	1.0
Other sectors	78.1	121.0	253.0	313.9
Total	138.2	94.8	18.3	-28.0

Table 17.

Financial account (by instruments)

(In millions of EUR)

Description	2004	2005	2006	2007
Kosovo's investment abroad (Kosovo's assets = net debits)¹				
Direct investment abroad				
Equity capital	n/a	n/a	-4.3	-4.3
Reinvested earnings	n/a	n/a	n/a	n/a
Other capital transactions	n/a	n/a	n/a	n/a
Total direct investment abroad	0.0	0.0	-4.3	-4.3
Portfolio investment abroad²				
Debt securities	-162.2	-67.8	-127.7	-68.7
Total portfolio investment abroad	-162.2	-67.8	-127.7	-67.7
Other Investments abroad (Kosovo's assets = net debits)³				
Trade credit	14.2	12.2	5.2	5.0
Loans	-11.7	6.9	0.4	9.4
Currency and deposits	225.3	25.5	-181.1	-262.4
Other assets	0.0	0.0	0.0	1.0
Total other Investments abroad	227.9	44.6	-175.6	-247.1
Reserve assets				
Foreign Exchange	-1.8	-28.0	4.9	-64.9
Total reserve assets	-1.8	-28.0	4.9	-64.9
Total	63.8	-51.2	-302.7	-383.9
Investments in Kosovo (Kosovo's liabilities = net credits)				
Direct investment in Kosovo				
Equity capital	9.6	63.2	211.7	234.4
Reinvested earnings	9.1	16.8	24.8	42.9
Other capital transactions	0.0	0.0	13.5	71.6
Total direct investment in Kosovo	18.6	80.0	250.0	348.8
Portfolio investment in Kosovo				
Total portfolio investment abroad	0.0	0.0	0.0	0.0
Other Investments in Kosovo (Kosovo's liabilities = net credits)				
Trade credit	49.2	51.9	62.8	65.5
Loans	9.0	10.8	8.5	-3.5
Currency and deposits	-2.4	3.4	-0.2	-3.9
Total other Investments in Kosovo	55.8	66.0	71.0	59.2
Total	74.4	146.0	321.0	408.0
Net transactions (net credits less net debits)				
Direct investment				
Equity capital	9.6	63.2	207.4	230.1
Reinvested earnings	9.1	16.8	24.8	42.9
Other capital transactions	0.0	0.0	13.5	71.6
Total net direct investment	18.6	80.0	245.7	344.5
Portfolio investment				
Debt securities	-162.2	-67.8	-127.7	-68.7
Total net portfolio investment	-162.2	-67.8	-127.7	-68.7
Other Investments				
Trade credit	63.4	64.1	68.0	70.6
Loans	-2.7	17.7	8.8	5.9
Currency and deposits	222.9	28.9	-181.4	-266.3
Other assets	0.0	0.0	0.0	2.0
Total net other investment	283.6	110.6	-104.6	-187.9
Reserve assets				
Foreign Exchange	-1.8	-28.0	4.9	-64.9
Total reserve assets	-1.8	-28.0	4.9	-64.9
Total	138.2	94.8	18.3	23.0

¹ / Increase in assets and decrease in liabilities are recorded with sign minus, whereas decrease in assets and increase in liabilities are recorded with the sign plus.² / The assets side of portfolio investments includes "resident transactions in securities issued by non-residents", whereas the liabilities side records the opposite.³ / Since Kosovo is using foreign currency EURO as legal tender, this is considered as foreign assets and in this sense "Cash held by BPK" is considered as investment in Kosovo. The same issue is considered with ODC as well.

Table 18.

Exports, by Commodity Group

(Cumulative within the calendar year, in millions of EUR)

Description	2004	2005	2006	2007
Total	56.5	56.3	110.8	146.6
I Live animals; animal products	...	0.5	0.3	0.6
II Vegetable products	2.6	2.9	5.1	8.4
III Animal or veget. fats and oils - edib.	...	...	0.1	...
IV Prepared foodstuffs, bever. and tob.	3.8	4.6	6.2	7.5
V Mineral products	2.4	3.2	18.8	22.6
VI Products of the chem. or allied indust.	1.0	1.2	1.2	0.8
VII Plastics, rubber and articles thereof	3.7	1.0	3.2	6.0
VIII Hides, skins, leather, articles thereof	5.9	6.1	7.2	4.9
IX Wood and articles of wood	0.4	0.4	0.8	1.5
X Cellulosic material, pap. and articles	0.4	0.4	0.7	0.9
XI Textiles and textile articles	1.4	0.6	0.7	1.3
XII Footwear	0.1	0.1	0.1	0.1
XIII Artic. of stone, plast.ceramic, glass	1.8	0.4	0.7	1.0
XIV Pearls, precious, stones, jewelry, etc.	0.1	0.2	0.2	0.1
XV Base metals and artic. of base metal	19.7	24.8	53.1	67.0
XVI Machinery, appliances, electrical, etc	9.2	6.5	7.7	19.2
XVII Transport means	2.0	2.3	1.4	1.5
XVIII Optical, medical, musical instruments	1.1	0.4	0.3	0.4
XIX Arms and ammunition	...	...	2.5	...
XX Miscellaneous manufactured articles	0.7	0.4	0.6	2.5
XXI Work of art	0.1	0.3	...	0.1

Source: UNMIK Customs Service and Statistical Office of Kosovo;

Table 19.

Imports, by Commodity Group

(Cumulative within the calendar year, in millions of EUR)

Description	2004	2005	2006	2007
Total	1,063.2	1,157.5	1,305.9	1,575.6
I Live animals and animal products	52.4	4.3	50.5	61.2
II Vegetable products	5.4	3.1	3.1	83.4
III Animal or veget. fats and oils - edib.	0.5	0.8	0.8	17.3
IV Prepared foodstuffs, bever. and tob.	10.1	8.7	8.5	222.7
V Mineral products	13.9	13.3	13.3	317.6
VI Products of the chem. or allied indust.	4.6	4.6	4.6	118.9
VII Plastics, rubber and articles thereof	1.7	2.1	2.1	72.5
VIII Hides, skins, leather, articles thereof	0.0	0.1	0.1	2.5
IX Wood and articles of wood	1.0	1.3	1.3	35.3
X Cellulosic material, pap. and articles	3.0	1.3	1.4	31.7
XI Textiles and textile articles	1.5	2.2	2.2	52.4
XII Footwear	0.6	0.3	0.3	16.3
XIII Artic. of stone, plast.ceramic, glass	1.2	1.5	1.5	62.9
XIV Pearls, precious, stones, jewelry, etc.	0.0	0.0	...	0.6
XV Base metals and artic. of base metal	2.0	3.8	3.8	144.3
XVI Machinery, appliances, electrical, etc	5.4	6.5	6.3	196.6
XVII Transport means	2.5	9.2	9.3	82.1
XVIII Optical, medical, musical instruments	0.2	0.7	0.7	19.1
XIX Arms and ammunition	0.0	0.0	...	0.4
XX Miscellaneous manufactured articles	2.3	1.5	1.5	37.7
XXI Work of art	0.0	0.0	...	0.1

Source: UNMIK Customs Service and Statistical Office of Kosovo;

Table 20.

Exports, by Trading Partners

(Cumulative within the calendar year, in millions of EUR)

Description	2004	2005	2006	2007
Total Export	56.6	56.3	110.8	146.6
Europe	55.5	54.2	109.4	141.4
European Union (EU)	16.6	21.8	42.3	62.5
EU 15	15.0	19.2	23.4	51.5
of which:	0.0			
Austria	0.9	1.0	1.2	1.6
France	0.2	0.5	0.2	0.1
Germany	3.3	3.2	4.0	15.1
Greece	4.3	5.4	3.9	7.7
Italy	5.5	5.7	12.7	9.5
Netherlands	0.1	0.1	1.1	2.1
United Kingdom	0.6	...	...	0.2
EU 10	1.2	1.5	5.2	4.4
of which:	0.0			
Czech Republic	...	...	0.4	0.2
Poland	...	...	...	...
Hungary	0.1	0.1	...	...
Slovakia	...	...	...	...
Slovenia	1.0	1.2	4.5	3.7
EU 2	0.4	1.2	13.7	6.5
Bulgaria	0.4	1.0	13.5	5.3
Romania	...	0.2	0.2	1.2
CEFTA	23.5	29.9	51.7	60.5
Albania	1.8	5.8	12.6	19.1
Bosnia and Hercegovina	1.5	3.4	5.1	4.3
Croatia	0.5	0.9	1.1	1.4
FYROM	9.6	10.8	9.7	16.1
Montenegro	...	0.7	2.2	2.3
Serbia	10.1	8.2	20.9	17.4
Other European Countries	15.4	2.6	15.4	18.4
of which:	0.0			
Ukraine	...	...	...	0.3
Turkey	2.9	1.0	1.6	2.2
Russia	...	...	...	0.1
Switzerland (EFTA)	0.1	0.7	7.0	8.5
Other non-European Countries	1.0	2.0	1.3	5.2
Egypt	...	...	0.2	0.1
India	...	...	...	3.1
United State of America	...	0.2	...	0.4
Other		1.9	1.2	1.6

Source: UNMIK Customs Services and Statistical Office of Kosovo; Data for 2003 and 2004 are processed by CBAK.

Table 21.

Imports, by trading partners

(Cumulative within the calendar year, in millions of EUR)

Description	2004	2005	2006	2007
Total import	1,063.3	1,157.5	1,305.9	1,575.6
Europe	947.1	1,017.5	1,153.6	1,330.3
European Union (EU)	424.7	439.7	454.3	554.9
EU 15	284.0	296.3	286.5	365.2
of which:				
Austria	27.6	20.7	23.5	26.8
France	23.1	20.1	15.9	23.2
Germany	78.2	123.8	122.7	144.1
Greece	68.5	44.0	37.6	64.4
Italy	44.5	49.6	52.5	55.8
Netherlands	10.1	7.8	7.0	9.8
United Kingdom	11.1	7.5	6.4	9.3
EU 10	93.4	98.5	104.9	117.4
of which:				
Czech Republic	3.3	8.7	11.5	11.3
Poland	6.3	14.8	13.8	14.0
Hungary	19.7	16.2	20.0	25.5
Slovakia	4.4	2.5	2.4	3.7
Slovenia	56.9	55.0	56.0	62.0
EU 2	47.3	44.9	62.9	72.3
Bulgaria	42.1	37.8	58.5	42.0
Romania	5.2	7.1	4.4	30.3
CEFTA	368.7	440.4	536.3	577.5
Albania	20.2	18.1	23.1	36.2
Bosnia and Hercegovina	12.8	18.4	18.5	29.8
Croatia	25.1	25.0	28.1	39.0
FYROM	149.2	220.1	257.8	236.5
Montenegro	...	6.4	17.8	14.0
Serbia	161.3	152.3	191.1	221.9
Other European Countries	136.8	118.4	138.9	197.9
of which:				
Russia	6.8	10.8	9.9	4.7
Turkey	86.8	85.4	97.1	101.6
Ukraine	10.9	12.0	12.0	17.2
Norway (EFTA)	0.6	0.6	1.2	4.8
Switzerland (EFTA)	16.2	18.4	22.8	23.5
Other non-European Countries	116.2	139.9	152.3	245.3
Argentina	1.4	1.1	1.8	3.1
Brazil	21.5	16.8	18.6	30.4
China	34.3	54.9	74.7	104.6
Egypt	1.1	0.5	0.9	1.3
India	1.1	2.5	2.2	3.8
Taiwan	1.4	2.2	2.0	2.8
Thailand	0.8	0.7	1.1	2.3
Indonesia	0.5	0.5	1.0	30.8
Japan	8.1	13.5	8.7	9.7
United States of America	17.0	17.7	11.6	14.3
Other	29.1	29.5	29.8	42.2

Source: UNMIK Customs Services and Statistical Office of Kosovo; Data for 2003 and 2004 are processed by CBAK.

NOTE: Imports data are by country of origin.

1/ Since January 2007.

