BANKA QENDRORE E REPUBLIKËS SË KOSOVËS
CENTRALNA BANKA REPUBLIKE KOSOVA
CENTRAL BANK OF THE REPUBLIC OF KOSOVO

Annual Report 2013

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BANKA QENDRORE E REPUBLIKËS SË KOSOVËS

CENTRALNA BANKA REPUBLIKE KOSOVA

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Annual Report 2013

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LIST OF ABBREVIATIONS

NFA	Net Foreign Assets
PAK	Privatization Agency of Kosovo
KAS	Kosovo Agency of Statistics
TAK	Tax Administration of Kosovo
ATM	Automated Teller Machine
MTA	Money Transfer Agencies
WB	World Bank
EU	European Union
BEC	Broad Economic Categories
BEEP	Business Environment Enhancement Project
EBRD	European Bank for Reconstruction and Development
BIC	Business Identifier Code
BIS	Bank for International Settlements
KIB	Kosovo Insurance Bureau
BKT	Banka Kombëtare Tregtare
BPB	Banka për Biznes
CBK	Central Bank of the Republic of Kosovo
CAR	Capital Adequacy Ratio
CEFTA	Central European Free Trade Agreement
CPI	Consumer Price Index
DJI	Dow Jones Industrial Average
DLE	Department of Labour and Employment
DSFAE	Department of Financial Stability and Economic Analyses
SDR	Special Drawing Rights
ECB	European Central Bank
EFSE	European Fund for South-eastern Europe
SEE	South-eastern Europe
EULEX	European Union Rule of Law Mission in Kosovo
EUROSTAT	General Directorate of European Statistics
IMF	International Monetary Fund
SKPF	Slovenian-Kosovo Pension Fund
GBR	Great Britain Pound
HHI	Herfindahl-Hirschman Index
IAIS	International Association for Insurance Supervisors
FDI	Foreign Direct Investments
MFI	Microfinance Institutions
IPI	Imports Price Index

NPC	Kosovo Energy Corporation
KKP	National Payment Council
KMB	Komercijalna Banka
ODC	Other Depositing Corporations
MF	Ministry of Finance
MLSW	Ministry of Labour and Social Welfare
MTPL	Motor Third Party Liability Insurance
NLB	Nova Ljubljanska Banka
NPL	Non Performing Loans)
NPHSO	Non-profitable Household Service Organizations
GDP	Gross Domestic Product
PCB	Pro Credit Bank
IIP	International Investment Position
POS	Point of Sale
pp	Percentage Point
PPI	Producer Price Index
PPP	Purchasing Power Parity
PTK	Post and Telecommunication of Kosovo
RBK	Raiffeisen Bank of Kosovo
REER	Real Effective Exchange Rate
CRK	Credit Registry of Kosovo
ROAA	Return on Average Assets
ROAE	Return on Average Equity
RTGS	Real Time Gross Settlement
RWA	Risk Weighted Assets
SEKN	Interbank Electronic Clearing System
SEPA	Single Euro Payment Area)
SFR	Swiss Franc
ARS	Accountancy Registry System
SWIFT	Society for Worldwide International Financial Telecommunication
TEB	Türk Ekonomi Bankasi
KPST	Kosovo Pension Savings Trust
TPL	Third Party Liability
VAT	Value Added Tax
UNMIK	United Nations Mission in Kosovo)
USAID	United States Agency for International Development)
USD	United States Dollar
VPN	Virtual Encryption and Network Technology

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Cover letter of Chairman of the Central Bank Board of the Republic of Kosovo

On behalf of the Central Bank Board of the Republic of Kosovo, through the annual report 2013, I am pleased to present the major economic trends and CBK activities in promoting and sustaining the financial sector stability.

This report in its content is rich with information and comprehensive in terms of expansion in the economic and financial sectors, in the service of the reader, whether the general public, participants in financial markets, interest holder in ownership or potential investor.

In compliance with the applicable legal framework and better governance standards, the activities of the Central Bank Board of the Republic of Kosovo are focused on advancing the regulatory framework by adopting a series of new regulations, enriched with the most prudent current requirements in the field of financial sector regulation, the payments and central banking in general. Advancement of regulatory framework has significantly diminished the differences between regulatory requirements of the countries from where the foreign and local capital mostly originates aligning it with EU directives. All this, seems to favourably be reflected in financial institutions performance, increasing the quality of risk management, maintaining capital adequacy, liquidity, the quality of the loan portfolio, investments and above all rationalizing the cost of financial intermediation.

Furthermore, the CBK Board has enriched the CBK governing general framework by updating its organizational structure and supporting it with an appropriate budget and protecting its financial and operational independence. Advancement of regulatory framework is also carried out in the internal domain of CBK towards an effective environment of internal control, reliability of financial reporting of CBK and increase on analysis, statistics and other publications in view of a more comprehensive transparency. Among the significant achievements was provision of "SWIFT" state code for international payments of commercial banks operating in the local market.

Despite the low pace of economic global growth in 2013 (3.0 percent in 2013, against 3.2 percent in 2012), the recession in the Eurozone (-0.5 percent), CBK estimation identify a real rate of GDP growth at 3.1 percent against 2.5 percent in 2012. During 2013, economic growth is mainly attributed to the improvement of the trade balance which is considered to be the result of replacing some imported products with local products. Apart from import substitution, 2013 was also favourable in terms of prices of imported products which have brought to a low inflation rate of 1.8 percent compared with the rate of 2.5 percent marked in 2012.

A significant increase is marked in the financial sector, thus reaching the level of 4.2 billion euro, marking an annual growth of 10.2 percent of total assets. This increase reflects mainly the growth of pension fund assets to the level of 23.3 percent and commercial banks of 8.1 percent, while the total assets in the insurance sector grew by 1.4 percent.

Whereas, the financial sector stability is evident in all constituent components of capital, profitability, liquidity and risk management quality.

Beyond the high level of capital adequacy of 16.7% to the regulatory required level of 12.0%, the stability of the banking sector from the perspective of solvency is re-confirmed towards coverage ratio of 110.6% of nonperforming loans with capital. All this reflects the high capacity of absorbing capital losses from the most significant risk in the banking market.

Also, the banking sector liquidity position is stable by significantly exceeding the regulatory requirements in terms of levels of liquidity and being favorouble in the context of liquidity risk management practices.

I feel privileged to conclude this cover letter of the CBK annual report while expressing deep gratitude to all financial institutions for their ongoing support and contribution provided to CBK, such as the U.S. Treasury, the International Monetary Fund, World Bank, German Development Fund, European Central Bank and the Region Central Banks.

Prof. Dr. Bedri Peci

Chairman of the Central Bank Board
of the Republic of Kosovo

Introductory remarks of the Governor

Kosovo's economy during 2013 was characterized by macroeconomic stability, which is mainly based on continuing economic growth and moderate inflation rate. One of the most important contributors on the maintenance and macroeconomic stability in Kosovo is undoubtedly the financial stability, which represents the primary objective of the Central Bank of Kosovo (CBK). CBK`s continued engagement to ensure financial stability in the country and cautious behavior of financial institutions enabled Kosovo in 2013 to enjoy a stable financial system and to be in the function of economy`s request for financial services.

The banking sector has remained sustainable in all aspects, based on the satisfactory position of liquidity, quality of loan portfolio and the high level of capitalization. Deposits collected within the country continued to be a sustainable source of financing for banks operating in Kosovo, making the country's economy less dependent on the fluctuation in the offer and costs of funds from abroad. However, the crediting of the economy continued to grow with a slower pace compared to previous periods. The intermediary activity of the banking sector during 2013 was characterized with reduction of interest rates both for credits and deposits, reflecting, inter alia, the measures undertaken by the banking sector for increasing efficiency. Satisfactory performance was also recorded by other components of Kosovo`s financial system, in which it is worth mentioning the increase of return from pensions fund investments and further expansion of insurance companies activity, whereas microfinance institutions lending activity continued to decrease.

During 2013, CBK continued to pay special attention to the advancement of the legal framework on financial institutions both in terms of primary and secondary legislation. In this regard, it is worth mentioning the drafting of the Strategy on Consumer Protection and Financial Education which helps strengthening the position of financial service consumers in Kosovo. At the same time, progress was made in the further advancement of financial supervision on risk based supervision and the advancement of capacities for the assessment of financial and macroeconomic stability in Kosovo. An important basis for the advancement of CBK`s role in providing financial stability were also the recommendations of the Financial Stability Assessment Program (FSAP) which was conducted in 2012 jointly by the International Monetary Fund and the World Bank. In order to ensure a more effective addressing of these recommendations, CBK has drafted a detailed action plan, through which we are accomplishing the tasks arising from the FSAP report in a structured manner. During the year, significant achievements were registered in the payment system area, where we should emphasize the provision of the specific state SWIFT code for financial institutions operating in Kosovo, which would impact the increase of efficiency and safety during the performance of international transfers. CBK has managed to successfully implement other tasks which are related to banking services provided to institutions and economy in general, including, inter alia, regular supply of economy with cash and the issuance of treasury bills on behalf of the Government of Kosovo.

Another important pillar of CBK`s activity during 2013 was the regular information of the public and decision making authorities on economic and financial developments in Kosovo, which was realized through further advancement of statistics compiled by CBK and various publications. Particular attention was paid to international cooperation, through which we are managing to quickly converge towards the achievement the best standards and practices of central banking.

The Central Bank remains committed in preserving the financial stability through adoption of more effective policies and practices in identifying potential risks, and the establishment of policies and encouraging infrastructure for further development of the financial sector. Achievements in overcoming challenges and accomplishing the tasks represent a good basis for further advancement of capacities for realization of our legal objectives, which CBK aims to achieve through continued development of institutional, technical and human capacities, and high level of commitment and accountability of all its employees.

Bedri Hamza

Governor of the Central Bank
of the Republic of Kosovo

Central Bank Board, Executive Board and Audit Committee

Central Bank Board

The activities of the Central Bank Board were focused towards successful implementation of competences and duties outlined under the Law on Central Bank of the Republic of Kosovo. For this purpose, the Board has continuously held meetings, whereby it was informed and were discussed the overall developments of the financial system in Kosovo and beyond, as it has held more than 16 formal meetings in which decisions have been taken.

The Board has approved the annual budget of the Central Bank on timely manner, and has conducted continued supervision of its execution. The Board also reviewed and approved quarterly and final CBK Financial Statements and reports.

The Board reviewed and approved the issuance and supplementation of regulations in the area of the financial system according to requests and proposals made by the Executive Board, which is presented above:

- Repeal of Rule VIII for Governance of Banks
- Amending the Regulation on Bank Capital Adequacy
- Amending the Regulation of Large Exposures
- Amending the Regulation for Managing the Credit Risk
- Amending the Regulation on Consolidated Supervision of Banking Groups
- Regulation on Credit Risk Management for MFI
- Rules for reporting of microfinance institutions to CBK
- Regulation on internal controls and functioning of internal audit for MFI`s
- Regulation on the effective interest rate and disclosure requirements of MFI`s
- Regulation on liquidity risk management for MFI`s
- Regulation for the external audit of microfinance institutions
- Regulation on Limits of Holding of Real Estate and Movable Property for MFI`s
- Regulation on procedures for imposing administrative penalties
- Amending the - Regulation on Deposits Equivalent to Capital for Branches of Foreign Banks
- Regulation on clearing and the functioning of Accounts for settlement
- Regulation on the Direct Debit System of the Electronic Interbank Clearing
- Amendments in the Regulation on Statistics of Balance Payments and Position of International Investments
- Amending the Regulation on Statistics of Balance Payments and International Investments Position

Central Bank board also approved:

- Annual Plan of Internal Audit for 2013
- Annual Report of the Committee and the Head of Internal Audit of CBK for 2012
- Annual Financial Report of the CBK for 2012;
- CBK Budget for 2014;
- Reports and periodic financial position statements of CBK;
- CBK Organizational structure

In order to fulfil the competences determined by the law, the Board has performed on time all tasks related to:

- Implementation of the process of nomination and appointments within the competences defined by the Law on CBK;
- Review of all reports and recommendations of the Executive Board and Governor with the aim of achieving the financial stability; and
- Other issues within the competence of the Central Bank Board.

The Board has performed other duties that were in compliance with the Law on the Central Bank of the Republic of Kosovo and other legislation into force.

On 31 December 2013, the Board of the Central Bank of the Republic of Kosovo consisted of the following members:

Mejdi Bektashi, Chairman of the Central Bank Board

Bedri Hamza, Governor and member of the Central Bank Board

Bedri Peci, member of the Central Bank Board

Fatmir Plakiqi, member of the Central Bank Board (head of the Department of Treasury in MF)

Vacant position of the non-executive member of the Central Bank Board as of 12 June 2013

Executive Board

In accordance to the Law No. 03/L-209 on the Central Bank of the Republic of Kosovo, respectively Article 34, item 3, the Executive Board shall comprise the Governor, (Chairperson of the Executive Board), and Deputy Governors.

Competencies and duties of the Executive Board are defined in Article 36 of the Law No. 03/L-209 on the Central Bank of the Republic of Kosovo.

During 2013, the Executive Board of the Central Bank of the Republic of Kosovo has held 24 meetings.

On 31 December 2013, the Executive Board was comprised by Bedri Hamza (Governor/Chairman of the Executive Board), Lulzim Ismajli (Deputy Governor for Banking Operations), Fatmir Gashi

(Deputy Governor for General Functions) and Fehmi Mehmeti (Deputy Governor for Financial Supervision).

Secretary of the Executive Board during 2013 was Flamur Mrasori (General Adviser of the Governor).

Auditing Committee

Within the transparent governance, in the organizational structure of CBK, in accordance with Article 62 of the Law No. 03/L-209 on the Central Bank of the Republic of Kosovo and the statute of the Auditing Committee functions the Auditing Committee, too. Objectives of the Auditing Committee are to assist the Governing Board of CBK regarding the fulfilment of responsibilities in relation to the internal auditing action, internal controls, business ethics and transparent governance as well as the financial report of CBK.

The Auditing Committee is appointed by the Central Bank Board and consists of three members (two non-executive members elected from the Central Bank staff and one member-external expert in the field of accounting and auditing)

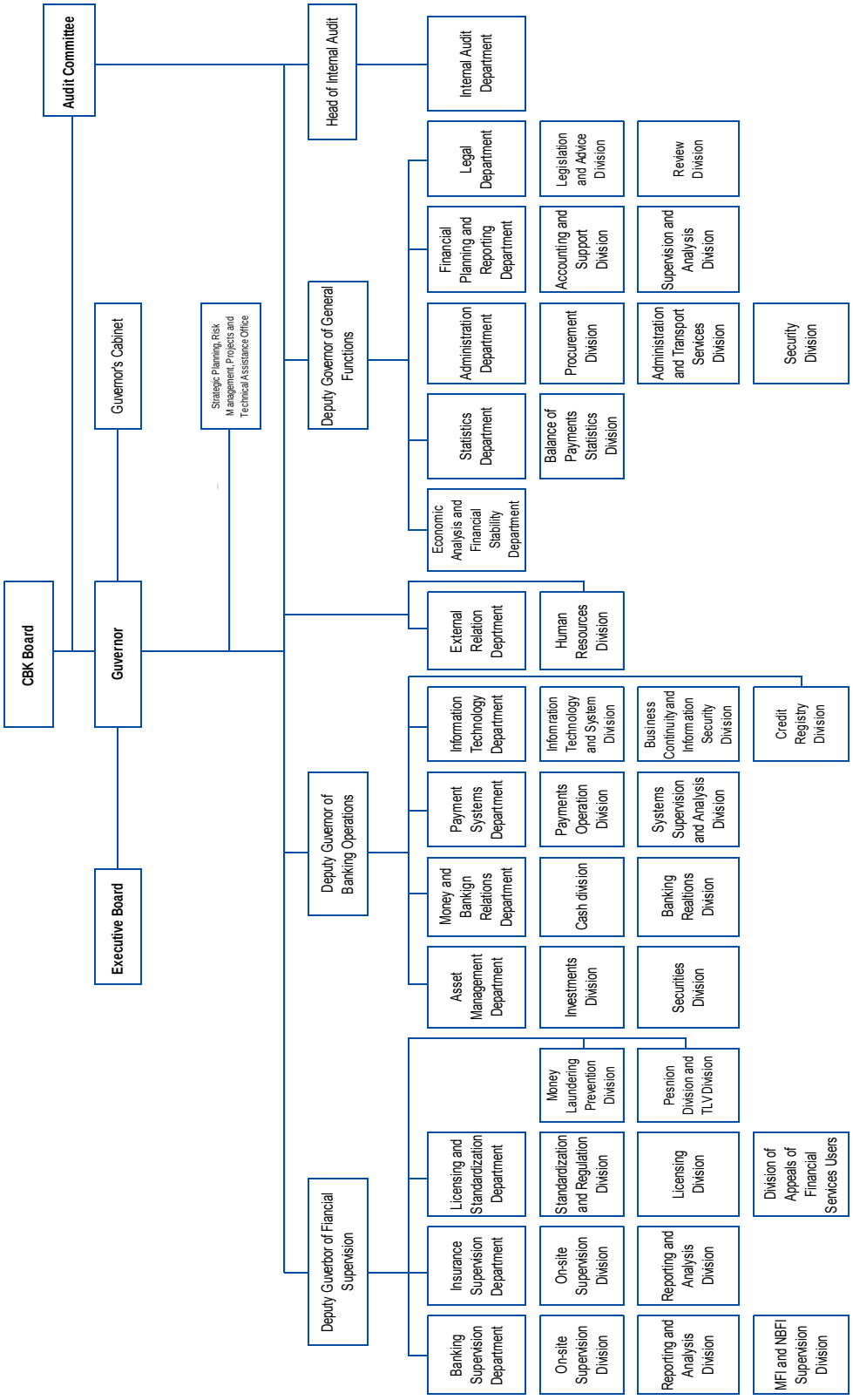
On 31 December 2013, the Auditing Committee consisted of the following members:

Mejdi Bektashi, Chairman of the Central Bank Board;

Bedri Peci, Member of the Central Bank Board;

Arben Dërmaku, External Member.

Organizational structure of the CBK: December 31, 2013



1. Executive Summary

On the global level, the economic activity was characterized with economic growth, during 2013. According to IMF assessment, real GDP growth rate was 3.0 percent against 3.2 percent growth in 2012. The increase of economic activity during 2013 was more significant in developed countries, whereas in developing countries the economic activity was slower. On the other hand, Eurozone, for the second consecutive year faced with a recession which was caused by fiscal sector problems and financial sector constraints, especially in its peripheral areas. Such developments and constraints of the cross-border financial activity presented an additional challenge to the success of facilitation monetary policies in the Eurozone. Consequently, one of ECB`s concerns for the upcoming year remains the risk from deflation. Unlike the Eurozone countries, the SEE countries during 2013 were characterized with an improvement of the economic activity in relation to 2012. Additionally, the price level was at desirable rates since most of the countries were characterized with a moderate inflation. Economic growth in SEE countries during 2013 was mostly a result of improving the current account deficit and a slight increase in foreign direct investments.

Developments during 2013 in relation to Kosovo`s economy were favourable. GDP growth rate was accelerated and reached 3.1 percent from 2.5 percent in 2012. General consumption had a solid increase which was driven by remittances, consumer loans of the banking sector, salaries of the public and private sector, etc. Regarding investments, unlike the previous year that were characterized by reduction, during 2013 this category increased as a result of FDI increase and investment loans to the private sector, whereas the investments in the public sector during 2013 had a negative impact. During 2013, economic growth in Kosovo is mainly attributed to the improvement of the trade balance which is considered to be a result of replacing some of the imported products with domestic products. Apart from substituting the imports, 2013 was also favourable in relation to imported product prices which led to a low rate of inflation. Inflation rate in 2013 was 1.8 percent compared to the rate of 2.5 percent registered in 2012. The fiscal sector was also characterized with positive developments as revenues from domestic taxes increased significantly and managed to compensate the decline of revenues from border taxes which was as a result of declining imports. Budget expenditures were also characterized with increase, mostly due to the increase of subsidies, transfers, goods and services.

Total value of assets of Kosovo`s financial system amounted to euro 4.2 billion in 2013, which represents an annual increase of 10.2 percent. The increase of total assets of the financial system during 2013 mostly reflects the increase of pension funds and commercial banks. The remaining part of financial system assets, respectively microfinance and financial assistance institutions assets, in 2013 was lower compared to the previous year.

Banking sector assets continue to dominate the structure of the total financial system assets. In 2013, banking sector assets grew annually by 8.1 percent, reaching the amount of euro 3.1 billion. In the assets performance is noticed a banking portfolio expansion in investments and securities and increase of the CBK balance category, whereas the lending activity continues to grow at a slower rate. Expansion of securities investment portfolio and the growth of commercial banks reserves in CBK in relation to the growth of the credit activity continue to reflect a more conservative approach by the commercial banks with regard to economy crediting. In 2013, the total value of Kosovo`s banking sector loans amounted to euro 1.8 billion, an annual increase of 2.4%. In the same period, the total amount of deposits amounted to euro 2.4 billion, which shows an annual increase of 7.5%. Deposit growth during this period contributed largely the accelerated growth of deposits of private enterprises in 2013, whereas the deposits of other financial

corporations and public enterprises deposits were characterized by decline. During 2013, the main indicators of banking sector profitability marked an improvement mostly as a result of profit growth. Furthermore, during 2013, the level of capitalization is strengthened and Capital Adequacy Ratio reached the level of 16.8 percent (14.2 percent in December 2012). Regarding the country banking sector exposure to credit risk, in 2013 is noticed an increase of exposure compared to the previous year, where the ratio of nonperforming loans against total loans reached to 8.7 percent (7.5 percent in 2012). However, the increase of this report mainly reflects the deceleration of total credit growth, whereas the amount of bad loans is not characterized with an acceleration of growth in this period. Banking sector liquidity position during 2013 remained at a satisfactory level, mainly as a result of faster growth of deposits compared to loans. The loan-deposit ratio fell to 73.7 percent from 77.4 percent as it was in December, 2012.

Regarding the insurance market, the number and structure of insurance companies remains unchanged from last year, when the financial system counted 13 insurance companies of which 90 per cent provide non-life insurance, while the remaining 10 percent represents the life insurance segment. In 2013, total assets of insurance companies operating in the country amounted to Euros 132 million, an annual increase of 1.4 percent. The insurance sector during 2013 was characterized with a net loss of Euros 337 thousand, which is significantly lower compared to the previous year when this sector registered losses amounting to Euros 3.1 million. Reduction of losses was mostly enabled by good management of expenditures.

During 2013 were prepared two draft-laws with particular importance to the financial sector in Kosovo. One of them is the draft law on general insurance, whereas the other is the draft law for Microfinance Institutions and Non-Banking Financial Institutions. Also, significant progress has been made in the drafting of the secondary financial legislation.

In the view of a stable banking system, during 2013 were conducted examinations of commercial banks in conformity with the foreseen plan. Consistent to international practices in the relevant field, particular emphasis is paid to the credit risk, liquidity, market and other risks based in the approach of risk based supervision. Particular attention was paid to fulfilment of recommendations identified during examinations, respective decisions and conformity assessments of banks to the applicable legal framework, especially to CBK regulations which have entered into force as of 03 December 2012.

CBK during 2013 was also engaged in the adoption of best insurance supervision practices, based in the principles of the International Association of Insurance Supervisors and risk based supervision, thus contributing to the transparency increase of insurance operations. The financial position of insurance companies was supervised with special care, which resulted with a continuous improvement of the financial position of this sector.

In 2013, the Pension Fund Supervision Division started the review, adaption and harmonization of secondary pension legislation with the Law No.04/L-101 on Pension Funds of Kosovo and the European Union Directive. Kosovo Pension Savings fund was characterized with a positive performance in 2013, on which occasion total assets of the pension system registered an annual increase of 23.3 percent and amounted to Euro 918.7 million. During 2013, KPST was characterized with increase of the share price and increase of investment return. Kosovo Pension Saving Trust during 2013 realized a positive return from fund investments in the amount of 68.1 million Euro, an annual increase of 7.5 percent, whereas the price of the share was higher in 2013 compared to the previous year for 7.3 percent.

Similar to previous years, during 2013 as well, CBK provided a qualitative and quantitative offer of cash for the banking sector, to enable cash transactions in the economy. Regarding developments in the payments system, in 2013 was adopted the Law on the Payment System and

the accompanying regulation was reviewed and harmonized, thus strengthening the supervision competences of the payment system and market infrastructure in the banking industry. During 2013 was registered an increase in volume and amount of Electronic Interbank Clearing System (EICS) transactions, the system was further advanced and the participation of "IS Bank" in the EICS was functionalized, a bank which started operating in the country during 2013.

During 2013 all assets under the CBK management were invested in financial instruments under the category of safe and liquid instruments. CBK conducted positive investment returns, on which occasion the returns were more favourable from the investments in securities compared to investments in banking deposits. During 2013, CBK conducted 21 auctions on which occasion for the first time were issued treasury bills with a maturity period of 364 days and an average rate of return 1.99 percent, whereas annual rates of return were characterized with a declining trend mostly as a result of the increase of request to participate in this auctions. Credit Registry as a result of requests presented by member institutions has registered 385 new users in 2013, whereas, the research on credit background of credit applicants during the year amounted to 623,334 researches.

2. External Economic Environment

Global economic developments during 2013 were characterized by positive trends, but growth rates were slightly lower compared to the previous year. IMF estimates are that global economic growth in 2013 was 3.0 percent, compared to 3.2 percent in 2012. Global economic activity is driven by the developed countries, while developing countries, although characterized by positive trends, had lower growth rates.

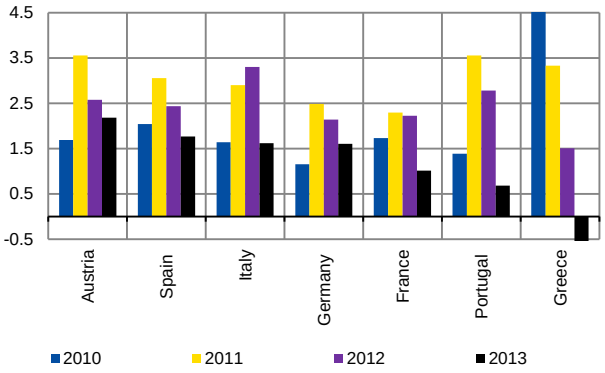
Table 1. Selected macroeconomic indicators

Description	GDP		Inflation		Current account (% of GDP	
	2012	2013	2012	2013	2012	2013
Global economy	3.2	3.0	3.9	3.6		
Euro area	-0.7	-0.5	2.5	1.3	2.0	2.9
Developing countries	5.0	4.7	6.0	5.8	1.4	0.7
European developing countries	1.4	2.8	5.8	4.1	-4.5	-3.9

Source: IMF (April 2014)

In 2013, Eurozone was characterized by recession marking negative economic growth rate of 0.4 percent, which was driven by ongoing problems in fiscal and financial sector in the countries such as Spain, Italy, Greece, Portugal and Slovenia, but also other countries such as the Netherlands. On the other hand, countries like Germany and France, although they did not have recession had very low growth of 0.5 respectively 0.2 percent. Recession in the Eurozone in 2013 was a result of relatively low level of reliability for improvements in the real sector of economy as well as concerns in terms of public debt. During 2013, public debt reached 95.7 percent of GDP compared to 92.9 percent in 2012 despite the fact that budget deficit declined. Lack of economic growth made challenging maintenance of debt sustainability in the Eurozone. Also the problems in financial system, which in recent years has moved in direction of reduction of interbank activity, is considered to have contributed in creating further insecurities. With the aim of boosting economic and interbank activity, ECB during 2013 reduced twice the basic rate of refinancing. In May 2013 refinancing rate was reduced from 0.75 to 0.50 percent, while in November 2013 it was reduced to the level of 0.25 percent, which simultaneously represents the lowest historic level.

Figure 1. Inflation in euro area selected countries, in percent

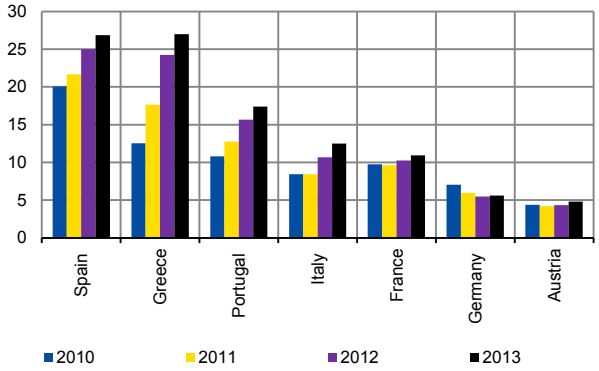


Source: Eurostat (2014)

Projections for 2014 are quite encouraging since global growth is expected to reach 3.7 percent, whereas this increase is expected to be balanced among developed countries and developing countries, (IMF WOE, 2014). However, the weaknesses that characterized the global economy remain present for 2014 as well. Risks for 2014 mainly come from the possibility of deflationary pressures to be present in developed countries, continuation of weak demands in developing countries, and very slow recovery of Eurozone.

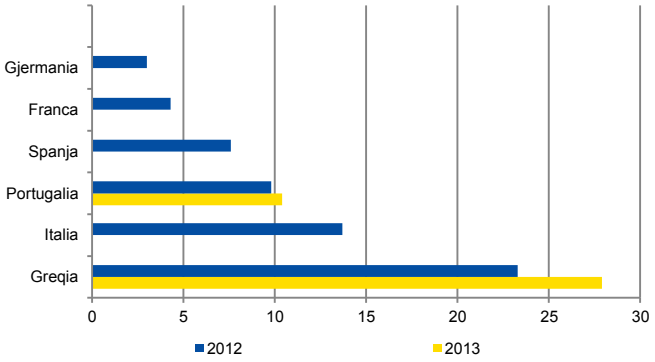
At the global level, the inflation rate reached 3.8 percent compared to 4.0 percent in the previous year (Table 1). Global increase of prices was driven mostly by inflation in developing countries, while developed countries during 2013 were characterized by low rates of inflation, thus raising concerns for possibility of occurrence of deflation in some Eurozone countries. In Eurozone countries, inflation rate during 2013 was 1.5 percent, which is significantly lower than ECB's target for inflation at around 2 percent. This was precisely one of the reasons that led to the reduction of the basic rate of refinancing from ECB. Decline of inflation in the Eurozone came mainly as a result of weakened demand from the private sector and contained level of public spending (Figure 1). As a consequence of these developments, prices of key products, particularly metal prices were negatively affected. Also, in order to avoid the risks from the supply, many developed countries have established oil reserves, a factor which in 2013 led to oil prices being lowest globally. Despite this, the increase of oil production in U.S. made U.S. demand for oil imports to decrease, causing reduced pressure on oil prices globally. Decline of oil prices is also reflected in food prices, which also were characterized with a decrease tendency.

Figure 2. Unemployment in euro area selected countries, in percent



Source: Eurostat (2014)

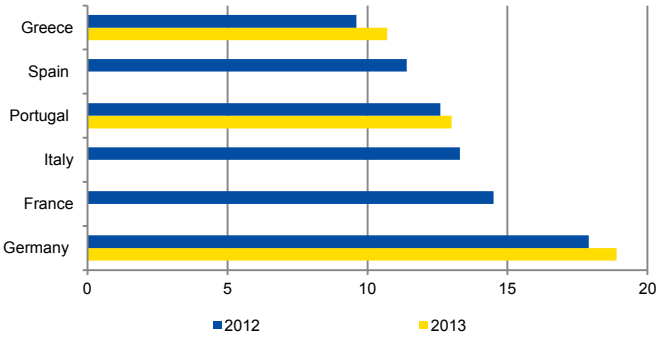
Figura 3. Norma e kredive jopërformuese në vende të zgjedhura të eurozonës



Burimi: FMN (2014)

Regarding unemployment, current data indicate small fluctuation in the unemployment rate in most developed world economies. As a result of economic activity decrease, the unemployment rate of the Eurozone continued to increase in 2013, thus marking an increase from 11.4 percent in 2012 to 12.3 percent in 2013. Greece, Spain and Portugal in addition to being countries that lead the list in terms of unemployment rate, also represent countries in which unemployment continued to rise mostly during 2013 compared to 2012 (Figure 2). Slight fluctuation occurred in Germany, where the unemployment rate increased slightly from 5.5 percent in 2012 to 5.6 percent in 2013. Global trade during 2013 was characterized by an increase of 2.6 percent, which mainly came as a result of acceleration of exports and imports both in developing and developed countries.

Figure 4. Capital Adequacy Ratio in euro area selected countries, in percent



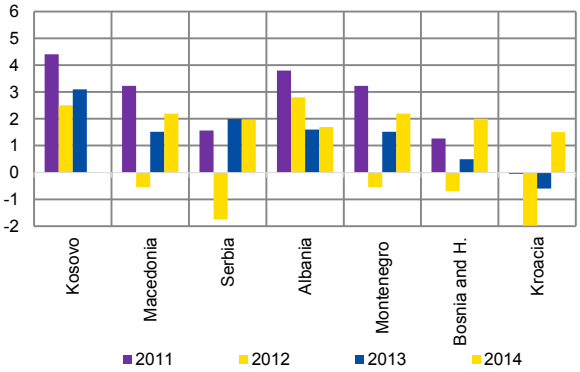
Sourcei: IMF (2014)

The credit growth rate in Eurozone in 2013 was negative with 2.0 percent compared to 0.4 percent growth in 2012. During 2013, the crediting growth rate remained negative both in relation to enterprises as well as households, but it was the category of enterprises that received a more substantial decrease. This is a result of deteriorating crediting portfolio quality and solvency of the private sector. Moreover, financial activity remained isolated only within each member's economy as a result of economic activity increased uncertainty, which was a factor in credit reduction beyond political borders. This is further reflected in the increase of intermediation cost, especially for countries most affected by the crisis. On the other hand, in majority of Eurozone countries, banks reported an improvement in capital adequacy indicator (Figure 4).

2.1. South-eastern Europe

During 2013, South-eastern European (SEE) countries were also characterized by positive economic activity, which had as a characteristic the decrease of domestic demand, but increase of foreign demand. Croatia continues to face a decline of economic activity of 0.6%, while after the recession of 2012 Bosnia and Herzegovina had an increase of 0.5 percent. Serbia during 2013 marked an increase of 2.0 percent compared to the decline of 1.7 percent in the previous year. Macedonia and Montenegro after the negative growth of 0.5 percent, marked an increase of 1.5 percent in 2013 (Figure 5). Stabilization of economic activity in the region during 2013 significantly is addressed to exports improvements but also in slight increase of foreign direct investment (FDI).

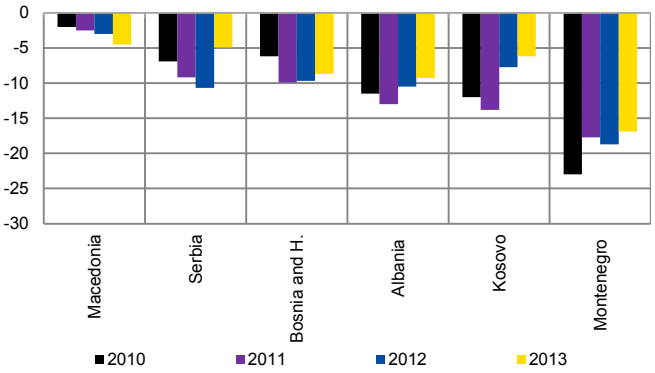
Figure 5. Real GDP growth rate in SEE



Source: IMF (2014) and CBK estimates for Kosovo for 2014

Slight improvement of economic activity in 2013 in the countries of the region is also reflected in the unemployment rate. European Commission estimates show a decline in the unemployment rate in Albania, Macedonia and Serbia, whereas in Bosnia and Herzegovina there was a slight increase of the unemployment rate.

Figure 6. Current account deficit in SEE, in percent of GDP



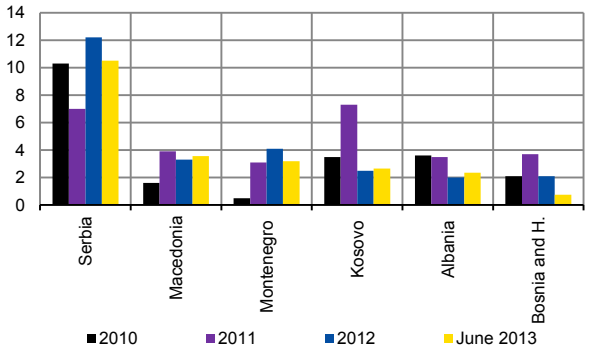
Source: European Commision (2013) and CBK estimates for Kosovo for 2013

The average rate of the current account deficit for SEE countries in 2013 was 8.8 percent of GDP (0.2pp lower than in 2012). During this year, all SEE countries were characterized by decrease of current account deficit, with an exception of Macedonia, which increased the deficit from 3.0 percent to 4.5 percent of GDP (Figure 6). Montenegro, Albania and Bosnia and Herzegovina continue to have the highest level of deficit, while Macedonia, Kosovo and Serbia in 2013 reported the lowest level of current account deficit. Reduction of the deficit in most countries in the region was a result of decrease in prices of main products in international markets such as oil, metals and food products, which slowed the growth of imports value. Also, in

addition to slower imports growth, during 2013 the increase of exports in all countries of the region was higher than in the previous year. On average, the region countries marked an export growth of over 6 percent during 2013, compared with 2012 when exports had marked a decline of over 5 percent. However, trade improvements effects were overshadowed by the decline in remittances in some of the countries of the region, except Kosovo where remittances continue to mark a growth. Foreign direct investments, which grew significantly in 2013, remain among most important components of balance of payments in the countries of the region, especially when considering that 2012 was characterized by relatively low levels of FDI.

The downward trend in international market inflation enabled the mitigation of inflationary pressures in the countries of the region. With the exception of Serbia, where the inflation rate reached 8.8 percent, prices in other regional countries were characterized by moderate inflation averaging 2 percent (Figure 7). Regarding fiscal sector performance, most of the countries in the region were characterized by poorer performance both in costs and in budget revenues compared to initial projections. However, during 2013, it is considered that the weakest performance in budget revenues forced regional countries to cut the different categories in spending, particularly capital expenditures.

Figure 7. Annual average inflation rate in SEE



Source: European Commission (2014)

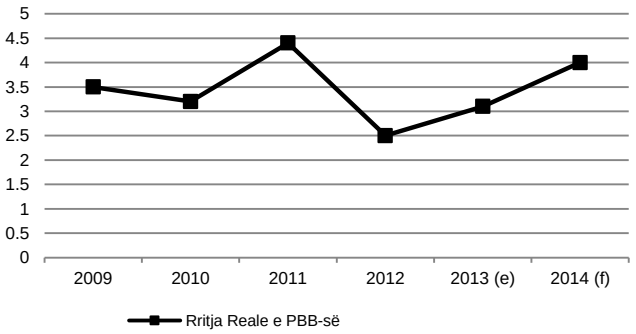
Financial sector in regional countries followed similar developments to Eurozone countries, characterized by decrease or slowdown in crediting. Credit activity had negative growth rates in Albania, Serbia, and with very slow rate of growth in other countries such as Macedonia, Bosnia and Herzegovina and Kosovo. This in many cases came as a result of foreign banks which are subject to the rules of the parent banks for careful expansion of their own group level in terms of crediting. During 2013, deposits marked an increase in almost all countries of the region. Regarding the quality of the credit portfolio, during 2013 non-performing loans as a percentage of total loans in all countries of the region marked double-digit rates, by reaching 23.5 percent in Albania, 14.9 percent in Bosnia and Herzegovina, 10.9 percent in Macedonia and 20.6 percent in Serbia. Kosovo remains the country with the best credit portfolio quality, which in December non-performing loans were 8.7 percent. Regarding capitalization, the capital adequacy ratio slightly increased in some countries of the region. The level of capitalization in Albania increased from 16.2 to 17.9 percent of total assets, in Kosovo from 14.2 percent to 16.7 percent, and in Serbia from 19.9 to 20.5 percent. In Bosnia and Herzegovina, capitalization indicator remained at the same level as in the previous year with 17.0 percent, while in Macedonia declined slightly from 17.1 to 16.8 percent.

3. Kosovo's Economy

3.1. Real Sector

Developments in main macroeconomic indicators show accelerated activity during 2013 compared to 2012. Subsequently, CBK estimates that real economic growth in 2013 reached a rate of 3.1 percent (Figure 8). Unlike previous years, during 2013, net exports improvements are estimated to have had the main contribution in economic growth. During 2013, the trade deficit narrowed as a result of decrease in imports and increase in exports, which can be used as an indication for the extent of replacing imports with local products. Contribution of improvement of net exports in economic growth is estimated to have been 1.2 percent. Consumption component is also estimated with positive contribution. However, unlike previous year, consumption contributed with a more moderate rate of about 0.8 percent. Investments component during 2013 also had a positive contribution of 1.1 percent in economic growth, compared to 2012 when this component contributed negatively.

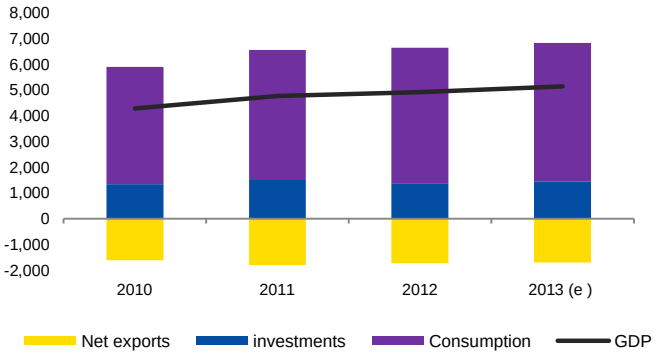
Figure 8. Real GDP growth rate, in percent



(e) CBK estimation, (f) CBK projection
Source: KAS (2013), (e) CBK (2013)

Consumption continues to be the component with highest participation within GDP. In 2013, the participation of consumption in GDP was estimated to be 104.5 percent.

Figura 9. Main GDP components



(e) CBK estimation
Source: KAS (2014)

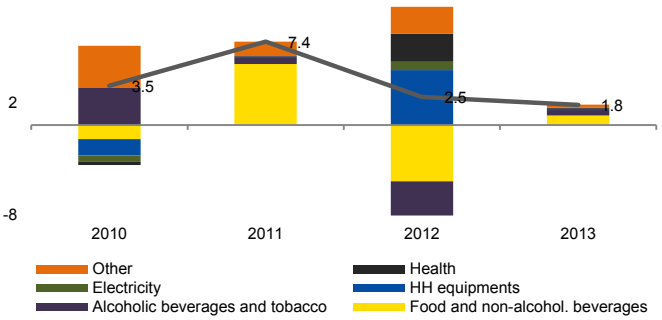
Investments during 2013 had a share of 28.1 percent in GDP, which represents a similar level to the previous year. However, unlike previous years when the public sector through capital investments was considered the primary contributor of investments growth, in 2013 the main contribution to the growth of this component was by the private sector. The increase of private investments, which constitute of about 60 percent of total investments, is estimated to be the result of increased foreign direct investments (FDI) and investment loans.

Net exports in 2013 marked a deficit of euro 1.68 billion, which represents a decrease of 2.5 percent compared with 2012. Subsequently, in 2013, the ratio between net exports and GDP deficit declined to 32.7 percent compared to 35.1 percent in the previous year.

3.1.2 Prices

Inflation in Kosovo, expressed through the consumer price index (CPI) during 2013 was characterized with decrease. The average annual inflation rate in 2013 was 1.8 percent, compared with a rate of 2.5 percent in 2012 (Figure 10). Decreasing trend of inflation continued throughout 2013, reaching 0.6 percent in December. Inflation rate decrease is caused mainly by imported goods prices, which reflects deflationary developments in Eurozone countries with which Kosovo conducts most of trade exchanges.

Figure 10. Inflation and its main contributors

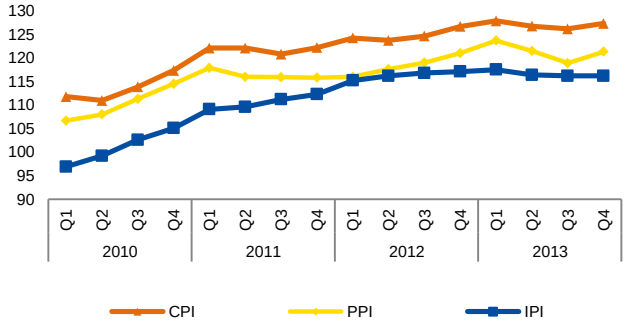


Source: KAS (2014) with CBK calculations

Regarding the CPI components, price increase during 2013 was marked in alcoholic beverages and tobacco by 7.2 percent, clothing with 2.9 percent, recreation and culture with 2.7 percent, food and non-alcoholic beverages with 2.1 percent etc., while price decrease was marked in transportation by 1.9 percent and communication means by 0.9 percent. However, main contribution to the change of inflation rate during 2013 were food products and non-alcoholic beverages with 0.8 percent as well as alcoholic beverages and tobacco with 0.5 percent which in addition to price increase is also as a result of the large share of this category in the consumer basket (Figure 11). Prices of food products, tobacco, and various beverages have determined the price fluctuation in the past, because the fluctuation of these prices was more significant but also due to the high participation of these categories in Kosovar consumer basket (43.0 percent). However, in recent years it is noticed a downward trend of inclusion of these products in total consumer basket.

Price fluctuations in Kosovo are very similar to price fluctuation in international markets due to the high dependency of Kosovo's economy on imports. This is also confirmed to some extent through the import price index. IPI average during 2013 was increased by 0.2 percent. As shown in figure 11, CPI has shown similar behaviour with IPI. Meanwhile, manufacturing prices were characterized with annual growth of 2.5 percent, an increase that is driven by the increasing price of extracting coal, lignite, minerals and other mining industries.

Figure 11. Consumer, Producer and Import price Index



Source: KAS (2014)

Real effective exchange rate (REER) of the euro currency against the currencies of Kosovo's trading partners during 2013 was estimated to average of 0.2 percent. REER assessment is mainly as a result of the fact that the inflation rate in Kosovo was higher than in partner trading countries. REER was assessed in 0.3 percent towards EU countries, while it depreciated by 0.5

percent towards CEFTA countries, which means that Kosovo products may have increased competitiveness to CEFTA countries and decreased to EU countries.

3.2. Fiscal sector

Fiscal sector during 2013 were characterized by a slight decrease in revenues and increase of costs. Budget revenues[1] declined by 0.5 percent and reached a value of around euro 1.3 billion. On the other hand, the total value of budget expenditures[2] amounted to about euro 1.5 billion which represents an annual increase of 3.1 percent. Subsequently, Kosovo's budget recorded a primary deficit of euro 152.5 million or 3.0 percent of GDP (2.4 percent of GDP in 2012). While overall government debt increased to 16.1 percent amounting to euro 475.7 million, which is equivalent to 9.1 percent of GDP.

3.2.1 Budget revenues

During 2013, best performance was marked in realization of domestic revenues that marked an annual increase of 7.8 percent and reached a net value of euro 270.8 million. Domestic revenues growth reflects an increase of KAT efficiency in revenues collection and facilitation in the procedures for declaration and tax payment. Also, increase of economic activity in Kosovo during 2013 is considered to have contributed to the growth of domestic revenues.

During this period, all main categories of domestic tax revenues were characterized with a growth. Net VAT collected within the country, which has a share of 42.0 percent to total revenues from domestic taxes marked a growth of 14.9 percent reaching a value of euro 113.7 million. Net revenues from corporate tax, which simultaneously represents the second largest category of domestic taxes (23.3 percent), marked an annual growth of 3.0 percent and reached a value of euro 63.1 million. In addition, net revenues from personal income tax marked an annual growth of 2.3 percent and reached a value of euro 61.2 million. Within local tax revenues, high annual increase was also marked in net revenues from individual businesses (7.5 percent), which reached a value of euro 27.8 million.

On the other hand, the revenues collected from border taxes declined by 1.0 percent and amounted to euro 834.1 million. Decrease of the revenues from taxes collected at the border mainly reflects the decrease of import. Despite the decline, revenues from taxes collected at the border continue to represent the main category of budget revenues, with a share of 75.5 percent to total revenues in 2013 (77.0 in 2012).

Within border revenues, the main category remains VAT, with a participation of 49.3 percent. In 2013, net revenues from VAT were characterized with a decline of 1.6 percent, reaching the value of 411.0 million Euros. Border revenues from excise tax, which have a participation of 36.1 percent in total border revenues, also marked a slight decline of 0.7 percent in 2013. Customs revenues on imports were characterized with an increase of 1.9 percent, which amounted net value of 119.5 million Euros.

Own source revenues at central and local level were characterized with a decline, which reached the value of 95.0 million Euros, whereas in the previous year registered the value of 104.3 million Euros. Other important items within budget revenue collections in 2013 were the fines and fees, which marked an increase of 7.6 percent and reached a value of euro 42.9 million, then royalties which reached a value of euro 24.7 million and dividends from public companies that amounted to euro 43.0 million.

[1] Within budget revenues are not included receipts from determined donor grants, internal and external loans, revenues from the privatisation of KEC distribution unit, various deposits which are held in bona fide on behalf of third parties until their definition is determined

[2] Within budged expenditures are not included payments from determined donor grants, debt payments, whereas the return of loans from public enterprises is treated as a reduction of budgetary expenditures

3.2.2 Budget expenditures

In 2013, the value of total budget expenditures amounted to about euro 1.5 billion, which represents an annual growth of 3.1 percent. Government expenditures for capital investments during 2013 marked a decrease of 3.8 percent and reached the value of euro 529.2 million. Despite this decline, capital expenditures represent the main category within budgetary expenditures with a share of 36.0 percent to total expenditures.

On the other hand, increase of current expenditure in 2013 is estimated to have contributed positively to the growth of total consumption. Current expenditures, which consist of wages and salaries, goods and services, transfers and subsidies without including debt payments, marked a value of euro 945.5 million, which represents an increase of 7.6 percent compared to the previous year. In the context of current expenditures, government expenditures on subsidies and transfers marked an annual growth of 11.7 percent, amounting to euro 312.9 million. Government expenditures in goods and services as well as government expenditures on wages and salaries, marked an increase of 14.5 and 2.3 percent, respectively, reaching the amount of euro 193.9 and euro 417.1 million.

3.3. Financial sector

3.3.1 General Characteristics

Total assets of the financial sector reached the amount of euro 4.2 billion, marking an annual growth of 10.5 percent (9.9 percent in December 2012).

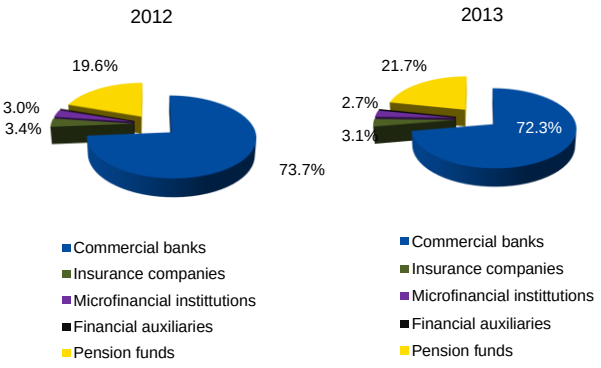
Table 2. Number of financial institutions

Description	2010	2011	2012	2013
Commercial banks	8	8	9	9
Insurance companies	12	13	13	13
Pension funds	2	2	2	2
Financial auxiliaries	28	34	38	39
Microfinance institutions	17	20	17	17

Source: CBK (2014)

Growth is mainly attributed to the growth of pension fund and commercial banks assets and partly to the slight increase of insurance companies. Whereas the assets of microfinance institutions and financial aids this year compared to last year marked a decrease.

Figure 12. Structure of assets of financial system by sector



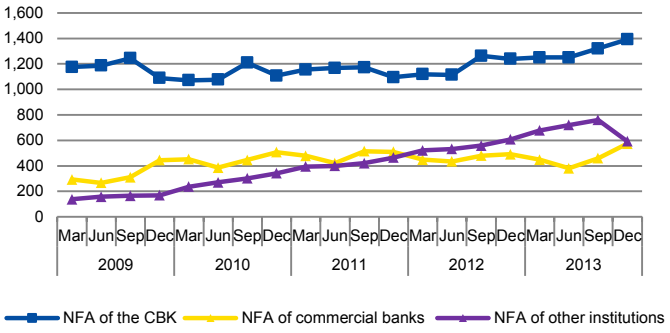
Source: CBK (2014)

Structure of financial system assets in 2013 was similar to previous years. Regarding the number of financial institutions, the sole changes were marked in financial aids with their number increasing to 39 (38 in 2012) (Table 2). Regarding the participation of sectors in total assets of financial system, the banking sector continues to represent the largest share of assets structure. However, compared to the previous year, participation of assets from all sectors, with the exception of pension funds,

marked a decrease. Pension funds were the only sector that increased participation in 2013 to 21.7 from 19.5 percent in 2012 (Figure 12).

A significant part of assets of the financial system continues to be invested in foreign markets. Value of Net Foreign Assets (NFA) in December 2013 amounted to euro 2.56 billion, marking an annual increase of 9.5 percent (13 percent in December 2012)[3]. NFA of CBK continue to have the largest share to the total of NFA (Figure 13). The only segment which marked a negative balance of NFA was the microfinance institutions, mainly as a result of the high support of these institutions in financing from abroad in the form of credit lines.

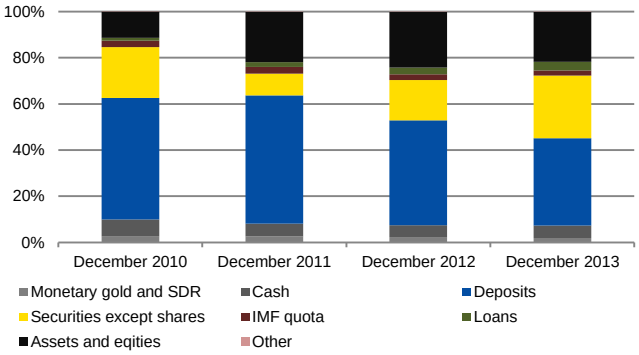
Figure 13. Net foreign assets by institutions, in millions of euro



Source: CBK (2014)

Requests towards external sector in December 2013 reached the value of euro 3 billion, marking an annual increase of 8.7 percent (13.4 percent in December of 2012) (Figure 14). Structure of requests is led by deposits with a share of 37.9 percent, followed by securities other than shares with a share of 27.2 percent, and other assets and equities with a share of 21.6 percent (Figure 15).

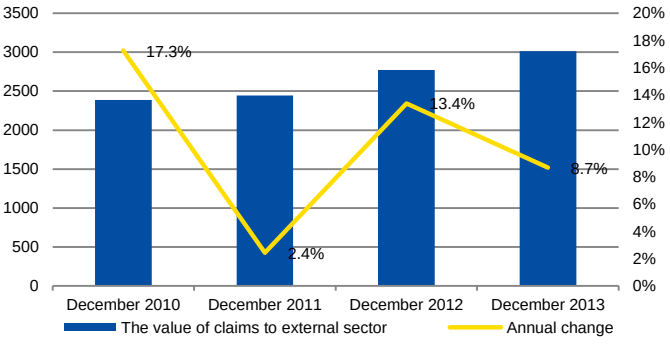
Figure 14. Structure of claims to external sector, in percent



Source: CBK (2014)

In light of requirements, in 2013, the largest annual increase was marked in investment of securities with 68.4 percent, and loans with 37.8 percent, while the cash held in institutions abroad marked an annual growth of 11.6 percent. Characterized by declining was the cash held in foreign banks as deposits (decrease of 9.3 percent), monetary gold and SDR (5.9 percent decline) and the IMF quota (a decrease of 4.2 percent). Increase of investment in instruments such as securities and loans is an indicator of orientation of investments in instruments that bring higher return in assets (Figure 14).

Figure 15. The value of claims on external sector (in millions of euro) and annual change

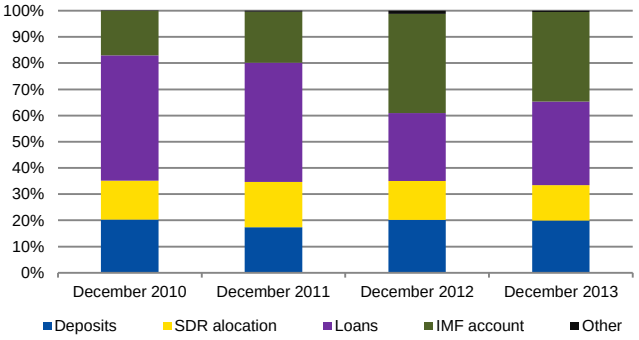


Source: CBK (2014)

[3] In this context, the financial sector also includes the Central Bank.

Total liabilities to the external sector, in December 2013, reached the value of euro 455.6 million, marking an annual increase of 4.4 percent. Structure of liabilities is led by liabilities to the IMF with 34.2 percent, followed by loans with 31.9 percent, deposits with 19.9 percent and allocation of SDR with 13.6 percent. Increase of liabilities towards external sector is mainly the result of growth in loans that commercial banks in the country have received from the external sector and partly from non-resident deposits in the banking sector in Kosovo (Figure 16).

Figure 16. Structure of liabilities to external sector, in percent



Sourcei: CBK (2014)

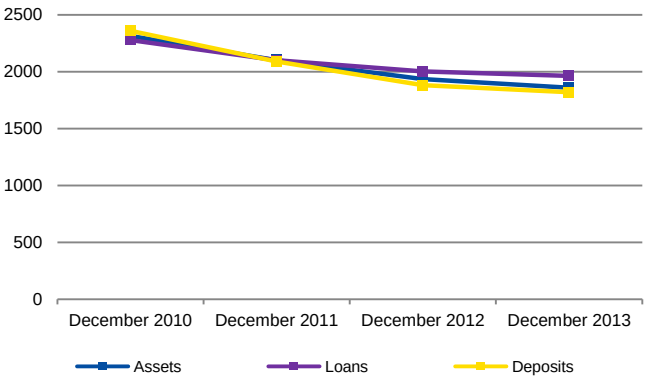
Exposure of financial system towards external sector remains relatively low both in the context of assets and liabilities (33.2 and 5.6 percent, respectively). Moreover, banking sector's exposure to the external sector remains low. Investments abroad comprise 24.5 percent of total banking sector's assets, while only 5.7 percent of liabilities are towards the external sector.

3.3.2 Banking sector

Structure of the banking sector in Kosovo in 2013 was similar to the previous periods. According to the ownership, structure of the banking sector continues to be dominated by foreign-owned banks, whose assets constitute 89.9 percent of the total assets of banking sector, while the rest is managed by domestic owned banks.

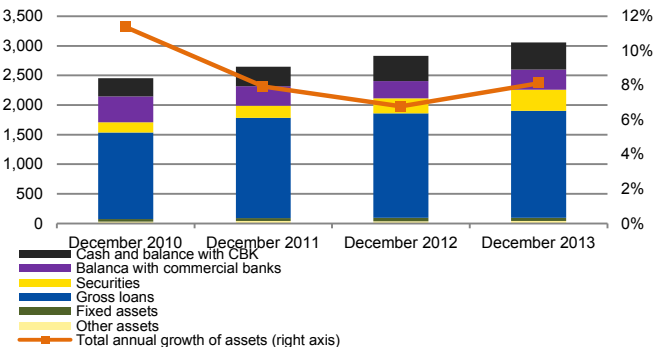
The degree of market concentration in the banking sector has decreased as a result of faster growth of assets of smaller banks. In December 2013, the share of assets of the three largest banks in the country declined to 67.4 percent from 69.3 percent in 2012. The decrease of the concentration is shown by the Herfindahl-Hirschman Index (HHI), which shows the declining trend in the last four years (Figure 17).

Figure 17. HHI for assets, loans and deposits



Source: CBK (2014)

Figure 18. Structure of the banking sector assets, in millions of euro



Source: CBK (2014)

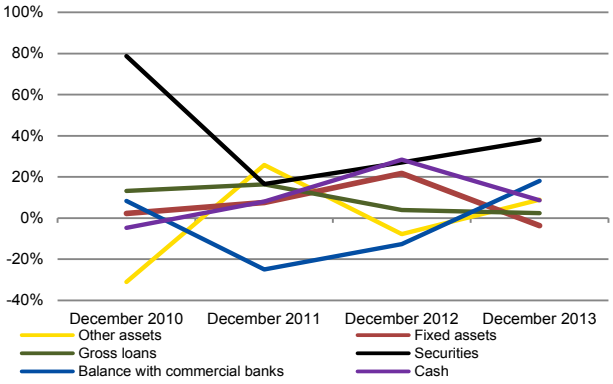
3.3.2.1 Banking System Balance Sheet

i. Assets

The value of the assets of the banking sector during 2013 amounted to euro 3.06 billion which represents an annual increase of 8.1 percent (6.8 percent in December 2012)

(Figure 18). The largest increase within assets is marked in securities investments (38.2 per cent) and the balance category with CBK (10.5 percent) (Figure 19). This fluctuation of commercial banks fund reflects the reluctance of banks to increase crediting, which is also expressed with the lowest growth rate of loans.

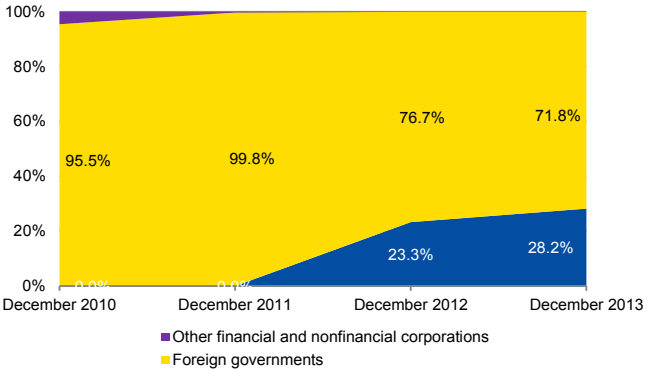
Figure 19. Annual growth of banking sector assets



Source: CBK (2014)

However, loans continue to be the main category within the structure of the banking sector assets with a share of 59 percent in 2013. As a result of the slowdown in loans growth, the share of loans to total assets of the banking sector, compared to 2012 was 3.3 percent lower. The only category that marked continuous increase in share during the last four years is the category of securities, which in December 2013 represented 11.6 percent of total assets (Table 3). Continued growth of investment in securities somewhat reflects the slowdown of bank lending, which has increased the available funds for investments in securities, but also increased the opportunities for diversification of investments in assets with low risk such as treasury bills of the Government of Kosovo.

Figure 20. Securities structure, in percent



Source: CBK (2014)

Table 3. Structure of banking system assets

Description	December 2010		December 2011		December 2010		December 2011	
	Millions of euro	Share in percent	Millions of euro	Share in percent	Millions of euro	Share in percent	Millions of euro	Share in percent
Cash and balance with CBK	307.0	12.5%	331.5	12.5%	425.7	15.0%	462.3	15.1%
Balance with commercial banks	439.1	17.9%	329.5	12.4%	287.9	10.2%	339.9	11.1%
Securities	173.4	7.1%	202.0	7.6%	256.6	9.1%	354.5	11.6%
Gross loans	1,458.7	59.4%	1,698.1	64.1%	1,763.4	62.3%	1,805.8	59.0%
Fixed assets	44.0	1.8%	47.4	1.8%	57.7	2.0%	55.5	1.8%
Other assets	32.9	1.3%	41.3	1.6%	38.1	1.3%	41.5	1.4%
Total	2455	100%	2,650	100%	2,829	100%	3,060	100%

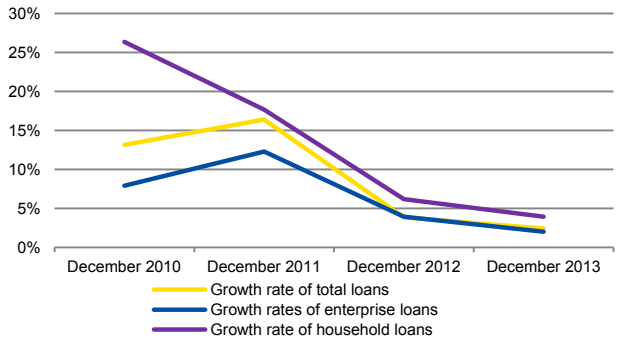
Source: CBK (2014)

Within the portfolio of securities, investment in securities of the Government of the Republic of Kosovo have increased their share to 28.2 percent, indicating that the development of the local market of treasury bills is presenting an attractive product for investments of the banks that operate in Kosovo. However, the majority of investments in securities continue to be represented by investments in foreign markets. More specifically, the majority of investments in securities consist of bonds issued by foreign governments (71.8 percent) indicating that banks during the year favoured investments that present a lower risk. This is observed by very low share of banks investments in securities of other financial and non-financial corporations, which are usually regarded as instruments with a higher degree of risk (Figure 20).

ii. Loans

In 2013, the total value of loans of the banking sector in Kosovo amounted to euro 1.81 billion, marking an annual increase of 2.4 percent. However, lending by the banking sector in this year also continued to be characterized by slower growth trend (Figure 21). The slowdown was observed in loans to households and loans to enterprises. Loans to households marked an annual growth of 3.9 percent (6.2 percent in December 2012), while loans to enterprises increased by 2 percent (3.9 percent in December 2012).

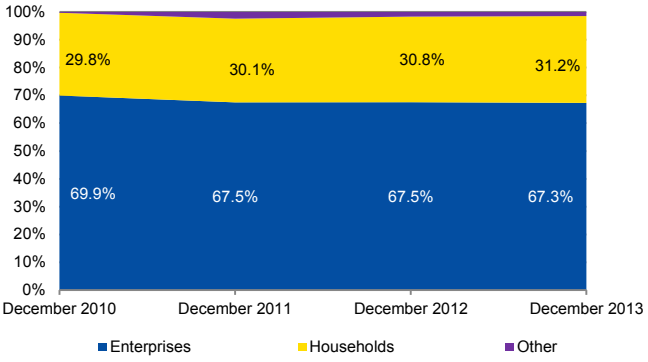
Figure 21. Growth rate of loans by sectors, in percent



Source: CBK (2014)

Loans to enterprises continue to dominate the structure of total loans with a share of 67 percent, whereas loans to households account for 31.2 percent of total loans (Figure 22). Within loans for enterprises, the majority consists of loans to commercial enterprises which comprise 52.6 percent of total loans to enterprises (Figure 23).

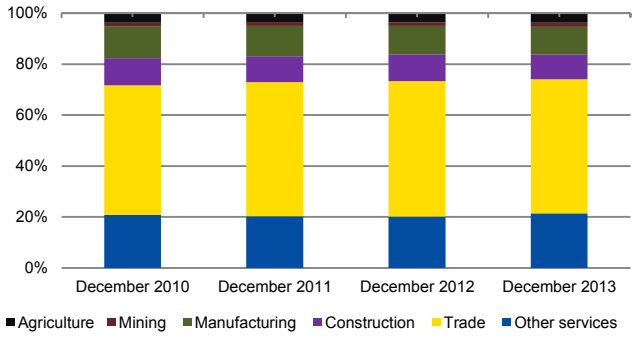
Figure 22. Loans structure, in percent



Source: CBK (2014)

This slowdown in lending to enterprises implies that is mainly the result of deceleration of lending to non-financial corporations, which marked an annual growth of 2.1 percent compared to the 3.9 percent in 2012.

Figure 23. Structure of loans by economic activity, in percent



Source: CBK (2014)

This deceleration mainly reflects the developments in lending to the trade sector, which represents the sector with the largest number of businesses in Kosovo and with the highest share of the bank lending. In 2013, the trade sector lending marked an annual growth of 0.8 percent, a rate that is significantly lower than the annual growth of 4.8 percent in 2012. Trade lending was affected by the reduction of imports in Kosovo. Most significant increase in loans to enterprises was marked by the loans intended for other services (such as hotels and restaurants), which marked an annual growth of 6.6 percent, but their share to the total loans remains low (Figure 24).

Lending in agriculture sector also marked an increase with the rate of 5 percent, but which was lower compared to the previous year (7.7 percent in 2012). Despite the fact that agriculture continues to represent the sector with lowest access to the bank lending, it seems that the growth

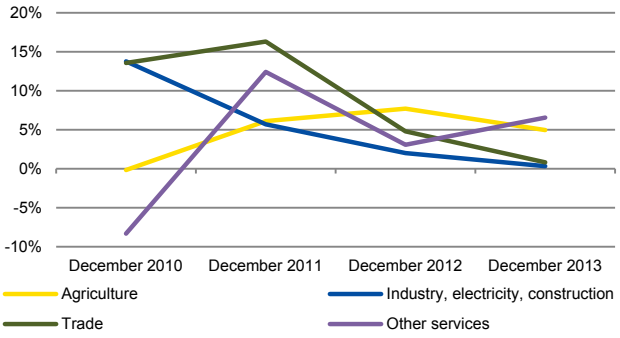
rate of agricultural loans is among the highest growth rate compared to other sectors. This is also a reflection of government subsidies to promote agricultural activity in Kosovo and agriculture loan guarantee scheme supported by USAID. On the other hand, lending to the industry sector was characterized by a decrease, which was observed particularly in the construction lending which marked an annual decrease of 5.2 percent compared with 7.7 percent growth from the previous year.

According to the maturity deadline, structure of loans continues to be dominated by loans with longer maturity deadline, which represent 67.2 percent of total loans (Figure 25). During 2013, it is noticed a slight shift towards loans with shorter maturity deadline that may reflect tightening the criteria of commercial banks in the form of reduced maturity deadline.

iii. Liabilities

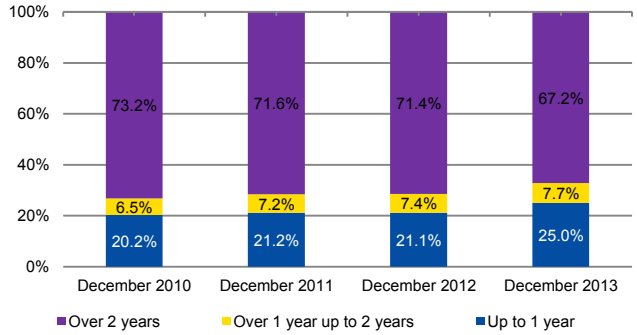
Liabilities of the banking sector continues to be dominated by deposits (80.1 percent of total liabilities), which represent the main source of financing for commercial banks in Kosovo (Table 4). The value of total deposits in 2013 amounted to euro 2.4 billion, marking an annual increase of 7.5 percent (Figure 26). High reliance on domestic deposits as a funding source, against reliance on external funds with higher costs of financing, enabled banks that operate in Kosovo to benefit from a more stable source of funding and avoid dependence on external funding.

Figure 24. Growth trend of loans by economic sectors, in percent



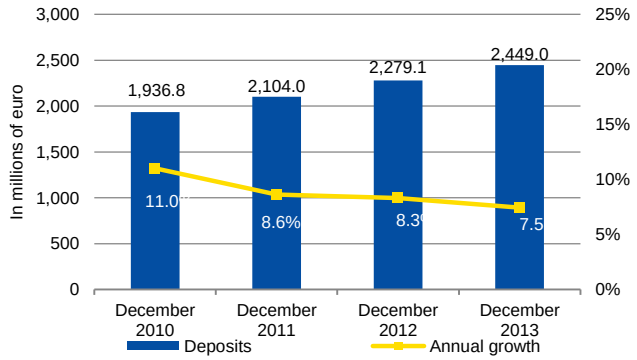
Source: CBK (2014)

Figure 25. Structure of loans by maturity, in percent



Source: CBK (2014)

Figure 26. Growth trend of deposits, in percent



Source: CBK (2014)

In the context of liabilities, more significant annual growth (79.1 percent) was marked by subordinated debt, mainly as a result of the need to increase capital in some of the commercial banks to provide compliance with the CBK`s change of regulatory requirements.[4]

[4] According to the new regulations on Capital Adequacy of Banks, in power since the end of 2012, CBK tightened the requirements for the calculation of regulatory capital from commercial banks.

Table 4. Structure of banking system liabilities

Description	December 2010		December 2011		December 2010		December 2011	
	Millions of euro	Share in percent	Millions of euro	Share in percent	Millions of euro	Share in percent	Millions of euro	Share in percent
Cash and balance with CBK	307.0	12.5%	331.5	12.5%	425.7	15.0%	462.3	15.1%
Balance with commercial banks	439.1	17.9%	329.5	12.4%	287.9	10.2%	339.9	11.1%
Securities	173.4	7.1%	202.0	7.6%	256.6	9.1%	354.5	11.6%
Gross loans	1,458.7	59.4%	1,698.1	64.1%	1,763.4	62.3%	1,805.8	59.0%
Fixed assets	44.0	1.8%	47.4	1.8%	57.7	2.0%	55.5	1.8%
Other assets	32.9	1.3%	41.3	1.6%	38.1	1.3%	41.5	1.4%
Total	2455	100%	2,650	100%	2,829	100%	3,060	100%

Source: CBK (2014)

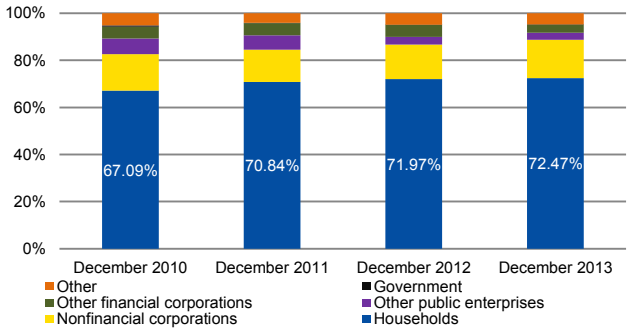
Structure of the banking sector deposits continued to be dominated by household deposits which comprise 72.5 percent of total deposits. The remainder includes deposits of enterprises with a share of 22.7 percent, non-resident deposits with 3.6 percent and other deposits (which include government and non-governmental organizations) with 1.2 percent (Figure 27).

Deposits structure of enterprises is dominated by deposits of private enterprises with a share of 71.5 percent. The remainder consists of deposits of other financial corporations with 15.5 percent, and public enterprises with 13 percent (Figure 28). In the context of enterprises deposits in 2013 the deposits of private enterprises were the only category that marked an increase in the annual rate of 18.5 percent, while two other categories were characterized by decrease. Deposits of other financial corporation are decreased by 25.9 percent, while those of public enterprises marked an annual decrease of 4.7 percent.

Deposits of non-residents during 2013 marked an increase of 2.5 percent, which represents a slower increase compared to the previous year's increase (35.4 percent). This significant deceleration of growth, to some extent, can reflect the negative trend of deposits interest rates.

According to maturity deadline, deposits of banking sector continue to be dominated by time deposits, with a

Figure 27. Structure of deposits by sectors, in percent

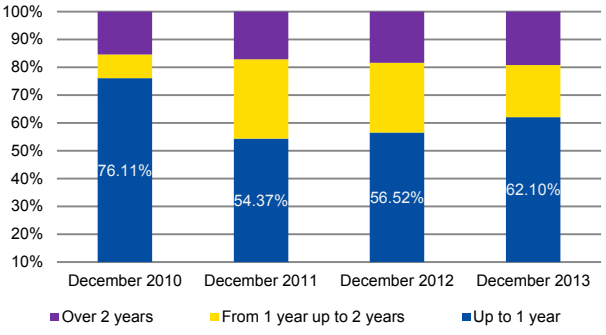


Source: CBK (2014)

Figure 28. Structure of enterpise deposits by sectors, in percent

Source: CBK (2014)

Figure 29. Structure of deposits by maturity, in percent



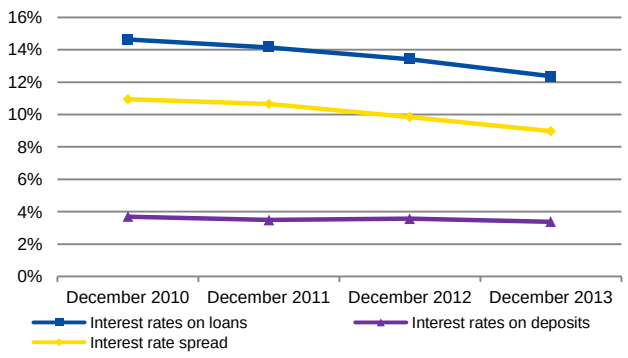
Source: CBK (2014)

share of 46.7 percent, while the remainder consists of transferable deposits (36.8 per cent) and savings (16.5 percent). Within time deposits, the highest share (62.1 percent) have the deposits with maturity of up to 1 year. Deposits with maturity from 1 to 2 years constitute 18.8 percent, while those with a maturity of over 2 years comprise 19.1 percent of total time deposits (Figure 29). The category that marked most significant fluctuation within time deposits during 2013 was mid-term deposits (1 to 2 years) which marked an annual decrease of 27.3 percent. This development was mainly due to the change of deposits to the category of short-term maturity, which may be a consequence of changed conditions offered by banks, namely, the reduction of interest rates on deposits.

3.3.2.2 Interest rates[5]

Average interest rates of loans and deposits were characterized by a declining trend during 2013. Average interest rate in loans decreased to 12.4 percent (13.4 percent in 2012), while deposits decreased to 3.4 percent (3.6 percent in 2012). Subsequently, the difference between interest rates in loans and deposits in 2013 was 9 percent, compared with 9.8 in 2012 (Figure 30).

Figure 30. Annual average interest rates, in percent

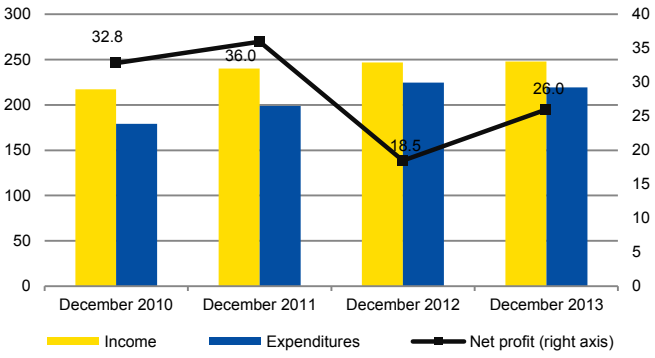


Source: CBK (2014)

Average interest rate in enterprise loans decreased to 12.4 percent in December 2013 from 13.2 percent in December 2012. Investment loans were characterized by lower interest rates (12 percent in 2013, 12.9 percent in 2012) compared to other business loans, on which the average interest rate during 2013 was 13.6 percent (14.6 percent in 2012) (Figure 30). Average interest rate in household loans marked a decrease that was reduced in 12.1 percent from 12.5 percent in 2012.

Average interest rate on deposits of enterprises declined from 3.3 percent in 2012 to 2.8 percent in 2013. Meanwhile, the average interest rate on household deposits decreased to 2.7 percent in December 2013 compared to 3 percent in December 2012. Regarding the deadline of maturity, the average interest rate on enterprise deposits decreased in all categories of these deposits except for deposits in amounts over euro 250 thousand with over 2 years of maturity, where the average rate reached 3.8 percent from 3.2 percent in 2012. Average interest rates on household deposits decreased in all categories according to maturity deadline.

Figure 31. Balance of income and expenditures, in millions of euro



Source: CBK (2014)

3.3.2.3 Banking system performance

Performance of the banking sector in Kosovo improved in 2013. Banking system's net profit amounted to euro 26 million from euro 18.5 million as it was in 2012 (Figure 31).

[5] The data represent the agerage for January-December 2013.

The increase was mainly a reflection of annual growth of 0.3 percent of the sector's revenues, and total expenditures decrease of 2.2 percent (Figure 31). These fluctuations made the expense / revenue relation in 2013 to be reduced in 88.7 percent from 90.9 percent in 2012, which suggests that the efficiency of the banking sector marked an increase during this period.

Leading indicators of banking sector profitability marked an improvement as a result of increased profitability. Return on average equity marked an improvement from 7.1 percent in 2012 to 9.4 percent in 2013. Return on average assets also increased from 0.7 percent in 2012 to 0.9 percent in 2013 (Figure 32).

Banking sector revenues, despite positive growth rate continued to be characterized by slower growth trend, which mainly reflects slowing of lending activities by the banks. The deceleration in growth of income was accompanied by decrease of expenditures, but which was mainly based on reducing expenditures for provisions as a result of a lower growth of values of nonperforming loans compared to the previous year, which implies that the current level of profitability is very sensitive to the fluctuation in the quality of loan portfolio.

Structure of the banking sector income remains similar to the previous year. Interest income continues to be the dominant category with 80 percent share to total banking sector income. However, compared to the previous year, interest income marked a decrease of 1.1 percent, which was also reflected in the decrease of interest income to total income (Figure 34). This shows that the positive growth rate of banking sector total income in 2013 was a result of increased income from non-interest which marked an annual increase of 6.4 percent.

Figure 32. Profitability indicators

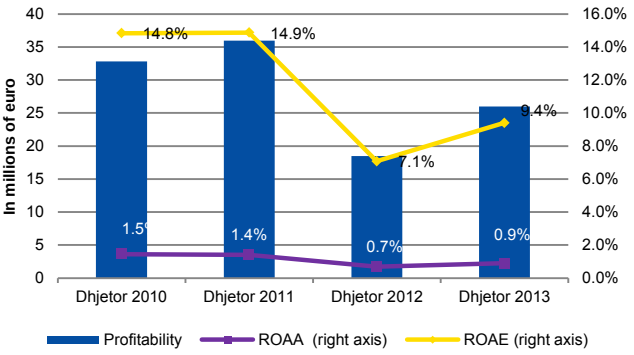
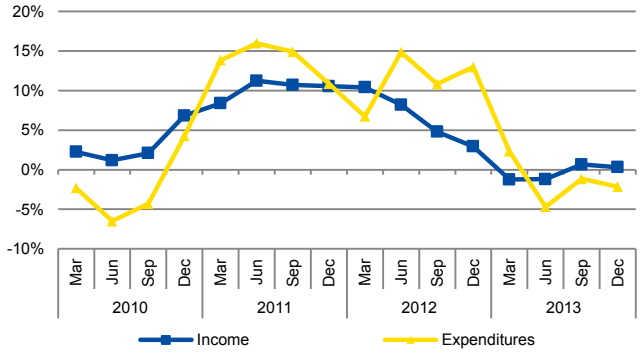
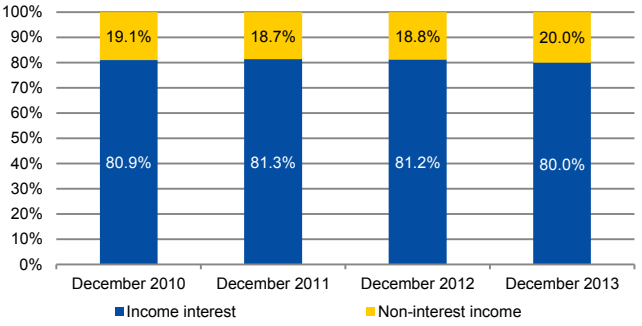


Figure 33. Annual growth of income and expenditures



Source: CBK (2014)

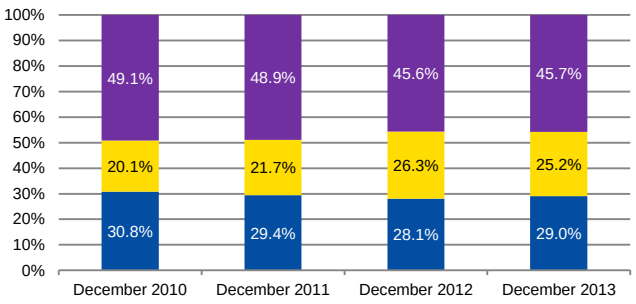
Figure 34. Structure of income, in percent



Source: CBK (2014)

The structure of expenditures continues to be dominated by general and administrative expenditures, which marked an annual decrease of 1.9 percent in 2013 (Figure 35). Category of non-interest expenditures was characterized by a more significant annual decrease of 6.1 percent and, subsequently, despite lower share, it was the main category that caused a decrease in the total expenditures. This decrease is mainly attributed to the annual decrease of 8.4 percent of expenditure for provisions which comprise the majority of non-interest expenditures. The lowest amount of provisions provided during this period reflects the fact that the rate of loan portfolio deterioration in 2013 was lower compared to 2012.

Figure 35. Structure of expenditures, in percent



Source: CBK (2014)

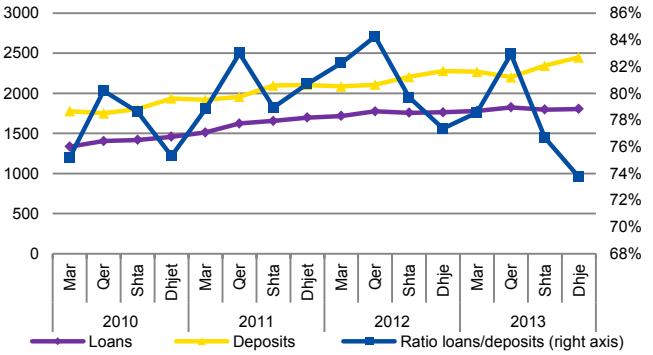
Interest expenditures were the only category that marked an increase (1.1 percent), but the growth rate was significantly lower compared to the previous year (7.9 percent in 2012).

3.3.2.4 Banking System Risks

i. Liquidity Risk

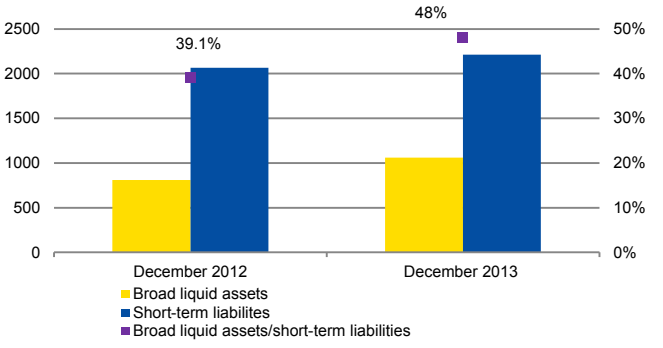
Banking sector Liquidity position during 2013, continued to be satisfactory. All indicators marked strengthening and overcoming of regulatory requirements, by reflecting further reduction of sector exposure to liquidity risk. Traditional model of banking sector, where the main source of financing are domestic deposits which are characterized by low cost and sustainability, has lower exposure to the frequent fluctuation of prices and changes in supply of funds with which foreign markets of short-term financing are characterized. Also low share of wholesale funding and low exposure to parent banks made the sector to be relatively protected from the potential danger of loans shrinkage by the parent banks which may derive from the requirements of European banking groups to increase capitalization at the consolidated level.

Figure 36. Laons and deposits of the banking system, in millions of euro



Source: CBK (2014)

Figure 37. The ratio of broad liquid assets/short term liabilities



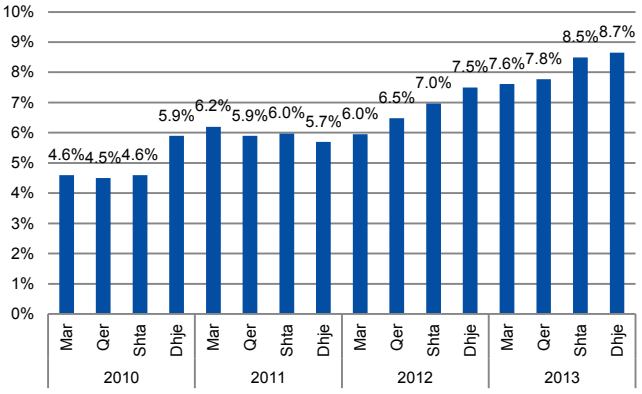
Source: CBK (2014)

Loans / deposits ratio in December 2013 declined to 73.7 percent from 77.4 percent in December 2012 (Figure 36). This decrease is attributed to a higher rate of deposits growth compared to loans, which resulted in decrease of

loans / deposits ratio to almost the lowest level in the last five years. Low levels of this ratio suggest satisfactory liquidity position and necessary space for credit growth without threatening the liquidity position.

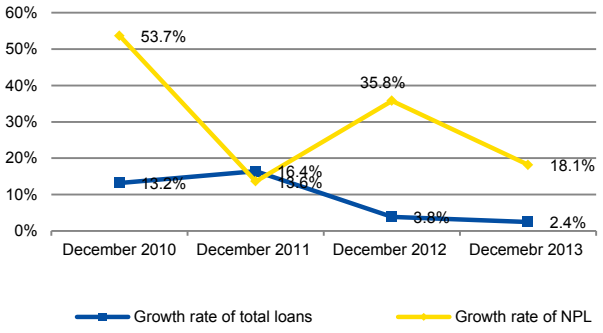
The ratio of comprehensive liquid assets towards short term liabilities marked an increase to 48.0 percent from 39.3 percent in December 2012 (Figure 37). According to the relevant regulation of CBK, banks must maintain the ratio of liquid assets toward short-term liabilities at a minimum level of 25 percent. Subsequently, the banking sector may be deemed to have sufficient capability for repayment of short-term liabilities and for dealing with potential liquidity risks. Required reserves of the banking sector also remain at a very high level (euro 180.3 million more) than the minimum regulatory requirements of euro 209.6 million, which can serve as additional signal for the good state of the banking sector liquidity.

Figure 38. NPL to total loans ratio, in percent



Source: CBK (2014)

Figure 39. Annual growth rate of total loans and NPL



Source: CBK (2014)

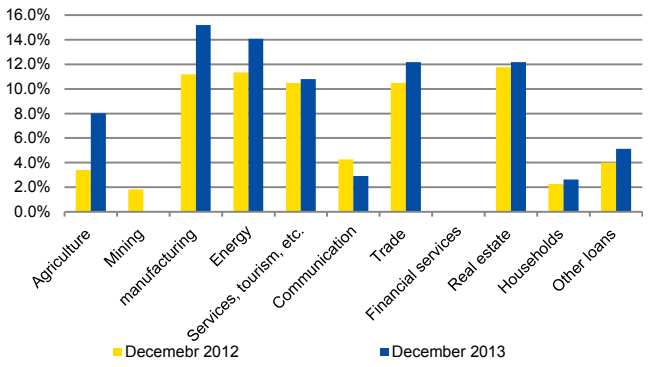
ii. Credit Risk

Credit risk is among the major risks to which the banking sector is exposed. During 2013, it is noticed an increase of exposure towards this risk compared to the previous year. Non-Performing Loans ratio to total loans amounted to 8.7 percent in 2013, compared to 7.5 percent in 2012 (Figure 38). However, this increase mainly reflects the deceleration of total loans, while the value of NPL is not characterized by accelerated growth (Figure 39). More significant increase of NPL rate was marked in the third quarter, while the fourth quarter was characterized with a stabilization of NPL rate. Overall growth of NPL rate came as a result of NPL rate growth in five of the banks, while others marked improvement of portfolio.

The sector most exposed to credit risk remains the one of enterprises, within which trade and production marked the most emphasized deterioration of loan portfolio. In December 2013, the manufacturing sector was characterized by 15.2 percent of non-performing loans (11.2 percent in 2012), while the trade marked an NPL rate of 12.2 percent (10.5 percent in 2012) (Figure 40). Significant increase in NPL rate was marked by the agriculture sector where the NPL rate doubled amounting to 8 percent from 3.4 percent in December of 2012. Household sector remains in low exposure to credit risk from NPL rate of 2.6 percent.

Despite the growth of the ratio between non-performing loans and total loans, nonperforming loans continue to be well covered by provisions for loan losses. The rate of NPL coverage by provisions stood at 110.6 percent in 2013 (112.6 in 2012), which softened the banking sector's exposure to credit risk (Figure 41)

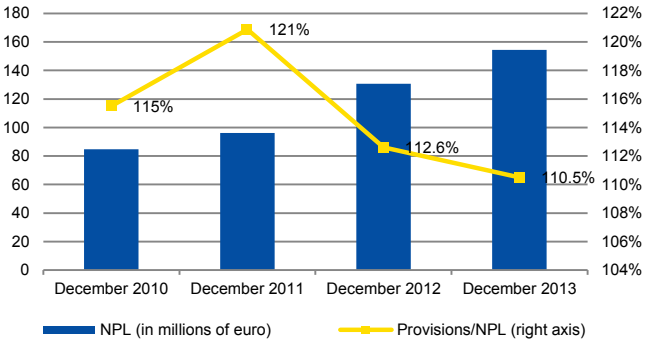
Figure 40. NPL by sectors



Source: CBK (2014)

Improving the banking sector profitability during 2013 increased the capacity of the banks to share sufficient provisions for covering potential loan losses. Considering that NPL decreased their growth trend in Q4 2013, expectations are for the growth trend to decrease even further along the most favourable prospects for economic developments in 2014. Nevertheless continued slow lending growth except that it may affect the NPL growth rate, may also have a negative impact on the capacity for expansion of enterprises and their ability to restructure and repay existing loans. However, improvement of overall economic environment and tighter standards of lending that banks reported to have used in the past two years are expected to have a positive effect on the quality of loans and, subsequently, can neutralize the negative effect of the aforementioned slowdown crediting the economy.

Figure 41. NPL and provisions

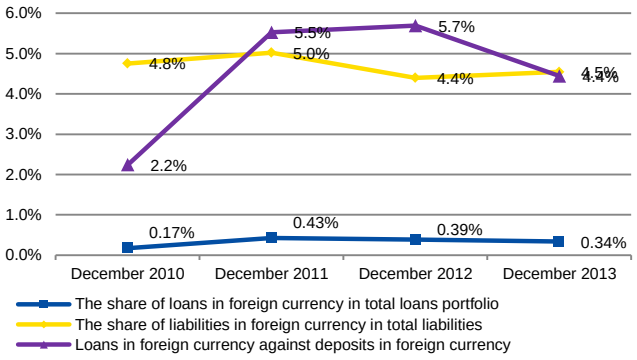


Source: CBK (2014)

iii. Market risk

Exposure of the banking sector to the market risk, which means the risk from fluctuation of foreign exchange rates and changes in interest rates, remain low. This is mainly the result of the low level of net open positions of banks in foreign currencies.

Figure 42. Loans and liabilitites in foreign currency



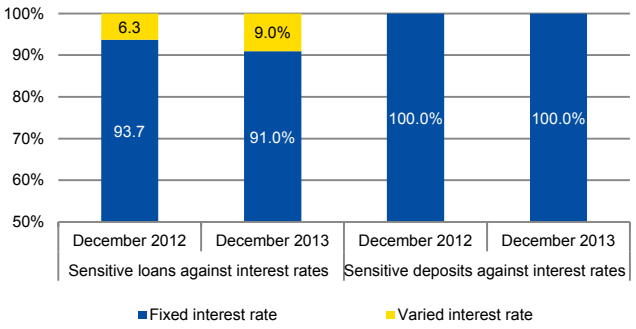
Source: CBK (2014)

During 2013, assets in foreign currency amounted to euro 145.34 million (equivalent value) from euro 135.02 million in 2012. However, foreign currency liabilities also increased to euro 145.37 million from euro 133.11 million in December 2012 causing the net open position of foreign currency to narrow. This made the banking sector well protected from movements in exchange rates.

Banking sector also has low exposure to indirect loan risk that may occur as a result of foreign currency lending to households and enterprises that are not hedged from exchange rate movements. The share of loans issued in foreign currency to the total loan portfolio in December 2013 was only 0.34 percent (Figure 42).

Similarly, the banking sector has a low level of exposure to the risk of interest rates. Loans and deposits, as the main items in the banking sector balance sheet, mainly contain fixed interest rate and interest expenditures from these items are not affected by fluctuations in interest rates until maturity. In 2013, loans with fixed-interest rate accounted for 91 percent of total loans. While all deposits of the banking sector continue to have fixed-interest rate (Figure 43).

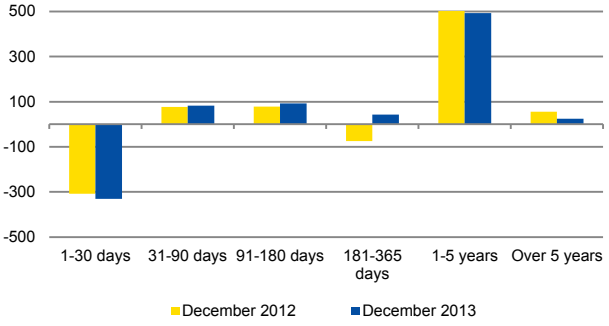
Figure 43. Sensititve loans and deposits against interest rates, by the type of interest rates



Source: CBK (2014)

However, changes in interest rates can have an impact in terms of refinancing and reinvestment risk of means depending on the composition of the maturity deadline of assets and deposits and direction of interest rate movements. The difference between assets and liabilities sensitive to interest is almost the highest for the category of maturity up to 30 days (Figure 44) and subsequently, potential changes in interest rates in short term are reflected more in expenditures than in revenues. However, the fact that almost all liabilities sensitive to interest rates consist of deposits for which banking sector reacts easily in adjusting interest rates, makes the exposure of banking sector toward increase of interest rates to remain low.

Figura 44. The gap of sensitive assets and liabilities against interest rates, in millions of euro

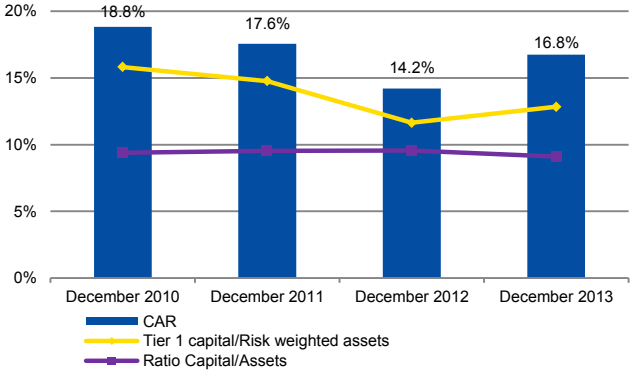


Source: CBK (2014)

iv. Solvency risk

Kosovo`s banking system is characterized by a high capital adequacy rate, which has constantly exceeded the regulatory minimum requirements.[6] During 2013, the level of capitalization is reinforced, where Capital Adequacy Ratio (CAR), which represents the total regulatory capital

Figure 45. Banking system capitalisation

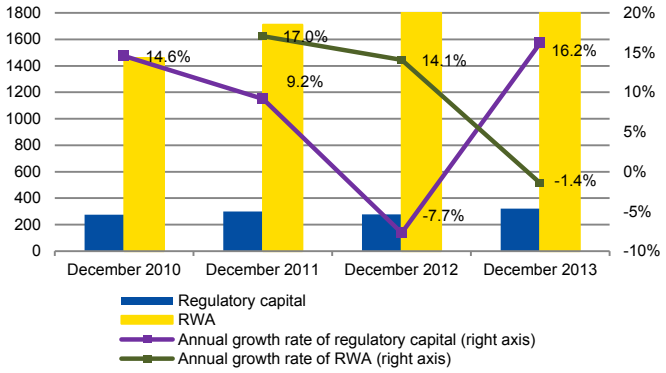


Source: CBK (2014)

[6] According to the CBK Regulation on Capital Adequacy, banks are obliged to maintain the ratio between the capital and the risk weighted assets at a level of at least 12% and at least at 8 percent between Tier 1 capital and RWA.

towards RWA, reached to 16.7 percent compared to 14.2 percent in December 2012 (Figure 45). The rate of Tier 1 capital to RWA reached to 12.8 percent compared to 11.6 percent in 2012. This increase was mainly due to annual growth of 15.9 percent of the level of regulatory capital (decline of -7.7 percent in December 2012 which was mainly as a result of regulatory changes in the way of regulatory capital classification [7]). On the other hand, the risk weighted assets (RWA) decreased by 1.6 percent (14.1 percent increase in December, 2012) (Figure 46).

Figure 46. Regulatory capital and RWA

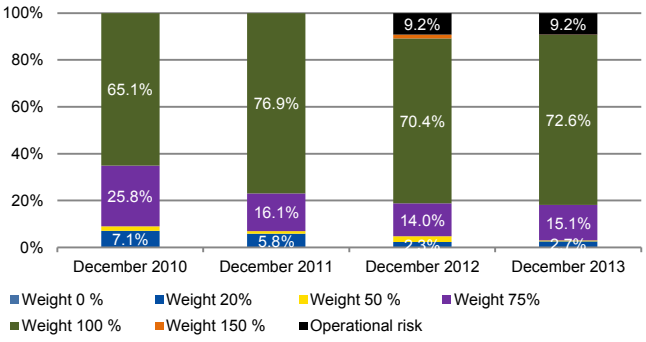


Source: CBK (2014)

In December 2013, the banking system regulatory capital reached the value of euro 321.2 million, thus exceeding the minimum regulatory capital requirement for euro 90.9 million. Capital quality is high with 76.5 percent of the total equity capital which consists of Tier 1 capital. Annual growth of 8.3 percent of Tier 1 capital during 2013 is mainly attributed to increased share capital and improved sector profit that constitutes one of the most important sources of continuous capital growth. However, the annual growth of total regulatory capital is primarily attributed to Tier 2 capital, which recorded an annual growth rate of 50.3 percent. Source of Tier 2 capital increase was the subordinated debt, which is increasingly boosting its share and role in increasing supplementary capital.

Value of RWA, in December 2013 declined to euro 1.92 billion (euro 1.95 billion in 2012) mainly as a result of lower weighted assets by 50%, which include requirements to maturity of one year or less, and those weighted at 150% which include direct requests from '1 year maturity or less' (Figure 47). Other categories have not undergone significant changes. Assets with 100% risk weight, which include loans and non-balanced items, continue to dominate the structure of RWA with a share of 72.4 percent. The newly added position of the operational risk participates with a total of 9.2 percent of RWA.

Figure 47. RWA structure, by weight risk



Source: CBK (2014)

Stress-Test Analysis

Sector sustainability against potential instabilities, both in the credit portfolio and liquid assets position is also assessed through stress tests analysis. Instabilities hypothetical scenarios are applied to the banking sector actual data for December 2013, where it is estimated the sensitivity of the sector to credit risk, combined with market risk and liquidity risk sensitivity. Results of

[7] Changes in the regulatory capital and RWA in December 2012 were mainly due to amendments of Regulation of Bank Capital Adequacy which were reflected in changing the regulatory capital classification deducting various categories, as well as changes in RWA structure mainly by raising the position of 'Operational Risk'. CAR rate of 14.2 percent includes these changes, although the relevant CBK regulation reviewed in April 2013, allowed banks to include the position of "Operational Risk"in RWA calculation until July 2013. Inclusion is done due to consistency with the values and ratios included in Annual Report 2012, drafted before Regulation review.

the stress tests analysis suggest satisfactory sector skills sector to handle 'extreme situations' against exposure to these risks.

Credit Risk

Methodology[8]

The analysis is based on a hypothetic scenario that the economic crisis in European Union countries will continue to be reflected on Kosovo's economy through the decrease of remittances and exports, discouraging the overall demand in the country. As a result, it is assumed a more emphasized economic decrease of 2.7 percent in 2012, which would increase producer gap by 6.0 percent.

Impact on the credit portfolio quality, respectively in Non-Performing Loans (NPL), is assessed by considering an NPL elasticity coefficient to producer gap of 0.8, where NPL share in total banking sector loans would increase by 4.8pp. Credit risk was combined with interest rate risk and exchange rate risk, where it was assumed a decline of interest by 2.0pp and Euro currency depreciation toward other currencies by 20 percent. Along with the above-mentioned assumptions, the expected profit as an absorber of losses from these instabilities was taken into account. In this context, it is assumed that the profit will also be affected by the abovementioned instabilities, mainly through the decrease in the ability of generating income from interest as a result of the loans failure (NPL growth). Therefore, banks profit is projected considering after tax 2013 net profit, of which are deducted the revenues that would be realized if the NPL would not grow. NPL growth assumption applies to non-balance items. Finally, the banking sector sustainability is evaluated through the influence of assumptions on the level of the banking sector regulatory capital, risk weighted assets and, consequently, the capital adequacy ratio (CAR).

Results

Kosovo banking sector indicates a satisfactory sustainability level against credit risk even under conditions of introduction of the hypothetical scenario described above. Under the assumption that NPL share in loan sector portfolio would increase for 4.8 pp, Euro would be devolved in relation to other currencies by 20 percent and the interest rates would decrease by 2.0 pp, as well as the assumption on earnings for 2013, CAR for the entire system would remain at 15.0 percent, which means over 12 percent as required by the Central Bank. However, at bank level, CAR for four of the banks would drop below 12 percent thus would require a capital injection of euro 21.4 million (equivalent to just 0.42 per cent of the value of GDP foreseen for 2013). Under these circumstances, the new level of NPL share to total banking system loans would reach to 13.5 percent, while at the individual bank level, the highest level of NPL ratio would be 18.3 percent. Based on the abovementioned instability assumptions, total loss of the banking sector would reach the amount of euro 58.7 million (1.1 percent of GDP). However, not the entire amount can be considered as possible loss considering the fact that a large part of this loss would be absorbed by the expected earnings in the considered period.

Liquidity Risk

Methodology

The liquidity risk analysis relies on the scenario of withdrawal of rather considerable value of deposits from the banking system, thus evaluating the system's ability to withstand such instabilities. In this analysis, consideration is given to the withdrawal of 8% of deposits

[8] For more explanations on methodology, see Financial Stability Report, No.4

throughout a period of five days, dividing 5% of remaining deposits after each day for bank operational purposes. The scenario is also built on the assumption that during this period the possibility of conversion of liquid assets in cash would be 80 percent of liquid assets, while the possibility of conversion of non-liquid assets in cash would be only one percent of these assets within a day. It is also assumed that banks have full access to their reserves, while the possibility of bank financing from external financing resources was not taken into consideration.

Results

Under the assumption of the abovementioned scenario, the stress-test results suggest that Kosovo banking sector has a satisfactory sustainability level even in case of higher deposit withdrawal rates would be encountered. The first liquidity problems in banks would be encountered only on the fifth day, and only in two of the banks (Table 5). The total deposit withdrawal amount would reach 34 percent of total deposits, while the additional liquid assets to overcome liquidity problems would reach to euro 11.0 million (0.21 percent of GDP).

Table 5. Summary of stress-test results: Liquidity risk

Description	Number of banks 1/	Additional liquid needed assets (in thousands of euro)	Ratio loans/deposits
After the first day	0	0	79.7
After the second day	0	0	86.6
After the third day	0	0	94.1
After the fourth day	0	0	102.3
After the fifth day	2	10,991	111.2

Note:1/Number of banks which need additional liquid assets.
Source: CBK (2014)

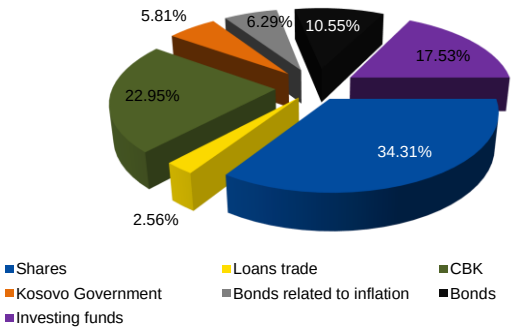
Considering the results, it may be estimated that even in case of the abovementioned conservative scenarios of deposits withdrawal, the banking sector would show sustainability.

3.3.3 Pension Funds

Also during 2013, Kosovo pension fund had the highest rate of growth of assets within the financial sector of Kosovo. Pension system assets reached a value of euro 918.7 million, marking an annual growth of 23.3 percent. Kosovo Pension Savings Funds (KPSF) manages 99.4 percent of pension system total assets, while the rest is managed by the Slovenian-Kosovo Pension Fund (SKPF).

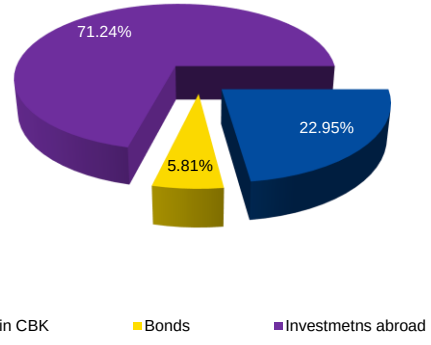
KPSF assets structure during 2013 was dominated by investments in foreign markets, with a share of 71.2 percent of total assets (Figure 49). The remainder consists of investments in securities of the Government of Kosovo representing 5.8 percent of total assets and cash on

Figure 48. Structure of KPSF investments (2013)



Source: CBK (2014)

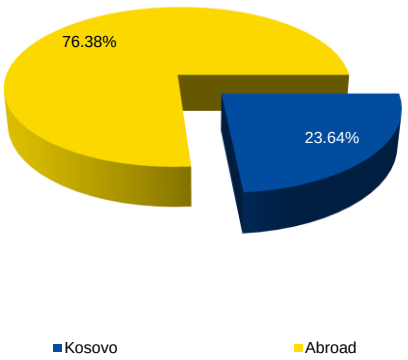
Figure 49. Structure of FKPK assets (2013)



Source: CBK (2014)

CBK which represents 23 percent of KPSF assets. Investments abroad dominate the structure of SKPF assets. During 2013, 76.3 percent of total assets were invested abroad, of which 74.3 percent in bonds and 2 percent in cash. The remaining 23.7 percent represent investments in Kosovo, of which 23.4 percent of the assets are in treasury bonds of the Government of Kosovo (Figure 50).

Figure 50. Structure of FSKP assets, in percent (Dec. 2013)



Source: CBK (2014)

In 2013, it is noticed an improvement of the investments performance both in funds managed by KPSF and those managed by SKPF. As shown in Table 6, both funds have marked an increase of share price and investments return. This improved investments performance reflects improvement of conditions in international stock markets, where the majority of Kosovo pension funds are invested. Commitment of EU countries and international financial institutions to overcome the public debt problems in some developed countries has influenced in the increasing of confidence in the global financial markets and, consequently, increasing their performance.

6. Key indicators of pension funds

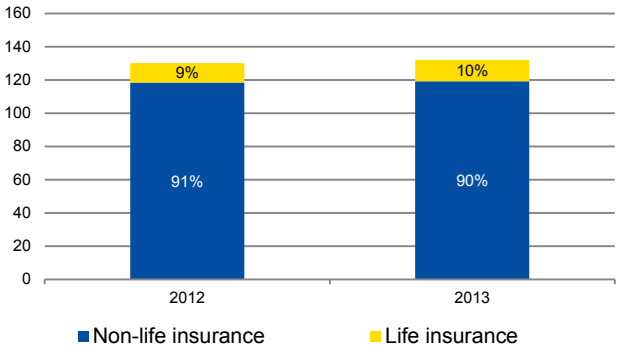
Description	Assets value (in millions of euro)		Number of contributors		Share price		Annual return on assets	
	2013	2012	2013	2012	2013	2012	2013	2012
KPSF	913.6	740.1	449 000	418 000	1.21	1.12	7.50%	7.20%
SKPF	5.1	4.5	3850	3740	129.9	129.9	6.60%	3.40%

Source: CBK (2014)

3.3.4 Insurance Companies

During 2013, the insurance sector structure was similar to that of the previous years. The insurance sector continues to be dominated by non-life insurance segment, which represents 90 percent of the total sector, while the remaining 10 percent represents the life insurance segment (Figure 51). According to the ownership, the sector structure continues to be dominated by foreign-owned companies, whose assets constitute 64.5 percent of total sector assets, but a decrease was noted in foreign ownership in comparison with the previous year (72.2 percent in 2012). The market concentration rate in the insurance sector is significantly lower compared to other financial sectors in Kosovo. In December 2013, the share of assets of the three largest companies in the country was 35.6 percent of total assets of the insurance sector (38.1 2 percent in 2012).

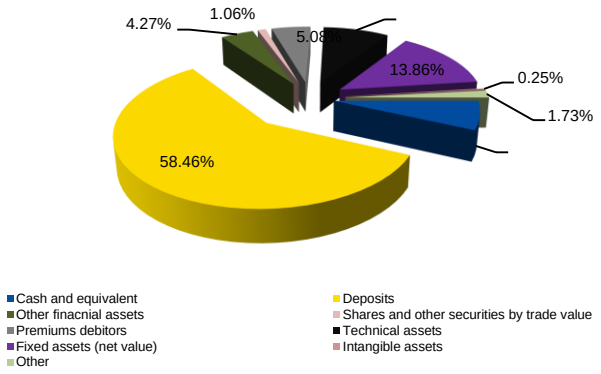
Figure 51. Insurance companies assets, in millions of euro



Sourcei: CBK (2014)

Insurance sector assets value, which represents 3.1 percent of total assets of the Kosovo financial system, in 2013 reached the value of euro 132.5 million, thus recording an annual growth of 1.3 (16.3 percent in 2012). A significant decrease in prepayments, technical assets and reinsurance assets contributed in declaration of the annual growth rate. Insurance companies' assets structure continued to be dominated by deposits, which comprise 58 percent of total assets (Figure 52). The rest is represented by cash and other assets (fixed, technical, intangible, etc.). The liability structure consists mainly of technical reserves, which represent 81 percent of total liabilities.

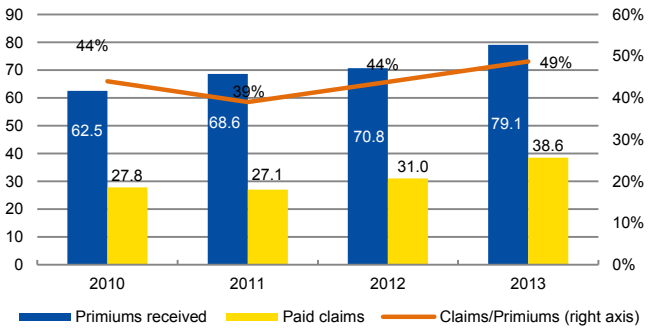
Figure 52. Structure of insurance companies assets (2013)



Source: CBK (2014)

Premiums contracted during 2013 reached the value of euro 79 million (euro 77 million in non-life insurance and euro 2 million in life insurance) which, compared to the previous year, represent an annual growth of 11.8 percent. Premiums within the non-life segment, 73.1 percent of premiums are comprised from obligatory insurance premiums, including third party liabilities (TPL) and border policies. The remainder of the premiums from non-life insurance consists of voluntary premium category which includes health insurance policies, Casco insurance and property insurance, etc.

Figure 53. Premiums received and claims paid, in millions of euro



Source: CBK (2014)

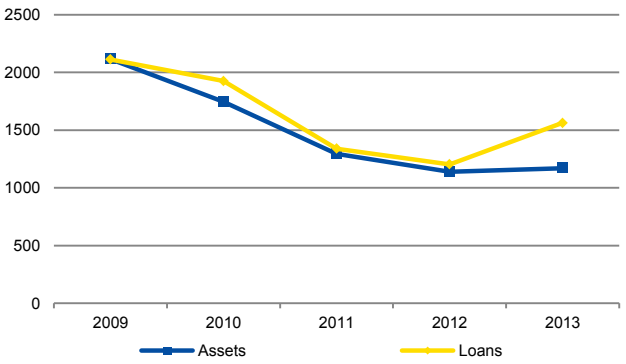
Claims paid by the insurance sector reached a value of euro 38.5 million, recording an annual growth of 24 percent. Claims paid by the Kosovo Insurance Bureau (KIB) recorded an annual increase of 7.5% compared with the previous year, reaching euro 5.17 million. Structure of claims paid is dominated by payments of non-voluntary policies, which represent 61 percent of total paid claims (64 percent in 2012). During 2013, it was noticed an increase in paid claims of voluntary policies, where the total paid claim share increased by 36 percent in 2012 to 39 percent in 2013. A more rapid growth of paid damages compared with contracted premiums resulted in the increase of the rate between the paid damage/received premiums to 49 percent from 44 percent in 2012 (Figure 53).

The insurance sector during 2013 was characterized by a net loss of euro 337 thousand, which is significantly lower compared to the previous year when the sector had recorded a loss amounting to euro 3.1 million. Reduction of losses was made possible mainly by better costs management. Loss reduction was reflected in key performance indicators that were improved compared with the previous year. Return on average assets (ROAA) in 2013 was -0.3 percent compared to -2.6 percent in 2012, while return on average equity (ROAE) marked an improvement to -0.7 percent from -6.8 percent in 2012. The insurance sector remains well capitalized, with capitalization rate of 35 percent. Meanwhile, the sector capacity to face potential losses, measured by own capital and technical reserves ratio, reached the value of 67 percent in 2013, compared to 64 percent in 2012.

3.3.5 Microfinance Institutions

Microfinance institutions sector (MFIs) continues to be dominated by foreign-owned companies, whose assets constitute of 91.6 percent of total sector assets. The market concentration rate in this sector is lower compared to the banking sector. In December 2013, the largest three MFIs assets participation in the country was 46.0 percent of total sector assets (45 percent in 2012). Herfindahl-Hirschman Index (HHI) shows a slight increase in the assets concentration and significant increase in loan concentration (Figure 54).

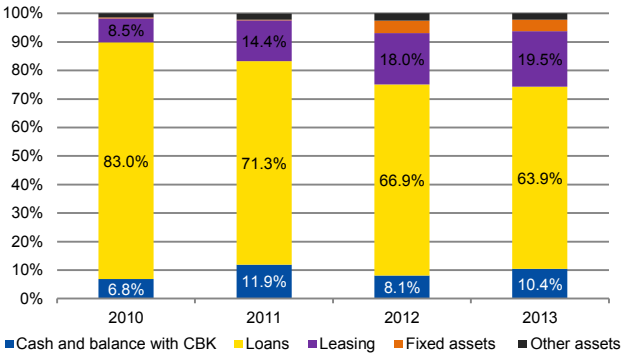
Figure 54. HHI for assets and MFI loans



Source: CBK (2014)

In December 2013, the value of micro financial institutions assets reached to 112.9 million euro, recording an annual decrease of 2.5 percent. Most significant decline was noticed in loans, which declined by 6.7 percent on value of 72.3 million. Leasing category recorded an annual increase of 6 percent, reaching the amount of euro 22.1 million. Loans continue to dominate the assets structure, with a share of 64.1 percent (Figure 55). However, leasing increased the participation in structure to 19.5 percent, suggesting a slight shift of assets towards leasing.

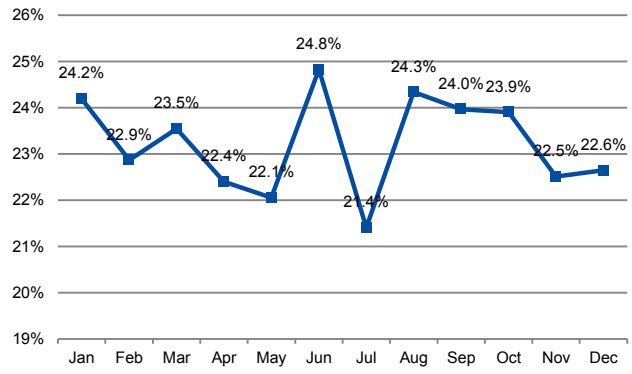
Figure 55. Structure of MFI assets



Source: CBK (2014)

Loans structure by economic sectors remains mainly the same as in the previous year. Loans for services dominated with 46.3 percent, of which 16.4 percent are trade loans. Agriculture loans have a share of 27 percent, while the remainder is designated for construction, industry and energy. MFI loans quality continues to be characterized by a relatively low participation of non-performing loans. In December 2013, the Non-Performing Loans (NPL) share towards total loans was 5.3 percent (5.4 percent in 2012). Non-performing loans continue to be well covered by provisions for loan losses, with a coverage rate of 107 percent in 2013, but which is lower compared to the previous year (128.8 per cent in 2012).

Figure 56. Interest rates on MFI loans

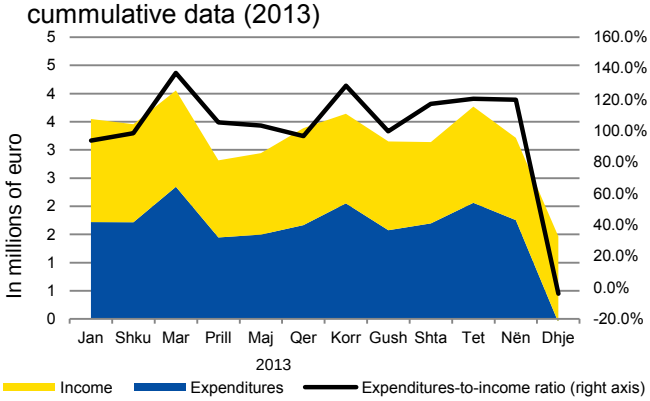


Source: CBK (2014)

Average interest rates on MFI loans continue to be higher compared to banking sector loans. The average interest rate on loans in 2013 was 23.2 percent (23.5 percent in 2012) (Figure 56). The highest level of MFIs interest rates is a result of loan financing activities from abroad funding sources, which have higher interest rates. The funding main sources for MFIs are credit lines taking into account that these institutions are not allowed to receive deposits.

Income of micro financial institutions sector were characterized by an annual decline of 7.5 percent, recording the value of euro 19.2 million. During 2013, revenues were dominated by interest revenues with a participation of 80.9 percent. More significant decline of 22.6 percent was recorded by expenditures reaching the value of euro 19.5 million. This decrease was as a result of non-interest expenses decrease for 23.6 percent and decline of interest expense for 19.4 percent. These developments suggest a more efficient management of the funds by MFIs. Efficiency indicator that measures the ratio between expenditure and income at the end of 2013 was 101.7 percent, showing improvement compared to the previous year (121.6 per cent in 2012) (Figure 57).

Figure 57. Expenditures-to-income ratio, non-cummulative data (2013)



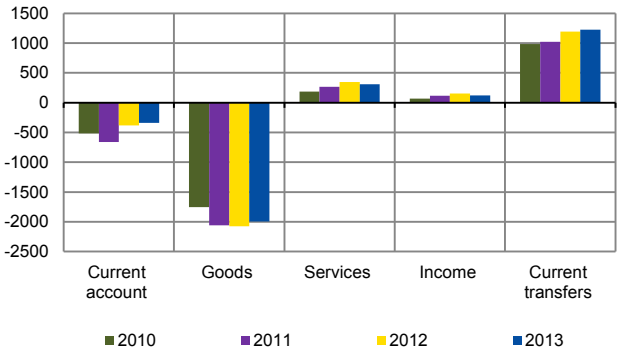
Source: CBK (2014)

Micro financing institutions sector ended the year 2013 with euro 0.3 million loss, which was significantly lower compared with the previous year (4.5 million euro in 2012), thus reflecting the impact on reduction of expenditures. Loss reduction is reflected even in the improvement of profitability indicators. In 2013, return on average assets (ROAA) improved to -0.3 percent from --3 percent in the previous year. Also, return on average equity (ROEA) decreased to -1.1 percent from -14 percent in 2012.

3.3.6. Financial Auxiliaries

Financial auxiliaries' asset value, consisting of exchange bureaus and money transfer agencies (MTA), in December 2013, decreased to 7.6 million euro, recording an annual decline of 7.5 percent. During 2013, revenues reached the value of 5.6 million euro compared with 5.2 million euro in 2012. Revenue structure is dominated by the category of transfer income, with a participation of 81 percent of total revenues. On the other hand, expenses reached the value of 2.6 million euro compared with 2.2 million euro at the end of 2012. Consequently, financial auxiliaries net income reached the value of 3 million euro, which is the same as in the previous year.

Figure 58. Current account balance, in millions of euro



Source: CBK (2014)

3.4. External Sector

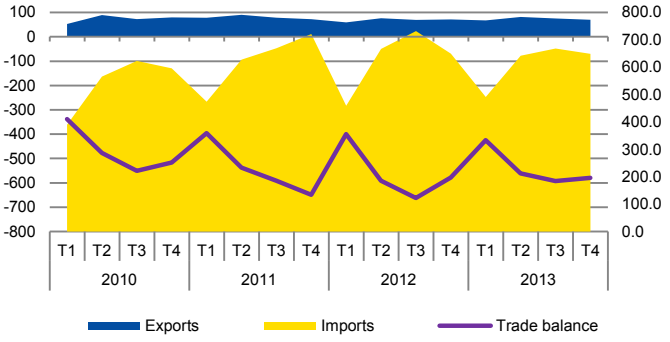
Balance of Payments in Kosovo was characterized by improvement of external trade position as a result of exports increase and imports decrease. Current account deficit recorded an annual decline of 10.7 percent during 2013, mainly as a result of the decline of the negative balance of goods trade. The

current account deficit in 2013 decreased to the lowest level recorded in recent years at around 6.6 percent of GDP (7.7 percent of GDP in 2012). Foreign demand increase, especially from the countries of the region, was reflected in Kosovo exports growth in 2013 compared with the previous year. Also, the depreciation of the Real Effective Exchange Rate (REER) in 2013 compared with the previous year, may have contributed to some extent to competitiveness of Kosovo goods increase towards the region. In 2013, imports declined, which to some extent can be attributed to the partially replacement of imported goods with domestic manufacturing and the decrease of prices of the main products imported in Kosovo. Positive balances continued to characterize the service sector, income and current transfers, while the increase in the capital account and financial flows strengthened the deficit financing current account sustainability.

3.4.1 Current Account

Dynamic developments of the current account continue to be largely determined by developments in the country's trade balance. Trade balance in Kosovo continues to be the main factor of high level of current account deficit, while the services trade positive balance and other categories such as income and current transfers continue to contribute to the narrowing of the current deficit. In 2013, the current account deficit reached the value of euro 244.1 million (6.6 percent of GDP), while in the previous year had the value of euro 380.2 million (7.7 percent of GDP).

Figure 59. Imports, exports and trade balance, non-cummulative



Source: KAS (2014)

3.4.1.1 Goods and services

Kosovo trade activity recorded an increase in exports and a decrease in imports in 2013. Reaching the amount of euro 1.68 billion (32.7 percent of GDP), Kosovo's trade deficit in 2013 was lower by 2.5 percent compared to 2012. Consequently, the ratio of coverage of imports by exports reached 12.0 percent in 2013, compared to 11.0 percent in the previous year. Trade openness rate of the Kosovo trade activity rate to GDP in 2013 increased to 53.4 percent, compared to 51.0 percent in 2012.

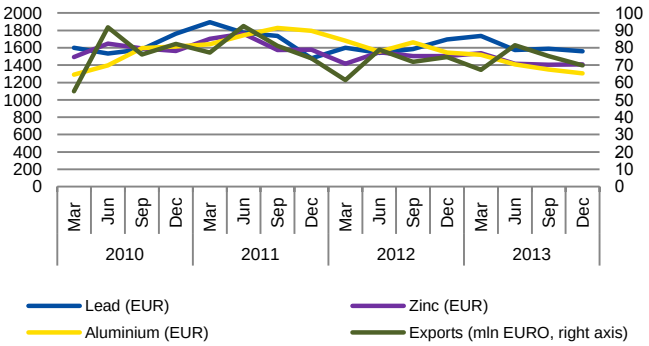
Goods

In 2013, the goods account deficit decreased to euro 2.16 billion, an annual decline of 3.4 percent. Kosovo's exports reached a value of euro 293.9 million, representing an annual growth of 6.5 percent (13.5 percent annual decline in 2012). In real terms[9], exports recorded an annual growth of 3.8 percent, an increase which is lower compared to nominal growth, which reflects the effect of price increase of several mineral products which Kosovo exported during 2013.

[9] Import Price Index (IPI) and Production Price Index (PPI) published by KSA are used for calculation of exports and imports in real terms.

An important category within the total Kosovo exports remains that of base metals, which slightly declined in 2013, primarily due to lower metal prices during this period (Figure 60). Meanwhile, exports of mineral products, beverages and tobacco, rubber products, plastics and other, as well as agricultural products contributed positively to the growth of Kosovo exports during this period.

Figure 60. Total exports (non-cummulative) and international metal prices

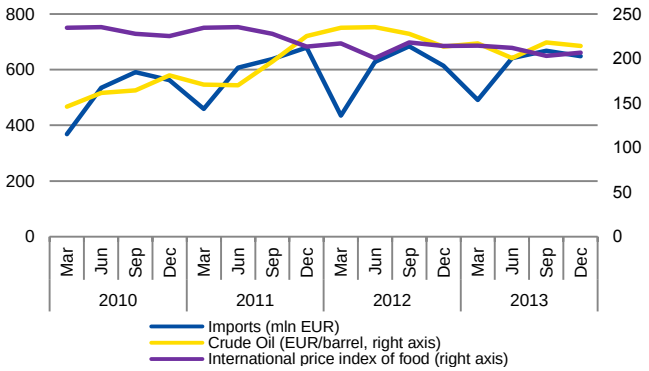


Source: CBK (2014) and Bloomberg

The main role on the growth of Kosovo exports during this period was focused on the mineral products export, which mainly consists of zinc and lead concentrate and electricity. Also, the growth of agricultural and paper products exports in 2013, compared to the decline in imports of these categories in this period, suggests a domestic production increase in these categories influencing the replacement of these goods previously imported.

The value of total goods imported in Kosovo in 2013 was euro 2.45 billion, representing an annual decline of 2.3 percent (0.6 percent annual growth in 2012). In real terms, imports declined by 2.5 percent in 2013. Import categories with the largest decline in 2013, were machinery, mechanical and electrical equipment, and transportation vehicles imports. The decline in imports in 2013 was driven by the decline in prices of petroleum products and metal prices, which was reflected in the value reduction of imports of mineral products and base metal products, which have the highest share within Kosovo total imports (Figure 61). On the other hand, the import of chemical industry products increased.

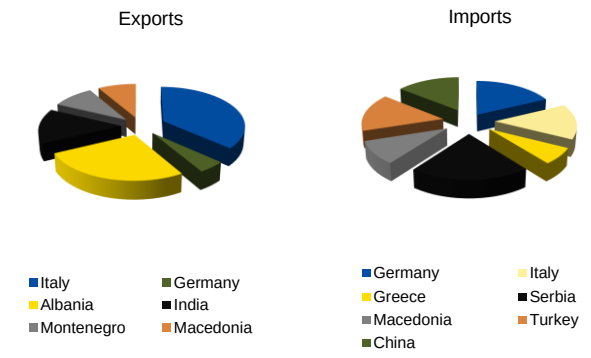
Figure 61. Total imports (non-cummulative) and international prices of oil and food



Source: CBK (2014), IFS and FAOUN

Regarding geographical distribution of Kosovo's foreign trade, the trade structure remained almost unchanged from the previous period. Trade activity remained focused on EU countries. Imports originate mainly from EU countries that include about 40 percent of total imports to Kosovo. More specifically, the majority of Kosovo's imports come from Germany, Italy and Greece. In the context of other European countries and countries from Asia, Turkey and China, they also have a significant share in the Kosovo total imports. Meanwhile, the region as Serbia and Macedonia represent the main trade

Figure 62. Structure of exports and imports by countries, in percent



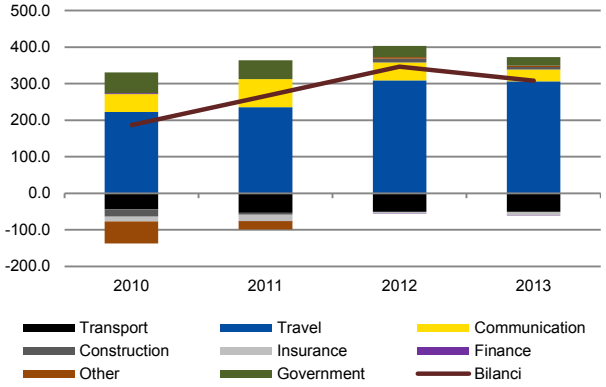
Source: CBK (2014)

partners in terms of imports into the country. On the other hand, Kosovo`s exports to EU countries comprise approximately 44 percent of total exports, concentrated mainly in Italy and to a smaller extent in Germany. Regarding the countries of the region, Kosovo continues to export more in Albania, Montenegro and Macedonia. A significant part of Kosovo's exports is destinated to India and Turkey (Figure 62).

Services

Service trade balance continued to be positive in 2013, although lower than in the previous year. In 2013, the service trade balance amounted to euro 308.4 million (euro 346.2 million in 2012) (Figure 63). The largest decline was recorded by balances of three main categories of services such as travel services, telecommunications and government services. The largest category within the service continues to be the travel category, which mainly consists of sales services to non-residents. In 2013, the travel service account reached the value of euro 306.0 million, when compared to the previous year represents an annual decline of 1.1 percent. The decline was driven by faster growth in imports than exports of this category. Telecommunications services balance in 2013 was euro 33.1 million (euro 48.3 million in 2012), while the government services balance was euro 23.2 million (euro 30.9 million in 2012).

Figure 63. Structure of net exsports of services, in millions of euro

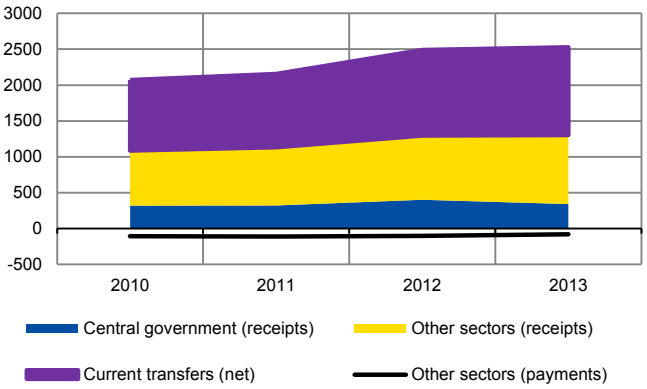


Source: CBK (2014)

3.4.1.2 Income and Current Transfers

In 2013, the income account had a positive balance of euro 21.8 million, compared to euro 154.1 million in 2012. Within the income account, revenues were euro 227.7 million, representing an annual decline of 1.2 percent. At the same time, payments reached a value of euro 101.6 million, representing an annual growth of 43.6 percent. Increased income in the income account resulted mainly from the subcategory of abroad workers' compensation such as seasonal workers and employees in Afghanistan and Iraq. In 2013, revenues from the employees compensation reached the value of euro 223.2 million (euro 219.9 million in 2012) (Figure 64). At the same time, workers' compensation payments, which primarily include non-resident workers engaged in Kosovo for short periods of time - less than a year, reached a value of 4.3 million euro compared to 5.6 million euro in 2012.

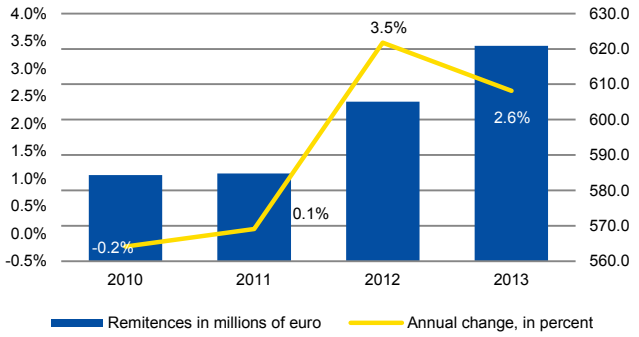
Figure 64. Current transfers, in millions of euro



Sourcei: CBK (2014)

The positive balance in the income account decreased in 2013 compared to the previous year, mainly due to increased payments and declining of revenues within investment income. Investment income consists primarily of income generated by domestic institutions investments (securities, deposits, etc.) in foreign markets, while payments primarily consist of income derived from foreign companies investments operating in Kosovo. In 2013, revenues within investment income declined to euro 4.5 million (euro 10.6 million in 2012), while payments reached the value of euro 101.6 million (euro 70.8 million in 2012). Investment income had a negative balance of euro 97.1 million in 2013 (euro 60.1 million in 2012).

Figure 65. Remittances



Source: CBK (2014)

One of the most important categories of Kosovo payment balance, which continues to contribute in narrowing the current account deficit, is current transfers. Current transfers account balance reached the value of euro 1.2 billion, resulting in an annual increase of 2.5 percent (Figure 65). Current transfers consist of government transfers (28.0 percent) and private sector transfers (72.0 percent). The government transfers reached a value of euro 341.9 million in 2013, representing an annual decline of 14.8 percent. EULEX and UNMIK as donor transfers are the main government current transfers.

Current transfers of the private sector are dominated mainly by remittances, the net balance of which represents approximately 62.7 percent of total private sector transfers. In 2013, remittances reached a value of euro 620.8 million, representing an annual increase of 2.5 percent (Figure 65). On the other hand, non-residents transfers in Kosovo to other countries recorded a value of euro 68.8 million (euro 86.1 million in 2012).

Regarding the remittances geographical distribution, Germany and Switzerland have the highest share with 33 and respectively 24 percent to the total remittances received in Kosovo, followed by countries with lower share as Italy and Austria with 7 and 6 percent, respectively, to total remittances. About 21.2 percent of remittances are transferred through the banking system, while 35.2 percent are transferred through money transfer agencies. The remainder is transferred through other channels including informal channels as well.

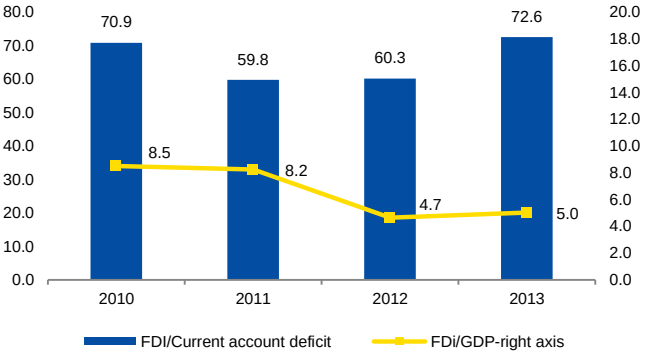
3.4.2 Financial Account

In 2013, the financial account balance reached the value of 133.4 million euro compared to 130.3 million euro in 2012. Assets increased for 200.0 million euro, when compared to 2012 are 38.6 percent lower, whereas liabilities reached the value of 333.4 million euro, and compared to 2012 are 25.0 percent lower. The key contributors within the financial account positive balance continues to be the category of foreign direct investment (FDI), while the constant growth of portfolio investment outside the Kosovo economy continues to have a negative impact on the financial account balance.

3.4.2.1 Foreign Direct Investments

During 2013, FDI in Kosovo were euro 258.9 million or 13.1 percent higher than in 2012. Kosovo residents' investment in other countries increased by 13.2 percent and reached the value of euro 17.9 million. Kosovo's residents' direct investments outside Kosovo`s economy are mainly capital investments, which in majority of cases are real estate purchase.

Figure 66. FDI as percentage to GDP and current account deficit

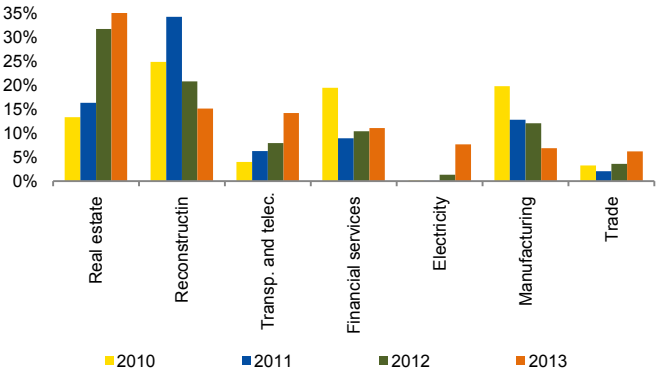


Source: CBK (2014)

As a result of the global financial crisis, FDI in relation to GDP has continuously decreased since 2008, while in 2013 it has recorded improvement of this indicator from 4.7 percent to 5.0 percent of GDP. The increase of FDI represents a very important development in terms of sustainability of financing the current account deficit (Figure 66). Within the FDI, the enterprise loans category and reinvested profit has marked a growth (euro 64.4 and 26.0, million, respectively, more than in 2012), while the share capital was euro 60.4 million lower than in 2012.

As shown in Figure 67, FDI in real estate have increased their dominance in the FDI structure during 2013. Transport and telecommunications sector, financial services, energy and trade were increased, while FDI in construction and manufacturing declined. Regarding the origin of FDI, the largest FDI`s from Turkey (33.6 percent), followed by Switzerland (16.1 percent), Germany (8.4 percent), Albania (7.9 percent), etc. Investments from Turkey have increased by 32.3 percent in 2013, whereas investments from Germany and Switzerland declined by 4.8 and 56.2, percent, respectively. Also, it is worth mentioning that investments from Albania have tripled in 2013 compared with 2012.

Figure 67. FDI by main economic sectors, in percent

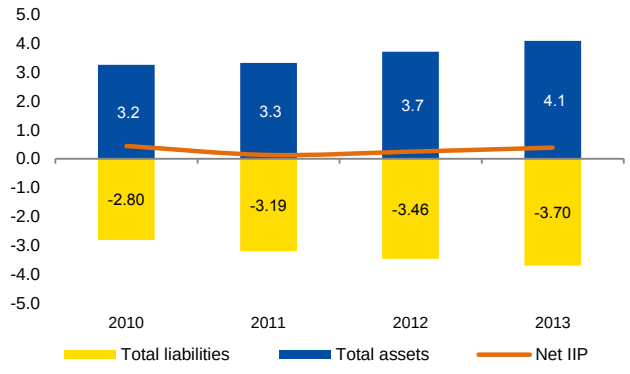


Source: CBK (2014)

3.4.2.2 Portfolio investments, other investments and Reserve assets

Investments portfolio balance during 2013 was euro -133.8 million (euro -184.9 million in 2012). Portfolio investments abroad, mainly in debt securities, reached the amount of euro 132.8 million (euro 185.7 million in

Figure 68. International Investment Position, in bln. of euro



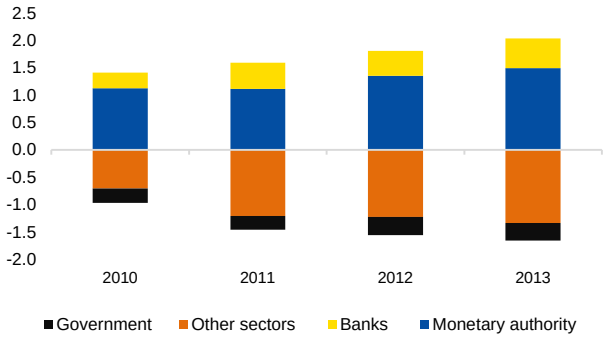
Burimi: BQK (2014)

2012). Majority of portfolio investments consist of pension funds investments in various financial instruments abroad, while the rest belongs to the Central Bank and commercial banks. Other investment category had a balance of only euro 5.1 million in 2013 (euro 369.2 million in 2012). The lower balance of investments compared with the previous year was due to the growth assets, mainly in deposits and loans by euro 70.4 million and liabilities increased by euro 75.5 million as opposed to the previous year where assets were reduced for euro 146.3 million while liabilities had increased for euro 222.9 million. In 2012 assets decreased mainly due to the reduction of deposits abroad and to the increase of commercial loans. Meanwhile in 2013, deposits invested abroad grew to euro 47.3 million while commercial loans decreased from euro 100.3 million in 2012 to euro 19.1 million in 2013, which is related with the lowest imports level. Reserve assets, which are invested primarily in money market instruments and deposits during 2013, decreased by euro 21.0 million.

3.4.3 International Investments Position

Net International Investment Position (IIP)[10] at the end of September 2013 was positive amounting to euro 387.0 million. IIP positive balance followed a decline trend until 2011, where the percentage of GDP reached 2.8 percent, while started to increase again in 2013 reaching 7.5 percent of GDP. In this context, net portfolio investments and other investments contributed in improving the IIP balance, marking an increase to 20.2 percent and 23.8, percent, respectively, in 2013, compared to 2012. On the other hand, the direct investment balance continued to be negative and increased by 9.6 percent in 2013.

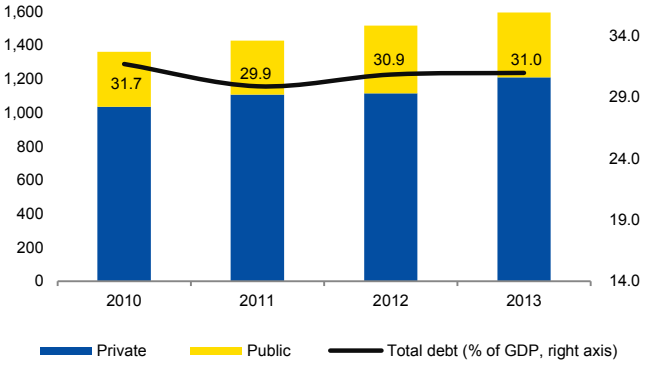
Figure 69. Net International Investment Position by institional sectors, in bln. of euro



Source: CBK (2014)

Concernign the institutional sectors, the Central Bank and commercial banks have consistently had positive balance (euro 1.5 billion and euro 539.6 million, respectively, in 2013), while other [11] sectors and government have had negative balance (euro 1.3 billion and euro 321.8 million, respectively) (Figure 69).

Figure 70. Gross external debt, in millions of euro



Sourcei:CBK (2014)

3.4.4 External Debt

In 2013, Kosovo had a positive external debt net balance of euro 1.9 billion, which means that the external sector debt to Kosovo`s economy (euro 3.5 billion) is higher than the debt of Kosovo`s economy to external sector (euro 1.6 billion). Kosovo`s gross external debt, including private external debt and public[12] external debt, in 2013 reached to

[10] IIP presents the balance at the end of a certain period of time of external financial assets and liabilities. Balance at end of the period is a result of all transactions deriving from the past, including corrections due to exchange rate fluctuations to calculate the value of financial assets / liabilities at reporting day or changes in market price. If the net IIP is positive, it means that Kosovo has more funds invested abroad then liabilities to the external sector.
[11] Other sectors include: pension funds, financial auxiliaries, insurance companies, non-governmental organizations, private companies, and individuals.
[12] The public debt includes government debt and the central bank, while the private debt includes loans between the companies, banking system and other sectors.

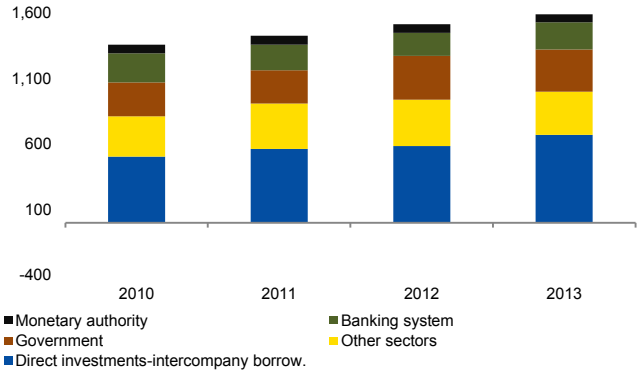
euro 1.6 billion which is 5.1 percent higher compared to 2012. As GDP percentage, gross external debt of 31.0 percent in 2013 was almost the same as the previous year (Figure 70). This makes Kosovo have the lowest level in the region in terms of external debts.

Kosovo has a favourable position compared to other countries of the region, due to the fact that public external debt has a low share in the total gross external debt (euro 383.9 million or 24.1 percent of gross external debt).

The majority of the external debt consists of intercompany borrowings (Figure 71). Consequently, foreign companies operating in Kosovo owe external sector euro 672.6 million or 42.2 percent of total external debt. Considerable shares within Kosovo total external debt are also other sectors (euro 329.7 million or 20.7 percent of total external debt).

Government external debt in the amount of euro 321.8 million is mainly inherited debt which means that it is a long-term debt and consists of 20.2 percent of the total gross external debt. The stock of gross external debt of the banking system in September 2013 was euro 208.1 million or 13.1 percent of total external debt. This is a short-term debt and most of it consists of non-resident deposits. Central Bank has the lowest share of total external debt (62.1 million euro or 3.9 percent of total external debt). Central Bank liabilities mainly belong to the stock of allocation of Special Drawing Rights (SDR) from IMF.

Figure 71. Gross external debt by sectors, in millions of euro



Source: CBK (2014)

3.5 Expectations for the year 2014

Projections for global economic activity recovery, especially in the Eurozone member countries, are expected to have implications on Kosovo's economy in 2014. Especially when considering that, while in the second half of 2013, the recovery in the euro area was concentrated in the main countries, the first signs appeared in peripheral economies, including Greece, in 2014. Projections for growth in the euro area for 2014 are that the real growth of GDP will reach to 1.5 percent. Reflections of improvement of the economy in the euro area are transmitted to Kosovo's economy through remittances, foreign direct investments and external demand, which is expected to influence Kosovo's exports. As to Kosovo's economy, current projections suggest that the real GDP will grow by 4.0 percent. Besides effects transmitted from positive developments in Eurozone and primary economic partners, strengthening of economic activities is expected from domestic economic developments as well.

Projections for 2014 suggest that consumption will increase with a faster rate than in 2013, which is expected to be driven by private sector consumption. The nominal rate of consumption growth is expected to be around 3.0 percent. Private consumption in 2014 is expected to be a result of higher wages and higher amount of remittances. It is expected that remittances will increase by 2 percent in 2014, which is attributed to favourable economic developments in the European countries, especially in Germany and Switzerland, where the majority of Kosovo's diaspora community is concentrated.

Investment component in 2014 is expected to grow with an accelerated rate, and the private sector is expected to be the main driver of investment growth. Investment growth is expected to

be stimulated by the growth of investment loans in the country, but foreign direct investments are expected to have a higher impact, which are projected to grow faster than in 2013 driven by improvements in the Eurozone. Nominal growth of investment components in 2014 is expected to be 5.5 percent.

Besides the consumption and investment component, the country's economic growth in 2014 is expected to be significantly influenced by the net exports component. In 2014, it is expected the growth of exports and slight decrease of imports. Exports in 2014 are expected to grow at a higher rate than in 2013 as a result of increase of production and processing capacity in Kosovo's economy but also as a result of global demand increase. Regarding imports, it is expected a decrease of imports in nominal value based on current projections of oil prices and some other products categories that Kosovo mostly imports. Current projections suggest that the deficit of net exports component will decrease for 3.2 percent making this component a significant contributor to economic growth.

In 2014, inflation is expected to reach 1.5 percent compared to 1.8 percent in 2013. This inflation rate decline is attributed to the global and regional price trend, which is declining. For SEE, the IMF has predicted that average inflation will decline from 3.7 percent in 2013 to 2.9 percent in 2014.

Growth rate of loans for 2014 is expected to slightly increase, mainly due to better macroeconomic conditions, favourable position of the banking sector capital, high liquidity position and satisfactory level of loan portfolio. More specifically, Kosovo's economic development perspective is positive with a projected a higher GDP growth rate than in the previous two years. GDP growth is expected to be reflected in increased loan demand by both enterprises and household sectors. Consequently, it is expected an increase in supply because banks' risks perceptions and the ability of customers to return the loans will be mitigated. Moreover, the positive growth prospects in the Eurozone may have a positive impact because it can reduce the pressures for capital level increase and tightened crediting from parent banks to banks in Kosovo. As to the supply, banking sector sound condition, based on the level of on-going capital over minimum regulatory requirements, loan portfolio good quality and satisfactory level of liquidity shows that banks are in a good position to expand lending activities.

In 2014, deposits are expected to grow at similar rates to as in 2013. Households will continue to be the main contributors of deposit growth. Public sector wages increase is expected to contribute to deposits growth, but such growth can be neutralized by the effect that the decline of deposit interest rates may have an impact on depositors. The highest GDP growth expected in Kosovo and the Eurozone is expected to result in better business performance and climate including higher level of remittances, which in turn is expected to positively influence deposits growth.

Loans are expected to continue with their declining trend. The gradual increase of competition in the banking sector and the gradual improvement of conditions affecting perceptions of risk, such as economic growth and judiciary efficiency, are expected to reflect on the gradual decline of loans interest rates. Deposits interest rates decreased in early 2014. This decrease is suggested to have been as a result of high liquidity of the sector and the pressures in banks profitability position caused by the decline of income interest in the previous year. Considering that loans are not expected to grow at very high rates, the sector liquidity position may continue to be high, thus influencing deposit rates to remain at similar levels.

Banking sector non-performing loans (NPLs) rate has been stable in the last months of 2013 and in early 2014, and this stability is expected to continue throughout 2014. However, a slight increase in the NPL rate may happen if credit growth is not accelerated. Continuing on the slow lending trend, in addition to possible influence in the NPL growth rate, could also have a negative impact on the enterprise expansion capacity and their ability to restructure and settle of

existing loans. However, improvement of the overall economic environment and tighter lending standards that banks reported to have used in the past two years, are expected to have a positive impact on credit quality and, consequently, to neutralize the potential negative impact from economy lending slowdown.

Banking sector profit for 2014 is expected to remain similar to the previous year. Accelerating the pace of lending is expected to positively affect the profit sector through increased interest income. However, other investments returns, such as securities, are not expected to increase considering the deflationary pressures in the Eurozone which is likely to keep the returns rate in low level. Also, the Kosovo Government return of securities is not expected to grow, given the banking sector excess liquidity which is expected to influence that the securities demand remain at a high level. Consequently, the positive impact of accelerate lending it is expected to be neutralized to some extent. Non-interest revenues during 2013 followed an increase trend, mainly as a result of utility prices increases. In 2014, utility prices are expected to remain at similar levels with 2013, but it is expected to continue the increasing trend on services volume that does not generate interest, thus increasing the non-interest revenues. As to the expenditure, interest expenditures is expected to continue the slowdown trend during 2014. Overall expenditures are also expected to continue the slowdown trend mainly as a result of measures taken by banks to reduce operational costs and increase efficiency. On the other hand, provisions expenditures are expected to grow along with the crediting growth, although it is assumed that this will be a slight increase considering that it is not expected any significant deviation of loan portfolio quality.

4. Financial institutions supervision

4.1. Licensing and Standardization

4.1.1 Licensing

Oriented towards CBK ultimate objective for a sound and stable financial sector, CBK continuously promotes financial sector development driven by market forces, but operating within prudent regulatory and supervisory policy framework harmonized based on the EU directives and the principles and standards issued by internationally recognized institutions (BIS, IAIS and IOPS). Based on the aforementioned objective, the criteria and conditions for obtaining a license to carry out banking and other financial activities in the Republic of Kosovo are defined under the Law No. 03 / L-209, on the Central Bank of the Republic of Kosovo, Law No.04/L-093 on Banks, Microfinance Institutions and Non-Bank Financial Institutions, the Law No.04/L-101 on Pension Funds of Kosovo and other sublegal acts issued by the CBK. In accordance with the legislation governing its statutory function, CBK has the authority to establish licensing criteria for financial institutions and to reject applications which do not meet these criteria.

Licensing criteria set by law aim at a fair financial market regulated through a process built on the principle of fairness, honesty and equality. Licensing conditions and criteria are of supervisory character are not intended to impose barriers against investors whether domestic or foreign. Entry of foreign investors in Kosovo market, particularly in the financial sector, testifies CBK`s open policy to foreign investment, without violating their legal rights and through equal treatment of all applicants.

CBK`s strategy in the area of financial institutions licensing is focused on attracting investors who have a strong financial position, meet the ethical and professional criteria, necessary and appropriate for the proposed shareholders and management, are capable to apply an approach requiring a prudent business development to protect clients' interests, thus assisting in strengthening the financial sector and enhancing its credibility.

Licensing and Standardization Department is tasked to contribute in completion of financial supervision legal framework pursuant to `the European Union Directives and the best international practices, as presented under "Core Principles on Effective Banking Supervision" published by the Bank for International Settlement (BIS), as well as "Core Principles on Effective Insurance Supervision" published by the International Association of Insurance Supervisors (IAIS). In order to accomplish this mission, the Licensing Department is in charge of receipt and review of institution's applications for license respectively for registration to operate in Kosovo, such as commercial banks, micro financial institutions, insurance companies, insurance intermediaries, pension funds and all other non-banking institutions.

Licensing activity of financial supervision during 2013 has mainly included:

- Approval of eight (8) requests for amendment of the charter/ by laws of banks and insurance companies;
- Approval of three (3) requests for dividends distribution for banks and insurance companies;
- Approval of one request of insurance company for changing the ownership;
- Approval of fifty eight (58) requests on appointments of directors, senior management and internal auditors of banks, insurance companies, insurance intermediaries and other non-bank financial institutions;

- Approval of one (1) request of actuary for insurance company;
- Approval of ninety six (96) requests for opening of new branches, new offices and relocation of offices and branches of banks, insurance companies and other financial institutions;
- Approval of sixty eight (68) requests of offices and agents for money transfer and payment services;
- Approval of five (5) requests to increase the insurance activities and products;
- Approval of one hundred and nine (109) requests for operators and agents of insurance companies and insurance intermediaries;
- Approval of forty seven (47) financial institution`s requests for external audit engagement;
- Approval of two (2) requests of amendment of the terms and conditions for the voluntary insurance policy for insurance companies;
- Non approval of two (2) requests for the board members of the insurance company;
- Non approval of two (2) requests for operators insurance companies.

In approved cases of banks directors and senior managers, fifteen (15) cases are for bank board members, three (3) for audit committee independent members, seven (7) cases are for chief executive and deputy chief executive, four (4) for internal auditors, and seven (7) for chief executive and board members of microfinance institutions. Whilst, for insurance, five (5) of them are requests for approval of the board members of insurance companies and intermediaries, six (6) cases are for general director and deputy general director of insurance companies and intermediaries, eight (8) for head of the different departments , and three (3) for internal auditor.

After performance and its efficiency assessment during 2013, banks have closed down 23 bank sub-branches, mainly small units. Also, another reason of closing down is that the banks recently have invested in the expansion of automated services in order to offer the clients the opportunity to perform transactions through e-banking, ATM, sales terminals (POS).

4.1.2 Standardization and Regulation

a) Legal Framework

During 2013, have been prepared two draft laws of particular importance for the financial sector in Kosovo. Both of these laws have been prepared in cooperation with the U.S. Treasury advisers, and for their compliance with EU directives, has been consulted the European Commission office in Kosovo. One of these laws is the draft law on General Insurance, which will replace the existing regulation of UNMIK No.2001/25. The final draft of this law is expected soon to be processed to the relevant bodies for its final preparation and submission to the assembly for approval. This law is designed based on the relevant EU directives and is reviewed by the European Commission office in Kosovo. In addition, part of the working team on the preparation of this law has been the resident adviser of the U.S. Treasury.

Another law, which is very important for the financial sector in Kosovo, is the draft law on Microfinance Institutions and Non-Banking Financial Institutions. This law, which is also has been prepared in cooperation with the U.S. Treasury advisers and is in its final phase, has been sent to the relevant authorities for its further proceeding for approval.

With the approval of these two laws, the necessary legal framework will be completed which will cover licensing, regulation and supervision of all financial institutions operating in the Republic of Kosovo. It is important to note that these laws are based on EU directives and on the best international practices for the supervision of financial institutions, which set the sound basis for

an appropriate regulation and supervision for these financial institutions, namely insurance companies, microfinance institutions and non-banking financial institutions. The Central Bank now has an experience and has established relevant departments for supervision of financial institutions. Consequently, it is expected that the consolidation and development of the legal basis will facilitate the continuous control and adequate supervision of the operation of these institutions. In this way, the stability of the financial sector in Kosovo will be preserved and the service users of these financial institutions in obtaining fair treatment and meeting their requirements with complete trust and assurance that they are protected and knowing where to address their complaints on possible irregularities will be ensured.

b) Regulatory framework - Regulations on supervision of banks, microfinance institutions and non-banking financial institutions

The purpose of completing relevant regulations on financial supervision is to ensure and create a well-regulated environment, without imposing undue burdens to providers and users of financial services.

In accordance with the new law on banks, microfinance institutions and non-banking financial institutions, during 2013, the CBK continued with the completion and finalization of regulations for banking supervision, based on the standards of the Basel Committee and the European Union directives.

During 2013, the following banking regulations have been amended:

- Regulation on Bank Capital Adequacy,
- Regulation on Capital Equivalency Deposit for Branches of Foreign Banks,
- Regulation on Large Exposures,
- Regulation on Credit Risk Management.

Also, during 2013, it is worked on the preparation of Regulation on Mortgages and Regulation on Internal Complaint-Handling Process which is in their final stage and is expected to enter into force during 2014.

During 2013, were issued 7 regulations on the supervision of microfinance institutions. Also, work has been done on preparing additional regulations necessary to cover the supervision of microfinance institutions, which are in draft form and are expected to be finalized at the time of approval of the new law on microfinance institutions. In addition, it is also worked on the preparation of secondary legislation, i.e. regulations covering the supervision of non-bank financial institutions, which will also be issued at the time of the adoption of the law on micro-finance institutions and non-banking financial institutions.

In terms of pension funds, upon the approval of the new Kosovo pension funds in 2012, the CBK continued fulfilling the regulatory framework on the supervision of pension funds adapting the new requirements of the law as well. Regulations prepared in 2013 by the working groups are almost finished and are expected to be issued in 2014.

2014 will also be a year of continuous consolidation of the legal framework on the supervision of banks, microfinance institutions, non-banking financial institutions, insurance companies and pension funds, in accordance with new laws and at the same time in creating a regulatory framework that reflects the needs and requirements identified during a thirteen years period of financial institutions existence in Kosovo

c) Regulatory Framework - Insurance Companies

With the aim of creating a sustainable, competitive and stable market, CBK is engaged in establishing the legal framework by making progress in its development. As a result, during 2013, CBK has prepared the draft Law on Insurances, a law which will replace the UNMIK Regulation No. 2001/25. This draft law is also reviewed by the European Union office to ensure it complies with the European Directive, and it is expected to be approved by the Assembly of Kosovo during 2014.

On July 1, 2013, for the first time in Kosovo has officially begun implementation of Bonus-Malus system, a system which considers the applicants one-year background on insurances under the compulsory motor liability insurance policy (MTPL). The implementation of Bonus/Malus system is enabled by "Insurers' Information Centre" through the collection and processing of information for each insurer. Based on accidents caused or not, during the period, the Bonus or Malus which is attributable to police holders is calculated ranging from 10% of the base premium.

Also, during 2013, CBK has issued an administrative instruction through which, it obliges all insurers and the Insurance Bureau of Kosovo to conduct the payment of all premium types through the banking system.

4.1.3 Consumer protection

Central Bank of the Republic of Kosovo, as licenser, regulator and supervisor of financial institutions and authorized under the laws in force, the Central Bank of the Republic of Kosovo has the key role in the protection of financial services users in Kosovo. Based on the results of diagnostic assessment of the World Bank mission, a strategy on consumer protection and financial education is drafted in order to provide the Central Bank of the Republic of Kosovo with instructions on actions to be implemented in strengthening the position of financial service consumers in Kosovo.

Within the licensing and standardization Department, is established the Division for the review of financial services user's complaints, division which will ensure that consumers are treated fairly and timely. The function of the division for financial service user`s complaints includes receiving, collating and reviewing complaints on the compliance of financial institutions activities with the laws and regulations in force, as well as standards that guide the financial institutions supervision, by following and monitoring their behaviour on the market. The objective of this Division is to establish the bases for adequate disclosure to consumers and protection of consumers as user of financial institutions services and products in Kosovo. This division reviews the complaints addressed by depositors / borrowers, police-holders, and users of all financial institutions services and products supervised by the CBK, and provides supervision and regulation with concrete recommendations for practices identified as unfavourable for consumers in order to address them in their future actions.

Also, with the aim of facilitating mutual cooperation through policy coordination and exchange of information in the interest of consumers of financial a service, in July 2013, has been signed an agreement of cooperation between the CBK and MTI.

4.2. Banking supervision of microfinance institutions and non-banking financial institutions

4.2.1 On-site examinations of commercial banks

In the function of a stable banking system, during 2013 have been conducted commercial banks examinations in accordance with the provided plan. Consistent with international practices in

the relevant field, special attention is paid to credit risk, liquidity, market and other risks based on the approach of risk-based supervision.

During the examinations, special emphasis has been placed on the monitoring of implementation of recommendations, relevant decisions and assessments of banks' compliance with the applicable legal framework, particularly CBK regulations which entered into force on 3 December 2012.

Also, during 2013, the main risk within the banking sector remains credit risk. Complete and bank focused examinations have been conducted, with the aim of applying closer supervision of banks. Even this year, banks have continued to apply a more conservative approach of growth strategy compared to the previous year 2012. Moreover, last year were conducted a total of eight bank examinations, out of which five complete examinations and three focused examinations.

Complete bank examinations aimed to assess the overall situation of the bank, including internal controls, capital, assets quality, evaluation of policies and procedures, management, earnings (in the context of supporting the activity), liquidity and sensitivity to market risk as well as an examination of the field of information technology.

Whereas, examinations focused in banks aimed to monitor the implementation of recommendations from previous CBK examinations and in certain cases even monitoring of the implementation of CBK decisions arising as a result of CBK`s preliminary examinations. During examination, the permitting process and credit management, credit quality trends, propriety of provisions for loan losses and non-balance items were assessed.

During 2013, the banking sector in general continued to operate in compliance with the applicable legal framework. However, during on-site examinations of banks some shortcomings in terms of complete compliance of the legal framework were identified, especially after the entry into force of new banking regulations in 03 December 2012, in the process of credit risk management, overcoming credit exposures limitations, risk weighted capital adequacy, deposits equivalent to capital of banks, the leverage ratio and reporting issues.

During 2013, in several banks have been identified some cases of incomplete compliance with certain provisions of CBK`s legal framework on issues such as: credit risk management, not providing detailed procedures that describe the process of loan classification and provisioning, incomplete compliance of general provisions methodology for loan losses, non-disclosure of effective interest rate, as well as other relevant issues.

As a result of identifying incomplete compliance of banks with the applicable legal framework, enforcement measures have been imposed to banks in the form of decisions and recommendations specified as matters for the attention of the board of directors listed as follows:

- Remedial measures in form of “Decision”;
- Re-publication of financial statements, based on financial positions corrections by the CBK examination results;
- Increase of the share capital, to comply with the regulation on the sufficiency of banks' capital;
- Credit exposures of borrowers in the limit defined by the legal framework and the approval of credit limits exemptions;
- Improving credit risk management practices;
- Drafting a plan for improving earnings by examining expenditure rationalization of other costs that burden the financial position;
- Drafting a plan to reduce the concentration of loan portfolio to large exposures;

- Providing capital adequacy after adjustments for exposures to persons associated with the bank;
- Providing a sound system of internal control;
- Reviewing and completing bank policies in accordance with regulatory requirements of CBK.

Box 1. Progress of the Prishtina Credit Bank liquidation process

The liquidation process of Prishtina Credit Bank continued during 2013 as well. By the end of 2013 were reimbursed in total 54.3% of the total deposits amount, respectively 99.8% of deposits accounts. The Liquidation process is closely related with the efficiency of credit collection and with taking and selling secondary sources of borrowers, such as mortgages. During 2013, 165.2 thousand Euros were collected from loans.

Table 7. Loans-collection trends

Description	No. of accounts	Amount	Change in accounts		Change in amount	
			No.	%	No.	%
Loans on 13.03.2006		28,438,587				
Lonas on 01.01.2013		21,789,058			6,649,529	23.4%
Loans on 31.12.2013		21,623,878			6,814,709	24.0%
Cashing during 2013		159,907			159,907	0.6%

Source: CBK (2014)

During 2013 the liquidation process continued with the collection of loans, reimbursing depositors and insuring some loans with additional more qualitative mortgages, on which concrete results have been achieved in taking additional mortgages from the borrowers.

Table 8. Deposits - Refunds trend

Description	No. of accounts	Amount	Change in accounts		Change in amount	
			No.	%	No.	%
Deposits on 13.03.2006	35529	33,454,222				
Deposits on 01.01.2012	65	15,355,734	35464	0.9981705	18,098,488	54.1%
Deposits on 31.12.2012	59	15,291,985	35470	0.9983394	18,162,237	54.3%

Source: CBK (2014)

The liquidator`s office has consistently been in the function of undertaking all possible measures and actions that during the liquidation process to be considered the core principle that the liquidation process and all of its phases should be accompanied with maximization of liquid funds available with the purpose of maximizing depositors compensation.

4.2.2 On-site examinations of microfinance institutions and non-banking financial institutions

In accordance with CBK objectives in preserving the stability of the financial sector, the CBK has consistently performed a risk-based supervision, conducting direct on-site examinations and external monitoring. During 2013, have been conducted several complete examinations in microfinance institutions and non-banking financial institutions. This was in conformity to a risk-based approach.

Besides regular examinations, the monitoring of the implementation of recommendations and execution of orders for relevant microfinance and non-banking institutions are continued. The governance of these institutions have been in the focus of monitoring activity as one of the most significant shortcomings, as well as the credit risk – adequacy of recognition and provisioning of loan portfolio, liquidity risk, capital level, profit, policies assessment and procedures of the

institution, as well as evaluation of information technology. Also, on the basis of quarterly reports has been conducted the external monitoring-analysis of the performance of microfinance institutions and non-banking financial institutions.

Microfinance institutions and non-banking financial institutions have achieved progress in the implementation of regulatory requirements of CBK. In cases of irregularities, non-transparency or non-implementation of relevant requirements, corrective measures were taken against the institutions in question.

Some of the essential measures to avoid governing problems against relevant institutions were: imposition of monetary fines; written warning for failure to responsibly exercise its relevant functions by responsible persons; minimum capital increase in order to meet the required capital by the legal framework; return of loans to certain institutions; avoidance of conflicts of interest; insurance/separation of adequate functions of duties and responsibilities between relevant positions of jobs; replacement of members of the audit committee with the new non-executive members and in accordance with the requirements of the law on banks, microfinance institutions and non-banking financial institutions; independent provision of internal audit function; and a series of actions equivalent to the reporting of reprogrammed credits in accordance with the regulation on credit risk management.

4.3. Prevention of Money Laundering

Central Bank of Kosovo has paid special importance to strengthening the prevention of money laundering, by restructuring the division of Prevention of Money Laundering, increasing the number of human and technical capacity and bringing it to the highest level of hierarchical reporting. In this case the Division has completed internal procedures and other standard work documents and is already operational.

After amendment-supplement of the respective law, the Division has drafted the regulation and inspection manual for financial institutions, which will serve as practical documents for application of the legal mandate in this field. Moreover, the Central Bank has concluded a Memorandum of Understanding with the Financial Intelligence Unit, in order to increase the cooperation and coordination of activities under the legislation in force, with particular emphasis in the area of examinations / inspections of the financial sector under the supervision of the Central Bank regarding the implementation of measures to prevent money laundering and financing of terrorism.

Also during the year, CBK has played an important role in combating money laundering and financing of terrorism in Kosovo, thus contributing to the implementation of Project against Crime in Kosovo initiated by the European Union and the Council of Europe. The goal of this project is to strengthen institutional capacities in cooperation with the Council of Europe in the field of AML / TFP.

4.4. Insurance Supervision

The insurance sector in Kosovo is regulated and supervised by the Central Bank of the Republic of Kosovo. The main goal of the CBK is to create a safe, healthy and stable environment in order to protect the interests of policy holders, injured parties, and potential investors as well as to provide quality and full transparency throughout the process of insurance service delivery. In accordance with this, the Insurance Supervision Department (ISD) has continued monitoring activities with the aim of ensuring stability in the insurance sector, taking appropriate and timely measures for the implementation of an effective supervision and creating conditions for further development of insurance sector. The main objective of the ISD is to protect policy holders

and injured parties, always acting pursuant to CBK`s laws and regulations, within which the insurance industry conducts its insurance activity, by regularly compensating damages for its customers.

CBK during 2013 is also engaged in the adoption of insurance supervision best practices, based on the principles of the International Association of Insurance Supervisors and risk-based supervision, thus contributing in increasing the transparency of insurers operations to the public.

The financial position of insurance companies is supervised with special care, which resulted in continuous improvement of insurance sector financial position in Kosovo, an improvement which was reflected with a better protection of police holder's and other injured parties interests in general. Special attention is paid to financial indicators related to capital adequacy, minimum solvency margin, variable capital requirements on behalf of insurance risk and other financial indicators of liquidity and profitability. ISD has also carefully reviewed the level of adequacy of technical provisions to assess whether they are sufficient and if at any time they are covered by liquid assets.

Complete examinations aimed to assess the general condition of insurance companies, including compliance with laws, rules and regulations in force, internal audits, , policies, procedures and insurance companies' practices, capital, solvency and insurance risk assessment, suitability of governing bodies of insurance companies, underwriting, processing compensation claims, technical reserves, reinsurance, and investments. Also, complete examinations in insurance companies have included the prevention of money laundering and assessment of information technology. Based on the examination results, certain decisions have been issued, where during the examination has been assessed the implementation of CBK decisions according to the defined deadlines.

Focused examinations aimed to monitor the implementation of recommendations from previous CBK examinations, specific positions of financial statements, and in certain cases the follow-up of implementation of CBK`s decisions which have derived as a result of previous examinations.
Insurance companies in general have operated in accordance with legal and regulatory requirements of CBK. However, on-site examinations of insurance companies have identified non-compliance with the legal framework of Central Bank, as follows:

- Inadequate allocation of investments-liquid assets of companies in commercial banks, delays in treatment and payment of damages, in most cases the technical provisions are underestimated. The sale of insurance products without prior approval of CBK, disregard of premium tariffs and maintaining the risk over the limits set by CBK, were identified.
- In addition, it was also identified: the lack of internal controls effective systems, non-functioning of committees regarding transactions with related parties, presentation of financial statements is not made in full compliance with IFRS, high level of premium debtors and other receivables, non-provisioning of other receivables for over 90 days, and also was identified a high level of expenses.

As a result of identification of non-compliance with the applicable legal framework, the following measures have been imposed to insurance companies:

- Remedial measures in the form of "Decisions" such as the imposition of monetary fines, warnings, dismissal of responsible persons, and termination of sales of voluntary products from non-responsible persons. In addition, during 2013, insurance companies have increased the variable and charter capital and corrections have been made in the investments of companies' funds.

4.4.1. Structure of the origin of insurance capital in Kosovo

During 2013, the number and structure of insurer's ownership, which exerted Life and Non-Life insurance activity in Kosovo, remained unchanged. The total number of insurers in 2013 was thirteen (13), where ten (10) of them continued to provide products of non-life insurance, while three (3) others offered life insurance products.

Table 9. Insurers and origin of capital

Country of origin of the capital	2013			2012		
	Number	Capital	Percent	Number	Capital	Percent
Austria - Albania	4	16,543,771	35.80%	5	16,842,698	37.20%
Kosovo	4	15,385,907	33.30%	3	12,387,020	27.30%
Slovenia	2	7,245,506	15.70%	2	6,821,620	15.10%
Croatia	1	3,456,145	7.50%	1	4,073,579	9.00%
Albania	1	485,975	1.10%	1	1,702,719	3.80%
Turkey	1	3,135,862	6.80%	1	3,493,632	7.70%
Total	13	46,253,165	100.00%	13	45,321,267	100.00%

Source: CBK (2014)

From the total number of insurers (see Table 9), 4 of them were mixed foreign-capital insurers (Austria and Albania), 4 others with domestic capital, 2 with capital from Slovenia and one insurer with capital from Croatia, Albania and Turkey. If we compare the structure of the ownership with the structure of the previous year (2012), it can be noticed that it has undergone a slight change in favour of domestically owned insurers. This is due to the fact that during 2013 a non-life insurer with mixed Austria-Kosovo capital completely transferred to domestic ownership and at the same time has changed its name and logo.

4.4.2. Structure of assets by country of origin

Total assets of the insurance sector in Kosovo on 31 December 2013 were 132.0 million Euro, where domestically owned assets represent 35.1% of the total assets of the insurance sector (see Table 29), compared with the previous year which represented 24.0%. This difference in composition of assets structure is made due to the fact that an insurer with mixed Austria-Kosovo capital, as mentioned above, has changed the structure of ownership and has transformed 100% to a domestic capital insurer.

Table 10. Structure of funds according to the origin of the insurer

Description	2013		2012	
	Assets	Percent	Assets	Percent
Austria - Albania	38,229,237	28.96%	51,364,555	39.46%
Kosovo	46,349,655	35.11%	31,269,927	24.02%
Slovenia	21,239,475	16.09%	20,140,339	15.47%
Croatia	7,256,889	5.50%	7,820,206	6.01%
Albania	8,055,087	6.10%	9,204,372	7.07%
Turkey	10,876,482	8.24%	10,371,407	7.97%
Total	132,006,825	100.00%	130,170,806	100.00%

Source: KCB (2014)

4.4.3. Processes in progress

CBK is in the process of updating the memorandum of understanding with Albania, with purpose of deepening the bilateral cooperation in the exchange of information in the field of insurances and fair treatment and payment of claims as a result of accidents caused by insured vehicles in the Republic of Kosovo and Republic of Albania.

Similarly, the issue of mutual recognition of auto liability insurance with the aim of free movement of people and vehicles between Kosovo and Serbia is in the process of negotiation between the two countries.

With the approval and entry into force of the general Law on insurances, the necessary legal infrastructure in the Insurance sector will be created. With the entry into force of this law, CBK as supervisory and regulatory authority will be obliged to review the complete sector legal infrastructure. Most of the regulations that are currently in force will be subject to revision and improvement.

Another issue to be addressed remains the issue of controlled tariff liberalization of auto liability. Auto liability tariff liberalization has been recommendation of the World Bank mission in Kosovo.

4.5. Pension Supervision

Kosovo pension system during the year 2013 had no significant change even though the movement of the price of units in the financial markets directly affect pension assets invested abroad. The purpose of monitoring pension division remains supervision and regulation of pension funds, pension providers, asset managers, investment funds and preservation of contributors' assets.

The pension system in Kosovo operates under the Law no. 04/L-101 which entered into force on 30 March 2012.

The law in question defines and regulates three (3) pillars of pension insurance:

- Basic pension of old age for all elderly persons over 65 years and is funded from the revenues of Kosovo Consolidated Budget (Pillar I);
- Individual Savings pensions ensured by Kosovo Pension Savings Trust (KPST) are funded by mandatory contributions of employees and employers (pillar II) and;
- Individual supplementary pensions are financed by individual and employers' supplementary voluntary contributions (Pillar III).

According to the Law no. 04/L-101 on Pension Funds of Kosovo, the second pillar is funded by mandatory monthly contributions which are determined by law where employees contribute 5% to their gross salary and employers contribute 5%. Each payment is transferred to individual accounts of contributors in Kosovo Pension Savings Trust (KPST).
In 2013, full examinations were conducted according to the plan for examinations of Pension Supervision Division.

Table 11. Examinations conducted by pension supervision during 2013

Description	Full	Focused
Kosovo Pension Saving Fund	1	0
Slovenian-Kosovar Pension Fund	1	0
Total	2	0

Source: CBK (2014)

Supervision Division of Pension Funds in 2013 has started reviewing, adjusting and harmonizing secondary legislation of pensions with the Law no. 04/L-101 on Pension Funds of Kosovo and European Union regulations.

The guideline for risk-based supervision and necessary regulation is also being drafted.

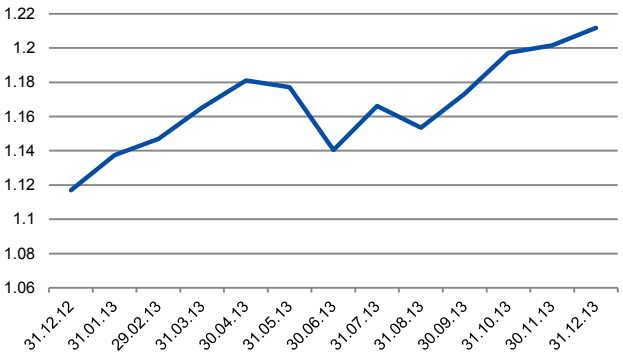
a) Pillar II

Kosovo Pension Savings Trust "KPST".

KPST was established to administer and manage the mandatory individual pension savings (second pillar), until the pension market is liberalized, KPST is the only institution which deals with the management and administration of the second pillar as defined by Law no. 04/L-101 on Pension Funds.

Kosovo Pension Savings Trust was established by UNMIK Regulation no. 2001/35 on December 22, 2001, amended by Regulation 2005/20, and by Law no. 04/L-101 on Pension Funds of Kosovo, as a non-profit legal entity; with the sole and exclusive purpose of administering and managing individual pension savings accounts, providing careful investment, protection of pension assets and payment of pension savings.

Figure 72. Unit price January-December 2013



Source: KPSF (2014)

Kosovo Pension Savings Trust is managed by Governing Board that consist of eight (8) members and the Managing Director who governs and monitors the work of KPST.

The number of contributors on December 31, 2013 was 449,000 while in 2012 there were 418.064 contributors.

The value of assets under Trust management in 2013 is increased to 173,477,306.54 €, while the amount of 119,156,249.53 € is contribution received during 2013.

The total value of assets in the management of Kosovo Pension Savings Trust on 31 December 2013 was 913,602,429.01€, while in 2012 the value of assets under management was in amount of 740,125,122.47 €.

During 2013, KPST has invested funds in foreign markets in the amount of 650,832,611.24€.

Pension savings trust based on law no. 04/L-101 has invested in securities of the Government of Kosovo in the amount of 53,122,906.79€.

Pension Savings Trust during 2013 has had a positive return from the investment of funds in the amount of 68,124,736.79€ or 7.46%, while in 2012, the return by investments was in the amount of 53,654,123.00€ or 7.18%.

Net profit for 2013 was in the amount of 63,525,266 Euros.

Table 12. Pension funds investments structure until 31 December 2013

Institutions where Pension Funds are invested	Assets type	Assets	Share in percent
Vanguard	Equities	313,444,532	34.31%
Schroders	Bonds	96,379,844	10.55%
European Credit Managment	Loans market	23,403,321	2.56%
Aquila	Diversified	26,986,630	2.95%
AXA GILB	Bonds linked to inflation	57,478,701	6.29%
BNY Mellon	Different	133,139,594	14.57%
Letrat me Vlere te Qeversi se Kosoves		53,122,907	5.81%
BQK	Not invested	209,646,849	22.95%
Total		913,602,377	100.00%

Source: CBK (2014)

At the end of 2012, the unit share value of the Kosovo Pension Savings Trust was 1.117 €, whereas in 2013 it increased to 1.2117€ or 7.34%.

For 2013, based on the Executive Board decision, the Pension Savings Trust paid the supervision fee which is charged to the Managing Tax in the amount of 15,539.00€.

In the table below is presented the percentage of asset managers' participation in the investment of pension assets under the Asset classes in total KPST funds for 2013.

b) Pillar III

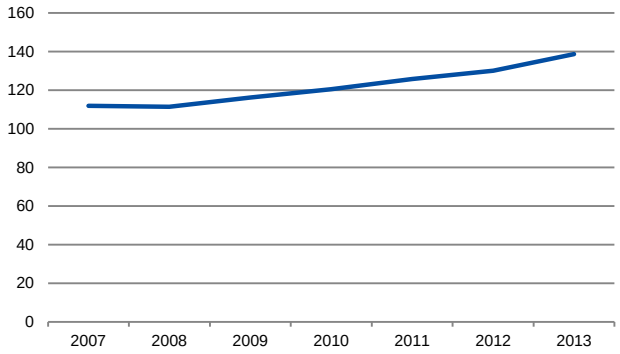
Slovenian - Kosovo Pension Fund "SKPF"

SKPF was established as a joint stock company "Prva Group" from Ljubljana and Corporation "Dukagjini" from Peja, on September 4, 2006, pursuant to Law no. 04/L-101. SKPF is licensed as a Supplementary Pension Fund.

On 31 December 2013, the Slovenian-Kosovo Pension Fund assets amounted 5,070,437.00€, while the amount of assets in F1, on 31 December 2012, was 4,467,722.66€.

The unit share value on 31 December 2013 was 138.56€, while on 31.12.2012 it was 129.97€.

Figure 73. Unit value of Slovenian-Kosovar Pernsion Fund 2007-2013



Source: KPSF (2014)

Number of contributors for 2012 has reached 3,704 members, whereas in 2011, the number of contributors was 3,590.

Table 13. Pension funds investments structure by SKPF until 31 December 2013

Description	Assets in EUR
Shares	379,163
Obligations and other fixed securities	3,214,794
Deposits	1,077,501
Cash	116,286
Other assets	282,693
Total	5,070,437

Source: SKPF (2014)

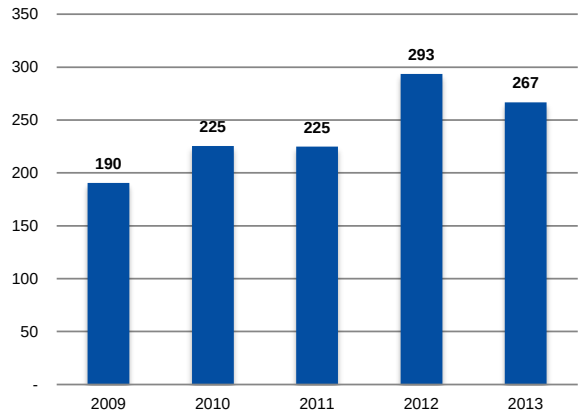
Similar to other financial institutions and pension system operators, both Fund and SKPF were subjected to "on-site" and "off-site" examinations conducted by Division of Pensions and CBK Market, and also in 2013 the Slovenian-Kosovo Fund has paid the Supervision fee in the amount of 5,000.00€.

5. Services provided to Authorities, Financial Community and Public

5.1. Operations and Cash Management

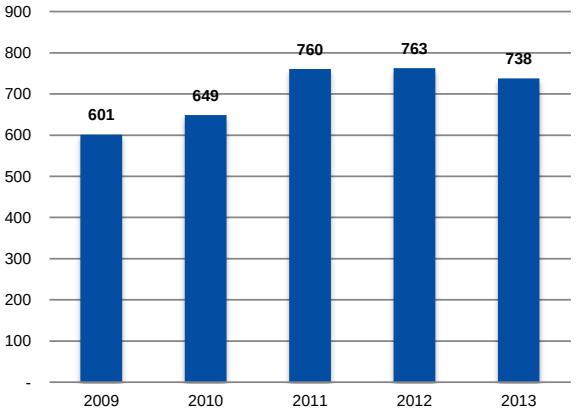
CBK during 2013 provided a quantitative and qualitative cash offer to the banking sector for the purpose of settlement of transactions in economy`s and citizens cash. Consequently, the strategic CBK function and purpose to secure an adequate supply of banknotes and money for the cash transactions in the economy during 2013 has been met successfully.

Figure 74. Cash supply (value), in millions of euro



Source: CBK (2014)

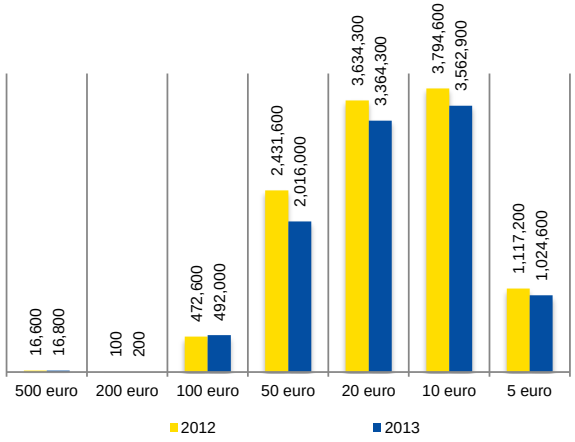
Figure 75. Cash admission (value), in millions of euro



Source: CBK (2014)

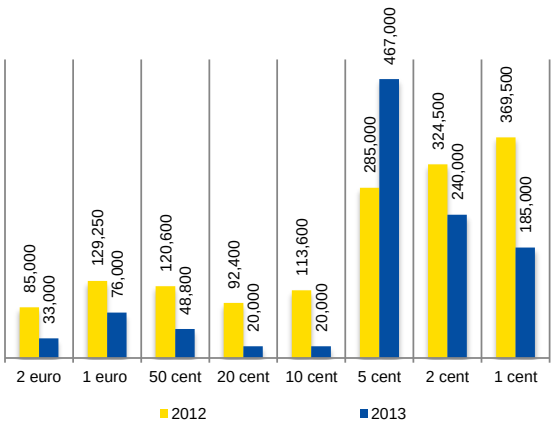
CBK responsibilities related to the operations and management of cash during 2013 as in previous years had to do primarily with the euro currency since euro is the currency officially used in Kosovo.

Figure 76. Supply with euro banknotes by denomination (number of pieces)



Source: CBK (2014)

Figure 77. Supply with euro coins by denominations (number of piecies)



Source: CBK (2014)

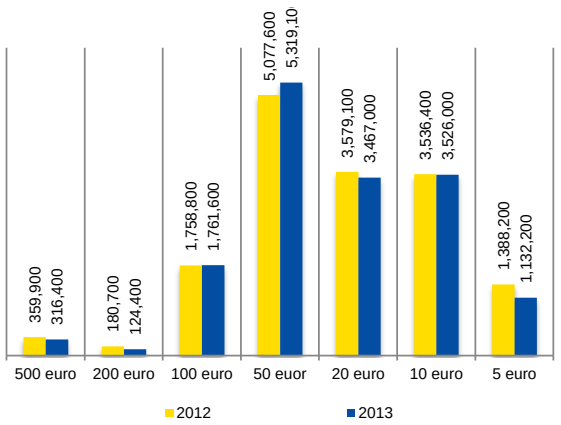
The total value of the cash supply in 2013 marked a decrease by 9.17 percent compared to 2012. Structure of cash supplied by denominations, which primarily is determined by requirements of the banking sector, did not have significant changes from 2012 to 2013. Smaller denomination supplies continued to dominate euro banknotes - 5, 10, 20 and 50 Euros, while denomination volumes of 100, 200 and 500 Euros remained significantly lower. During 2013, volumes of small denominations in the value of 20 and 10 Euros increased slightly compared to a previous year, while the denomination volume in value of 50 Euros had a slight decline.

As shown in the following figures, in 2013, CBK supplied commercial banks and other institutions with afro 10.5 million euro banknotes (in the amount of over 266.5 million Euros) and over 1 million pieces of euro coins (in an approximate amount 0.2 million Euros).

Supply with euro coins in 2013, same as in 2012, was mainly dominated by coins of low value from 1 cent to 5 cents. Volumes of supplies of small denominations in the value of 2 cents and 1 cent during 2013 decreased significantly compared to the previous year, while the volume of supply denomination of 5 cents marked an increase. Volumes of supplies of denominations from 10 cents up to two euro considerably declined.

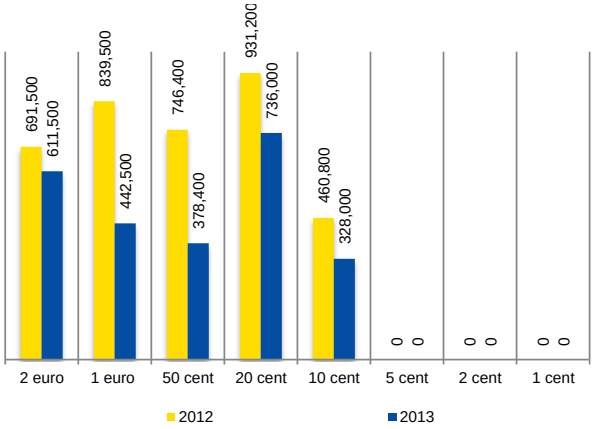
The total value of cash received as deposits recorded a slight decline from 3.29 percent in 2013 compared to the previous year. CBK received around 15.7 million euro banknotes (about 63,000 pieces of banknotes per day) and about 2.5 million pieces euro coins (about 10,000 pieces of coins per day) as cash deposits from commercial banks and other institutions. When expressed in the amount, these deposits totalled approximately the amounts of 735.5 million Euro and 2.0 million Euro, respectively. The structure of euro banknotes received during 2013 did not have any major difference from the previous year, while the structure of received currencies during 2013 i.e. denominations of coins of 1 euro and 50 cents had an increased deposit volume compared with currency denominations of 2 Euro which marked a slight decline.

Figure 78. Euro banknotes received by denominations (number of pieces)



Source: CBK (2014)

Figure 79. Euro coins received by denominations (number of pieces)



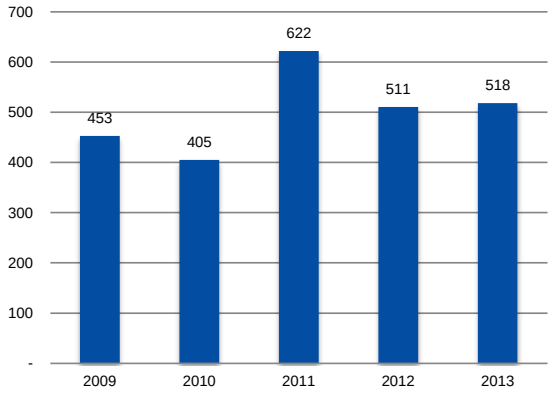
Source: CBK (2014)

During 2013, similar to previous years, deposited net[13] cash were in a higher value than the supplied cash. In fact, reaching about 471 million Euro, such a change was to a higher extent than in the previous year which was approximately 469.2 million Euro. This increase was mainly due to the decrease of request of the banking sector for the supply with euro banknotes.

Since CBK keeps only the minimum required level of cash, surpluses are sent in the Eurozone, which then are returned to interest-earning assets and used for international payments. Cash net remittances abroad in 2013 totalled 460.2 million Euro, being lower than a year earlier when they were 465.5 million Euro. This decrease in net remittances in 2013 was as a result of increased cash imports, completely new from the Eurozone and which mainly supplied commercial banks for the purpose of equipping their ATMs. Trends of cash exports and imports in recent years are presented in the following two figures.

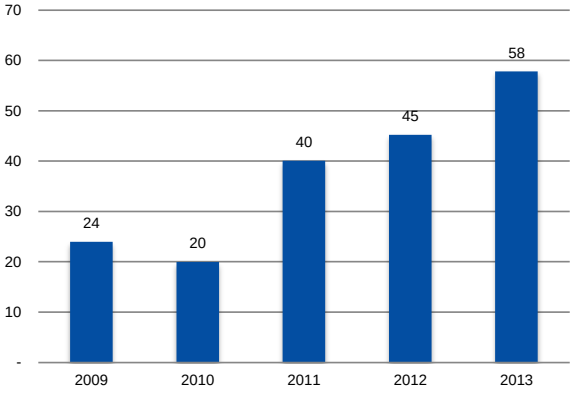
[13] Deposits minus withdrawal

Figure 80. Export of cash (value), in millions of euro



Source: CBK (2014)

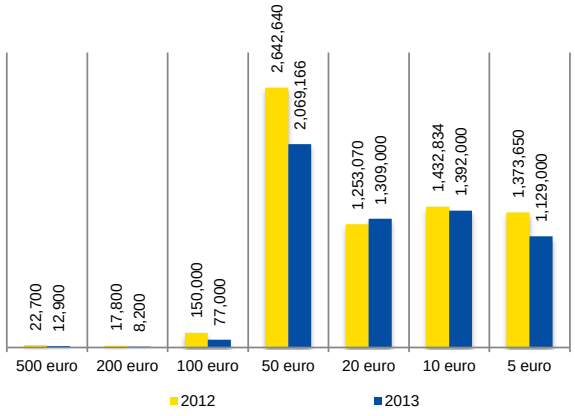
Figure 81. Import of cash (value), in millions of euro



Source: CBK (2014)

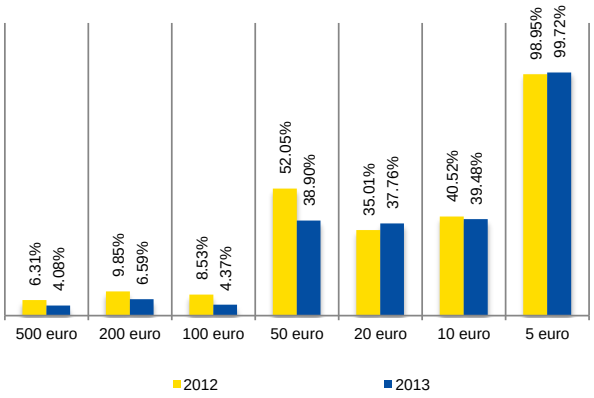
Similar to previous years, cash operations continued to be carried out through modern processing equipment and in accordance with standard rules and procedures of CBK. All cash received from commercial banks and other institutions were processed (nearly 15.7 million euro banknotes and 2.5 million euro coins) and were classified according to the level of outdate.

Figure 82. Number of outdated banknotes withdrawn from circulation (number of pieces)



Source: CBK (2014)

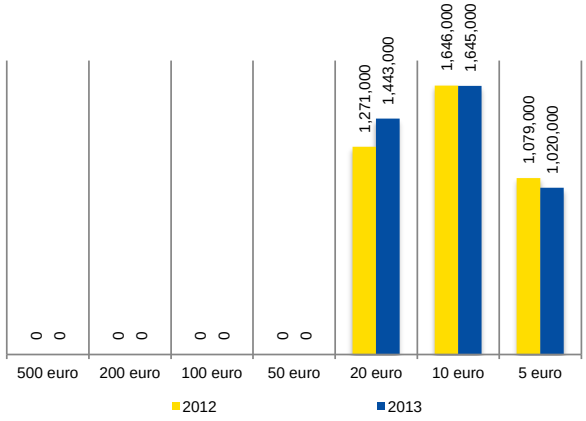
Figure 83. Proprtion of banknotes withdrawn from circulation from the total received ones



Source: CBK (2014)

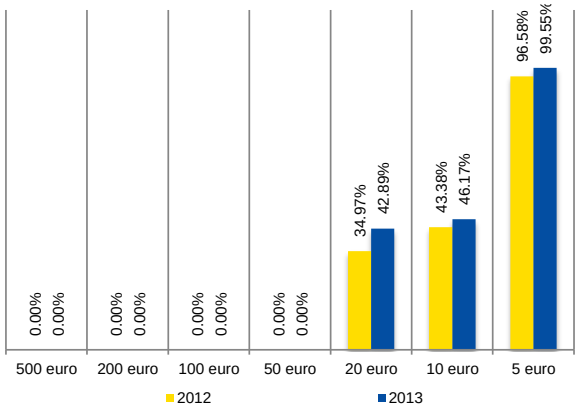
Approximately 6 million euro banknotes (38.3 percent of total euro banknotes deposited by the banking sector) during 2013 were classified as highly outdated and were removed from circulation and were sent to the central banks of the Eurozone. Such a considerable volume of euro banknotes highly outdated removed from circulation contributed significantly in improving the quality of cash in circulation in the Republic of Kosovo. Banknotes which were mostly classified as highly outdated and were removed from circulation were those of denominations of 50, 20, 10 and 5 Euro, due to their higher circulation in the economy.

Figure 84. Supply with new banknotes (number of pieces)



Sourcei: CBK (2014)

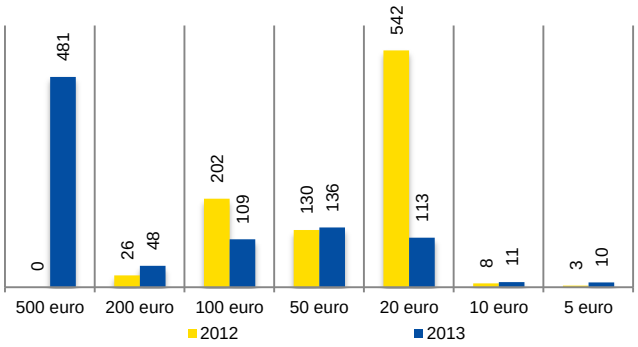
Figura 85. Proportion of new banknotes induced in circulation from the total supplied



Source: CBK (2014)

Quality of cash in circulation was also improved through supply of completely new euro banknotes, which were brought from the Eurozone. During 2013, CBK supplied the banking sector with more than 4.1 million pieces of new euro banknotes (39.21 percent of the total supplied euro banknotes). All new banknotes supplied were low denomination banknotes (20, 10 and 5 Euro), which mainly supplied commercial banks for the purpose of equipping their ATMs. Then, also all used euro banknotes that were supplied were of a high quality standard (adequate quality for ATMs).

Figure 86. Counterfited euro in Kosovo (number of pieces)



Source: Forensic Agency of Kosovo (2014)

Regarding measures against counterfeiting, CBK has followed the cases of counterfeit money during 2013. In particular, it continued to cooperate with the authorities to advance reporting of cash suspected as false. Further on, in 2013, CBK together with Kosovo Police and Forensic Laboratory published on the website[14] of CBK statistics on counterfeit money in the Republic of Kosovo. Furthermore, educational materials were published to inform the public about the security features of banknotes.

5.2. Maintenance and transactions

CBK provides banking services for the Government of the Republic of Kosovo, Kosovo Privatization Agency (KPA) and other institutions such as banks and other financial institutions, public entities, foreign banks, central banks, international financial institutions (International Monetary Fund, World Bank), and international organizations, as specified in Article 9 of the Law no. 03/L-209 of CBK.

In 2013, similar with the previous years, these services consisted primarily on maintenance of accounts and payments, excluding any form of credit.

During 2013, CBK has supported the advancement of transaction processes and agreements of the Ministry of Finance and PAK. Forms of payment and ways of communication are adapted to

[14] http://www.bqk-kos.org/?cid=1.141

their requirements. It is worth mentioning the full digitalization of international order transfers of the Ministry of Finance.

Table 14. Transaction amount according to the main types of payment (in thousands of Euros)

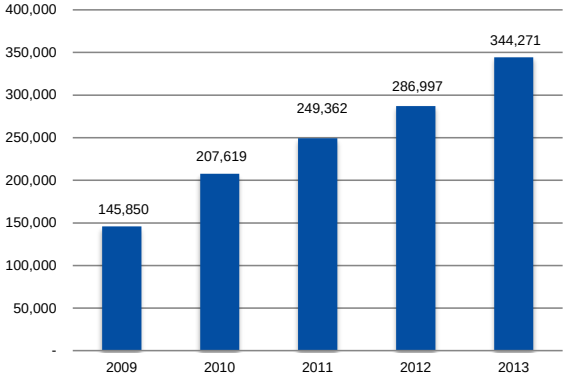
Type of transactions	2009	2010	2011	2012	2013
Transactions with cash	**+411,055**	**+423,658**	**+535,190**	**+468,755**	**+470,786**
Deposits in cash	+601,207	+648,911	+760,082	+762,596	+737,524
Cash withdrawals	+190,152	+225,253	+224,892	+293,841	+266,738
Domestic transfers	**+41,169**	**+392,587**	**+462,867**	**+335,267**	**+581,797**
Incoming domestic transfers	+1,225,527	+1,568,021	+1,615,232	+1,568,574	+1,554,535
Outgoing domestic transfers	+1,184,358	+1,175,434	+1,152,365	+1,233,308	+972,738
International transfers	**(-463,816)**	**(-408,689)**	**(-558,778)**	**(-366,873)**	**(-321,676)**
International incoming transfers	+202,755	+326,319	+266,706	+372,967	+653,710
International outgoing transfers	+666,571	+735,008	+825,483	+739,840	+975,386

Source: KCB (2014)

While most of cash operations of CBK in 2013 were carried on behalf and on benefits of commercial banks, most of domestic payments of CBK are conducted on behalf and on the benefit of the Treasury[15].

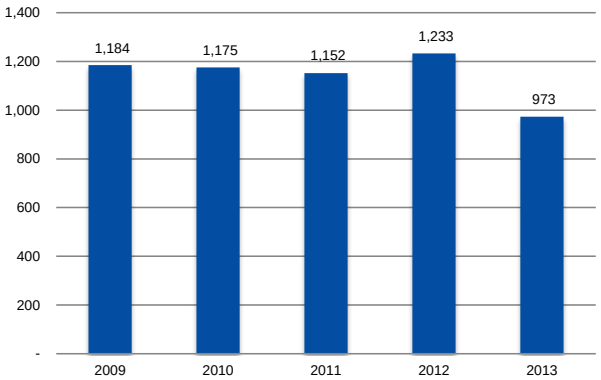
As a direct participant in the Electronic Interbank Clearing System (EICS), CBK has sent and received domestic payment orders on behalf and on benefits of its account holders. During 2013, through EICS, CBK has sent on behalf of its clients around 345 thousand payment orders (an increase of 20 percent compared to the previous year), and has received to their accounts about 104.8 thousand payment orders (an increase of 8.5 percent compared to the previous year).

Figure 87. Volume of domestic outgoing transactions, number



Source: CBK (2014)

Figure 88. Value of domestic outgoing transactions, in millions of euro

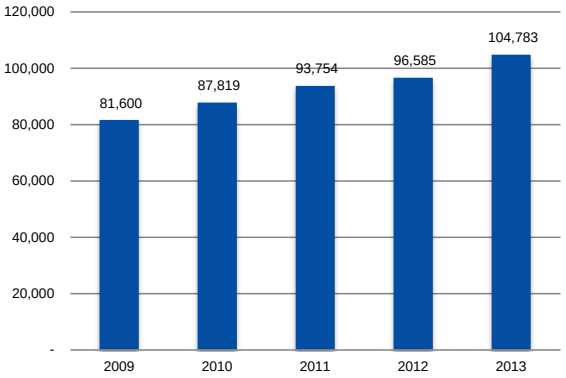


Source: CBK (2014)

Expressed in value, outgoing payment orders in 2013 totalled over 973 million Euros (a decrease of 21.1 percent compared to the previous year) and incoming payment orders reached about 1.55 billion Euros (a decrease of 0.9 percent compared with the previous year). CBK has remained, in terms of both value and volume of transactions, the largest participant in EICS.

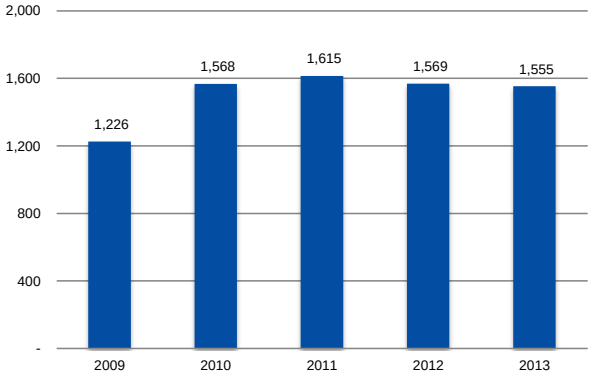
[15] Thesari – Ministria e Financave.

Figure 89. Volume of domestic incoming transactions, number



SOurce: CBK (2014)

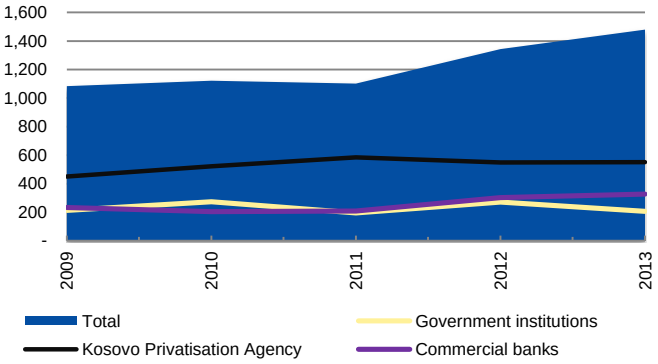
Figure 90. Value of domestic incoming transactions, in millions of euro



Source: CBK (2014)

In relation to domestic payment transaction, it should be noted that all commercial banks generate them themselves as participants in EICS, whereas insurance institutions carry out the largest number of payments through commercial banks. In fact, all other CBK`s accountholders use payment services provided by CBK in a limited way, due to all of them having accounts in commercial banks.

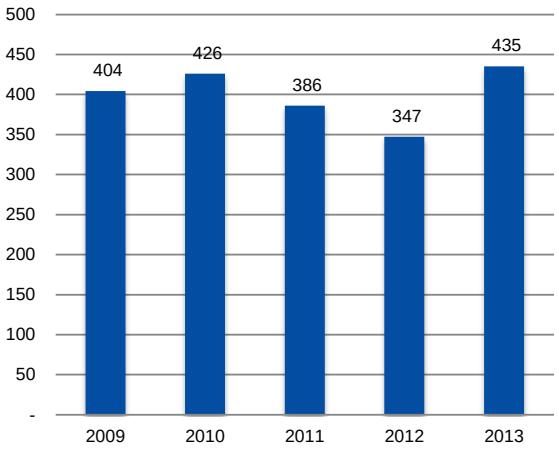
Figure 91. Deposit motion of main clients of CBK, in millions of euro



Source: CBK (2014)

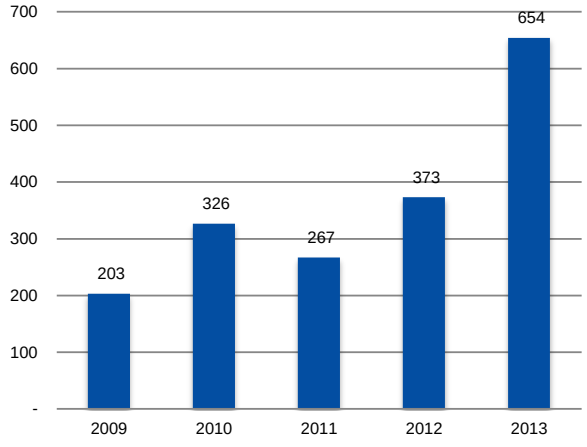
Regarding international transactions, in 2013, the largest number of such transaction was performed by CBK with the order of the Treasury. On the other hand,

Figure 92. Volume of international incoming transactions, number



Source: CBK (2014)

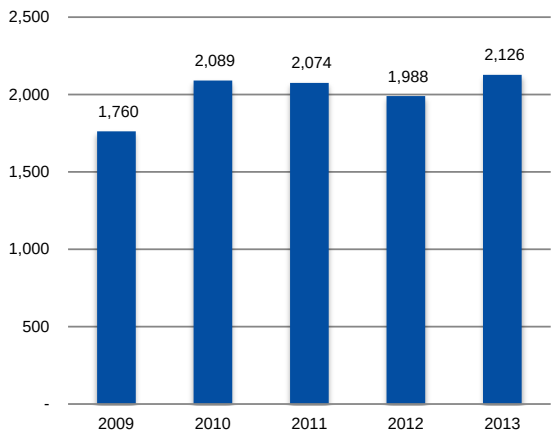
Figure 93. Value of international incoming transactions, in millions of euro



Source: CBK (2014)

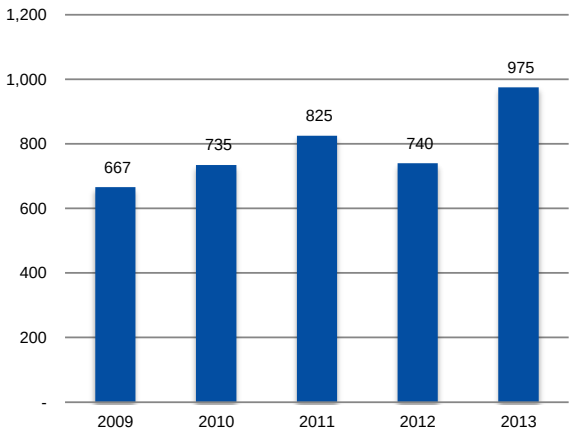
considering their value, most of international transactions conducted by CBK are related to the transfer of commercial banks funds. Annual data on international transactions for the last five years are presented in the following figures.

Figure 94. Volume of international outgoing transactions, number



Source: CBK (2014)

Figure 95. Value of international outgoing transactions, in millions of euro



Source: CBK (2014)

On 31 December 2013, the deposits of the Republic of Kosovo institutions amounted to 206.8 million Euro, whereas PAK deposits reached the amount of 550.3 million Euros.

Table 15. Level of deposits by type of accounts (in million of Euros)

Type of accounts	2009	2010	2011	2012	2013
I. Current accounts	**959.0**	**441.8**	**677.9**	**1,146.4**	**1,266.8**
Kosovo Privatisation Agency	451.0	65.1	265.3	549.4	530.3
Government Institutions	88.2	48.8	89.3	73.7	12.9
Commercial banks	233.2	203.6	209.7	302.1	327.8
International Institutions (IMF, WB)	53.1	77.0	73.4	169.3	156.5
KPSF+Public Institutions (PTK, KEK, etc)	123.1	38.1	21.0	27.3	209.7
DIFK + other	1.7	1.7	10.8	19.1	24.3
Insurance companies	7.7	5.8	7.7	5.0	5.0
international institutions (UNMIK, EULEX etc)	0.8	1.7	0.7	0.4	0.3
Suplementary Pension Funds	0.1	0.1	0.1	0.1	0.1
II. Time deposits	**125.0**	**597.1**	**425.5**	**152.0**	**133.0**
Kosovo Privatization Agency	0.0	457.1	320.5	0.0	20.0
Government institutions	125.0	140.0	105.0	152.0	113.0
Commercial banks	0.0	0.0	0.0	0.0	0.0
International Institutions (IMF, WB)	0.0	0.0	0.0	0.0	0.0
KPSF+Public Institutions (PTK, KEK, etc)	0.0	0.0	0.0	0.0	0.0
DIFK + other	0.0	0.0	0.0	0.0	0.0
Insurance companies	0.0	0.0	0.0	0.0	0.0
international institutions (UNMIK, EULEX etc)	0.0	0.0	0.0	0.0	0.0
Suplementary Pension Funds	0.0	0.0	0.0	0.0	0.0
III. Government securities	**0.0**	**84.7**	**0.0**	**46.0**	**81.0**
Government institutions	0.0	84.7	0.0	46.0	81.0
Total	**1,084.0**	**1,123.6**	**1,103.4**	**1,344.4**	**1,480.8**

Source: CBK (2014)

Commercial banks and insurance institutions, among other account holders, are the most important regarding the level of deposits in CBK. Commercial banks and insurance institutions deposits held at CBK are mainly related to their mandatory liabilities. They comprise 22.5 percent of total deposits held at CBK during 2013. On 31 December 2013, commercial banks and insurance institution deposits amounted to 332.8 million Euros. Level of Kosovo Pension Saving Trust (KPST) deposits held in CBK increased considerably during 2013.

These deposits constitute about 14.16 percent of total deposits held at CBK during 2013 and at the end of the year reached the amount of 209,647 million euro.

5.3. Payment System

One of the primary functions of the CBK is the functioning of an efficient, safe and sustainable Interbank Payment System in the country as a key pillar of the financial infrastructure.

During 2013, Interbank Payments System was characterized by sustainability, safety and inter-operable efficiency, ensuring timely clearing and settlement and in accordance with relevant standards and procedures. Also, Registry of Bank Accounts Holders has functioned well and we have made progress in improving the application and increasing approaches of the Kosovo Judicial Council users, including all branches in the country.

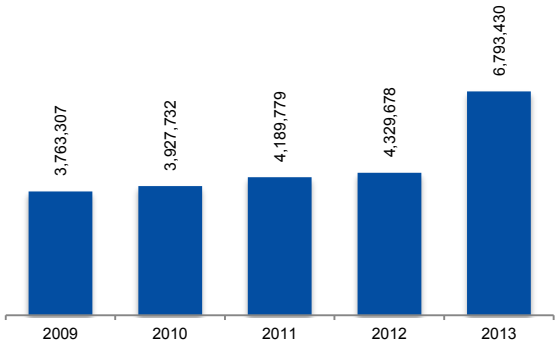
One of the important activities in the field of payment systems during 2013 was the adoption of the Law on Payment System as well as harmonization and review of follow-up regulation, reinforcing supervisory competencies of payment systems and market infrastructure in the banking industry. Another important achievement is the realization of the project of salaries for public administration servants and the project of pensions for all categories of social schemes of the Ministry of Labour and Social Welfare.

5.3.1 Electronic Interbank Clearing System Operation

Electronic Interbank Clearing System (EICS), which is currently the only interbank payments system in the country, operates as a hybrid system that enables the interbank processing of a number of payments' instruments.

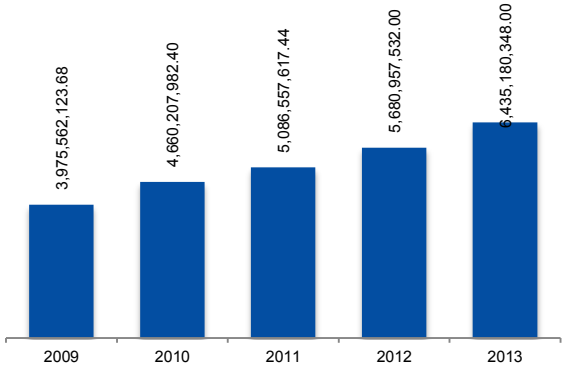
During 2013 a growth was marked in volume and value of EICS transactions, the system was further advanced, and participation of "IS Bank" in EICS, that started operating this year in Kosovo, was operationalized.

Figure 96. IECS Transactions number



Source: CBK (2014)

Figure 97. IECS transaction value



Source: CBK (2014)

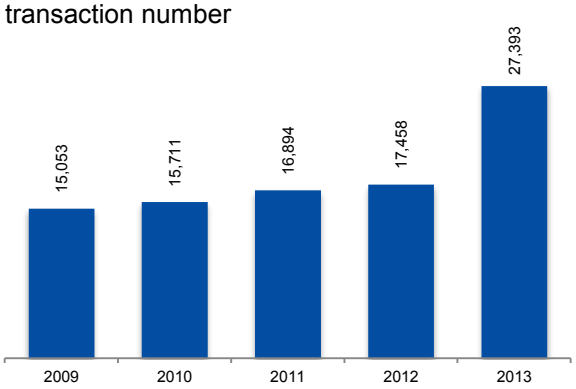
During this year, in EICS are processed 6.8 million transactions with a total amount of approximately 6.4 billion Euros.

Continued growth in the volume and value of IESC interbank transactions reflects the relative growth of non-cash payments and increase of trust in the banking system. As in previous years, in 2013, the annual increase of both volume and value of IESC transactions was evident.

Compared with the previous year EICS transactions, the volume of transactions has increased to 56.9 percent and the value of transactions has increased for 13.28 percent. Increase of IESC transactions can be noticed from the daily average data. The daily average value of IESC transactions in 2013 was 25.9 million euro, compared with 22.9 million Euros in 2012. Whilst,

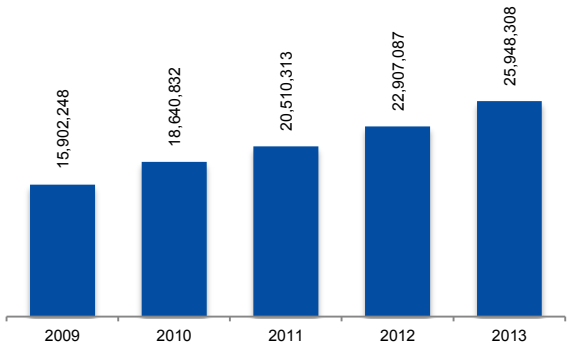
the average of daily IESC transactions in 2013 was close to 27.4 thousand, compared with approximately 17.5 thousand in 2012, which is considered a large increase compared to last year. From a longer-term perspective, it is noticed that this year, EICS has had the highest turnover since the start of operation of the system.

Figure 98. Daily average of IECS transaction number



Source: CBK (2014)

Figura 99. Daily average of IECS transaction value

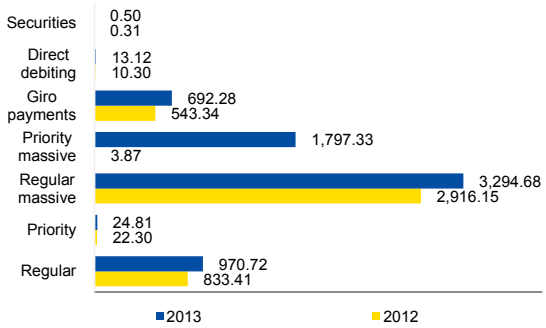


Source: CBK (2014)

Among the factors that have contributed to the increase of IESC transactions was the processing of public administration employees salaries and payments for social schemes categories of the Ministry of Labour and Social Welfare through EICS. The securities transactions have mainly influenced in the increase of the value

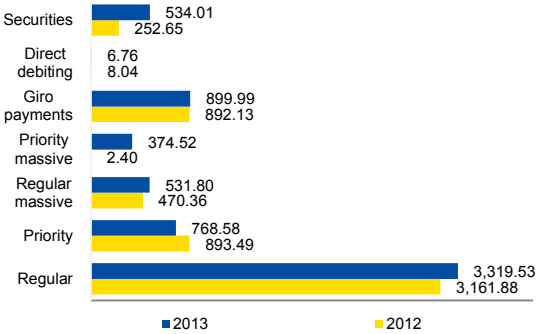
Within IESC are carried out some specific categories of payments, such as regular payments (individual and massive), priority payments (individual and massive), Kos-Giro, Direct Debit and settlement of securities. Levels of volumes and values of these categories of payments for 2012 and 2013 are presented in the following figures.

Figura 100. Annual transaction volume of IECS, by their types (in thousands)



Source: CBK (2014)

Figura 101. Annual transaction value of IECS, by their types (in millions)



Source: CBK (2014)

Regular payments (individual and massive) constitute around 62.79 percent of the volume and about 59.84 percent of the value of IESC transactions.

Kos-Giro transactions represent a specific type of regular transactions that are also processed through clearing sessions and are settled on net basis. Kos-Giro transactions are intended for the collection of standardized and automated large billing entities. During the 2013, Kos-Giro number of payments increased for 27.4 percent, while their value increased by approximately 1 percent.

Priority (urgent) transactions are immediately processed and settled during working hours on a gross basis. Similar to regular transactions, prior transactions are channelled through EICS either as individual or as massive transactions. They still represent a small part of the overall

IESC transactions. In 2013, in terms of volume, they represented less than 1 percent of transactions, while in terms of value, they represented about 11.94 percent of the transactions. This type is still used mainly for emergency payments and those with greater values.

Direct Debit as an instrument and new payment scheme in Kosovo is still not being used to the extent of other payment methods, thus, during 2013, this type of transactions, in total, represented less than 1 percent of the volume and value of IESC transactions.

Referring to the total value of transactions settled in EICS, during 2013 the total value was € 6,435,180,448, where three institutions with larger value of initiated transfers comprise 65.46 percent of the total, while all other institutions comprise 34.54 percent. Regarding the number of initiated transfers, by their total number of 6,793,431, three first institutions with the largest number of initiated transfers comprise 56.10 percent of the total, while all other institutions comprise 43.9 percent. A detailed overview of concentration indicators of the participation of more active institutions in EICS during 2013 against the total activity in the system is presented in table 16.

Table 16. Indicators of concentration for initiated/sent transactions in EICS

SEKN system	Volume	Value
Three banks	56.10%	65.46%
Six other banks	43.90%	34.54%
Total	6,793,431	6,435,180,448

Source: BQK (2014)

Regarding transfers received, three institutions with a higher value of transfers received comprise 67.14 percent of total value, while all the other institutions comprise 32.86 percent. On the other hand, out of total numbers of received transfers, the first three institutions comprise 72.58 percent of total number, while all the other institutions comprise 27.42 percent. Treasury in the Ministry of Finance, is among the major participants on transactions received from EICS (3,475,529 transactions with a value of Euro 1,554,602,575.06) comprising about 51 percent of the number and 27 percent of the total value of received transactions (Table 17).

Table 17. Indicators of concentration for initiated/ entry transactions in EICS

SEKN system	Volume	Value
Three banks	72.58%	67.14%
Six other banks	27.42%	32.86%
Total	6,793,431	6,435,180,448

Source: CBK (2014)

5.3.2 Supervision, Payment System Analysis and Developments

The legislation on the functioning of the payment system in Kosovo authorizes PSD to supervise the payment systems in order to ensure efficiency and reliability of the system and its compliance with legal provisions, maintaining public trust in the payment system and instruments and promotion of free competition in the payment services market.

Within the scope of payments systems supervision, the PSD has established and developed the relevant function in line with international principles and standards, and analytical indicators for payment instruments in Kosovo have been published regularly. Also, during this year, regular

inspections have been carried out in the banks with the purpose of monitoring the payments processing under procedures established by legal provisions.

Regarding the scope of analysis in the context of payment systems, publishing of regular analysis on developments of payments systems and other financial information material with an education character to the public has continued. During this year, the following analysis and information materials have been published:

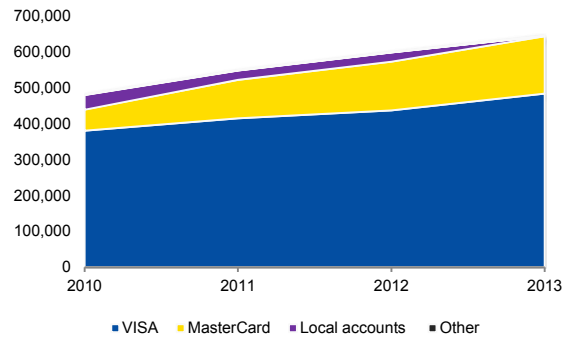
- Analysis on the use of payments instruments in Kosovo (on a quarterly basis);
- Analysis on the ways of sending remittances in Kosovo;
- Analysis of Kos Giro payments scheme developments and the Direct Debit.
- Comparative reports between Kosovo and countries in the region on the development of payments systems infrastructure.
- Informational brochures on Payments System in Kosovo
- Information brochures and flyers for electronic money
- Flyers for bank cards use, etc.

The replacement of UNMIK Regulation 2001/26 on Payment Transactions with the Law on Payments System adopted by the Assembly of Kosovo on April 24, 2013 was done within improvements of the regulatory payments system. In this context have been reviewed, adapted and adopted these regulations: a) Regulation on Clearing and functioning of accounts' for settlement, b) Regulation on Direct Debit Scheme of Electronic Interbank Clearing System and Operational Guidance for the Registry of Bank Accounts Holders.

5.3.3 Payments instruments and banking infrastructure for payments services

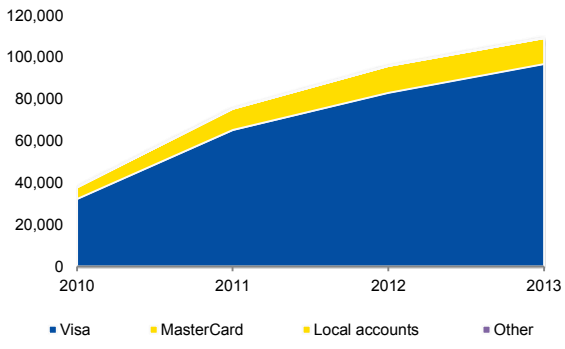
Regarding payments instruments and bank infrastructure of payments services, it is worth mentioning that is presented a sustainable development, inclined with growth and expansion both in the application of innovative technologies as well as in use of electronic instruments.

Figura 102. Number of debit accounts



Source: CBK (2014)

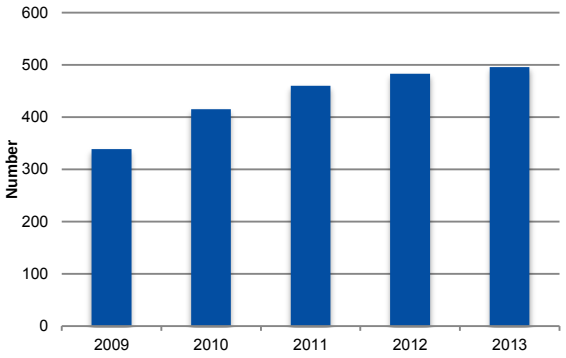
Figure 103. Number of credit accounts



Source: CBK (2014)

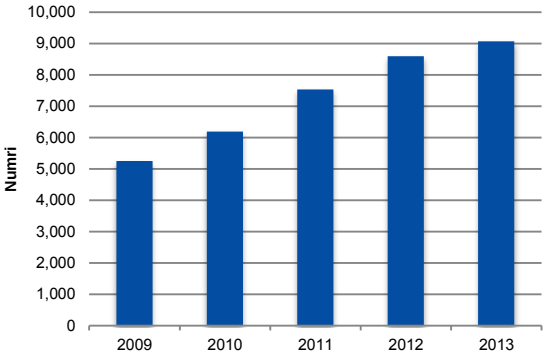
Based on the methodology for reporting of payments instruments, commercial banks have continued regular reporting of statistics on payments instruments in the Payments System Department at CBK.

Figure 104. Number of ATM



Source: CBK (2014)

Figure 105. Number of POS



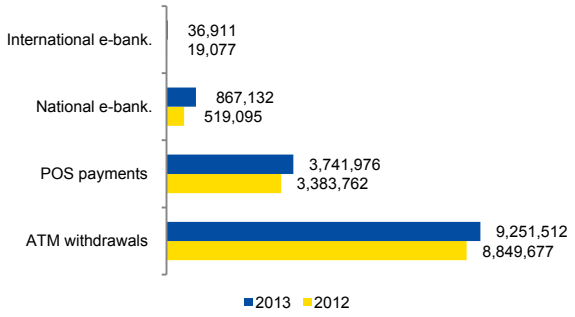
Source: CBK (2014)

A broad overview on development of the national payments system has been generated from the data collected, processed and analyzed during 2013.

The number of payment function cards has constantly increased. The network of bank terminals in Kosovo is also increasing. In December of 2013, 645.048 debit cards and around 109.332 credit cards as well as 15.017 prepaid cards have been reported. These cards could be used in 496 ATMs (automated teller machine) terminals and in 9.071 POS (point of sales) terminals located throughout Kosovo.

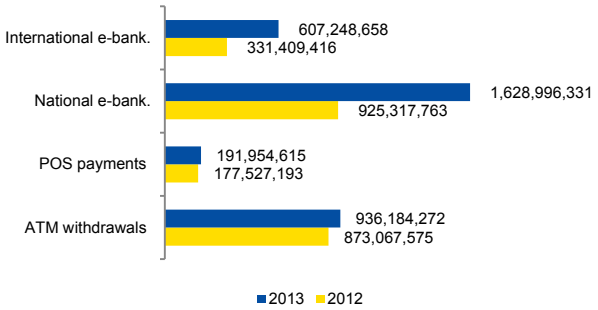
In comparison to the previous year, the number of ATM terminals has increased by 2.7 percent and the number of POS terminals has increased by 5.6 percent.

Figure 106. Annual transaction volume of electronic payment instruments



Source: CBK (2014)

Figura 107. Annual transaction value of electronic payment instruments



Source: CBK (2014)

2013 was characterized by a growing tendency to use electronic payment instruments. The number of e-banking payments in the country increased by 67.05 per cent, while their value increased by 76.5 percent. The number of payments via POS terminals increased by 10.5 percent, while their value increased by 8.1 percent. Also, withdrawals at ATM terminals were characterized with increase. The number of ATM withdrawals during 2013 is increased by 4.5 percent, while the value of withdrawals is increased by 7.2 percent.

From the bank reports, it results that the total number of clients' bank accounts by the end of 2013, was around 1.85 million, with an increase of 1.7 percent compared to the end of 2012. Around 98.62 percent of them are resident accounts, whereas around 1.38 percent non-resident accounts.

Out of the total accounts by the end of 2013, around 131 thousand accounts had "*online*" access in internet to make payments and check account balance, recording an increase of 35.3 percent compared to 2012.

Table 18. Number of accounts

Account description	Clients' accounts in total			Accessible through internet		
	2011	2012	2013	2011	2012	2013
Client's accounts (1+2)	2,059,878	1,824,266	1,855,383	68,990	97,089	131,365
1-residentls' accounts (a+b)(%)	98.34%	98.40%	98.62%	94.80%	97.00%	97.10%
a-individual (%)	94.36%	93.20%	93.25%	80.00%	78.70%	80.11%
b-company (%)	5.63%	6.80%	6.75%	20.00%	21.30%	19.89%
2-nonresidents accounts (c+d) (%)	1.66%	1.60%	1.38%	5.20%	3.00%	2.90%
c-individual (%)	96.60%	96.50%	96.35%	90.80%	94.90%	92.50%
d-company (%)	3.40%	3.50%	3.95%	9.20%	5.10%	7.50%

Source: CBK, Bank reporting according to "Payment Instruments Reporting Methodology"

Based on statistical data, the infrastructure's development has a faster trend compared to other regional countries. The rapid growth in using electronic payments instruments remains encouraging.

Regarding the comparison of Kosovo with regional countries, it is seen that rapid trend of development in recent years has affected Kosovo to have improved its position compared with neighbouring countries.

Table 19. Comparative table of payment instruments and terminals[16]

Description	Inhabitants	ATM per million of inhabitants	POS per million of inhabitants	Credit accounts per million of inhabitants	Debit accounts per million of inhabitants	E-Banking per million of inhabitants
Kosovo	1.79	270	4,800	53,599	335,001	54,241
Albania	2.8	294	1,895	17,562	257,075	19,616
Czheck Republik	10.51	391	10,345	179,076	787,777	-
Turkey	74.72	486	28,566	727,277	1,221,400	-
Slovenia	2.06	868	18,770	54,394	1,227,509	-
Bulgaria	7.38	768	8,544	129,781	929,331	-
Hungary	9.93	483	9,617	126,495	773,156	-
Bosnia	3.84	334	5,031	52,830	394.223	25,011
Montenegro	0.62	502	16,340	82,092	489,726	56,147
Croatia	4.39	930	20.6	36,727	1,518,145	-
Macedonia	2.06	414	16,149	143,600	561,438	189,185

Source: CBK (2013) and central banks or supervision authorities of relevant countries

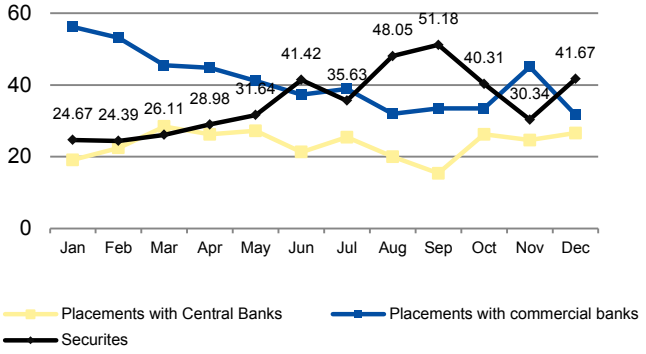
Number of terminals, payments instruments and their use in Kosovo has increased and exceeded some neighbouring countries.

[16] Të dhënat në tabelë janë nga viti 2012 pasi që shumica e vendeve në rajon të dhënat për vitin 2013 nuk i kanë publikuar ende.

5.4. Asset Management

Asset Management Department is responsible for the placement of funds under management of CBK, as well as for operation of the central depository system, the electronic platform for trading with securities of the Government of Republic of Kosovo. Funds deposited with CBK mainly belong to Government institutions; Ministry of Finance, Privatization Agency of Kosovo (PAK) as well as financial institutions (mandatory liquidity reserves).

Figure 108. Spread ratio of CBK portfolio investments

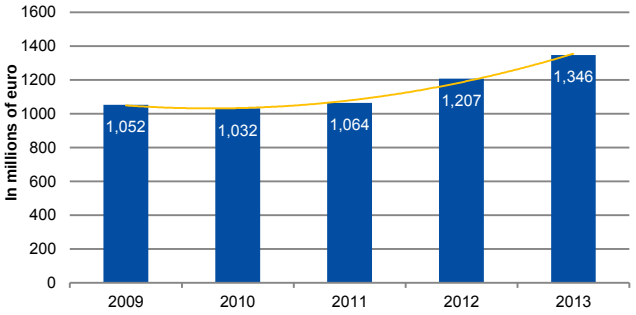


Source: CBK (2014)

5.4.2 Investment Management

According to CBK`s Investment Policy, the main objectives defined for asset management are: safety, liquidity and return on investment. In accordance with this policy, during 2013, all assets under management of CBK are invested in financial instruments that fall under the category of safe and liquid instruments.

Figure 109. Total amound of assets in portfolio investments, in millions of euro every end of the year



Source: CBK(2014)

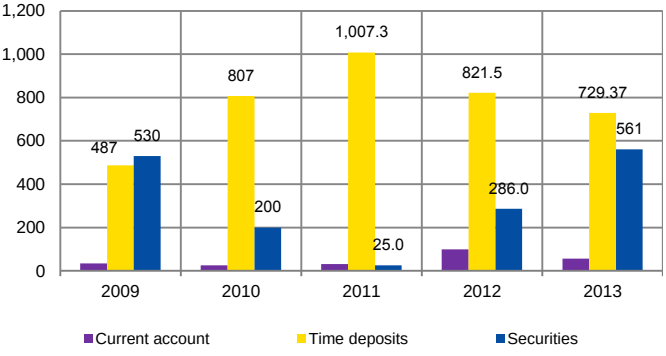
Categoiries of financial instruments used for asset investments are:

- Bank Time deposits up to one year, as determined by the Investment Policy of CBK, with financial institutions that own a high credit ranking, respectively Euro time deposits with commercial and central banks of the most credible Eurozone countries, and

- Euro denominated treasury bills issued by Eurozone countries with maturity up to one year

Figure No.108 represents the distribution of assets in CBK portfolio. Innvestments in securities were relatively low at the beginning of the year, specifically in January with24.67% participation of securities as a share of the total investments in portfolio.

Figure 110. Spread of portfolio investments, end of the year



Source: CBK(2014)

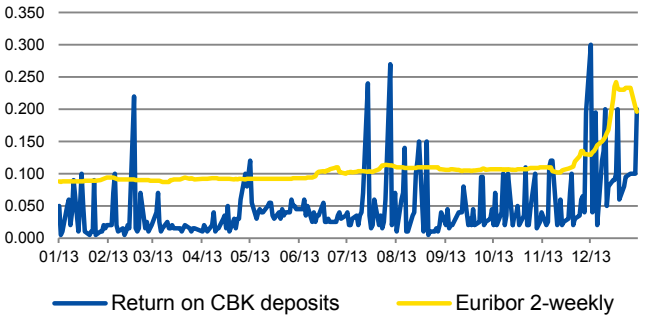
With improving market conditions for investments in securities of Eurozone countries this share has increased, whereby the maximum concentration of investments in this category of financial investments to the total portfolio is reached 51.18% in September.

Consequently, the trend of placement of investments in deposits with commercial banks has declined on average in order to increase the safety, liquidity and return on investment. Securities issued by Euro-zone countries are more liquid instruments which also have generated higher returns for the CBK portfolio throughout 2013.

2013 was characterized as a year of growth in total assets under management of CBK.. Figure 109 shows the growth in assets as of Dec 31st ofof each respective year. .

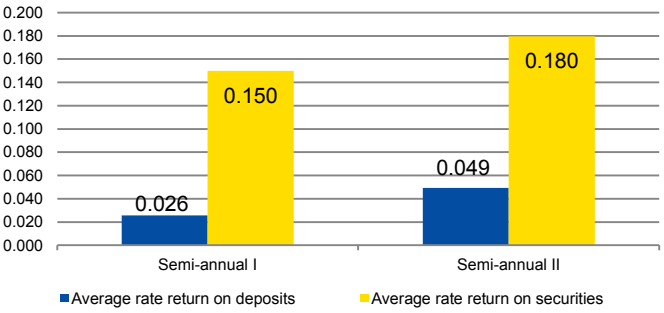
Figure 110 represents the investment portfolio by categoiries of financial instruments for 2013 compared to previous years, where we have seen the highest proportion of funds invested in securities and a more equal distribution across the categories of financial instruments.

Figure 111. Movements of the rate in interbank market of the euro area and the movements of deposit rates invested by CBK



Source: CBK (2014)

Figure 112. Rate of investing returns in portfolio and the risk for two semi-annual periods of 2012



Source: CBK(2014)

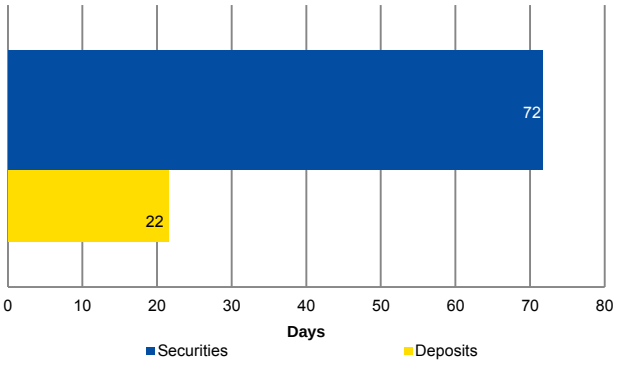
5.4.2.1 Portfolio performance for 2013

2013 was characterized as a year of continuing debt crisis in the Eurozone. European Central Bank (ECB), during this year, lowered twice the marginal lending rate and the refinancing operations rate. This directly impacted the interest rates in the Eurozone inter-bank market.

Figure 111 represents the fluctuation in rates of returns from investments in CBK portfolio in comparison to the Euro interbank market rate, respectively the two week EURIBOR rate (Average Interbank lending rate for Euro) which is considered a benchmark rate for term deposits of CBK, respectively time deposits with commercial andcentral banks of the Eurozone countries.

Figure 113 depicts that investment in securities generate higher returns compared to bank deposits for each six-month periods of 2013.

Figure 113 Time horizont average expressed by days up to maturity for two placements categories



Source: CBK(2014)

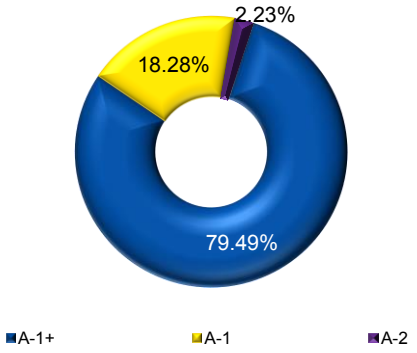
Investments in securities as represented in Figure 113, are invested in longer periods compared to investments in bank deposits. Despite this fact, the average days to maturity for securities remains low, respectively 75 days. This means that special attention has been paid to the liquidity which is a primary objective of CBK Investment Policy.

5.4.2 Risk Management

Investments are distributed in securities issued by most credible Eurozone countries and in financial institutions with superior credit ratings assigned by International Credit Rating Agencies, respectively Standard&Poor's and Moody's.

Financial risks managed for investments in financial assets by the CBK are: credit risk, interest rate risk, liquidity risk and operational risk.

Figure 114.Spread of portfolio by short term crediting rank (S&P)



Source: CBK (2014)

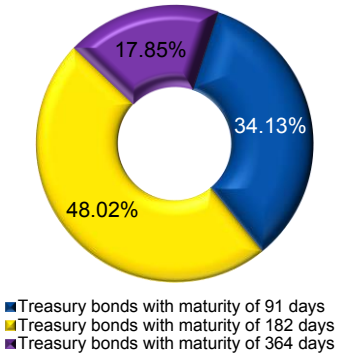
Credit risk. All investments are made in respect to short-term credit rating criteria established under Investment Policy P-2/A-2 (Moody's / S & P) and through distribution of investments constrained by limits expressed in proportions of investments by country and banking institution. During the assessment of correspondent banks, CBK considers their level of liquidity, base equity, shareholders assessment as well as the level of deposits.

Interest Rate Risk is measured by comparing the rate of return on investments in the CBK portfolio with two week EURIBOR rate (Average rate of interbank lending for Euro currency) as comparative rate. Standard deviation in the interest rates for 2013 is 0.047% which means that the average interest rate may vary by +/- 0.047 percent, which is considered as minimal risk.

Liquidity risk. Investments were mainly distributed in treasury bills and short term bank deposits in relation to the liquidity level established under Policy Investments.

Operational risk. This risk exists in all activities and may result in losses due to errors by staff or electronic systems in the course of realization of investments. During 2013, there has been no case of introduction of such risk in the course of investment of financial assets.

Figure 115. Strukture of securities by maturity



Source: CBK (2014)

5.4.3 Securities

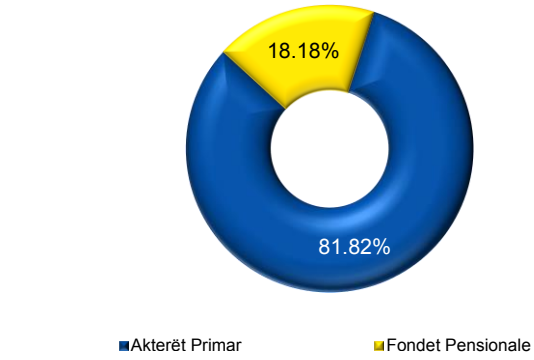
Pursuant to the Law No. 03/L-175, on Public Debts Article 2, paragraph 1.1 and 1.2, Central Bank of the Republic of Kosovo, acts as a fiscal agent of the Ministry of Finance (MoF), and in this regard is responsible for conducting auctions, registering, issuing and transferring Government Securities of the Republic of Kosovo.

In accordance with the Government Securities' Issuance Calendar for 2013, CBK has conducted 21 auctions through electronic platform. Pursuant to Regulation on Primary and Secondary Market of Government Securities, Article 1, paragraph 1.26 and Article 7, all auctions have been conducted through the Primary Dealers System where eight commercial banks have been authorized to act as Primary Dealers.

In addition to Primary Dealers, as participant in the Government Securities market was also the Kosovo Pensions Saving Trust who submitted bids in auctions through the Primary Dealer.

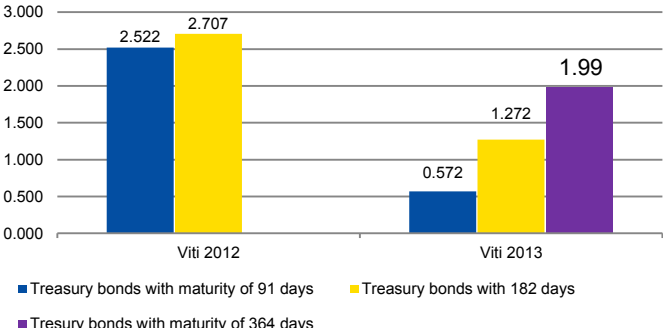
Out of total 21 auctions held in 2013, in eleven auctions were issued Treasury Bills with 91 days to maturity, whereas in 7 auctions were issued 182-day Treasury Bills with 182 days to maturity and in remaining 3 others were issued treasury bills with 364 days (1 year) to maturity. Figure 123 depicts the maturity structure of Treasury Bills expressed in percentage. Kosovo Pensions Saving Trust has participated in 6 auctions through the Primary Dealer, in 3 of them for Treasury Bills with maturity of 182 days, and in 3 others with maturity of 364 days. Consequently, during 2013 this non-banking institution consists 18.18% of the securities' market share. Figure 124 shows the structure of participants in auctions, expressed in percentage, as of 31 December 2013.

Figure 116. Structure of auction participants



Source: CBK (2014)

Figure 117. Annual average rate of returns for 2012 2013, in percent

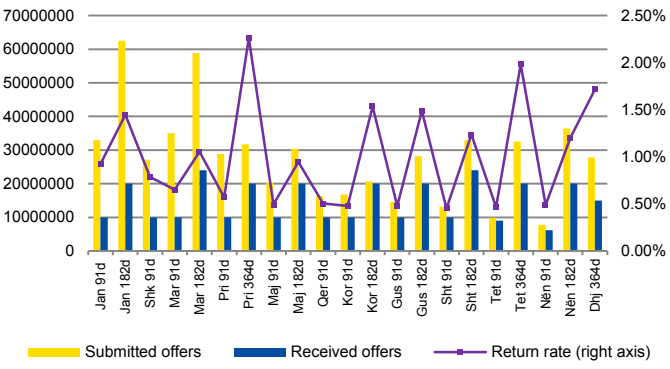


Source: CBK(2014)

Year 2013 was characterized with the issuances for the first time of 1 year (364 day) treasury bills resulted with average rate of return at 1.99 percent. During 2013 annual rates of return have recorded a decreasing trend as a result of increased demand for participation in these auctions. The average annual rate of return on 91-day treasury bills, has decreased to 0.57 percent in 2013 compared to 2.52 percent recorded in 2012 and for treasury bills with maturity of 182 days the annual rate of return has decreased to 1.27 percent, from 2.71 percent that was in 2012. The average annual return rate for treasury bills of all maturities in 2013 was 1.01 compared to 2.55 percent in 2012. Figure 125 presents the average annual rates of return as of 31 December for respective years.

During 2013, all scheduled auctions took place successfully since the amounts offered by participants have consistently exceeded for almost twice the amounts issued by MoF. Figure 126 displays all auctions held in 2013 where it shows an increased interest by Primary Dealers for their participation at all auctions, especially for treasury bills with a maturity of 182 and 364 days.

Figura 118. Auctions of Treasury Bonds



Source: CBK (2014)

During 2013, CBK has established all necessary conditions for the development of Secondary Market of Kosovo Government Securities. For 2014 Ministry of Finance has planned to issue government bonds with maturities longer than one year.

5.5. Credit Registry of Kosovo

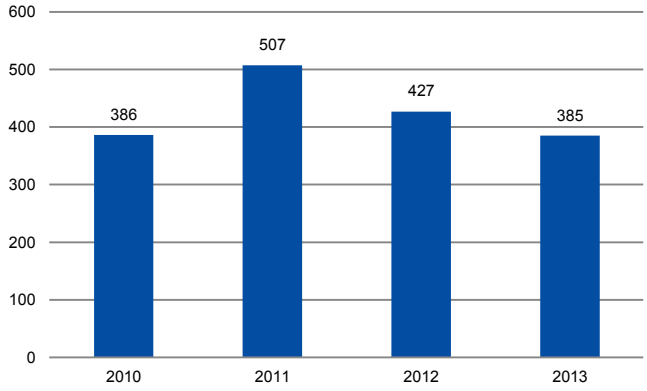
The function and role of Credit Registry is based on financial infrastructure platform. In order to achieve the objectives according to the best practices in the field of credit reporting, from 3 January 2006, the CBK has established the system of Credit Registry (CRK).

Credit Registry collects and shares information on credit state of natural and legal persons, with the aim of improving the assessment process of creditors and supporting the supervisory function of the Central Bank.

CRK has an internet-based application designed, which can be directly accessed in realtime by financial institutions which are members of CRK, as well as the web page (www.raportikreditor.org) for citizens where each data subject has the opportunity to obtain a credit report. Necessary guidance focused on financial education of citizens, which impacts on increasing knowledge on the obligations and responsibilities of borrowers is also provided through this web page.

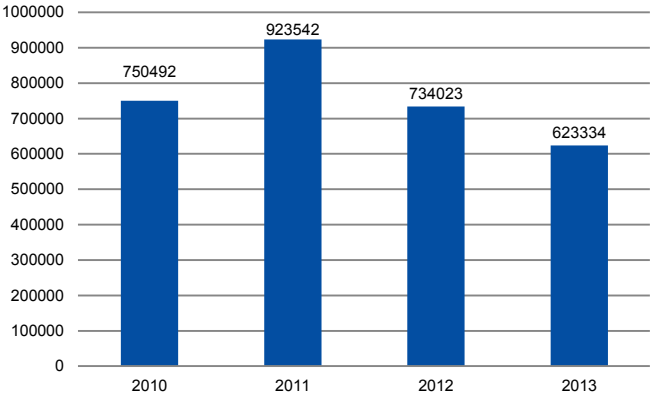
Pursuant to the Regulation on credit registry, all financial institutions designated by the Central Bank as providers of loans, including all licensed banks and microfinance institutions as well as those non-banking institutions and insurance companies licensed to engage in special credit activities are system members of CRK. Currently, there are over 1000 active users in credit registry system. During 2013, the CRK registered 385 new users based on the requests submitted by member institutions (figure 119).

Figure 119. Number of registered users



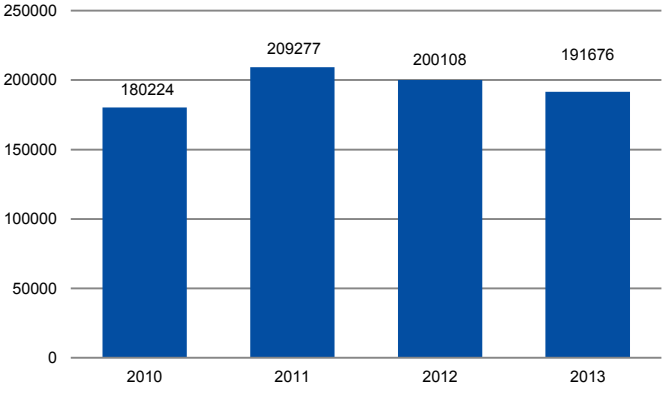
Source: CBK (2014)

Figure 120. Number of surveys in CRK



Source: CBK (2014)

Figure 121. Number of new loans

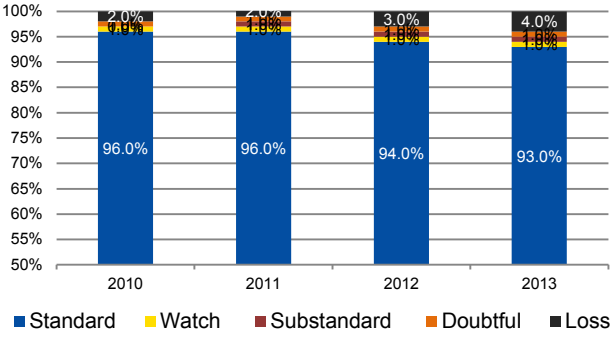


Source: CBK (2014)

The credit registry system users, who are authorized from lending institutions, access the system in order to search the creditor applicants' liabilities and credit background. According to statistics deriving from the credit registry system, the number of searches during 2013 was 623,334 (figure 120).

Pursuant to Regulation on Credit Registry and based on the developed system of CRK, all lending institutions members of the credit registry system are required to report information on the loans approved and distributed. During 2013, by credit institutions, in the credit registry system were reported 191.676 new loans (Figure 121).

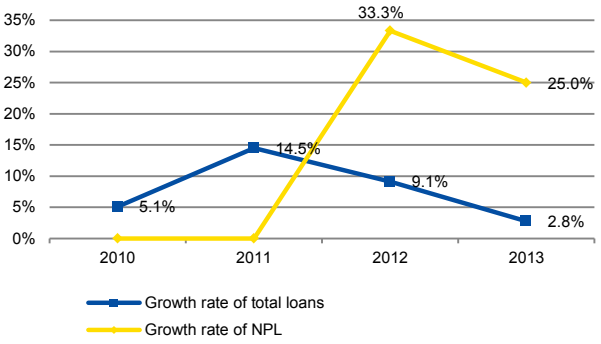
Figure 122. Structure of loans by standard classification



Source: CBK (2014)

Credits reported by member institutions in the CRK system are classified based on CBK`s Regulation on Credit Risk Management, which then are reported to CRK system on monthly basis. Figure 122, 123 and 124 are presented credit exposures based on classifications reported in CRK system for 2010, 2011 2012 and 2013.

Figure 123. Annual growth of total loans and NPL

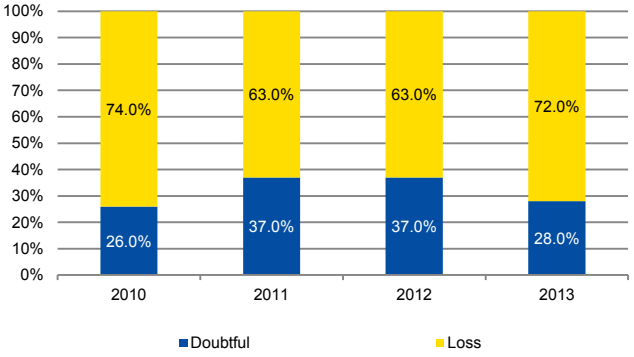


Source: CBK (2014)

In the Credit Registry of Kosovo (CRK) as a data subject is presented any natural or legal person who undertakes a credit obligation. Credit obligation shall mean any loan, credit card, guarantee, lease or other credit product. In addition to the role as borrower, data subject may appear as co-debtor, guarantor or even as owner and director of a legal entity to whom the credit obligation is issued to.

Pursuant to the Regulation on Credit Registry and Law on Protection of Personal Data, with the purpose of controlling own information, any borrowers may receive his/her credit report. This is enabled by any banks or even directly from the Central bank of Kosovo. Figure 125 presents the number of reports received by borrowers.

Figure 124. Structure of non-performing loans, in percent

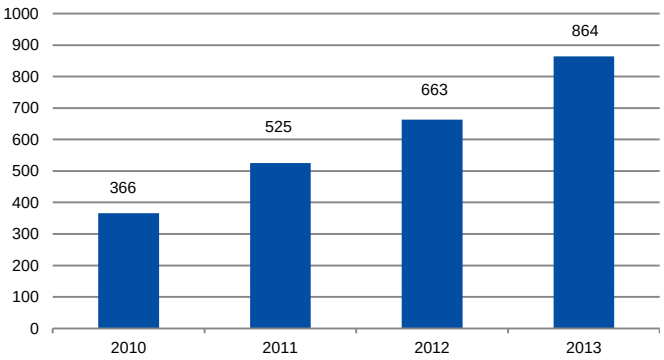


Source: CBK (2014)

Also in 2013, the Credit Registry has contributed directly to the Doing Business report (Doing Business) of the World Bank, which compares regulatory practices in 189 economies across the world. The contribution of the credit registry is linked to the credit indicator (getting credit), and according to reports published in the past four years by the World Bank, this indicator, for the Republic of Kosovo is constantly being considered as the most positive of all the other indicators.

Pursuing the developing trends (global and regional) of credit reporting field is an integral part of works and activities performed within Credit Registry Division (CRD). These activities are linked to researches on integration opportunities in European organizations. Since 2010, Credit Registry is a full member of the European Association on credit reporting - ACCIS. Therefore, even in 2013, CRD has participated in the annual conference at the European level as well as in meetings of professional groups organized by this association. Participation in these events was an opportunity for CRD to present the Credit Registry at the international level and to be informed by best practices and latest achievements on developments in credit reporting field.

Figure 125. Number of requets for credit reports



Source: CBK (2014)

5.6. Activity in Economic Analysis and Financial Stability Area

During 2013, CBK has continued to provide analysis of economic developments in the country, including analysis of macroeconomic developments and financial stability. CBK has also published the 4-th edition of the Financial Stability Report, which presents a comprehensive analysis on financial stability. Progress has also been made in compilation of Balance of Payments Report, which presents a detailed statement of developments in the balance of payments of Kosovo. In addition, in the Balance of Payments Report in 2013 were published research analysis on determinants of FDI in the SEE countries and work on trade finance. Since 2013, CBK has advanced its report on Quarterly Economic Assessment by publishing it as a special material. During this period, advancement has continued in other segments of the financial stability assessment such as the stress-test for the banking sector, early warning indicators, model for identifying systemically important banks and other tests for internal use. During 2013, the CBK continued to conduct the banking credit questionnaire with banks operating in Kosovo in quarterly basis. During this year, the CBK also took over the compilation of analysis on debt charges of borrowers in Kosovo.

For 2014, Financial Stability and Economic Analysis Department of CBK plans to increase the frequency of Financial Stability Report publication and to increase the number of publications about macroeconomic developments.

5.7. Activities in Statistic Area

During 2013, the Central Bank of Kosovo (CBK) has made important steps in advancing statistical system in accordance with international best practices. Statistical function is advanced through improvement of the legal basis for collection of information, increase of the coverage with new information from reporting institutions, expansion of published statistics range, dissemination of more statistics in the IMF and World Bank, implementation of the new international methodology, harmonization of statistics by *acquis comunitare* and the advancement of system data processing. During 2013, the Department of Statistics of CBK continued to provide a wider range of data for the financial and external sector.

CBK, in an effort to improve the legal framework, which clarifies the responsibility for collection of statistical data to fulfil its mandate under Article 25-28 of the Law on CBK has amended the

legal basis for external sector statistics. *Regulation on Balance of Payments and International Investment Position* is completed in December 2013, specifying in details the responsibilities of reporters who must report to the CBK and information (forms) that must be filled.

Also, in efforts to improve the quality of statistics, CBK has increased coverage with new information from reporting institutions and has introduced other non-financial corporations in the reporting. Invited for reporting were mainly foreign-owned corporations, whose data are necessary for compiling statistics of foreign direct investments in Kosovo and foreign debt. In 2013, a revised version of the survey for the enterprises was launched.

Last year, the Statistics Department has expanded the range of publications providing new information for microfinance institutions, institutions that deal with leasing and money transfer agencies. New tables provide data on the balance sheet, loans by institutional sectors, economic sectors, leasing, new loans issued within the month, effective interest rates on loans and balance sheets of success. These statistics are in full compliance with international statistical standards of the IMF, European Central Bank, Eurostat and other relevant institutions.

Publication of regular statistics, including new statistics that DS has published for the first time is done on regular basis in *Monthly Statistical Bulletin* and within the *Time Series,* in *IMF* and the *World Bank*. Requests for new information is increasing, especially for interest rates on loans and deposits. CBK has made significant progress in the system of processing these data, therefore during 2014, more information regarding interest rates on loans and deposits are expected to be published.

During 2013, the publication of statistics within the Time Series is doubled with the publication of all tables in Albanian and Serbian. Those tables in the past, in the context of time series have been published only in English. Tables in the *Monthly Statistical Bullet* were published in Albanian, but with a reduced format and in PDF version. Published tables within the *Time Series*, are in MS Excel format in Albanian, Serbian and English language.

Cooperation with the *IMF*, *Eurostat* and national institutions has continued. CBK is the country coordinator for General Data Dissemination System - GDDS of the IMF. Kosovo's main indicators data are published by provided schedules (monthly, quarterly, and annually) within the CBK site.

Cooperation with Eurostat has continued. CBK has participated in regular meetings of the *Committee on Monetary, Financial Statistics and Balance of Payments Statistics* held at Eurostat (Luxembourg)

The data required from Eurostat for the financial sector and the external sector are sent to Eurostat according to requests submitted. CBK has deepened cooperation with Eurostat in order to harmonize the methodology pursuant to the European Union countries. In the light of cooperation with local institutions, CBK is a member of the Statistical Council of the Republic of Kosovo, which is a collegial body to provide councils for the preparation and implementation of the program of official statistics in Kosovo and for the overall development of the statistical system of Kosovo. In general, the CBK has a very good cooperation with official statistic generators in Kosovo, neighbouring central banks and international institutions.

A new software for processing external sector statistics has been developed. The software for the external sector statistics increases work professionalism enabling importing, processing, storing and extracting statistics efficiently. The previous system was mainly based on MS Excel. The new system will serve as a significant support in increasing professionalism, considering the growing volume of statistics generated in relation to limited resources and publication deadline. Moreover, this software facilitates the work to meet the requirements for reporting to Eurostat

which are very detailed (e.g. data by countries, financial instruments, activities and time series). CBK, in cooperation with the World Bank, is designing a new software which will be used by several different departments. In the framework of this project is foreseen to incorporate some of the current software. This will increase the probability to check the consistency in different data but also to save on maintenance services.

On the aspect of methodology, CBK has made a significant advancement in the process of implementing new IMF standards on balance of payments and international investment position. In 2009, IMF has published *(Balance of Payments and International Investment Position – 6th Edition -BPM6*). Most of EU countries are expected to implement this methodology in 2014. The CBK, from September 2013 started reporting statistics of balance of payments and international investments position at the IMF according to the new methodology. Full implementation, which includes the publication of materials related to methodological changes will take place in 2014 in parallel with EU countries.

Furthermore, important progress has been made in harmonizing the methodology of external sector statistics pursuant to Eurostat (community *acquis).* The launch of regular reporting as European Union countries do regarding the balance of payments statistics, foreign trade services, foreign direct investments and the international investments position is one of the CBK objectives for 2014.

Regular, periodical and timely publication of statistics represents a peculiar feature of CBK Statistics Department. Despite the increase of the range of produced statistics in one hand and the same number of resources on the other hand, it was managed to have statistics published in accordance with deadlines specified in CBK webpage. *Time Series* and *Monthly Statistical Bulletin* (where December 2013 edition represents the 148th edition) represent the CBK key statistical publication. In addition, statistics produced by the CBK Statistics Department serve as key information to other CBK publications, such as the Annual Report, Financial Stability Report and Balance of Payments Bulletin.

CBK has continued dissemination on a regular basis in the International Monetary Fund, World Bank, Eurostat, and other important institutions of existing periodic statistics on the financial and external sector.

During 2013, CBK has not received any technical assistance from abroad for the purposes of establishing a statistical system, except training in the form of seminars provided by international organizations. IMF is one of the main sponsors of CBK DS' staff trainings. On the other hand, the director of the Department of Statistics of CBK has provided technical assistance as an expert of IMF in external sector statistics in the Republic of Kiribatit and has received several requests for other missions for 2014.

6. Internal Developments

6.1. Internal Audit

According to the legal mandate determined with the Law No. 03/l-209 on Central Bank of the Republic of Kosovo (articles 60 and 61), the Chief of Internal Audit Office has conducted regular planned audits as well as Ad Hock audits. In developing its activities, internal audit (IA) has complied with the IA International Standards of Professional Practice.

During 2013, IA's activity has covered aspects relating to corporate governance, developed operations and information systems of the organization.

Regular audits have been conducted on a quarterly, semi-annual and annual basis. From year to year, we have progressively increased coverage of such audits.

The scope and coverage of the audit is supported by the Audit Universe which represents all audit activities involving departments / divisions and areas to be audited within the three year period 2013-2015.

In the Universe and Annual Audit Plans are included departments and areas with high risk and priority, which specifically relate to the safeguarding of assets and reputation of CBK.

Conducted audits have included important areas through which the CBK operates. Particular emphasis is given to the functioning of internal controls within the CBK, financial management and administrative processes, as well as the information technology and systems.

IA, in accordance with recommendations derived by the International Monetary Fund Mechanism "Safeguards Assessments" has conducted comprehensive audits, and has issued reports where relevant recommendations were given.

Also, four (4) independent quarterly audits have been conducted and relevant reports have been issued in regard to the process of Government accounts reconciliation. IMF was willing to let us conduct the appropriate audits based on the request derived from an understanding memorandum between the Kosovo's Government and IMF.

At the request of Senior Management, Department of IA has also conducted unplanned (Ad Hock) case-audits.

In the light of monitoring the Investments portfolio in Correspondent Banks of CBK, IA during 2013 has prepared 47 special reports on weekly basis.

In accordance with the Law on CBK, the Chief of IA has reported to the Audit Committee on a quarterly basis. Reporting, has included a summary overview of the findings and recommendations from individual audits conducted during 2013. Reports that were submitted later were discussed by the Committee and the Board of the CBK and afterwards the issues were addressed to the executive management for further treatment.

Two main purposes were aimed through these reports:

- To communicate to the management of CBK the results of IA's activities, important issues identified and addressed, delays and measures taken, progress toward improvement, and compliance with the legal framework in achieving the objectives of CBK , as well as
- To demonstrate accountability of IA's function in conducting audit activities and the achieved level of performance during the year.

IA has monitored the process of addressing the recommendations and has reported separately the implementation level to management during the year.

Regarding cooperation with regional Central Banks with which CBK has built cooperative relationship, during 2013 official visit to the National Bank of Macedonia have been conducted. In order to advance auditing practices and methodology, respectively standardization of IA reports, in collaboration with the Bank of Macedonia, we have successfully implemented two ARS application modules, establishment of the Auditing Universe and preparation of IA's Standardized Audit Reports.

Another important project implemented has to do with application- IDEA software through which is enabled the possibility of performing the audit in a more advanced, faster and comprehensive way.

First steps have been made towards finding forms to develop the evaluation of the IA's function. Currently, within CBK`s cooperation with international mechanisms such as the World Bank and the European Central Bank, have been provided concrete agreements to achieve this by 2014.

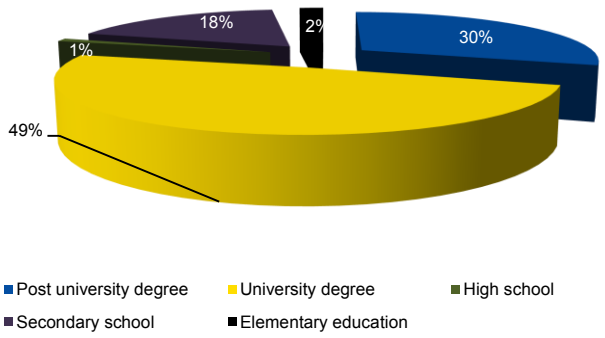
The IA Department during 2013 has continued the implementation of standards for Continuing Professional Development, an internal auditor has been certified from the international professional association, and during this year will continue with further professional advancement of all the staff.

6.2. Human resources

At the end of 2013, total number of employees at CBK was 192 with an average of 40 years old. From the total number of employees, 93 are women and 99 are men.

Regarding the structure of education, 30 percent have post-university education, 49 percent have university education, 1 percent with higher education, 18 percent with high school education, and 2 percent with basic education.

Figure 126. Education structure of CBK employees



Source: CBK (2014)

Central Bank of Republic of Kosovo considers the personnel as one of the most important resources and continuously engages to provide them the appropriate knowledge, adequate skills and expertise to fulfil the duties and responsibilities according to the highest standards in achieving their full potential through courses, seminars, trainings, etc.

During 2013, 64 employees or 32.8 percent of employees participated in professional trainings.

CBK continuously provides opportunities to students from universities / colleges in the country and abroad to exercise internship in order to provide them the unique opportunity to gain practical experience in various fields of CBK functions and operations. In 2013, a total of 21 students attended the internship program at CBK.

6.3. Legal Activity of Central Bank of the Republic of Kosovo

During 2013, legal activity of CBK was focused towards the implementation of existing legal framework, as well as drafting and harmonizing the regulatory framework in accordance with applicable legislation, European Union legislation and with contemporary financial sector development and practices.

In accordance with legal authorization and objectives of the Central Bank of Republic of Kosovo, special attention is paid to the legal framework of the banking sector, payments sector and insurance sector.

Notable advancement is marked in CBK`s payment sector, as a result of finalizing the advanced legal framework for payment system. Law no. 04/L-155 on Payment System entered into force in May 2013 and guarantees a safe, efficient and sustainable function of national payment system, role and duties of the CBK regarding licensing, regulation and supervision of payment systems and the standards for clearing and settling debts in the Republic of Kosovo. In order to implement the Law on Payment System, a series of bylaws are issued in accordance with international best practices regulating this area.

During 2013, the legal framework for pension funds underwent some changes envisaged by Law No. 04/L-168 on amending and supplementing the Law no. 04/L-101 on pension funds of Kosovo, which entered into force in April 2013.

During the year, the drafting of the draft-law on Insurance and draft-law on Microfinance Institutions and Non-banking Financial Institutions has continued in order to complete the legal infrastructure in these fields.

Draft Law on Insurance aims to establish a comprehensive and effective legal framework for the insurance industry. The purpose of this law is to establish basic principles and rules for licensing, regulating and supervising insurers, reinsurers, insurance intermediaries and other entities provided by this law, in order for the insurance industry in the Republic of Kosovo to operate in a safe, stable and transparent way, in protecting the rights and interests of policyholders. At the same time, work is being done on drafting sublegal acts that will be in the function of implementing this law.

In order to establish a clear and effective legal framework, over the draft-law for Microfinance Institutions and Non-banking Financial Institutions is drafted, which was submitted for processing at the competent authorities. This draft-law clearly addresses the requirements for licensing and operation of microfinance and non-banking institutions as well as determines allowed activities for the respective institutions.

In relation to strengthening mechanisms for addressing financial institutions and financial education consumer complaints, CBK is engaged in drafting a strategy for consumer protection and financial education. In this regard, CBK and the Ministry of Trade and Industry, in July 2013, signed a Memorandum of Understanding related to consumer protection in the financial sector and addressing complaints of financial services users.

Special importance this year was paid to further advancement of bylaws. In this regard the CBK`s decision-making bodies adopted a series of regulations, policies and rules, in order to implement and strengthen the legal framework in force.

Even this year, the cooperation and technical assistance provided by the International Monetary Fund and World Bank continued in terms of further contribution to the development of the financial sector in general.

In the light of legislative activity, pursuant to legal authority and objectives defined by the legislation in force, CBK will commit to ensure smooth running of legal and regulatory framework in line with legislation in force, EU legislation, best international standards and practices to ensure a stable, reliable and efficient financial system in Kosovo.

6.4. Information technology

This year, the department of Information Technology is engaged in the implementation of the SWIFT project, a significant voluminous and complex project. Implementation of this project means establishing hardware and software infrastructure as well as connection with core banking system for exchange of messages between CBK and other banks by using SWIFT network.

The new room of hardware infrastructure is completely designed and built which is in accordance with the highest standards of the information technology.

Another important project is the establishment of a second system for communication between CBK and financial institutions. This system has replaced a previous system and can be considered a system with high level of security for data transmitted between CBK and financial institutions.

Significant progress was made in data management, which indicates a safer and more reliable system for fulfilling CBK`s mission.

7. Regional and International Cooperation

7.1. International Agreements, Promotion and Representation

The Central Bank of Kosovo (CBK) during the year we left continued its close cooperation with many important international institutions including the International Monetary Fund, the World Bank and other international financial institutions such as the European Central Bank, counterpart banks of the region and other institutions with whom the CBK already had cooperation agreements.

Therefore, one of the most important international events in 2013 was the commencement of using the SWIFT codes by domestic financial institutions with proper state identification. This was achieved due to the work and commitment of Kosovo institutions and CBK in particular and the full support from Institutions of International Partner Countries.

The Central Bank was represented in the events that took place in the international arena, including the annual meetings in spring and the autumn session of International Monetary Fund and World Bank. During 2013, CBK through its Governor Mr. Bedri Hamza was represented at the International Conference "Cooperation of Central Banks, before, during and after the crisis".

CBK continued with its successful cooperation in the field of exchanging supervisory information with institutions the Bank has cooperation agreements with. It is worth mentioning the singing of Cooperation Agreement between the Central Bank of the Republic of Kosovo and the National Bank of the Republic of Macedonia. The signed agreement provides deepening of cooperation in professional development of employees of both institutions with special focus in the field of Macroeconomic Analysis and Modelling, European Integration, Strategic Planning, Financial Stability, Payment System and Financial Education.

During 2013, the Central Bank of Republic of Kosovo organized a range of activities and concluded a number of agreements with different Kosovo institutions. In cooperation with the Ministry of Trade and Industry, CBK organized a conference for financial protection of consumer rights and also signed a Memorandum of Understanding regarding consumer protection in financial sector and in addressing complaints of financial service users. Also, during 2013 the CBK signed a Memorandum of Understanding with the Unit of Financial Intelligence.

During the year, CBK developed and deepened its cooperation with counterpart institutions as well as with supervisory and regulatory authorities it already has cooperation agreements with.

7.2. Technical Assistance

CBK continued to benefit from technical assistance provided by international financial institutions and various donors both with existing projects as well as new initiatives, mainly provided by the U.S. Treasury, International Monetary Fund, World Bank, German Development Fund and European Central Bank. These institutions supported with their expertise the CBK`s internal capacity building in the supervision of financial institutions in advancing the legal framework for risk-based supervision, institutionalization of international practices and human capacity building for proper implementation of the legal framework. During 2013, the implementation of Technical Assistance for Financial Sector project, funded by the World Bank (International Development Agency, IDA) has continued. This project helped advancing the legal framework and its approximation with EU directives and international standards as well as internal capacity building for more effective supervision of the financial sector in Kosovo. Also, the project of Strengthening the Financial Sector and Market Infrastructure financed by the agreed loan between the Government of Republic of Kosovo and International Development

Agency (IDA) continues to be implemented with planned dynamics. This project has the following special focus: (i) financing the costs associated with implementation of the Bank's Strategy for Development of National Payment System and establishment of Real Time Equalization Payments System based on Strategy of National Payment System, (ii) Construction of the Centre for Business succession for CBK in order to ensure work continuity when cases of disasters occur (uncontrollable factors) for the purpose of recovery of information technology operations that provides updated data from all critical systems of CBK, and (iii) Provision of initial capital funding for Deposit Insurance Fund of Kosovo (DIFK) in order to collect the reserve in the form of initial capital. U.S. Treasury, International Monetary Fund, European Central Bank and German Development Fund are focused in supporting CBK to advance the legal framework and implementation of legal framework in accordance with international practices.

Also, during 2013 it is worth noting the advancement of CBK`s agenda of financial sector consumer protection as an essential element for building and maintaining an efficient, competitive and fair financial sector. Therefore, in order to advance this function in April 2013, CBK with the support of World Bank adopted a strategy for Consumer Protection and Financial Education. Based on this strategy, CBK advanced its activities in the following areas: 1) laws, regulations and practices, 2) transparency and disclosure of information, 3) financial institutions business practices, 3) mechanisms of complaints and dispute resolution, and 4) consumers awareness and education. In the light of further advancement, a Memorandum of Understanding was signed with Ministry of Trade and Industry in order to further promote the financial sector consumer`s rights in order to have clear, complete, accurate and comprehensive information for their role as users of financial services, including the expansion of financial education in cooperation with relevant local and international institutions. Abovementioned projects will contribute in further deepening of effective and efficient interagency cooperation.

CBK remains devoted and grateful for all the support which is provided by international financial institutions and various donors, and the advancements made during this period are true reflection of the proper use of this support.

8. Financial statements of CBK

Central Bank of the Republic of Kosovo

Financial statements

as at and for the year ended 31 December 2013

Central Bank of the Republic of Kosovo

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Independent Auditor's Report

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To the Governing Board of the

Central Bank of the Republic of Kosovo

We have audited the accompanying financial statements of Central Bank of the Republic of Kosovo ("the Bank"), which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Grant Thornton LLC

Grant Thornton LLC

Prishtina, Kosova
7 May 2014

Central Bank of the Republic of Kosovo

Statement of financial position
As at 31 December 2013

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

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

Bedri Hamza
Governor

Faton Ahmetaj
Director of Financial Planning and Reporting

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

Central Bank of the Republic of Kosovo
Statement of comprehensive income
For the year ended 31 December

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

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

Central Bank of the Republic of Kosovo

Statement of changes in equity
As at 31 December 2013

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

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

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

Central Bank of the Republic of Kosovo

Statement of cash flows

For the year ended 31 December 2013

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

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

1. Reporting entity

The Central Bank of the Republic of Kosovo (hereinafter "CBK" or "the Bank"), the successor to the Central Banking Authority of Kosovo, is an independent juridical entity with full capacity as a legal person under the law applicable in the Republic of Kosovo. CBK is a distinct public entity with the authority to license, supervise and regulate financial institutions in the Republic of Kosovo. The Bank acts in accordance with Law No.03/L–209 "Law on Central Bank of the Republic of Kosovo", hereafter referred to as ("the CBK Law"). As per this law, the principal objectives of CBK are to:

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

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

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

33 Garibaldi Street

Pristina, Kosovo.

Central Bank Board, Executive Board and Governor

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

As at 31 December 2013, the Central Bank Board of CBK comprised the following members:

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

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

2. Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

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

2. Basis of preparation (continued)

c) Functional and presentation currency

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

d) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in note 5.

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

3. Significant accounting policies

a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

b) Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the profit or loss includes interest on financial assets and liabilities at amortised cost on an effective interest rate basis

3. Significant accounting policies (continued)

c) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including transaction fees for operating accounts, fund transfers and licensing fees are recognized as the related services are performed.

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

d) Employee benefits

CBK makes compulsory social security contributions that provide pension benefits for employees upon retirement. These contributions are classified under defined contribution plans based on Kosovo legislation. CBK's contributions are charged to profit or loss as incurred.

e) Taxation and profit allocation

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

3. Significant accounting policies (continued)

f) Financial assets and liabilities

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

Financial assets at fair value through profit and loss

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

Loans and receivables

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

Held-to-maturity financial assets

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

Available-for-sale financial assets

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

i. Recognition

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

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

3. Significant accounting policies (continued)

f) Financial assets and liabilities (continued)

ii. Derecognition

CBK derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by CBK is recognized as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

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

iii. Offsetting

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, CBK has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

iv. Amortized cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction of impairment.

v. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

3. Significant accounting policies (continued)

f) Financial assets and liabilities (continued)

iv. Identification and measurement of impairment

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

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

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

g) Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

h) Investment securities

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

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that CBK has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss. Held-to-maturity investments include treasury bills.

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

3. Significant accounting policies (continued)

i) Property and equipment

i. Recognition and measurement

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

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

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

ii. Subsequent costs

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

iii. Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

The estimated useful lives for the current and comparative periods are as follows:

	2013	**2012**
Leasehold improvements	20 years	20 years
Equipment	5 years	5 years
Computers	3 years	3 years
Vehicles	5 years	5 years

The other equipment useful life is assessed on case by case basis. Depreciation methods, useful lives and residual values are reassessed at the reporting date.

j) Intangible assets

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

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

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful life of each software is based on assessment of the use of that software without any large need of upgrade, currently from 3 to 10 years.

3. Significant accounting policies (continued)

k) Impairment non-financial assets

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

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

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

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

l) Financial liabilities

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

m) Grant revenue

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

n) Donor financed salaries

Certain individuals engaged at CBK are international experts appointed and funded for a short term by international organisations. The funding from these international organisations includes, but it is not limited to, the payment of salaries to these international experts. As this assistance is paid by the international organisations directly to the appointee, the extent of the payments are not known nor are they included in these financial statements.

o) Provisions

A provision is recognised if, as a result of a past event, CBK has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by CBK from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, CBK recognises any impairment loss on the assets associated with that contract.

3. Significant accounting policies (continued)

n) Changes in accounting policies and disclosures

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

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

IFRS 10 'Consolidated Financial Statements' (IFRS 10)

IFRS 10 supersedes IAS 27 'Consolidated and Separate Financial Statements' (IAS 27) and SIC 12 'Consolidation-Special Purpose Entities'. IFRS 10 revises the definition of control and provides extensive new guidance on its application. These new requirements have the potential to affect which of the CBK investees are considered to be subsidiaries and therefore to change the scope of consolidation. The requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary are unchanged.

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

IFRS 11 'Joint Arrangements' (IFRS 11)

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

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

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

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

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

Consequential amendments to IAS 27 'Separate Financial Statements' (IAS 27) and IAS 28 'Investments in Associates and Joint Ventures' (IAS 28)

IAS 27 now only addresses separate financial statements. IAS 28 brings investments in joint ventures into its scope. However, IAS 28's equity accounting methodology remains unchanged.

3. Significant accounting policies (continued)

n) Changes in accounting policies and disclosures (continued)

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

IFRS 13 'Fair Value Measurement' (IFRS 13)

IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. The scope of IFRS 13 is broad and it applies for both financial and non-financial items for which other IFRSs require or permit fair value measurements or disclosures about fair value measurements except in certain circumstances.

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

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

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

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

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

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

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

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by CBK.

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

IFRS 9 'Financial Instruments' (IFRS 9)

The IASB aims to replace IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39) in its entirety with IFRS 9. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. Chapters dealing with impairment methodology are still being developed. Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address application issues. The Management has yet to assess the impact of this new standard on the CBK financial statements. Management does not expect to implement IFRS 9 until it has been completed and its overall impact can be assessed.

4. Financial risk management

a) Introduction and overview

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

- Credit risk
- Operational risk
- Liquidity risk
- Market risk

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

Risk management framework

The Central Bank Board has overall responsibility for the establishment and oversight of CBK's risk management. CBK management reports regularly through CBK's Executive Board to the Central Bank Board on risk management practices. The Executive Board and Investment Committee have obligations for developing and monitoring CBK risk management policies. These policies are implemented by the respective organisational units.

CBK's risk management policies are established to identify and analyze the risks that CBK which has to deal with, and to set appropriate risk controls and limits, to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. CBK, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

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

b) Credit risk

Credit risk is the risk of financial loss to CBK if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from CBK's investments in debt securities and deposits (in money markets or current account) in other banks.

Management of credit risk

i. Investments and exposure to other banks

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

4. Financial risk management (continued)

Management of credit risk (continued)

ii. Exposure to credit risk

The maximum exposure to credit risk as at 31 December 2013 and 31 December 2012 is presented by the carrying amount of its: current accounts with non-resident banks, treasury bills and money market placements with non-resident banks. For details on the exposures please see Notes 8, 9 and 10.

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

c) Liquidity risk

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

Management of liquidity risk

CBK's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to CBK's reputation.

Policies to monitor and address liquidity risk are set by the Bank Executive Board. CBK manages its liquidity risk by investing in short term deposits with nonresident banks and holding adequate quantity of cash in its vaults. Liquidity management policies are set to ensure that even under adverse conditions, CBK is in a position to meet its obligations.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by CBK management. Monthly reports covering the liquidity position of CBK are regularly submitted to the Investment Committee members by the Asset Management Department.

Exposure to liquidity risk

Residual contractual maturities of financial liabilities, excluding future interest payments

31 December 2013	**Note**	**Carrying amount**	**Less than 1 month**	**1-3 months**	**3 Months to 1 year**	**1 year to 5 year**
Non-derivative liabilities						
Due to domestic banks	15	333,173	333,173	-	-	-
Due to IMF related accounts	16	234,011	128,278	-	-	105,733
Due to governmental institutions	17	757,446	687,431	70,015	-	-
Due to public and commercial entities	18	236,597	236,597	-	-	-
Other domestic liabilities	19	2,428	2428	-	-	-
		1,563,655	**1,387,907**	**70,015**	**-**	**105,733**
31 December 2012						
Non-derivative liabilities						
Due to domestic banks	15	302,147	302,147	-	-	-
Due to IMF related accounts	16	246,890	133,832	-	-	113,058
Due to governmental institutions	17	821,509	681,502	80,003	60,004	-
Due to public and commercial entities	18	49,023	49,023	-	-	-
Other domestic liabilities	19	2,428	2,428	-	-	-
		1,421,997	**1,168,932**	**80,003**	**60,004**	**113,058**

4. Financial risk management (continued)

c) Liquidity risk (continued)

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

d) Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect CBK's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on investments.

Management of market risks

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

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

Exposure to interest rate risk non-trading portfolios

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

4. Financial risk management (continued)

(d) Market risks (continued)

Exposure to interest rate risk-non-trading portfolios

31 December 2013	Note	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years
Current accounts with non-resident banks	8	61,083	61,083	-	-	-
Treasury bills	9	560,828	229,963	330,865	-	-
Deposit accounts with non-resident banks	10	729,473	553,493	145,953	30,027	-
Assets related with IMF	11	181,438	75,705	-	-	105,733
Total		**1,532,822**	**920,244**	**476,818**	**30,027**	**105,733**
Due to domestic banks	15	(333,173)	(333,173)	-	-	-
Due to IMF related accounts	16	(183,704)	(77,972)	-	-	(105,733)
Due to governmental institutions	17	(757,446)	(737,439)	(20,007)	-	-
Due to public and commercial entities	18	(236,597)	(236,597)	-	-	-
Due to domestic liability	19	(2,428)	(2,428)	-	-	-
Total		**(1,513,349)**	**(1,387,609)**	**(20,007)**	**-**	**(105,733)**
Gap		**19,473**	**(467,365)**	**456,811**	**30,027**	**-**

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

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

4. Financial risk management (continued)

(d) Market risks (continued)

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

Management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and nonstandard interest rate scenarios. Standard scenarios that are considered on a regular basis include a 100 basis point ("bp") parallel fall or rise in all yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant financial position) is as follows:

2013

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

2012

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

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

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

2013

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

2012

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

4. Financial risk management (continued)

(d) Market risks (continued)

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

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

4. Financial risk management (continued)

(d) Market risks (continued)

CBK deals predominantly in EUR, while the foreign currencies CBK deals with are predominantly Special Drawing Rights ("SDRs"). The exchange rates used for translation at 31 December 2013 and 2012 were as follows:

	2013 EUR	2012 EUR
1 SDR	1.1173	1.1658

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

(e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with CBK's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of CBK's operations and are faced by all of the organization's units.

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

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

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

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

4. Financial risk management (continued)

(f) Capital management

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

As per Law no. 03/L-209, the net income or the net loss of CBK is calculated in accordance with International Financial Reporting Standards (IFRS).

The earnings available for distributions shall be determined:

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

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

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

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

(g) Asset management

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

5. Use of estimates and judgments

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

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

Key sources of estimation uncertainty

Allowances for credit losses
Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(f) (vi). The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and an estimate of cash flows considered recoverable is independently approved.

Critical accounting judgments in applying CBK's accounting policies

Critical accounting judgments made in applying CBK's accounting policies include:

Financial asset and liability classification

CBK's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances.

In classifying financial assets as held-to-maturity, CBK has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy 3(h).

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

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

In thousands of EUR	Note	Loans and receivables	Held-to-maturity	Other amortized cost	Total carrying amount	Fair value
31 December 2013						
Cash on hand	7	27,384	-	-	27,384	27,384
Current accounts with non-resident banks	8	61,083	-	-	61,083	61,083
Treasury bills	9	-	560,828	-	560,828	560,819
Deposit accounts with non-resident banks	10	-	729,473	-	729,473	729,473
Assets related with IMF	11	231,459	-	-	231,459	231,459
		319,926	**1,290,301**	**-**	**1,610,227**	**1,610,218**
Due to domestic banks	15	-	-	333,173	333,173	333,173
Due to IMF related accounts	16	-	-	234,011	234,011	234,011
Due to governmental institutions	17	-	-	757,446	757,446	757,446
Due to public and commercial entities	18	-	-	236,597	236,597	236,597
Other domestic liabilities	19	-	-	2,428	2,428	2,428
		-	-	**1,563,655**	**1,563,655**	**1,563,655**
31 December 2012						
Cash on hand	7	16,761	-	-	16,761	16,761
Current accounts with non-resident banks	8	99,549	-	-	99,549	99,549
Treasury bills	9	-	285,983	-	285,983	285,984
Deposit accounts with non-resident banks	10	-	821,590	-	821,590	821,590
Assets related with IMF	11	245,401	-	-	245,401	245,401
		361,711	**1,107,573**	**-**	**1,469,284**	**1,469,285**
Due to domestic banks	15	-	-	302,147	302,147	302,147
Due to IMF related accounts	16	-	-	246,890	246,890	246,890
Due to governmental institutions	17	-	-	821,509	821,509	821,509
Due to public and commercial entities	18	-	-	49,023	49,023	49,023
Other domestic liabilities	19	-	-	2,428	2,428	2,428
		-	-	**1,421,997**	**1,421,997**	**1,421,997**

7. Cash on hand

Cash on hand is all denominated in EUR.

8. Current accounts with non-resident banks

These accounts were held at the following banks:

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

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

9. Treasury bills

Treasury bills are debt securities issued by governments of European Union countries. They have maturities up to twelve months and they are held to maturity. All bills are denominated in EUR and have effective interest rates ranging from 0.0051% to 2.131% p.a. (2012: 0.005% to 2.131% p.a.)

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

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

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

10. Deposit accounts with non-resident banks

Deposit accounts with non-resident banks are composed of:

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

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

11. Assets related with IMF

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

The assets listed above are related to the admission of Kosovo to the IMF in June 2009. CBK acts as depository and fiscal agent in relation to Kosovo's membership in the IMF. This is in accordance with the Law No. 03/L-209 on the Central Bank of the Republic of Kosovo and Law No. 03-L-152 on Membership of the Republic of Kosovo in the International Monetary Fund and World Bank Group Organizations.

IMF Quota represents a subscription amount determined at the time of admission of Kosovo into IMF and is expressed in SDR (above disclosed in euro equivalent) and its amount is determined based on IMF rules and regulations.

SDR Holdings represents assets approved by the IMF Board of Governors as per allocations of SDRs to IMF's member countries (decisions made on 28 August 2009 and 9 September 2009). SDR holding assets bear annual average interest rates in 2013 ranging from 0.06% to 0.13% p.a. (2012: 0.06% to 0.16% p.a.).

Due from the Government for the use of IMF funds, represents an amount due from the Government as per IMF and Kosovo Stand-by Arrangement signed in July 2010 through which the Government of Kosovo obtained from IMF a Stand-By Arrangement in the amount of SDR 97 million (EUR: 113 million), while the outstanding as of 31 December 2013 is SDR 94.6 million (EUR: 105.7 million). The interest rate of this arrangement is tied to IMF's market-related interest rate, known as basic rate of charge, which is itself linked to the SDRs interest rate. The interest rate for the period 2013 fluctuated in quarterly basis annually in average as 1.06% - 1.13% p.a., (on 2012 fluctuated from 1.06% to 1.16% p.a.).

Balance drawn from IMF as at 31 December 2010 and three other tranches during the 2012, in total amount around SDR 97 million (EUR 113 million) by the Government of Kosovo from the Stand-by Arrangement. CBK acts as depository institution for the Government of Kosovo. To regulate the Stand-By Arrangement with IMF, CBK and the Government of Kosovo entered into an agreement's on July 2010 and April 2012 "on the Procedure for Request, Acceptance, Service and Repurchase of the Funds from the IMF in terms of the Stand –By Arrangement". Based on this arrangement's CBK withdraws the SDRs from IMF, on behalf of the Government, and credit's them to the Government's account.

12. Property and equipment

Property and equipment is composed as follows:

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

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

13. Intangible assets

Intangible assets are composed as follows:

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

14. Other assets

Other assets are composed as follows:

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

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

15. Due to domestic banks

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

Due to domestic banks

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

16. Due to IMF Related liabilities

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

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

Accounts No.1 and No.2 are IMF accounts with CBK opened according to IMF's rules and regulations.

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

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

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

SDR Allocations and Paid portion of quota are interest-bearing with annual interest rates for 2013 in quarterly averages ranging from 0.06% - 0.13% p,a, (2012: 0.06% - 0.16% p.a.).

17. Due to governmental institutions

Due to governmental institutions includes current accounts from the following:

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

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

18. Due to public and commercial entities

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

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

19. Other domestic liabilities

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

19. Other domestic liabilities (continued)

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

Amounts EUR 1,134 rents collected by the CBK until 5 January 2004 on behalf of the Kosovo Government for the offices of the former National Bank of Kosovo, which were rented out to various entities/individuals. This amount also included interest earned on these rent payments until 31 December 2013.

Included in in the safe custody accounts are also certain amount of cash in various currencies and other assets, that CBK inherited upon inception, from the former National Bank of Kosovo and the interest earned over the years which as of 31 December 2013 amounts as 538 thousand euro.

As of 31 December 2013 in the safe custody accounts are also included EUR 756 thousand related to the current accounts of the Kosova Insurance Company which was liquidated on April 2010.

The movement in deferred grant revenue was as follows:

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

20. Statutory fund

The CBK statutory fund as at 31 December 2013 and 2012 is EUR 30,000 thousand as per Law no. 03/L-209 approved on 22 July 2010.

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

21. Reserve fund and revaluation reserve

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

22. Net interest income

Net interest income is composed as follows:

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

23. Net fees and commission income

Net fee and commission income is composed as follows:

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

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

24. Grant revenue

Grant revenue is composed as follows:

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

25. Other operating income

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

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

26. Personnel expenses

Personnel expenses are composed as follows:

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

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

27. General and administrative expenses

General and administrative expenses are composed as follows:

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

28. Foreign exchange net income gain/(loss)

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

29. Cash and cash equivalents

Cash and cash equivalents are composed as follows:

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

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

30. Commitments and contingencies

Legal

CBK is involved in routine legal proceedings in the ordinary course of business. It is management's opinion that the final outcome of these lawsuits will not have a material effect on CBK's financial statements as at and for the year ended 31 December 2013.

Credit related commitments

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

Other commitments

Other commitments are composed as follows:

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

In 2009, Kosovo became member of the World Bank Group organizations - International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA) and the Multilateral Investment Guarantee Agency (MIGA). In relation to this membership, CBK acts as depository. This is in accordance with the Law No. 03/L-209 on the Central Bank of the Republic of Kosovo and Law No. 03-L-152 on Membership of the Republic of Kosovo in the International Monetary Fund and World Bank Group Organizations.

In June 2010, the Government of Kosovo issued promissory notes to make payments concerning membership subscription to the World Bank sub-agencies above mentioned upon their requests and payment instructions. The total balance at 31 December 2013 amounts 645 thousands and in 2012 total amounts of these promissory notes was EUR 4,007 thousand, the amount reduction is due to payment of one of these promissory note during 2013.

31. Related party transactions

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

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

32. Subsequent events

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

9. Statistical Appendix

1.1. Financial corporation statement - assets

(In million of Euro: End of the Period)

Description	Net foreign assets								Domestic claims								
		Claims on non residents	of which:					Less: liabilities to nonresidents		Net claims on central government				Claims on other sectors	of which:		
			Monetary gold and SDR holdings	Deposits	Securities other than shares	IMF Quota	Shares and other equities				Claims on central government	Less: Liabilities to central government			Loans	of which:	
													Deposits			Other non financial corporations	Households
2004	722.8	772.0	__	384.0	236.7	__	83.3	49.2	202.5	-216.8	__	216.8	216.8	419.3	413.5	329.8	83.7
2005	827.3	890.9	__	422.6	242.4	__	145.3	63.6	348.9	-225.7	__	225.7	225.7	574.6	565.6	439.6	126.0
2006	1,173.6	1,245.7	__	660.0	341.3	__	170.8	72.1	231.7	-475.0	__	475.0	475.0	706.6	694.3	548.2	146.1
2007	1,622.4	1,704.6	__	955.0	408.9	__	175.4	82.3	124.5	-853.3	__	853.3	853.3	977.8	965.9	765.1	200.6
2008	1,593.1	1,726.7	__	795.1	661.6	__	128.2	133.6	419.6	-871.8	__	871.8	871.8	1,291.5	1,276.8	995.7	281.0
2009	1,700.5	2,036.2	60.3	910.1	724.5	64.3	144.3	335.7	571.5	-846.3	__	846.3	846.3	1,417.8	1,396.1	1,052.3	343.5
2010	1,957.5	2,387.7	64.0	1,257.8	525.2	68.5	269.3	430.2	766.8	-824.8	__	824.8	824.8	1,591.6	1,568.3	1,127.7	434.2
2011	2,067.8	2,446.0	65.1	1,359.4	230.0	70.1	533.1	378.2	987.5	-798.4	__	798.4	798.4	1,785.8	1,785.8	1,242.1	514.6
2012	2,337.1	2,773.4	63.3	1,260.7	486.0	68.8	666.5	436.3	1,079.9	-764.7	73.8	838.5	838.5	1,847.2	1,819.4	1,271.3	546.3
2013	2,558.5	3,014.1	59.6	1,143.6	818.7	65.9	651.2	455.6	1,263.4	-620.8	153.2	774.0	774.0	1,884.2	1,859.9	1,291.1	567.7

1.2. Financial corporation statement – liabilities

(In million of Euros: End of the period)

Description	Deposits									Loans	Insurance technical reserves			Shares and other equity	Other items (net)
		Transferable deposits	of which:			Other deposits	of which:								
			Public non financial corporations	Other non financial corporations	Other non financial corporations		Public non financial corporations	Other non financial corporations	Other non financial corporations			Net equity of households in pension	Pre payment of premiums and reserves		
2004	670.7	273.7	34.6	81.3	145.5	273.7	149.3	24.4	222.5	2.3	106.5	88.7	17.9	145.1	0.7
2005	830.6	315.0	67.6	76.8	155.5	515.6	181.3	33.7	298.9	3.0	174.5	152.4	22.1	165.8	2.2
2006	886.4	300.5	34.8	96.4	156.2	586.0	193.3	27.6	359.5	3.4	251.4	223.9	27.5	209.3	54.7
2007	1,110.9	386.1	49.6	133.5	187.5	724.8	188.4	43.8	489.3	...	316.1	286.2	29.9	273.8	46.0
2008	1,351.9	390.9	15.4	176.0	186.2	961.0	250.1	51.4	656.7	...	288.6	256.3	32.3	311.1	61.1
2009	1,444.3	483.2	50.1	184.0	237.7	961.0	73.9	82.9	801.9	...	422.3	380.8	41.5	326.1	79.3
2010	1,744.2	621.2	83.8	218.6	303.5	1,123.1	42.8	83.4	995.9	...	540.5	493.7	46.8	361.0	78.6
2011	1,942.7	667.5	77.2	208.1	360.9	1,275.1	60.8	79.7	1,129.6	...	647.8	593.3	54.5	389.7	75.0
2012	2,094.0	717.5	31.2	257.5	407.2	1,376.5	61.8	78.2	1,232.9	...	814.9	745.1	69.8	399.2	111.5
2013	2,298.0	870.6	39.1	299.6	506.6	1,427.3	55.7	98.2	1,268.4	...	990.3	919.0	71.3	403.9	129.7

2.1. Other depository corporations – assets

(In million of Euros: End of the period)

Description	Net foreign assets									Domestic claims								
		Claims on non residents							Less: Liabilities to non residents		Net claims on central government			Claims on other sectors				
			Currency	Deposits	Securities other than shares	IMF Quota	Loans	Other			Claims on central government	Less: Liabilities to central government		Loans				
															Public non finacial corporations	Other non financial corporations	Households	
2001	583.3	604.8	239.2	358.1	7.5	__	__	__	21.5	-44.2	-70.3	__	70.3	26.1	25.9	...	25.9	__
2002	649.5	674.1	53.1	621.0	,,,	__	__	__	24.6	-171.8	-258.6	__	258.6	86.8	86.5	...	80.8	5.7
2003	695.8	727.0	73.2	533.6	119.6	__	__	0.6	31.2	-112.6	-346.4	__	346.4	233.8	232.8	...	193.5	39.0
2004	648.7	687.9	55.3	384.0	236.7	__	11.7	0.2	39.2	156.9	-216.8	__	216.8	373.8	373.7	...	289.9	83.7
2005	695.1	744.5	74.6	422.6	242.4	__	4.7	0.2	49.3	289.0	-225.7	__	225.7	514.6	513.9	...	387.9	126.0
2006	975.4	1,035.6	63.4	660.0	303.1	__	7.7	1.5	60.2	162.2	-475.0	__	475.0	637.1	636.6	...	490.5	146.1
2007	1,377.5	1,426.1	145.3	955.0	308.2	__	12.1	5.5	48.6	39.1	-853.3	__	853.3	892.4	892.1	0.2	691.3	200.6
2008	1,436.1	1,512.0	121.1	794.9	581.8	__	13.5	0.7	75.9	311.9	-871.8	__	871.8	1,183.8	1,183.4	0.1	901.7	281.0
2009	1,531.9	1,782.4	111.4	910.0	626.7	64.3	9.7	0.1	250.6	442.9	-846.3	__	846.3	1,289.3	1,289.0	0.3	942.9	343.5
2010	1,616.2	1,957.1	164.3	1,257.8	372.7	68.5	29.0	1.0	340.9	632.8	-824.8	0.0	824.8	1,457.5	1,457.1	6.3	1,006.6	434.2
2011	1,603.8	1,900.3	124.9	1,359.3	227.0	70.1	52.1	1.8	296.6	867.7	-798.4	0.0	798.4	1,666.1	1,665.6	1.5	1,130.6	514.6
2012	1,729.7	2,102.8	141.4	1,260.7	482.7	68.8	81.5	4.4	373.1	962.9	-778.7	59.8	838.5	1,741.6	1,740.9	1.4	1,172.9	546.3
2013	1,965.4	2,358.3	157.9	1,143.5	815.3	65.9	112.0	4.1	392.9	1,113.3	-673.9	100.1	774.0	1,787.2	1,786.0	0.2	1,196.7	567.7

Table 2.2. Depository corporations survey – liabilities

(million of Euros: End of the period)

Description	Broad money liabilities	Deposits included in broad money						Other deposits					Deposits excluded from broad money	Shares and other equity	Other items net
			Transferable deposits												
				Other financial corporations	Public non financial corporations	Other non financial corporations	Households		Other financial corporations	Public non financial corporations	Other non financial corporations	Households			
2001	486.8	486.8	361.5	.	7.0	135.3	219.2	125.2	.	.	31.3	93.9	12.9	25.2	14.3
2002	413.6	413.6	285.3	.	3.5	160.1	121.7	128.3	.	.	23.9	104.4	25.1	43.8	-4.8
2003	499.3	499.3	278.7	.	5.3	139.0	134.4	220.6	.	.	87.1	133.5	29.2	61.1	-6.4
2004	719.5	719.5	303.5	29.8	34.6	81.3	145.5	416.0	19.1	149.3	24.4	222.5	__	87.1	-1.0
2005	865.4	865.4	345.6	30.5	67.6	76.8	155.5	519.9	24.3	181.3	33.1	279.6	19.9	94.4	4.3
2006	912.8	912.8	336.4	35.9	34.8	96.4	156.2	576.3	30.5	193.3	24.6	322.4	40.6	128.8	55.4
2007	1,126.6	1,126.6	413.7	27.7	49.6	133.5	187.5	712.8	40.3	188.4	41.8	439.0	53.7	186.5	49.8
2008	1,393.0	1,393.0	454.6	63.7	15.4	176.0	186.2	938.3	47.6	250.1	44.2	593.8	74.9	233.8	46.4
2009	1,548.5	1,548.5	621.4	138.2	50.1	184.0	237.7	927.0	60.7	73.9	71.7	718.5	98.1	249.2	79.1
2010	1,747.9	1,747.9	674.3	53.1	83.8	218.6	303.5	1,073.6	85.2	30.2	73.5	883.7	138.2	278.5	84.4
2011	1,902.2	1,902.2	705.3	37.8	77.2	208.1	360.9	1,196.9	91.0	49.2	71.7	979.9	175.8	302.9	90.6
2012	2,036.8	2,036.8	759.5	41.9	31.2	257.5	407.2	1,277.3	100.4	49.8	70.5	1,053.1	206.2	321.1	128.5
2013	2,388.6	2,388.6	1,096.3	226.5	39.1	299.6	506.6	1,292.1	62.2	43.7	92.3	1,088.9	209.7	329.0	151.5

Table 3.1. CBK survey - assets

(In million of Euros: End of the period)

Description	Net foreign assets										Net claims on central government	Claims on other sectors	Liabilities to ODC
		Claims on non residents	of which:					Less: liabilities to non residents	of which:				
			Monetary gold and SDR	Currency	Deposits	Securities other than shares	IMF Quota		SDR allocations	IMF Account			
2001	293.7	296.2	__	150.8	145.4	__	__	2.6	__	__	-70.3	0.2	173.9
2002	345.4	345.8	__	17.5	328.3	__	__	0.4	__	__	-258.6	0.3	46.2
2003	454.3	454.6	__	26.6	427.4	__	__	0.3	__	__	-346.4	1.0	59.6
2004	344.7	349.9	__	12.1	213.2	124.4	__	5.2	__	__	-216.8	0.1	72.9
2005	394.4	397.5	__	24.5	213.4	159.5	__	3.1	__	__	-225.7	0.8	82.5
2006	641.1	641.2	__	11.1	424.9	203.6	__	0.1	__	__	-472.9	0.5	94.5
2007	1,057.6	1,057.6	__	63.8	759.0	229.3	__	...	__	__	-849.4	0.3	113.6
2008	1,110.7	1,110.7	__	39.7	529.0	541.3	__	...	...	__	-870.5	0.3	137.2
2009	1,088.3	1,198.5	60.3	21.8	522.3	529.7	64.3	110.2	60.3	49.1	-681.5	0.2	233.2
2010	1,108.0	1,246.9	64.0	60.2	854.4	199.2	68.5	138.9	64.2	73.0	-813.1	0.5	203.6
2011	1,094.5	1,234.6	65.1	13.5	1,059.3	25.0	70.1	135.8	65.7	69.4	-797.2	0.5	209.7
2012	1,238.8	1,469.1	63.3	16.8	1,034.1	286.0	68.8	230.3	64.6	165.3	-837.9	0.7	302.1
2013	1,392.1	1,610.0	59.6	27.4	896.2	560.8	65.9	218.0	61.9	155.8	-773.3	1.2	333.2

Table 3.2. CBK survey - assets

(In million of Euros: End of the period)

Description	Deposits included in broad money								Deposits excluded from broad money			Shares and other equity			Other items (net)
		Transferable deposits	of which:				Other deposits			Other non financial corporations	Local government		of which:		
			Other financial corporations	Local government	Public non financial corporations	Other non financial corporations		Other financial corporations					Capital	Profit/loss of the year	
2001	8.4	8.4	__	__	7.0	1.4	__	__	12.9	10.6	2.4	4.7	2.6	1.1	23.6
2002	3.9	3.9	__	__	3.5	0.4	__	__	25.1	24.6	0.5	10.6	2.6	3.6	1.3
2003	5.3	5.3	__	__	5.3	...	__	__	27.4	25.7	1.7	16.1	2.6	4.5	0.5
2004	37.7	32.6	20.7	1.9	9.9	...	5.1	5.1	__	__	__	18.0	10.0	3.0	-0.6
2005	66.6	62.5	23.3	1.6	37.6	...	4.1	4.1	__	__	__	20.4	10.0	3.0	...
2006	49.9	41.9	31.0	0.4	10.5	...	8.0	8.0	__	__	__	25.5	10.0	6.4	-1.2
2007	57.2	46.7	22.4	3.2	21.1	...	10.6	10.6	__	__	__	33.8	20.0	9.2	3.9
2008	63.9	56.7	49.9	5.3	1.5	...	7.2	7.2	__	__	__	41.4	30.0	7.5	-2.0
2009	130.8	130.8	129.7	...	1.1	...	...	...	__	__	__	44.9	30.0	3.7	-2.0
2010	45.6	45.6	43.9	...	0.0	...	...	...	__	__	__	47.9	30.0	3.0	-1.8
2011	39.5	39.5	28.5	...	9.3	...	...	...	__	__	__	54.3	30.0	5.8	-1.3
2012	51.5	51.5	32.4	...	17.4	...	...	...	__	__	__	50.4	30.0	1.8	-2.4
2013	239.0	239.0	213.9	...	22.7	...	...	...	__	__	__	50.5	30.0	0.2	-2.7

Table 4.1. Other depository corporation survey - assets

(In million of Euros: End of the period)

Description	Net foreign assets								Claims on CBK	Net claims on central gorvernment	Claims on other sectors				
		Claims on non residents	prej të cilave:			Less: liabilities to non - residents	of which:					Loans			
			Currency	Deposits	Securities other than shares		Deposits	Loans					Public nonfinancial corporations	Other nonfinancial corporations	Households
2001	289.7	308.6	88.3	212.8	7.5	18.9	13.9	5.0	176.8	__	25.9	25.9	__	25.9	__
2002	304.1	328.3	35.6	292.7	...	24.2	17.5	6.7	45.7	__	86.5	86.5	__	80.8	5.7
2003	241.5	272.4	46.6	106.2	119.6	31.0	20.0	10.9	59.6	__	232.8	232.8	0.2	193.5	39.0
2004	304.0	338.0	43.2	170.8	112.3	34.0	12.7	21.3	73.2	__	373.7	373.7	__	289.9	83.7
2005	300.7	346.9	50.1	209.2	82.9	46.2	18.4	27.9	81.6	__	513.9	513.9	__	387.9	126.0
2006	334.4	394.5	52.3	235.1	99.4	60.1	21.4	38.7	88.8	-2.1	636.6	636.6	__	490.5	146.1
2007	319.9	368.5	81.5	196.0	78.9	48.6	17.9	30.7	107.5	-3.9	892.1	892.1	0.2	691.3	200.6
2008	325.4	401.3	81.4	265.9	40.5	75.9	42.0	33.7	136.8	-1.3	1,183.4	1,183.4	0.1	901.7	281.0
2009	444.0	583.9	89.6	387.7	97.0	140.0	65.5	74.5	233.1	-164.9	1,289.0	1,289.0	0.3	942.9	343.5
2010	507.6	709.8	103.5	403.5	173.4	202.2	85.5	116.7	203.4	-11.6	1,457.5	1,457.1	6.3	1,006.6	434.2
2011	509.2	665.7	111.5	300.0	202.0	156.5	64.8	90.5	220.0	-1.2	1,666.1	1,665.6	1.5	1,130.6	514.6
2012	490.9	633.7	124.6	226.6	196.7	142.8	87.6	50.3	301.1	59.2	1,741.6	1,740.9	1.4	1,172.9	546.3
2013	573.4	748.3	130.6	247.3	254.4	174.9	90.4	82.4	331.8	99.4	1,786.0	1,786.0	0.2	1,196.7	568.6

Table 4.2. ODC survey – liabilities

(In million of Euros: End of the period)

Description:	Depoistis included in broad money											Deposits excluded from broad money	of which:		Shares and other equity	Other items (net)
		Transferable deposits	of which:				Other deposits	prej të cilave:					Other nonfinancial corporations	Households		
			Other financial corporation	Public nonfinancial corporation	Other nonfinancial corporation	Households		Other financial corporation	Public nonfinancial corporation	Other nonfinancial corporation	Households					
2001	478.4	353.1	.	.	133.9	219.2	125.2	.	.	31.3	93.9	.	.	.	20.4	-6.4
2002	409.7	281.4	.	.	159.7	121.7	128.3	.	.	23.9	104.4	.	.	.	33.2	-6.6
2003	494.0	273.4	.	.	139.0	134.4	220.6	.	.	87.1	133.5	1.8	1.8	.	45.0	-7.0
2004	681.9	270.9	9.0	24.7	81.3	145.5	410.9	14.0	149.3	24.4	222.5	0.0	0.0	0.0	69.1	-0.1
2005	798.8	283.0	7.2	30.0	76.8	155.5	515.8	20.2	181.3	33.1	279.6	19.9	0.7	19.3	74.0	3.4
2006	862.9	294.5	4.9	24.3	96.4	156.2	568.4	22.5	193.3	24.6	322.4	40.6	3.0	37.1	103.3	50.9
2007	1,069.3	367.1	5.3	28.5	133.5	187.5	702.3	29.8	188.4	41.8	439.0	53.7	2.0	50.3	152.7	39.8
2008	1,329.0	397.9	13.8	13.8	176.0	186.2	931.1	40.4	250.1	44.2	593.8	74.9	7.3	63.0	192.3	48.1
2009	1,417.6	490.6	8.5	48.9	184.0	237.7	927.0	60.7	73.9	71.7	718.5	98.1	11.2	83.5	204.6	81.0
2010	1,702.2	628.6	9.2	83.8	218.6	303.5	1,073.6	85.2	30.2	73.5	883.7	138.2	9.9	112.2	230.4	85.7
2011	1,862.8	665.9	10.1	67.9	208.1	360.9	1,196.9	91.0	49.2	71.7	979.9	175.8	8.0	149.7	252.8	102.2
2012	1,985.3	708.0	9.6	13.8	257.5	407.2	1,277.3	100.4	49.8	70.5	1,053.1	206.2	7.8	179.8	270.7	129.8
2013	2,149.4	857.3	11.8	16.4	299.6	506.6	1,292.1	62.2	43.7	92.3	1,088.9	209.7	5.9	179.4	278.5	152.8

Table 5.1. Statement of OFC - net foreign assets

(In million of Euros: End of the period)

Descprition	Net foreign assets						Claims on depository corporations							Net claims on central governme nt	Claims on other sectors	
		Claims on non-residents	of which:		Less: liabilities to non-residents			CBK			Other depository corporations					Loans
			Securities other than shares	Shares and other equity		Loans			Transfera ble depositst	Other deposits		Transfera ble depositst	Other deposits			
2004	74.1	84.2	__	83.3	10.1	10.1	48.9	25.8	20.7	5.1	23.0	9.0	14.0	__	45.6	39.9
2005	132.1	146.4	__	145.3	14.3	14.3	54.8	27.4	23.3	4.1	27.4	7.2	20.2	__	60.0	51.7
2006	198.1	210.0	38.3	170.8	11.9	11.9	66.9	39.0	31.0	8.0	28.0	4.9	23.0	__	69.5	57.7
2007	244.9	278.5	100.7	175.4	33.6	33.6	72.8	32.9	22.4	10.6	39.8	6.2	33.6	__	85.4	73.8
2008	157.0	214.7	79.8	128.2	57.7	57.7	113.0	57.1	49.9	7.2	55.9	7.9	48.0	__	108.3	94.0
2009	168.6	253.8	97.9	144.3	85.1	85.1	200.0	129.7	129.7	...	70.3	7.4	62.9	__	130.8	109.4
2010	341.3	430.5	152.5	269.3	89.2	89.2	142.8	43.9	43.9	...	98.8	8.2	90.6	__	139.7	116.9
2011	464.0	545.7	3.1	533.1	81.7	81.7	138.1	27.7	27.7	...	110.4	7.3	103.1	__	128.1	102.5
2012	607.6	670.8	3.3	666.5	63.2	63.2	154.0	32.4	32.4	...	121.6	9.7	111.9	13.9	125.5	98.3
2013	593.0	655.8	3.5	651.2	62.7	62.7	313.0	213.9	213.9	...	99.1	14.6	84.5	53.1	117.5	94.4

Table 5.2. Statement of ODC - liabilities, excluding the external and fiscal sector

(In million of Euros: End of the period)

Description	Loans	Insurance technical reserves				Shares and other equity					Other items			
			Net equity of households in life insurance reserves	Net equity for households in pension funds	Prepayment of premiums and reserves against outstanding claims		Funds contributed by owners	Retained earnings	General and special reserves	Profit/Loss for the year		Other liabilities	Less: other assets	Plus: consolidation adjustment
2004	2.3	106.5	...	88.7	17.9	58.0	42.6	8.6	5.0	1.7	1.7	9.3	7.6	__
2005	3.0	174.5	__	152.4	22.1	71.4	47.7	12.9	6.7	4.0	-2.1	4.4	6.5	__
2006	3.4	251.4	__	223.9	27.5	80.5	55.2	15.8	7.9	1.6	-0.7	7.4	8.2	__
2007	...	316.1	__	286.2	29.9	87.4	62.1	20.1	1.7	3.5	-0.4	9.6	10.0	__
2008	1.0	288.6	__	256.3	32.3	77.4	54.0	12.7	7.4	3.4	11.3	24.2	12.9	__
2009	2.9	422.3	...	380.8	41.5	77.0	53.4	19.4	7.2	-3.1	-2.7	13.1	15.8	__
2010	2.9	540.5	...	493.7	46.8	82.5	59.7	13.6	7.2	2.0	-2.1	20.9	23.1	__
2011	3.3	647.8	...	593.3	54.5	85.4	60.4	13.3	10.8	0.9	-6.3	16.1	22.4	__
2012	7.2	814.9	...	745.1	69.8	78.1	63.5	9.8	10.7	-6.4	0.7	29.0	28.4	__
2013	6.8	990.3	...	919.0	71.3	75.6	64.2	1.3	11.1	-1.0	3.9	29.8	25.9	__

Table 6.1. Euro deposits at other depository corporations by original maturity

(In million of Euros: End of the period)

Description	Total deposits in euro	Government	Financial corporations					Nonfinancial corporations			Other domestic			Nonresidents
				Other depository corporations	Other financial intermediaries	Insurance companies	Penison funds	Auxiliaries		Public nonfinancial corporations	Other nonfinancial corporations		Households	NPISH	
2001	492.3	__	--	__	__	__	.	__	165.2	__	165.2	313.1	313.1	__	13.9
2002	427.2	__	--	__	__	__	.	__	183.6	__	183.6	226.1	226.1	__	17.5
2003	515.8	__	1.8	1.8	__	__	.	__	226.1	__	226.1	267.9	267.9	__	20.0
2004	674.9	1.3	25.6	3.7	3.5	15.5	.	2.9	275.3	173.5	101.8	360.3	350.7	9.6	12.3
2005	815.3	2.9	35.4	8.1	5.8	18.8	.	2.8	319.0	211.3	107.7	440.7	428.7	12.0	17.3
2006	890.4	7.0	28.1	0.1	2.4	24.7	0.4	0.5	337.8	217.4	120.5	499.2	486.1	13.1	18.2
2007	1,092.0	4.1	39.1	3.1	5.6	28.3	0.4	1.7	386.2	215.5	170.7	647.0	631.9	15.2	15.6
2008	1,366.9	1.4	62.9	5.0	6.5	31.5	19.4	0.4	479.7	263.8	215.9	785.0	774.5	10.5	37.9
2009	1,640.1	165.0	78.2	6.1	5.9	43.1	22.6	0.4	371.5	121.6	249.9	962.2	948.8	13.4	63.2
2010	1,830.8	11.7	105.0	7.3	7.9	47.6	41.6	0.6	414.9	122.3	292.5	1,220.1	1,206.1	14.0	79.1
2011	1,982.4	2.7	117.5	9.9	6.8	57.2	43.1	0.5	406.6	128.5	278.1	1,395.6	1,373.4	22.2	60.0
2012	2,162.8	0.7	120.0	3.8	6.2	64.3	45.3	0.4	401.7	75.6	326.1	1,558.6	1,535.4	23.2	81.7
2013	2,314.1	1.8	88.2	2.5	7.4	72.3	5.7	0.3	455.6	72.1	383.5	1,685.1	1,658.7	26.4	83.4

Table 6.2. Non -euro deposits at other depository corporations by orginal maturity

(In million of Euros: End of the period)

Description	Total non euro deposits	Financial corporations							Nonfinancial corporations			Other domestic sectors						Nonresidents
			CBK	Other depository corporations	Other financial intermediaries	Insurance companies	Penison funds	Auxiliaries		Public nonfinancial corporations	Other nonfinancial corporations		Households				NPISH	
														Transferable deposits	Saving deposits	Other deposits		
2005	29.4	...	__	...	...	...	__	__	2.8	__	2.8	26.0	25.7	10.8	__	14.9	0.3	0.5
2006	34.3	...	__	...	...	...	__	__	3.7	0.3	3.5	29.8	29.6	12.4	__	17.2	0.2	0.5
2007	53.3	0.5	__	...	0.1	0.4	__	__	8.1	1.5	6.6	44.3	44.2	16.2	__	28.0	0.1	0.4
2008	81.9	0.9	__	...	...	0.9	__	__	11.6	0.1	11.5	68.4	68.2	22.9	__	45.2	0.3	1.0
2009	112.1	2.1	__	1.2	...	0.9	__	__	18.3	1.3	17.0	91.1	90.9	29.7	__	61.1	0.2	0.7
2010	113.8	3.1	__	2.9	__	__	__	0.2	13.7	4.3	9.4	93.8	93.3	33.1	25.9	34.3	0.5	3.1
2011	131.5	0.3	__	0.3	__	__	__	__	9.8	0.1	9.7	117.5	117.0	46.5	31.7	38.9	0.4	3.8
2012	120.9	1.6	__	1.2	0.2	__	__	0.2	9.6	__	9.6	104.9	104.7	45.7	27.0	32.0	0.2	4.8
2013	136.9	0.7	__	__	0.4	__	__	__	14.3	__	14.3	116.7	116.2	59.6	29.6	27.0	0.5	5.2

Table 6.3. Other depository corporations loans by maturity

(In million of Euros: End of the period)

Description	Total loans	Financial corporations	of which:		Nonfinancial corporations	of which:					Other domestic sectors	of which:					Nonresidents	Loans on non euro currency
			Other financial corporations	Insurance companies		Public nonfinancial corporations	Other nonfinancial corporations					Households						
								Up to 1 year	Over 1year and up to 2 years	Over 2 year and up to 5 years			Up to 1 year	Over 1year and up to 2 years	Over 2 year and up to 5 years			
2001	25.9	__	__	__	25.9	__	25.9	24.6	1.3	__	__	__	__	__	__	__	__	__
2002	86.5	__	__	__	80.8	__	80.8	67.3	13.5	__	5.7	5.7	1.4	4.3	__	__	__	__
2003	232.8	__	__	__	193.7	0.2	193.5	124.7	68.7	0.2	39.0	39.0	11.4	16.0	11.6	__	__	__
2004	373.7	__	__	__	289.9	...	289.9	111.5	111.3	67.2	SW	83.7	15.9	15.2	52.6	__	__	__
2005	513.9	__	__	__	387.9	...	387.9	117.9	125.2	144.7	126.0	126.0	19.5	21.0	85.4	__	__	__
2006	636.6	__	__	__	490.5	...	490.5	128.7	127.7	234.1	146.1	146.1	19.7	24.7	101.7	__	__	__
2007	892.1	__	__	__	691.5	0.2	691.3	174.0	122.6	394.6	200.6	200.6	24.0	29.6	147.1	__	__	__
2008	1,183.4	0.6	__	0.6	901.8	0.1	901.7	191.0	132.3	578.4	281.0	281.0	20.9	30.9	229.2	__	__	__
2009	1,289.0	2.3	1.2	1.1	943.2	0.3	942.9	215.7	113.0	614.2	343.5	343.5	27.0	32.1	284.5	__	__	__
2010	1,458.7	9.9	6.8	3.0	1,010.3	6.3	1,004.1	255.2	64.3	429.5	434.3	434.2	26.5	30.7	201.9	1.6	2.5	
2011	1,698.1	17.3	15.6	1.7	1,128.6	1.5	1,127.0	298.8	83.4	479.1	512.4	510.9	44.0	38.1	218.6	32.4	7.3	
2012	1,763.4	19.8	16.3	3.5	1,171.2	1.4	1,169.8	313.4	91.7	494.8	543.0	542.6	52.2	37.3	218.8	22.5	6.9	
2013	1,805.8	20.4	17.3	3.1	1,194.7	0.2	1,194.5	378.0	97.4	471.5	564.7	563.9	65.4	41.1	212.4	19.9	6.1	

Table 6.4. Other depository corporations survey - loans by economic activity

(In millions of Euros: End of the period)

Description	Total loans	Agriculture			Industry, energy and construction			Services		
			Up to 1year	Over to 1year		Up to 1year	Over to 1year		Up to 1year	Over to 1year
2001	25.9	...	...	__	3.8	3.8	0.0	22.2	22.2	0.0
2002	86.5	1.5	1.5	__	13.6	13.6	0.0	71.4	71.4	0.0
2003	232.8	4.7	3.9	0.8	22.2	12.6	9.7	205.8	119.7	86.1
2004	289.9	7.9	3.9	4.1	47.8	22.5	25.3	234.2	89.5	144.8
2005	387.9	12.5	4.1	8.4	74.2	24.5	49.7	301.1	92.4	208.8
2006	490.5	16.4	3.4	13.0	97.7	28.0	69.7	376.4	120.6	255.8
2007	691.5	29.0	4.1	24.9	144.5	32.8	111.7	518.0	149.5	368.5
2008	902.4	37.4	4.1	33.3	160.2	28.9	131.2	704.8	126.4	578.4
2009	945.5	38.2	3.8	34.4	236.7	54.8	181.9	670.5	113.2	557.3
2010	1,027.0	38.3	0.4	37.9	268.5	77.4	191.1	720.2	193.1	527.1
2011	1,149.5	40.5	2.7	37.8	284.7	82.3	202.4	824.4	220.5	603.8
2012	1,194.2	43.6	3.0	40.6	290.4	74.1	216.2	860.2	232.3	627.9
2013	1,217.4	45.8	3.3	42.5	291.4	95.8	195.6	880.2	286.2	594.0

Table 6.5. ODC effective interest rates

(Annual average interest rates on deposits, in percentage)

Description	Interest rate on deposits	Nonfinancial corporations								Households						
		Transferable deposits / 1	Other deposits						Saving deposits	Transferable deposits / 1	Other deposits					Saving deposits
			Less than 250.000 euro			Equal or more than 250.000 euro					Up to 1 month	Over 1 month up to 3 months	Over 6 months up to 1year	Over 1year up to 2 years	Over 2 years	
			Up to 1 month	Over 1 month up to 3 months	Over 6 months up to 1year	Up to 1 month	Over 1 month up to 3 months	Over 6 months up to 1year								
2004	2.8	0.1	1.7	2.3	2.9	3.3	*	*	1.6	...	1.6	2.1	2.8	3.8	4.0	1.7
2005	2.9	0.1	1.8	2.2	2.9	2.7	2.5	*	1.7	...	1.7	2.2	3.0	3.9	4.1	1.7
2006	3.0	0.4	1.9	2.4	3.7	3.0	3.0	*	1.6	...	1.9	2.3	3.2	4.2	4.4	1.7
2007	3.3	0.4	2.2	2.7	3.6	3.8	3.9	*	1.9	...	2.1	2.5	3.3	4.2	4.6	2.0
2008	4.2	0.5	2.8	3.5	4.4	4.0	4.8	*	2.7	0.1	2.9	3.4	4.2	4.7	5.1	2.4
2009	4.3	0.8	3.1	3.7	5.0	3.9	4.5	*	2.9	0.2	3.2	3.5	4.4	4.8	5.4	2.6
2010	3.7	1.1	2.8	3.1	5.0	3.1	3.5	5.4	2.4	0.3	2.8	2.9	4.4	4.6	5.3	2.3
2011	3.5	1.0	2.2	3.0	4.7	2.4	3.7	5.2	2.2	0.4	2.5	2.6	4.2	4.5	5.1	2.0
2012	3.6	0.9	2.2	2.8	4.7	1.8	3.9	4.7	2.1	0.5	2.4	2.5	4.2	4.5	5.2	2.0
2013	3.4	0.7	1.1	2.0	3.1	1.7	3.5	4.3	2.0	0.6	2.1	2.3	3.7	4.3	4.8	1.6

1/ Excluded when calculating weighted average for interest rates on deposits.

Table 6.6. ODC`s effective interest rates-rates in deposits

(Annual average of deposits interest rates, in percentage)

Description	Interest rate on loans	Nonfinancial corporations								Households				
		Investment business loans			Other business loans		Overdrafts (outstanding amounts) / 1	Credit lines (outstanding amounts) / 1	Cash cover loans / 1	Overdrafts (outstanding amounts) / 1	Cash cover loans / 1	Consumer loans	Mortgage loans	
		Up to 1 year	Over 1year and up to 5 years	Over 5 years	Up to 1 year	Over 1year and up to 5 years							Over 1year and up to 5 years	Over 5 years
2004	15.0	15.4	14.9	14.9	15.0	15.0	15.3	12.8	*	*	*	12.8	*	*
2005	14.9	16.3	14.3	14.3	14.7	15.2	15.3	12.4	*	*	*	12.4	*	*
2006	14.7	16.4	14.4	14.4	15.4	15.0	15.4	12.5	*	*	*	12.5	13.4	*
2007	14.6	*	14.8	14.8	15.2	15.2	14.8	13.0	*	*	*	13.0	12.2	*
2008	14.7	21.1	15.0	15.0	16.6	15.3	13.9	14.1	*	19.2	*	14.1	11.2	9.5
2009	14.3	16.6	14.6	14.6	14.0	15.6	14.6	14.6	*	17.7	*	13.1	10.6	10.0
2010	14.6	18.0	14.9	11.5	18.2	16.5	12.4	13.5	6.7	21.9	6.8	13.8	12.1	10.7
2011	14.1	16.3	14.1	12.3	18.1	15.2	12.1	13.2	6.4	18.9	6.4	13.6	11.9	10.6
2012	13.4	14.9	12.9	10.9	16.3	14.7	11.0	12.1	6.6	16.3	6.8	13.5	11.4	10.1
2013	12.4	13.4	12.2	10.4	14.5	13.6	10.2	11.9	6.0	15.5	6.3	12.2	10.9	9.6

1/ Excluded when calculating weighted average for interest rates on loans.

Table 7.1 Balance of Payments of Kosovo

(In million of Euro)

Description	Current account					Capital and financial account							Net errors and omissions
		Goods	Services	Income	Current transfers		Capital Account	Financial Account	Direct investment	Portfolio investment	Other investment	Reserve assets	
2004	-208.3	-983.1	-18.4	138.3	654.9	79.4	21.9	57.6	42.9	-32.1	-66.0	112.7	128.8
2005	-247.6	-1,078.5	-8.5	139.1	700.3	72.7	18.9	53.8	107.6	-17.5	-68.7	32.4	174.8
2006	-226.1	-1,173.1	29.0	158.8	759.2	-14.9	20.8	-35.7	289.2	-65.4	-181.7	-77.9	240.9
2007	-214.0	-1,352.9	110.5	186.3	842.0	10.7	16.5	-5.8	431.0	-34.5	-108.0	-294.3	203.3
2008	-460.9	-1,649.7	151.6	164.0	873.2	298.9	10.5	288.50	341.5	-109.9	75.2	-18.25	162.0
2009	-374.2	-1,651.7	232.3	61.8	983.4	209.3	100.3	109.0	276.9	-124.4	-138.3	94.8	164.6
2010	-515.7	-1,752.1	186.9	67.0	982.5	297.2	21.3	275.9	331.1	-49.2	47.4	-53.4	217.6
2011	-658.4	-2,059.0	265.7	113.8	1,021.1	418.9	42.0	376.8	378.2	-57.0	-5.6	61.2	239.6
2012	-380.2	-2,072.8	346.2	154.1	1,192.3	143.3	13.0	130.3	213.3	-184.9	369.2	-267.2	236.9
2013	-339.4	-1992.0	308.4	121.8	1222.4	168.1	34.7	133.4	241.0	-133.8	5.1	21.0	171.3

7.2. Current accounts

(In million of Euro)

Description	Balance					Credit					Debit				
		Trade in goods	Trade in services	Income	Current transfers		Trade in goods	Trade in services	Income	Current transfers		Trade in goods	Trade in services	Income	Current transfers
2004	-208.3	-983.1	-18.4	138.3	654.9	1,289.9	63.8	246.8	155.5	823.8	-1,498.2	-1,046.9	-265.2	-17.2	-168.8
2005	-247.6	-1,078.5	-8.5	139.1	700.3	1,356.5	67.8	265.0	164.7	859.0	-1,604.1	-1,146.3	-273.5	-25.6	-158.7
2006	-226.1	-1,173.1	29.0	158.8	759.2	1,514.3	122.5	319.0	187.7	885.1	-1,740.4	-1,295.6	-289.9	-28.9	-125.9
2007	-214.0	-1,352.9	110.5	186.3	842.0	1,717.9	177.2	369.9	235.7	935.2	-1,932.0	-1,530.1	-259.4	-49.4	-93.1
2008	-460.9	-1,649.7	151.6	164.0	873.2	1,814.5	216.6	392.4	233.3	972.3	-2,275.5	-1,866.3	-240.8	-69.3	-99.1
2009	-374.2	-1,651.7	232.3	61.8	983.4	1,984.2	177.2	517.6	182.5	1,106.8	-2,358.4	-1,828.9	-285.3	-120.7	-123.4
2010	-515.7	-1,752.1	186.9	67.0	982.5	2,142.3	305.0	573.0	176.9	1,087.4	-2,657.9	-2,057.1	-386.1	-109.8	-105.0
2011	-658.5	-2,059.0	265.7	113.8	1,021.1	2,318.2	324.9	618.5	241.3	1,133.6	-2,976.7	-2,383.9	-352.8	-127.5	-112.5
2012	-380.2	-2,072.8	346.2	154.1	1,192.3	2,448.9	286.9	635.1	230.5	1,296.4	-2,832.9	-2,359.7	-288.8	-76.4	-104.1
2013	-339.4	-1,992.0	308.4	121.8	1,222.4	2,458.8	305.1	622.0	227.7	1,304.0	-2,798.3	-2,297.1	-313.7	-106.0	-81.6

7.3. Financial account

(In million of Euro)

Përshkrimi	Bilanci I llogarisë financiare			Investimet direkte			Investimet portfolio			Investimet tjera			Derivativët financiarë	Asetet rezervë
		Investimet jasht vendit	Investimet në ekonomin raportuese		Jashtë vendit	Në ekonominë raportuese		Jashtë vendit	Në ekonominë raportuese		Jashtë vendit	Në Kosovë		
2004	57.6	-47.4	105.0	42.9	…	42.9	-32.1	-32.1	…	-66.0	-128.0	62.0	-	112.7
2005	53.8	-126.5	180.2	107.6	…	107.6	-17.5	-17.5	…	-68.7	-141.3	72.6	-	32.4
2006	-35.7	-367.5	331.8	289.2	-5.6	294.8	-65.4	-65.4	…	-181.6	-218.7	37.0	-	-77.9
2007	-5.8	-508.5	502.7	431.0	-9.7	440.7	-34.5	-34.5	…	-108.0	-170.0	61.9	-	-294.3
2008	288.5	-227.8	516.3	341.5	-25.0	366.5	-109.9	-109.9	…	75.2	-74.7	149.8	-	-18.2
2009	109.0	-230.6	339.7	276.9	-10.5	287.4	-124.4	-124.8	0.5	-138.3	-190.1	51.8	-	94.8
2010	275.9	-402.9	678.7	331.1	-34.7	365.8	-49.2	-48.6	-0.7	47.4	-266.2	313.6	-	-53.4
2011	377.5	-93.9	471.4	378.2	-15.7	393.9	-57.0	-57.8	0.8	-5.7	-81.7	76.0	-	61.2
2012	130.3	-322.3	452.7	213.3	-15.8	229.1	-184.9	-185.7	0.7	369.2	146.3	222.9	-	-267.2
2013	133.4	-200.0	333.4	241.0	-17.9	258.9	-133.8	-132.8	-1.0	5.1	-70.4	75.5	-	21.0

7.4 Remittances-by countries

(In percentage)

Description	Total	Germany	Switzerland	Italy	Austri	Belgium	USA	Sweden	France	Norway	Canada	United Kingdom	Denmark	Finland	Netherlands	Slovenia	Other countries
2008	100	37.7	15.9	13.1	6.2	2.8	2.8	3.7	3.9	1.9	2.2	1.5	1.9	1.1	1.2	1.4	2.6
T1	100	34.9	21.4	10.5	5.3	3.7	3.5	3.3	3.4	2.6	1.7	1.6	1.0	1.1	1.1	1.0	4.2
T2	100	39.4	19.7	11.3	6.1	2.9	2.6	2.9	4.0	2.4	1.8	1.3	0.9	0.9	1.3	1.4	1.5
T3	100	37.4	21.2	9.8	6.0	2.8	2.6	3.5	3.8	2.8	2.1	1.3	0.9	1.1	1.0	1.5	2.2
2009 T4	100	38.1	22.0	9.8	5.5	2.8	2.3	3.2	3.9	3.2	1.9	1.3	0.8	1.1	1.2	1.3	1.7
T1	100	34.8	21.0	8.8	5.7	2.6	3.9	3.1	3.5	2.8	1.3	1.5	0.9	1.1	1.2	3.4	4.4
T2	100	34.7	20.7	7.9	3.9	2.9	4.7	3.1	3.6	3.1	2.0	1.7	0.7	0.7	1.0	3.7	5.9
T3	100	33.2	21.4	7.0	6.5	2.5	4.8	3.4	4.0	2.5	2.3	1.6	0.6	0.9	1.0	5.6	2.7
2010 T4	100	34.1	21.6	7.2	5.5	2.9	3.1	3.7	4.1	2.6	1.9	1.3	0.6	0.7	1.0	4.5	5.3
T1	100	32.7	23.7	7.5	5.6	2.8	4.6	3.9	3.8	2.8	1.5	1.5	0.7	0.8	1.2	3.9	3.0
T2	100	32.8	23.0	7.0	5.5	2.0	4.0	3.1	3.7	2.8	2.1	1.3	0.9	1.0	1.0	3.9	6.1
T3	100	33.8	23.4	6.2	5.5	2.9	2.3	3.6	4.2	2.6	2.0	1.2	0.6	0.8	1.0	3.3	6.7
2011 T4	100	33.7	22.1	7.4	5.5	2.7	3.9	3.4	3.8	2.8	1.9	1.4	0.7	0.9	1.1	4.0	4.9
T1	100	30.9	23.7	4.8	6.0	1.1	6.3	3.6	2.8	4.9	0.7	3.2	0.8	0.7	0.5	5.0	5.0
T2	100	37.4	26.3	8.4	6.4	6.6	3.9	0.8	0.4	1.3	0.1	1.9	0.1	0.1	0.1	5.4	0.8
T3	100	34.6	22.6	7.9	5.9	3.2	3.9	3.1	3.2	2.8	1.5	1.8	0.7	0.8	0.8	3.6	3.7
2012 T4	100	34.5	21.0	8.5	6.2	2.6	3.8	3.3	3.3	2.3	1.9	1.8	0.5	0.8	0.0	3.7	5.9
T1	100	33.6	22.5	7.5	5.8	2.7	4.2	3.4	3.5	3.0	1.6	1.8	0.7	0.9	1.0	3.7	4.3
T2	100	33.3	25.5	5.9	5.7	2.5	4.6	2.5	1.4	2.3	1.3	4.0	0.8	0.9	1.0	5.3	3.1
T3	100	33.6	24.4	6.6	7.8	2.5	4.3	3.5	4.5	2.3	0.4	1.9	0.7	0.8	0.9	4.9	1.1
2013 T4	100	35.3	22.7	10.6	4.6	1.6	4.4	2.1	5.0	2.7	1.8	1.7	0.5	0.6	1.5	0.5	4.2

8.1. Direct investments by countries (until 31 December 2013)

(In million of Euros: State on 31 December 2013)

Country code	Country	Total incoming direct investment			Total outgoing direct investments		
			Equities	Other capital transactions		Equities	Other capital transactions
	European Union	931.9	716.3	215.6	51.6	51.6	.
AT	Austria	119.7	109.7	10.0	2.1	2.1	.
BE	Belgium	9.9	6.6	3.3	1.8	1.8	.
BG	Bulgaria	17.1	3.6	13.5	0.6	0.6	.
CY	Cyprus	6.3	2.0	4.4	3.9	3.9	.
FR	France	11.4	12.4	-1.0	1.5	1.5	.
DE	Germany	223.8	220.2	3.6	16.8	16.8	.
GR	Greece	9.7	9.2	0.5	1.4	1.4	.
IT	Italy	13.6	13.5	0.1	2.9	2.9	.
NL	Holand	177.4	145.8	31.6	3.4	3.4	.
RO	Rumania	3.5	3.4	0.1	0.3	0.3	.
SI	Slovenia	228.3	83.5	144.7	7.0	7.0	.
SE	Sweden	11.5	11.2	0.3	0.5	0.5	.
GB	Great Britain	73.3	71.4	1.9	6.2	6.2	
	Other Eu countries	26.4	23.7	2.8	3.1	3.1	.
	Other Eu countries	532.2	357.9	174.3	74.2	74.2	.
AL	Albania	78.4	49.7	28.7	34.6	34.6	.
HR	Croatia	10.0	8.5	1.5	3.2	3.2	.
MK	Macedonia	20.1	13.2	7.0	9.8	9.8	.
NO	Norway	10.1	9.0	1.1	0.5	0.5	.
RS	Serbia	11.9	9.8	2.1	5.7	5.7	.
CH	Switzerland	160.9	142.5	18.4	8.6	8.6	.
TR	Turkey	234.4	119.5	115.0	3.7	3.7	.
	Other European countries	6.3	5.7	0.6	8.2	8.2	.
	Other countries	110.8	91.1	19.7	9.6	9.6	.
US	United States of America	54.2	39.6	14.6	7.4	7.4	.
AE	United Arab Emirates	39.3	35.4	3.9	0.9	0.9	.
	Other countries	17.3	16.1	1.2	1.3	1.3	.
ZZ	**Other countries (not alocated)**		936.1	263.0	0.0	0.0	.
	Total	2,774.0	2,101.4	672.6	135.4	135.4	

9.1. Assets in the form of portfolio investments by countries (until 31 December 2013)

(In million of Euros: End of the period)

Description	Country	Equities	Total Debt Securities			Total
				Long-term Debt Securities	Short-term Debt Securities	
AT	Austria	-	30.5	-	30.5	30.5
BE	Belgium	-	104.0	-	104.0	104.0
DE	Germany	-	262.5	-	262.5	262.5
DK	Denmark	-	7.0	-	7.0	7.0
FI	Finland	-	33.7	-	33.7	33.7
FR	France	-	270.1	-	270.1	270.1
IE	Irland	407.8	38.8	30.9	7.9	446.6
LU	Luxembourg	-	210.1	179.0	31.2	210.1
NL	Netherlands	-	31.6	-	31.6	31.6
PL	Poland	-	4.8	-	4.8	4.8
RS	Serbia	-	23.4	23.4	-	23.4
SE	Sweden	-	7.1	-	7.1	7.1
SL	Slovenia	-	4.0	-	4.0	4.0
US	United States	-	30.7	-	30.7	30.7
Total value of investment		407.8	1,058.5	233.3	825.2	1,466.3

10.1. International Investment Position

(In million of Euros: End of the period)

Description	Net	Assets					Liabilities			
			Direct investments Abroad	Portfolio investment	Other investments	Reserve Assets		Direct investment in Kosovo	Portfolio investment	Other investments
2007	1,278.9	2,397.6	15.2	444.7	1,285.6	652.0	1,118.6	924.5	1.2	193.0
2008	941.2	2,536.0	40.4	466.3	1,359.1	670.3	1,594.9	1,290.9	1.5	302.5
2009	524.4	2,812.1	51.6	624.6	1,559.5	576.5	2,287.8	1,582.4	1.9	703.5
2010	444.6	3,249.4	86.4	696.5	1,832.0	634.5	2,804.8	1,960.9	1.3	842.6
2011	133.9	3,325.1	102.0	740.2	1,908.2	574.7	3,191.2	2,326.1	2.1	863.0
2012	248.8	3,705.1	117.8	986.6	1,760.6	840.0	3,456.3	2,524.3	0.5	931.4
2013	387.0	4,083.4	135.4	1,186.0	1,948.0	814.0	3,696.4	2,774.0	0.7	921.7

10.2. International Investment Position – by sectors

(In million of Euros: End of the period)

Description	International Investment Position - by sectors											
		Central bank			Banks			General Government			Other sectors		
			Assets	Liabilities		Assets	Liabilities		Assets	Liabilities		Assets	Liabilities
2007	1,278.9	1,057.6	1,057.6	...	189.8	368.5	178.7	...	...	...	31.5	971.4	939.9
2008	941.2	1,110.7	1,110.7	...	150.8	401.3	250.5	...	...	...	-320.3	1,024.0	1,344.3
2009	524.4	1,089.3	1,149.6	60.3	250.5	583.9	333.4	-249.0	...	249.0	-566.4	1,078.6	1,645.0
2010	444.6	1,129.0	1,194.8	65.9	283.8	709.8	426.0	-260.0	...	260.0	-708.2	1,344.8	2,052.9
2011	133.9	1,114.8	1,181.3	66.4	478.4	675.5	197.1	-253.6	...	253.6	-1,205.7	1,468.4	2,674.1
2012	248.8	1,351.9	1,416.8	65.0	457.4	633.6	176.1	-336.5	...	336.5	-1,224.0	1,654.7	2,878.7
2013	387.0	1,495.9	1,558.0	62.1	539.6	748.3	208.7	-321.8	...	321.8	-1,334.7	1,769.2	3,103.8

10.3. International Investment Position – Assets and liabilities

(In million of Euros: End of the period)

Description	Net IIP	Kosovo's international assets			Kosovo's international liabilities		
			International equity	International debt		International equity	International debt
2007	1,278.9	2,397.6	174.2	2,223.4	1,119.6	623.3	496.3
2008	941.2	2,536.0	152.9	2,383.2	1,594.9	888.0	706.8
2009	524.4	2,812.1	191.7	2,620.4	2,287.8	1,141.3	1,146.4
2010	444.6	3,249.4	280.6	2,968.8	2,804.8	1,456.5	1,348.3
2011	133.9	3,325.1	398.0	2,927.1	3,191.2	1,762.8	1,428.4
2012	248.8	3,705.1	471.9	3,233.2	3,456.3	1,939.0	1,517.3
2013	387.0	4,083.4	543.2	3,540.2	3,696.4	2,102.1	1,594.3

11.1. Foreign debt - gross position

(In million of Euros: End of the period)

Description	Total Economy Gross External Debt															
		Public and Publicly Guaranteed Debt							Nonguaranteed Privat Sector							
			General Government			Monetary Authorities				Banks			Other Sectors			Direct Investment: Intercompany Lending
				Short - term	Long - term		Short - term	Long - term			Short - term	Long - term		Short - term	Long - term	
2007	520.6	-	-	-	-	-	-	-	520.6	48.6	48.6	-	168.8	141.1	27.7	303.2
2008	733.2	-	-	-	-	-	-	-	733.2	83.2	83.0	0.2	245.6	194.5	51.1	404.4
2009	1,184.0	309.3	249.0	-	249.0	60.3	0.8	59.5	874.6	156.7	156.7	-	275.0	221.2	53.8	443.0
2010	1,361.3	325.9	260.0	-	260.0	65.9	1.7	64.2	1,035.4	221.8	221.8	-	308.0	232.7	75.4	505.6
2011	1,428.4	320.0	253.6	-	253.6	66.4	0.7	65.7	1,108.4	196.4	195.2	1.1	346.6	259.8	86.8	565.4
2012	1,517.3	401.4	336.5	-	336.5	65.0	0.4	64.6	1,115.9	175.6	175.6	-	354.4	321.0	33.5	585.9
2013	1,594.3	383.9	321.8	-	321.8	62.1	0.3	61.9	1,210.4	208.1	208.1	-	329.7	281.1	48.5	672.6

11.2. Public sector debt service payment

(In million of Euros)

Description	As of Q4 2013													
	One year or less					Over 1year to 2 years			3rd. year	4th. year	5th. year	Over 5 years to 10 years	Over 10 years to 15 years	Over 15 years
		0 to 3	4 to 6	7 to 9	10 to 12		13 to 18	19 to 24						
Public sector external debt	30.6	12.3	2.9	12.2	3.2	33.9	17.0	16.9	62.3	54.8	17.1	82.5	60.2	115.1
Principal	22.1	8.3	2.6	8.3	2.9	25.8	12.9	12.9	55.0	48.4	11.3	60.1	49.8	111.3
Interest	8.5	4.0	0.3	3.9	0.3	8.0	4.1	4.0	7.3	6.4	5.7	22.4	10.4	3.8
Publicly-guaranteed private sector external de	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	30.6	12.3	2.9	12.2	3.2	33.9	17.0	16.9	62.3	54.8	17.1	82.5	60.2	115.1
Principal	22.1	8.3	2.6	8.3	2.9	25.8	12.9	12.9	55.0	48.4	11.3	60.1	49.8	111.3
Interest	8.5	4.0	0.3	3.9	0.3	8.0	4.1	4.0	7.3	6.4	5.7	22.4	10.4	3.8

11.3. Gross Foreign Debt - by creditors

(In million of Euros: State on 31 December 2013)

Description	Total gross external debt						
		Gross external debt excluding direct Investment					Direct Investment: Intercompany ending
		General Government	Central Bank of the Republic of Kosovo	Banks	Other Sectors		
Inetrnational Monetary Fund	167.6	105.7	61.9	-	-	167.6	-
World Bank	216.0	216.0	-	-	-	216.0	-
IBRD	203.7	203.7	-	-	-	203.7	-
IDA	12.4	12.4	-	-	-	12.4	-
Other creditors	1,210.7	-	0.3	208.1	329.7	538.0	672.6
Total gross external debt	1,594.3	321.8	62.1	208.1	329.7	921.7	672.6

11.4. Net external debt position

(In millions of Euro)

Description	As of 31 December 2013		
	Gross External Debt Position (1)	External Assets in Debt Instruments (2)	Net External Debt (3)=(1)-(2)
General Government	321.8	0.0	321.8
Short - Term	0.0	0.0	0.0
Long - Term *of which*	321.8	0.0	321.8
Loans	321.8	0.0	321.8
Monetary Authirities	62.1	1,554.0	-1,491.9
Short - Term *of which*	0.3	1,479.2	-1,478.9
Money market instruments	0.0	560.8	-560.8
Currency and Deposits	0.3	918.3	-918.1
Long - Term *of which*	61.9	74.8	-13.0
Other Debt instruments	61.9	74.8	-13.0
Banks	208.1	748.3	-540.2
Short - Term *of which*	208.1	748.3	-540.2
Money market instruments	0.0	254.4	-254.4
Loans	82.4	112.0	-29.6
Currency and Deposits	123.6	377.9	-254.3
Other Debt instruments	2.1	4.0	-1.9
Long - Term	0.0	0.0	0.0
Other Sectors	329.7	1,237.9	-908.2
Short - Term *of which*	281.1	21.6	259.5
Monety market instruments	0.0	9.7	-9.7
Loans	126.9	0.0	126.9
Trade Credits	154.3	11.9	142.4
Long - Term *of which*	48.5	1,216.3	-1,167.7
Bond and notes	0.0	233.5	-233.5
Loans	48.5	0.0	48.5
Currency and Deposits	0.0	982.8	-982.8
Direct Investment: Intercompany Lending	672.6	0.0	672.6
Debt liabilities to affiliated enterprises	0.0	0.0	0.0
Debt liabilities to direct investors *of which*	0.0	0.0	0.0
Other	672.6	0.0	672.6
Net External Debt (3)	1,594.3	3,540.2	-1,946.0

12.1. Commercial banks

Commercial banks		
No.	Name	Affiliates/existing branches
1	ProCredit Bank	55
2	Raiffeisen Bank Kosovo J.S.C.	52
3	NLB Prishtina sh.a	50
4	Banka për Biznes	41
5	Banka Ekonomike	40
6	TEB sh.a	26
7	Banka Kombetare Tregtare – Branch in Kosova	24
8	Komercijalna Banka – Branch in Mitrovica	9
9	Turkiye Is bankasi - Branch in Prishtina	1
	Total	298

Source: CBK (2014)

12.2. Insurance companies

Insuramce companies		
No.	Name	Affiliates/existing branches
1	Dardania	58
2	Illyria	63
3	Kosova e Re	39
4	Siguria	39
5	Insig	34
6	Sigma	42
7	Sigal	56
8	Croatia Sigurimi	26
9	Sigkos	25
10	Graw e Elsig	40
11	Illyria Life	1
12	Graw e Kosova	1
13	Sigal Life Uniqa Group Austria	1
	Total	425

Source: CBK (2014)

12.3. Micro-finance institutions

Microfinancial institutions		
No.	Name	Affiliates/existing branches
1	Finca	20
2	KEP	34
3	KGMAMF-Grameen	4
4	AFK	13
5	Besëlidhja	1
6	KRK	17
7	Mështekna	1
8	Qelim Kosovë	1
9	KosInvest	6
10	Start	2
11	Perspektiva 4	1
12	KAD	1
13	ACP	1
14	Timi Invest	1
15	Total	103

Source: CBK (2014)

12.4. Financial non-bank institutions

Financial Non-bank institutions		
No.	Name	Affiliates/existing branches
1	Crimson Finance Fund	1
2	Lesna	9
3	Raiffeisen Leasing	1
4	Factor Leasing	1
5	Total	12

Source: CBK (2014)

12.5. Money transferring agencies

Money transferring agencies		
No.	Name	Affiliates/existing branches
1	UFP (sub-agents)	180
2	DMTH (sub-agents)	122
3	Vllesa Co	27
4	KLM Enterprise	1
5	Capital	21
6	Posta e Kosovës	1
	Total	352

Source: CBK (2014)

12.6. Intermediary insurances

Intermediary insurances		
No.	Name	Affiliates/existing branches
1	WVP Sh.p.k	1
2	Risk Sh.p.k	1
3	Ansiia Sh.p.k	1
4	Raiffeisen Insurance Broker Kosovo	1
5	Inter - Expertise Sh.p.k	1
	Total	5

Source: BQK (2014)

12.7. Money exchange agencies

Money exchange agencies		
No.	Name	Affiliates/existing branches
1	Euro Cufa	1
2	NBS	1
3	Monedha	1
4	Euro	1
5	Euro Këmbimi	1
6	Euro Eki	1
7	Gipa	1
8	Xeni	1
9	Agimi	1
10	Indriti	1
11	Agoni	1
12	Ximi	1
13	Beni	1
14	Prizreni	1
15	Valuta	1
16	Edona	1
17	Ebani	1
18	Te Gazi	1
19	Hamza	1
20	Veli	1
21	Mena	1
22	Sara	1
23	Kujtimi	1
24	Aral	1
25	Ismeti	1
26	Kemi	1
27	Safeti	1
28	Yllka	1
29	Mani	1
30	Bernardi	1
31	Blujona	1
32	Euro-buli	1
33	E-leka	1
	Total	33

Source: CBK (2014)

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