



BANKA QENDRORE E REPUBLIKES SE KOSOVES
CENTRALNA BANKA REPUBLIKE KOSOVA
CENTRAL BANK OF THE REPUBLIC OF KOSOVO

Annual Report 2011

P R I S H T I N A , J U N E 2 0 1 2

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

Annual Report 2011

CONTENTS

Cover Letter of the CBK Board Chairman	15
Cover Letter of the Governor	17
The Board of the Central Bank, the Executive Board and Audit Committee	19
Organizational Structure of the CBK	21
1. Executive Summary	23
2. External Economic Environment	25
3. Kosovo's Economy	27
3.1. Real Sector	27
3.1.1. Gross Domestic Product	27
3.1.2. Prices	28
3.1.3. Labor Market	29
3.2. Fiscal Sector	30
3.2.1. Budget Revenues	30
3.2.2. Budget Expenditures	31
3.3. Financial Sector	32
3.3.1. General Characteristics	32
3.3.2. Banking System	36
3.3.3. Pension Funds	55
3.3.4. Insurance Companies	56
3.3.5. Microfinance Institutions and Financial Auxiliaries	57
3.4. External Sector	58
3.4.1. Current Account	59
3.4.2. Capital and Financial Account	64
3.4.3. International investment position and external debt	66
4. Supervision of Financial Institutions	69
4.1. Licensing and regulatory framework	69
4.1.1. Licensing	69
4.1.2. Regulatory framework	71
4.2. Banking Supervision	76
4.3. Insurance Supervision	88
4.4. Pension Supervision	94
5. Services Provided to the Authorities, to the Financial Community and to the Public	97
5.1. Operations and Cash Management	97
5.2. Account Maintenance and Transactions	101

5.3. Payment system	104
5.3.1 Operation of Electronic Interbank Clearing System	104
5.4. Asset Management	110
5.4.1 Asset Management and CBK Investment Policy	110
5.4.2 Asset Management in 2011	110
5.4.3 Investment Risk Management	113
5.4.4 The process of Government Securities trading	114
5.5. Credit Registry of Kosovo	114
5.6. Economic and Financial Stability Analysis Activities	116
5.7. Statistics Activities	117
6. Internal Developments	118
6.1. Internal Control	118
6.2. Human Resources	121
6.3. Legal Activity of the CBK	122
6.4. Information Technology	123
7. Regional and International Cooperation	125
7.1. International Agreements, Promotion and Representation	125
8. Financial Statements of the CBK	129
9. Statistical Appendix	169
10. References	181

LIST OF ABBREVIATIONS

ARS	Accounting Registry System
ATM	Automated Teller Machine
BEC	Broad Economic Categories
BEEP	Business Environment Enhancement Project
BIC	Business Identifier Code
BIS	Bank for International Settlements
BKT	Banka Kombëtare Tregtare
BPB	Banka për Biznes
CAR	Capital Adequacy Ratio
CBK	Central Bank of the Republic of Kosovo
CEFTA	Central European Free Trade Agreement
CPI	Consumer Price Index
DFSEA	Department of Financial Stability and Economic Analysis
DJI	Dow Jones Industrial Average
DLE	Department of Labor and Employment
EBRD	European Bank for Reconstruction and Developments
ECB	European Central Bank
EFSE	European Fund for Southeastern Europe
EU	European Union
EULEX	European Union Rule of Law Mission
EUROSTAT	General Directorate of European Statistics
FDI	Foreign Direct Investments
GBP	Great Britain Pound
GDP	Gross Domestic Product
HHI	Herfindahl-Hirschman Index
IAIS	International Association for Insurance Supervisors
IIP	International Investments Position
IMF	International Monetary Fund
IPI	Imports Price Index
KCR	Kosovo Credit Registry
KEK	Kosovo Energy Corporation
KIB	Kosovo Insurance Beauró
KMB	Komercijalna Banka
KPA	Kosovo Privatisation Agency
KPST	Kosovo Pension Savings Trust
KTA	Kosovo Tax Administration

MF	Ministry of Finance
MFI	Microfinancial Institutions
MLSW	Ministry of Labor and Social Welfare
MTA	Money Transferring Agencies
MTPL	Motor Third Party Liability Insurance
NFA	Net Foreign Assets
NLB	Nova Ljubljanska Banka
NPC	National Payment Committee
NPISH	Non-profitable Institutions Serving Households
NPL	Non Performing Loans
ODC	Other Depository Corporations
PCB	Procredit Bank
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
ROAA	Return on Average Assets
ROAE	Return on Average Equity
RTGS	Real Time Gross Settlement
RWA	Risk Weighted Assets
SAK	Statistical Agency of Kosovo
SDR	Special Drawing Rights
SEE	Southeastern Europe
SEKN	Interbank Electronic Clearing System
SEPA	Single Euro Payment Area
SFR	Swiss Franc
SKPF	Slovenian Kosovo Pension Fund
SWIFT	Society for Worldwide International Financial Telecommunication
TEB	Türk Ekonomi Bankasi
TPL	Third Party Liability
UNMIK	United Nations Mission in Kosovo
USAID	United States Agency for International Development
USD	United States Dollar

VAT	Value Added Tax
VPN	Virtual Private Network
WB	World Bank

LIST OF FIGURES

1.	Macroeconomic map -----	27
2.	Real GDP growth -----	28
3.	Consumer, Import and Producer Price Index -----	29
4.	Contribution of the CPI components to the annual inflation -----	29
5.	Main sources of border revenues -----	30
6.	Main sources of domestic taxes -----	31
7.	Structure of main categories of budget expenditures -----	32
8.	Structure of financial system assets, by sectors -----	33
9.	Net claims of the financial sector -----	34
10.	Net foreign assets, by institutions -----	34
11.	Structure of claims from the external sector -----	35
12.	Structure of liabilities to the external sector -----	35
13.	HHI for assets, loans and deposits -----	36
14.	Contribution to the growth of the banking system assets, by categories -----	37
15.	Assets growth -----	38
16.	Growth rate of loans, by sectors -----	38
17.	Structure of loans -----	39
18.	Structure of loans, by economic activities -----	39
19.	Annual growth rate of loans, by economic sectors -----	39
20.	Structure of loans, by maturity -----	40
21.	Growth rate of loans, by maturity -----	40
22.	Structure of deposits, by sectors -----	41
23.	Structure of time deposits, by maturity -----	42
24.	Average Interest Rates -----	43
25.	Balance of income and expenditures -----	43
26.	Annual growth rates of income and expenditures -----	44
27.	Structure of income -----	44
28.	Structure of income, by categories -----	44
29.	Annual growth rates of income, by categories -----	45
30.	Annual growth rates of expenditures, by categories -----	45
31.	Structure of expenditures of the banking sector -----	45
32.	Structure of expenditures -----	46
33.	Profitability indicators -----	46
34.	The ratio of expenditures to revenues -----	46
35.	Loans and deposits of the banking system -----	47
36.	The ratio of broad liquid assets / short term liabilities -----	47
37.	Banking system reserves -----	48

38.	Structure of loans, by classification -----	49
39.	Structure of nonperforming loans -----	49
40.	The ratio of NPL to total loans -----	49
41.	Annual growth rate of total loans and NPL -----	50
42.	NPL and provisions -----	50
43.	Banking system capitalisation -----	51
44.	Total capital and regulatory capital -----	51
45.	Total capital and annual growth rate -----	52
46.	Structure of the banking system capital -----	52
47.	Structure of Tier 1 capital -----	52
48.	Structure of Risk Weighted Assets -----	53
49.	KPST share price and DJI index -----	55
50.	Structure of KPST investments -----	55
51.	Premiums received and claims paid -----	56
52.	MFI assets -----	57
53.	Balance of the current account -----	58
54.	Main categories of the structure of imports -----	60
55.	Main categories of the structure of exports -----	60
56.	Imports by BEC -----	61
57.	Structure of exports by trading partners -----	61
58.	Structure of imports by trading partners -----	62
59.	Services account – main categories -----	62
60.	Income account -----	63
61.	Current transfers -----	63
62.	Remittances received in Kosovo -----	64
63.	Financial account -----	64
64.	Foreign direct investments as percentage of GDP -----	65
65.	Foreign direct investments by economic sectors -----	65
66.	Foreign direct investments by country of origin -----	66
67.	International investment position -----	66
68.	Assets by form of investments -----	67
69.	Liabilities by form of investments -----	67
70.	Trend of assets in banking sector -----	76
71.	Trend of loans in banking sector -----	77
72.	Trend of deposits in banking sector -----	79
73.	The share of problematic loans and non-performing loans in total loans -----	81
74.	Developments of total assets in microfinancial and non-banking crediting -----	84
75.	Ownership structure of insurance companies -----	88
76.	Structure of assets of the insurance industry -----	91

77.	Structure of liabilities of the insurance industry -----	91
78.	Graphic presentation of unit price movement -----	95
79.	Cash supply-----	97
80.	Cash admission-----	97
81.	Supply with euro banknotes by denominations -----	98
82.	Supply with euro coins by denominations-----	98
83.	Euro banknotes received by denominations-----	98
84.	Euro coins received by denominations -----	98
85.	Export of cash -----	99
86.	Import of cash -----	99
87.	Number of outdated banknotes withdrawn from circulation -----	100
88.	Proportion of outdated banknotes from the total received ones-----	100
89.	Supply with new banknotes-----	100
90.	Proportion of new banknotes induced in circulation from the total supplied-----	100
91.	Counterfeit euro banknotes-----	100
92.	Volume of domestic outgoing transactions -----	102
93.	Value of domestic outgoing transactions -----	102
94.	Volume of domestic incoming transactions -----	102
95.	Value of domestic incoming transactions -----	102
96.	Volume of international incoming transactions-----	103
97.	Value of international incoming transactions -----	103
98.	Volume of international outgoing transactions-----	103
99.	Value of international outgoing transactions-----	103
100.	Deposit motion of the key account-holders of the CBK-----	103
101.	IECS transaction number-----	105
102.	IECS transaction value-----	105
103.	Daily average of IECS transaction number -----	105
104.	Daily average of IECS transaction value -----	105
105.	Annual transaction volume of IECS, by their types -----	106
106.	Annual transaction value of IECS, by their types-----	106
107.	Number of debit accounts by type -----	108
108.	Number of credit accounts by type-----	108
109.	Number of ATM terminals-----	109
110.	Number of POS terminals -----	109
111.	Report of CBK investments-----	111
112.	Allocation of investments along the months -----	111
113.	Offered monthly average realized for CBK portfolio-----	111
114.	Return average in portfolio and the return in benchmark -----	112
115.	Number of generated certificates-----	114

116. Investigations in credit registry system -----	115
117. Number of new loans reported by crediting institutions-----	115
118. Determination of audit areas based on the risk-----	120
119. Structure of qualification of CBK employees -----	121

LIST OF TABLES

1.	Electronic payments -----	37
2.	Structure of banking system assets -----	38
3.	Structure of banking system liabilities -----	41
4.	Summary of the stress test analysis results: Liquidity risk -----	55
5.	Kosovo's trade balance -----	59
6.	Banks, insurance companies and pension funds licensing activity -----	70
7.	Registring acivity of microfinancial institutions, non-bank financial instituons, money transferring agencies and money exchange offices -----	71
8.	Insurance intermediaries licensing activity -----	71
9.	Commercial banks -----	73
10.	Pension funds -----	73
11.	Money transferring agencies -----	73
12.	Microfinancial instituions -----	74
13.	Non-bank financial institutions -----	74
14.	Insurance Intermediaries -----	74
15.	Insurance Companies -----	75
16.	Money exchange offices -----	75
17.	Loans by economic branches -----	78
18.	Structure of regulatory capital in sectors and its components developments -----	80
19.	Capitalisation indicators -----	80
20.	Indicators of loans quality -----	81
21.	Non-performing loans by economic branches -----	82
22.	Profitability indicators -----	82
23.	Liquidity indicators -----	83
24.	Egzaminations in banks -----	84
25.	Development of loan quality indicator -----	85
26.	Development of profitability indicator -----	85
27.	Performed examinations during 2011 -----	86
28.	Loans – trend of cash receipts -----	88
29.	Depozits – trend of reimbursement -----	88
30.	Number of written policies -----	89
31.	Gross written premiums -----	89
32.	Number of paid claims -----	90
33.	Paid claims -----	90
34.	Calculation of solvency minimal margine -----	92
35.	Liquidity indicators -----	93
36.	Entire and focused examinations -----	94

37.	Examinations performed by pension supervisions-----	94
38.	Structure of pension assets investments-----	96
39.	Structure of returns from pension assets investments-----	96
40.	Structure of investments of FSKP assets-----	97
41.	Sum of transactions by main types of payments-----	101
42.	The level of deposits by account types-----	104
43.	Concentration indicators for transactions initiated / sent in IECS-----	107
44.	Concentration indicators for transactions received / incoming IECS-----	107
45.	Number of accounts-----	109
46.	Comparative table of payment instruments and terminals-----	110
47.	Determination of audit areas based on the risk-----	119
48.	Auditing zone-----	121
49.	Education, personal developments and staff trainings-----	122

Cover Letter of the CBK Board Chairman

This report reflects the activity of CBK Board, Executive Board and CBK staff including the most important developments in the Kosovo's economy, especially in the financial sector developments in 2011. Informing the public, and the financial education represent one of the priorities of the Central Bank of Republic of Kosovo, therefore in this report are presented in detail all the activities of the CBK.

In 2011 the eurozone economy further felt the effects of the global financial crisis, despite the exports growth of these countries resulting from the global economic recovery. Problems with the public debt and the decline of business confidence were the key factors that negatively affected the eurozone.

During 2011 Kosovo marked the highest growth rate compared to the region countries (5%), regardless the challenges caused by turbulences in the global and especially in the European economy. The high reliance of Kosovo's economy on imports adversely affected the growth rate and the current account deficit. Remittances continued with the positive growth trend representing one of the most important components of consumer financing in the country.

Kosovo's economy is still characterized by high unemployment rate, representing the main challenge to economic and social stability in the country. Growth rates of recent years are not being able to absorb the labor force in the country because of the young population structure. Inflationary pressures were present in the country's economy also in 2011. The average inflation rate was 7.3%. Food prices had a significant effect on the inflation rate due to their large weight in the consumer basket.

The financial sector continued to be stable and sustainable, disregarding the slower growth compared to the previous year. Financial institutions still offer traditional financial services, while lacking the more sophisticated financial instruments. Commercial banks' credit activity is mainly supported by the deposits collected in the country.

In Kosovo's banking system still exists a high degree of concentration, despite the decline of the share of the largest banks in the market, in 2011. CBK vision for the financial sector is to maintain financial stability and sustainability under the direction of market forces, acting based on the prudent regulatory and on the framework and supervision policy framework that is harmonized with EU directives and EC.

CBK strategy is to attract investors who have good financial conditions and can bring an additional value in Kosovo's market, hence helping to further strengthen the financial sector, increasing the confidence, rising up the competition and reducing the financing cost.

Close cooperation with the International Monetary Fund, World Bank, European Central Bank, central banks and regulatory authorities of other countries has also continued in 2011, thus increasing the credibility of the CBK in the international arena.



Prof. Dr. Gazmend Luboteni

Chairman of the Board of the Central Bank

Cover Letter of the Governor

This report reflects the successful completion of the work by CBK in year 2011 by focusing on the assessment of the financial and economic developments in the country including the assessment of the CBK work and activities on the fulfilling of its legislative agenda.

CBK continued to be an important factor in promoting the development and the maintaining of the economic stability in the country, primarily by ensuring a stable financial sector which serves the needs of the economy.

Maintaining financial stability in the country is the most important issue on the agenda of the CBK activities. Kosovo's financial sector in 2011 along with its expansion has reflected strong soundness and stability. Viewing from the prism of the banking system, Kosovo ranks among countries with the fastest lending growth in the region, with the lowest level of non-performing loans, and with the highest capital adequacy ratio. Kosovo's banking system has continued to support the country's economy even when the world economy, more specifically the eurozone, is going through serious financial and fiscal difficulties. All this is achieved without putting at risk at any moment the financial and the economic stability. Beside the prudential approach of the CBK the selfdiscipline of the financial institutions, an important contribution to the maintaining of financial stability in the country was also given by the good performance of the real sector of the economy, which was characterized by positive economic growth rate, while inflationary pressures have not presented a serious risk to the financial stability.

Besides the banking system, increased activity and high level of stability has been observed also in other components of the Kosovo's financial sector. Thus, the value of contributions to the pension funds continued to grow, followed by the positive rate of return on their investments. The insurance industry has continued to expand its activities by increasing the voluntary and life insurance. In 2011, two new life insurance companies with foreign capital began operating in Kosovo, indicating that this industry remains attractive to foreign investments. Microfinancial institutions tightened their credit activity as a result of difficulties in securing adequate financing funds from foreign financial markets. Market structure in all components of financial sector continued to be characterized by decreasing level of concentration, reflecting a continuous increase of competition. Proper functioning of the payment system, besides contributing to raising the efficiency of financial institutions, has had a leading role in developing new financial products in the market.

During 2011 CBK was also active in undertaking the necessary measures to strengthen the capacity for maintaining the stability and promoting the development of the financial sector. The activities continued in the process of advancing the financial legislation and in building the institutions responsible for safeguarding and inducing the financial sector development. The establishment of the Deposit Insurance Fund, the establishment of the Kosovo Insurance Bureau and the completion of the electronic trading platform for the securities of the Government of the Republic of Kosovo rank the year 2011 among the historical years for the country's financial sector. In this context, it is worth highlighting

the increase of international cooperation with the homologous institutions, in particular the signing of the Memoranda of Understanding with the banking system Regulatory of Germany (BaFin).

Special attention was paid to training and continuous development of the CBK personnel which has resulted in international recognition of the technical and professional knowledge of the CBK employees who have started to provide technical assistance to the central banks of different countries around the world.

Regarding the outlook for year 2012, it should be emphasized that the current developments in the eurozone also call for a more cautious approach of financial institutions, especially of the banking institutions, with regard to the management of financial risk profile. Nevertheless, the current level of the financial sector sustainability along with the forecasts for positive economic growth make us believe that financial stability will continue to be strong and an important contributor to the country's macroeconomic stability also in year 2012. This belief further strengthens when taking into account that in addition to the approved regulation for liquidity support, the new law on banks and other financial institutions, which is expected to be approved in 2012, along with the project for advancing the prudential policies will further strengthen the CBK licensing, regulatory and supervisory capacity. Undoubtedly, the Financial Sector Assessment Program agreed to be realized in autumn 2012 will significantly contribute towards the further advancing of our country's financial sector, while the residential assistance of U.S. Treasury Department advisors will be reflected in a better consolidation of the insurance industry, in developing a national policy and strategy for the mortgage market and the activation and development of primary and secondary market securities of the Government of the Republic of Kosovo. At the same time, the above mentioned projects will contribute to the further deepening of the effective and efficient institutional cooperation in our country.

In conclusion, it should be emphasized that this report is a reflection of the high commitment of the CBK personnel and its decision-making bodies to increase continuously the quality of our institution.



Gani Gërguri

Governor

The Board of the Central Bank, the Executive Board and Audit Committee

The activity of the Board of the Central Bank

In order to successfully fulfill the policies and competences defined by the legislations in force, the Board of the Central Bank during 2011 has held 14 meetings.

To carry out the competences and responsibilities that the Board of the Central Bank had during this year, its activity was consistently focused on:

- The approval of the Regulations, as follows;
 - Regulation for the amendment of the bank Rule XVI;
 - Regulation on Monetary and Financial Statistics, and Financial Accounts;
 - Regulation on Balance of Payments Statistics and International Investments Position;
 - Regulation on statistics of payment instruments;
 - Regulation for emergency liquidity support; and
 - Regulation on assets depositing as a guarantee, capital adequacy, financial reporting, risk management, investments and liquidity.
- Approving the CBK annual budget;
- The approval of periodic reports and CBK financial statements;
- The approval of the CBK organizing;
- Implementation of the process of nominations and appointments within the competences defined by the law of the CBK;
- The review of all Executive Board and the Governor's reports and recommendations, in order to secure the financial stability; and
- Other issues that fall within the Central Bank Board responsibility.

On December 31, 2011 Board of the Central Bank of the Republic of Kosovo consisted of the following members:

Gazmend Luboteni, Chairman of the Central Bank Board;

Gani Gërguri, Governor and member of the Central Bank Board;

Zilif Lufi, Director of the Treasury (member of the Central Bank Board);

Sejdi Rexhepi, member of the Central Bank Board;

Mejdi Bektashi, member of the Central Bank Board.

Executive Board

Pursuant to the law No. 03/L-209 on the Central Bank of the Republic of Kosovo, respectively the article 34 paragraph 3 the executive Board Consists of the Governor (the chairman of the Executive Board) and two Deputy Governors.

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

During 2011, the Executive Board of the Central Bank of the Republic of Kosovo has held 23 meetings.

On 31 December 2011, Executive Board consisted of Gani Gërguri (Governor / Chairman of the Executive Board), Nexhat Kryeziu (Deputy Governor for the Supervision of Financial Institutions) and Lulzim Ismajli (Deputy Governor for Banking Operations).

Secretary of the Executive Board during 2011 was Flamur Mrasori (Head of the Governor's Cabinet).

The Audit Committee

The audit committee is appointed by the Central Bank Board and consists of three members (two non-executive members selected among the Central Bank Board and a member – an external expert in the field of accounting and auditing).

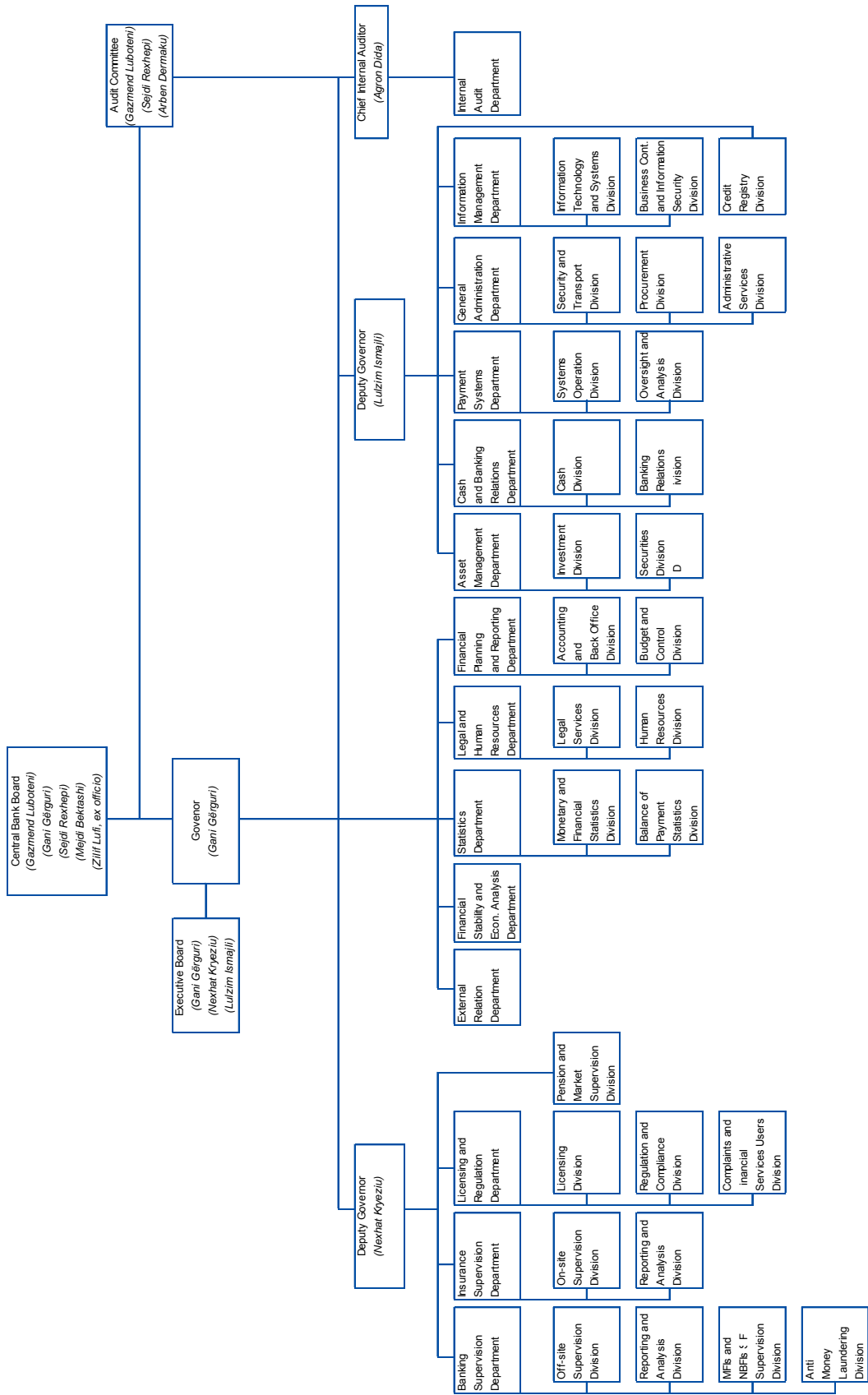
On 31 December 2011, the Audit Committee consisted of the following members:

Gazmend Luboteni, chairman of the Central Bank Board;

Sejdi Rexhepi, member of the Central Bank Board;

Arben Dërmaku, external member.

Organisational Structure of the CBK as of 31 December 2011



1. Executive summary

Uncertainties from previous years continued to be present in the global economy also during 2011. These developments were more present in the eurozone economy which continued to grow, but at a slower pace compared to the previous year. Exports were the main contributors to the economic growth in the eurozone, while the difficulties with public finances in some eurozone countries remained the main source of uncertainties. The countries of Southeastern Europe (SEE) recorded positive economic growth rates during 2011, among which Kosovo marked the highest growth rate. Most of the SEE countries during 2011 were careful in reducing the budget deficit, despite the fact that the level of public debt in the SEE countries is moderate. Year 2011 was characterized with higher rates of inflation, whose main source were energy and food prices. As a result of developments in the eurozone and SEE, a slowdown of credit growth and deterioration of quality of loan portfolio was observed in these countries. Within the SEE countries, Kosovo continues to be one of the states with the highest rate of credit growth and a better loan portfolio quality.

Despite the fragile situation in the external sector, Kosovo's economy also during 2011 continued to expand, recording a real growth rate of around 5 percent. The main driver of the economic growth in the country was the private sector through increased consumption and investments, while important contribution was given also by the public sector investments. The increase of prices in the global level was reflected in the Kosovo's economy, where the average inflation rate for 2011 reached at 7.3 percent. Inflation in Kosovo was mainly driven by the increase of prices for food products and fuel derivatives, which represent the largest categories of imported goods. Kosovo's economy continues to be characterized by a high level of current account deficit, which is mainly caused by the trade deficit. The relatively low level of goods export and the high value of imports led to a trade deficit of around euro 2.2 billion in year 2011. Unlike goods balance, the trade of services is characterized by a positive balance, thus preventing the further deepening of the current account deficit. Transfers from abroad and especially remittances represent another important category contributing to the narrowing of the current account deficit. Within the capital and financial account, the main category continues to consist of foreign direct investments which in 2011 recorded an annual growth of 14.4 percent.

The positive performance of the real sector of the economy also helped maintaining the stability of the financial sector, which in year 2011 continued to increase its activity. Financial sector assets at the end of 2011 reached the value of euro 3.5 billion, representing an annual increase of 9.3 percent. Banking system assets continue to dominate the structure of overall financial sector assets with a share of 76.3 percent. The activity of the banking system continues to be concentrated in lending to the country's economy, while the main source of funding for banks in Kosovo remain deposits collected in Kosovo. In 2011, loans issued by the banking system recorded an annual increase of 16.4 percent, reaching a value of euro 1.7 billion. Deposits in the banking system continued to grow, reaching the amount of euro 2.1 billion, thus representing an annual growth rate of 8.5 percent. Kosovo's banking system has continued to maintain a high level of stability, characterized by a high level of capitalization, good quality of loan portfolio and satisfactory liquidity position. Capital adequacy ratio at the end of 2011 stood at 17.5 percent, representing a satisfactory level of capitalization and exceeding the regulatory requirements. The share of non-performing loans to total loans at the end of 2011 declined to 5.7 percent from 5.9 percent

as it was in 2010. Moreover, the level of coverage of non-performing loans with loan-loss provisions stood at 116.7 percent, representing a satisfactory level of coverage. Kosovo's banking system continued to maintain a satisfactory liquidity position, with a loan-to-deposits ratio of around 80 percent and a satisfactory share of liquid assets to total assets.

During 2011 the number of insurance companies that operated in Kosovo was thirteen (13), of which ten (10) non-life insurance companies. The ownership structure is still dominated by companies with foreign-owned capital. Gross written premiums marked an increase of 4 percent compared with the previous year, with the major part of the total portfolio of the gross written premiums belonging to the compulsory motor liability insurance. Pension system in spite of large fluctuations in the global financial markets was stable and had a positive return on investments of funds in accordance to the developments in the global financial markets. During 2011, no new banks were licenced, whereas two new life insurance companies and two microfinance institutions were licenced.

In 2011 the Law no. 04/L-018 on Compulsory Motor Insurance liability entered into force. Upon entry into force of this law, in September 2011, the CBK in coordination with the insurance industry and other relevant actors established Kosovo Insurance Bureau (KIB). Legislative activity of the CBK was oriented in drafting/amending the laws regulating the financial sector (Draft Law on General Insurance, Banks, Payments System, amendment of the Law on Pension Funds and drafting/amending of the secondary legislation, amendment of existing rules and the issuance of regulations in accordance with the regulatory needs required by the relevant laws).

The CBK function for ensuring the supply with banknotes and coins for the cash transactions in the economy was successfully concluded. Interbank Payments System has increased both in volume and in value of payments, with about 4.2 million transactions worth a total of euro 5.1 billion. The payment system in year 2011 was also characterized by new developments in the legal and technical terms. It is worth mentioning the development of the module for clearing the government securities by the CBK Electronic Interbank Clearing System. Despite fluctuations in the global markets, and especially in the euro area markets, the CBK was successful in investing its funds in accordance with the law on the CBK and the CBK investments policy. As a result, the rate of return on the CBK investments was positive also during 2011. At the same time was completed the legal and technical infrastructure for the functionalization of the domestic market for the securities of the Government of the Republic of Kosovo.

International cooperation during 2011 was mainly developed in two directions, which can be considered to have become traditional. First, in the direction of the implementation of cooperative agreements previously associated with other relevant institutions and other financial supervisory authorities and, secondly, in terms of expanding cooperation and conclude new agreements with the respective institutions of other countries, such as the agreement with the Federal Authority for Financial Supervision in Germany (BaFin). The CBK was also represented in different important events at international level, including the regular participation in annual meetings of the IMF and the World Bank.

2. External Economic Environment¹

In 2011 the eurozone economy recorded a real growth of 1.3 percent compared with the growth rate of 1.6 percent in 2010. The recovery of the world economy has continued to contribute to the increase of the Eurozone exports, thus supporting the growth of economic activity in these countries. Domestic demand also contributed positively to the economic growth. Meanwhile, public debt and the decline of business confidence had a negative impact on the economic activity in the eurozone.

The eurozone economy in 2011 continued to suffer from the fiscal sector difficulties, which were caused by continuously increasing budget deficits. However, measures taken to tighten budget expenditures made the ratio between budget deficit and the GDP to decrease to 4.1 percent in 2011, which is by 2.1 pp lower compared the previous year. Despite the improvement in the management of public finances, fiscal instability continues to be one of the key challenges for some countries of the eurozone. Public debt of the eurpzone amounted at euro 8.2 trillion which is annual increase of 5.0 percent. As a share to GDP, public debt reached at 87.2 percent compared with 85.3 percent of GDP in 2010. Greece, Portugal and Ireland continue to be the countries with the most significant problems in financing the public debt.

Based on data available for the countries of Southeastern Europe (SEE), the economic recovery in 2011 appeared to be moderate. Kosovo marked the highest growth with a rate of 5.0 percent, followed by Macedonia with a growth rate of 3.2 percent. The real GDP of Albania, Montenegro, Bosnia and Herzegovina, and Serbia grew by 3.0, 2.7, 2.4, and 1.6 percent, respectively. Continuous growth of exports is considered to have been the main contributor to the increase of economic activity in these countries. Measures to tighten budget expenditures were taken also in the SEE countries, where the share of budget deficit to GDP declined from 3.4 percent in 2010 to 3.0 percent in 2011. Except Albania and Serbia that increased the deficit by 0.1 and 0.4 pp, respectively, all other SEE countries reduced it. Despite the decrease of the budget deficit, public debt ratio increased by 0.6 pp and averaged at 33.5 percent of GDP for the SEE countries.

Based on data published by the IMF, the ratio between the current account deficit and the GDP in the eurozone decreased to 0.8 percent which is for 0.4 pp lower than in the previous year. The decrease of the current account deficit resulted from the increase of exports of goods and services by 9.9 and 1.9 percent, respectively. Whereas, based on the data of the European Commission, the current account deficit to GDP ratio in the SEE countries increased by 0.5 pp and reached the level of 11.3 percent. This increase of the current account deficit was a result of increased imports of goods and services, which in 2011 amounted at 61.5 percent of GDP (58.7 percent in 2010).

Unemployment in the eurozone countries at the end of 2011 was 10.2 percent, representing a slight increase of 0.1 pp compared with the previous year. Unemployment rate in eurozone countries has increased despite the growth of the economic activity. Similar developments have characterized the labor market in the SEE countries. In 2011, the unemployment rate in Croatia was 13.2 percent (annual increase of 1.4 pp), in Serbia 24.4 percent (annual increase of 4.4 pp) and in Bosnia and Herzegovina 27.6 percent (annual increase of 0.4 pp).

¹International Monetary Fund (2011): Regional Economic Outlook, European Central Bank (2011): Monthly Bulletin, European Commission (2011): EU Candidates and Pre-Accession Countries; Economic Quarterly, Business Monitor International (2011) Emerging Europe Monitor.

According to data published by EUROSTAT, in December 2011, the annual change of Consumer Price Index in the eurozone was 2.7 percent, which is for 0.5 pp higher than in December 2010. Increased energy prices (11.9 percent) and food products (2.3 percent) were the key contributors to the increase of the overall level of prices. In order to maintain price stability, the European Central Bank (ECB) increased the base interest rate in April and July 2011 by 25 basis points, after having kept it at very low levels for nearly two years. Nevertheless, in Q4 2011 ECB again decreased the base interest rate by 50 basis points. In November 2011, the ECB decided to reduce interest rate base from 1.50 percent to 1.25 percent, while in December 2011 took the next step of lowering the base interest rate from 1.25 to 1.0 percent. This reduction of base interest rate was due to the intensification of tensions in financial markets, mainly driven by developments in public finances in some of the eurozone countries. The increase of energy and food products prices was reflected also in the price level in the SEE countries, where the average inflation rate in 2011 reached at 4.0 percent (2.4 percent in 2010). Serbia and Kosovo reported the highest inflation rates (11.1 and 7.3 percent, respectively), while Croatia recorded the lowest inflation rate (2.3 percent).

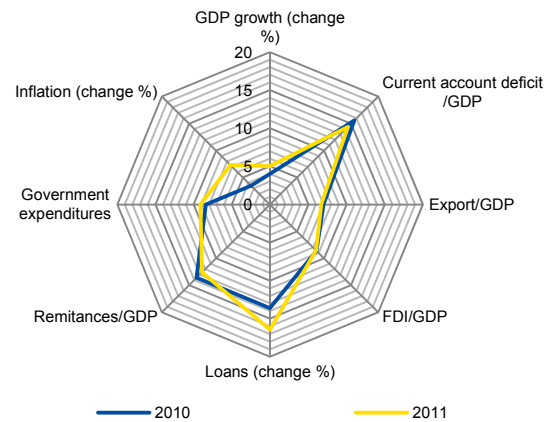
Risks towards the financial stability of the eurozone have increased significantly during 2011 due to debt crisis deterioration and the impact of these risks on the banking system. The pace of monetary expansion has continued to be moderate during 2011. The growth of monetary aggregate M3 was 1.5 percent during 2011 which was for 0.2 pp lower compared with year 2010. Annual growth of loans to households was 1.6 percent, which is lower for 1.3 pp compared to 2010. There was also improvement in terms of loans to nonfinancial corporations, which recorded an annual increase of 1.2 percent compared with 2010 when there was stagnation in the growth of these loans. Household deposits marked an annual increase of 2.3 percent which is for 0.1 pp lower than in 2010. Non-financial corporations deposits grew by 0.1 percent, which in comparison to 2010, is significantly lower (3.7 pp). Similar developments have characterized the banking sectors in SEE countries. Average credit growth in the banking sectors of the SEE countries was 6.4 percent which is 1.6 pp lower than in 2010. Kosovo marked the highest credit growth with a rate of 16.4 percent, followed by Albania and Macedonia with 11.7 and 8.1 percent, respectively. Montenegro continued to record a negative trend in the lending activity, with a decline of loans by 11.1 percent in year 2011. Banking sectors in SEE countries recorded slower deposit growth during 2011, with an average growth rate of 7.9 percent (9.5% in 2010). Albania recorded the highest deposit growth rate of 14.5 percent, followed by Macedonia (10.9 percent), Serbia (9.2 percent), Kosovo (8.5 percent), etc. The average rate of non-performing loans in SEE countries worsened, reaching at 13.1 percent or 1.6 pp higher than in the previous year. Serbia leads with the highest level of non-performing loans (19.0 percent of total loans), while Kosovo has the lowest level of non-performing loans with a share of 5.7 percent of total loans.

During 2011, euro depreciated against most major world currencies, where the most significant depreciation was recorded against Swiss Frank by 4.1 percent (1.23 SFR / EUR), then against the U.S. Dollar by 1.65 percent (1.32 USD / EUR), and British Pound by 0.7 percent (0.84 GBR / EUR). Also, euro depreciated against most currencies of the SEE countries. During 2011, euro depreciated against the Serbian Dinar (1.4 percent) and Macedonian Denar (0.7 percent), whereas appreciated against Croatian Kuna (1.8 percent) and Albanian Lek (1.2 percent).

3. Kosovo's Economy

Kosovo's economy during 2011 continued to record positive economic growth despite the challenges caused by fluctuations in the global economy and particularly in Europe. Economic activity in the country may be considered to have been stable when taking into account the main sources of funding most of which have shown good performance (Figure 1). However, the slowdown in the economies of several countries of the eurozone resulted

Figure 1. Macroeconomic map



in the slowdown of exports of goods, which increased during 2011 by only 6.3 percent. Remittances in 2011 were stable and continued to be one of the most important components in the financing of consumption in the country. The continuous expansion of the banking sector activity also represents a very important source of financing for the economic activity in Kosovo. Lending activity of the banking system continued to have double-digit growth rate. The steady growth of lending and deposits continue to present a favorable signal for the degree of stability of the economy in general and of the banking system in particular. Public sector represents another important component which continues to contribute positively to the economic stability in the country.

Kosovo's economy continues to be characterized by high unemployment rate which represents the main challenge for the economic and social stability in the country. Economic growth rates in the recent years could not absorb the labor force in the country which is continuously increasing due the young structure of the population. The high reliance of the economy on the import of goods continues to affect negatively the economic growth rate and the current account balance. The economy of Kosovo during 2011 recorded an increase of inflation rate compared to the year before. Inflationary pressures were more persistent in the first half of the year, while moderated in the second half of 2011.

3.1. Real sector

3.1.1. Gross domestic product²

Gross Domestic Product (GDP) of Kosovo marked a real growth of 5 percent in 2011 (4.0 percent in 2010). In nominal terms, GDP exceeded the amount of euro 4.7 billion. Economic growth during 2011 was driven by the increase of consumption and investments.

During 2011, private consumption marked an annual growth of over 10 percent and continued to account for over 90 percent of the GDP. Banking system loans continued to represent an important source of finance for the private consumption. In 2011, loans issued to the households recorded an annual growth of 17.7 percent. Another important source of financing for household consumption consists of remittances. In 2011, remittances reached at euro 584.8 million and were mainly used to finance households' consumption. Public

² The source of GDP data is the International Monetary Fund, World Economic Outlook, September 2011.

consumption in 2011 did not record any significant change compared to the previous year, holding its share to the GDP at around 15 percent.

Increase was noticed also in the share of investments to GDP which reached at around 35 percent, mostly consisting of private sector investments that recorded an annual growth of over 20 percent in 2011. Among the major sources of finance for the investment activities in the country are the loans issued by the banking system and the Foreign Direct Investments (FDI). In 2011, FDI recorded an annual growth of 14.5 percent and reached the

amount of euro 414.0 million. Banking system loans to enterprises grew by 12.7 percent in 2011, hence contributing to the private sector investment activity. Public sector investments represent another important contributor to the growth of overall investments in the country, being concentrated mostly in infrastructure projects.

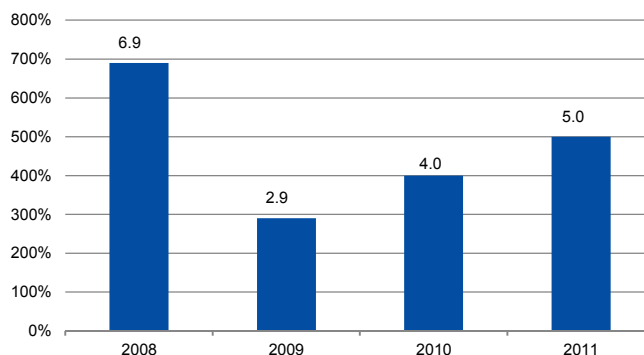
The trade deficit continues to have a negative impact on the GDP growth in Kosovo. In 2011, the external trade was characterized by a negative balance of -40 percent of GDP. Trade in goods consistently is regarded as the main driver of this deficit, given the high level of imports (euro 2.4 billion) and the relatively low level of exports (euro 312.5 million). However, the trade in services, which has a positive balance, compensates to some extent the high deficit in trade of goods. The negative balance of the trade account is being reflected in the current account balance which in 2011 recorded a deficit of 25 percent of GDP.

GDP per capita of Kosovo continues to be lower compared to the other countries of our region. GDP per capita in Kosovo stands at around euro 2.700, while at a higher rank are listed Macedonia with euro 3,600, whereas Albania, Bosnia and Herzegovina, and Serbia exceed the amount of euro 4,000. However, the difference in GDP is not as high when comparing the data of GDP per capita based on the Purchasing Power Parity (PPP). GDP per capita according to PPP in Kosovo stands at over USD 7,000, which is similar to Albania, and Bosnia and Herzegovina, but lower than in Macedonia, Montenegro and Serbia, where the GDP per capita based on the PPP exceeds the amount of USD 10,000.³

3.1.2. Prices

Based on Consumer Price Index (CPI), inflation in Kosovo marked an average rate of 7.3 percent in 2011. Comparing December 2011 with December 2010, average inflation rate was 3.5 percent. This indicates that inflationary pressures in the country were more persistent during the first half of the year, especially in food products and oil prices. The main source of inflationary pressures continues to be the prices of imported products that reflect prices in the global economy.

Figure 2. Real GDP growth

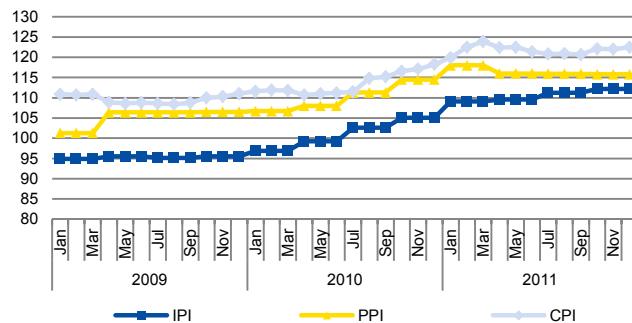


Source: KAS and IMF (2012)

³ The source of the data is IMF along with additional calculations of the CBK.

The high influence of food prices in the overall level of inflation is mainly due to the large weight that these products have in the consumer basket in Kosovo. Around 43 percent of the consumer basket in Kosovo consists of food products and beverages. However, the weight of this category in the consumer basket has continuously decreased. In the second half of the year, food prices contributed negatively to the CPI as a result of the decreasing prices of this category. Among the most significant contributors to the change of the CPI during the second half of 2011 was the category which includes housing, electricity, water, gas and fuel (Figure 4).

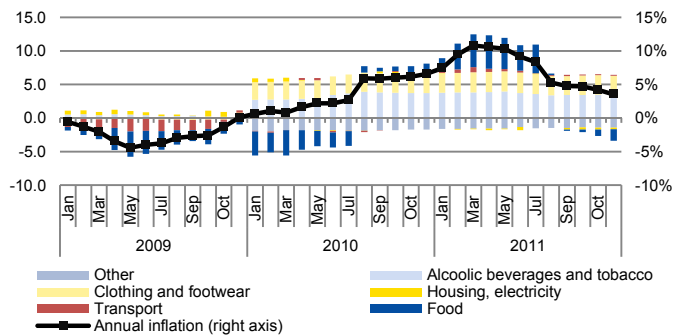
Figure 3. Indices of consumer, import and producer prices



Source: KAS (2012)

Price fluctuations in Kosovo are mainly driven by price oscillations of imported goods due to the high dependence of the country's economy on the import of foreign goods. In 2011, the average annual growth rate of Import Price Index (IPI) was over 10 percent. The impact of the Producer Price Index (PPI) on the consumer prices in Kosovo remains lower than the impact of import prices. The PPI recorded an annual growth of 7.3 percent in 2011.

Figure 4. Contribution of the CPI components to the annual inflation



Source: KAS (2012); CBK calculations

3.1.3 Labour market

Labour Force Survey for Kosovo for the last time was realized in year 2009 and, consequently, no official data are available on the unemployment rate for years 2010 and 2011. According to the Labour Force Survey which was compiled by the Statistical Agency of Kosovo, in year 2009, the unemployment rate in Kosovo was 45 percent.⁴ During 2011, employment in Kosovo may have increased, but the continuing growth of the workforce makes it more difficult for the unemployment rate to decrease. The increase of the labor force in Kosovo is a result of the young structure of the population. The structure of the population in Kosovo is largely dominated by groups of people who belong to the working age. The age group of 15-64 composes 65 percent of the total population. The age group under 15 composes 28 percent of the population, and people who are older than 65 compose 7 percent of the population.

Based on the data of the Ministry of Labour and Social Welfare (MLSW), the number of active jobseekers registered in the MLSW at the end of 2011 was 325,261. This represents a

⁴ In the absence of data for years 2010 and 2011, labor market statistics are presented based on the Labour Force Survey of the Statistical Agency of Kosovo for year 2009.

decrease of 3 percent in the number of the jobseekers comparing with the end of 2010. The number of newly registered jobseekers comparing with 2010 marked a slight increase of 1 percent or 20,125 newly registered jobseekers. The number of employed people through the MLSW intermediation has increased during this period. The number of new vacancies announced at the MLSW in year 2011 reached at 9,776, representing the highest level recorded in the recent years. The fulfillment of these vacancies during 2011 was 76.5 percent as a result of the employment of 7,484 jobseekers. The structure of jobseekers is dominated by unqualified people (61.7 percent of total jobseekers), followed by people with medium-level qualification (36.5 percent), while the remainder of 1.8 percent comprises of qualified people. The long-term unemployment remains the main problem in the labor market of Kosovo. Over 90 percent of all registered jobseekers in Kosovo are considered to be unemployed for a period of longer than 12 months.

3.2. Fiscal sector

Kosovo's budget balance in year recorded a deficit of euro 84.5 million (1.8 percent of GDP), compared to the deficit of euro 93.3 million in year 2010. The level of deficit recorded in year 2011 was lower than the planned level. This was due to the higher than planned level of budget revenues (101 percent of the planned level) on the one hand and on the other hand the lower than planned level of executed expenditures (91.9 percent of the planned level).

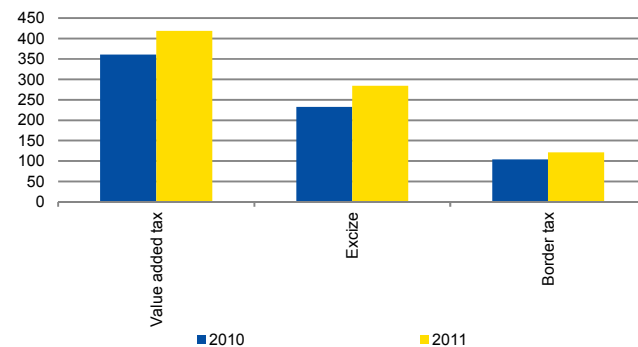
3.2.1 Budget revenues

Budget revenues, not including the designated donor grants and trust funds, were euro 1.30 billion or 10.6 percent higher than in 2010. The ratio of budget revenues to GDP stood at 27.7 percent, which is lower than the region's average of the year 2010 (37.0 percent).

Revenues collected at the border continue to dominate the structure of budget revenues, representing 63.4 percent of total revenues in 2011. Revenues collected from border taxes reached the amount

of euro 826.6 million, marking an annual growth of 18.2 percent. The increase of border revenues was mainly affected by the growth of imports and the increase of import prices especially for food and fuel products. The nominal growth rate of imports in 2011 was 15.6 percent. In the context of taxes collected at the border, revenues from the value added tax (VAT) represented the largest category (50.7 percent), reaching a value of euro 418.8 million (Figure 5). Despite of the annual growth of 16.1 percent, the share of VAT collected at the border to total border revenues decreased by 0.9pp. The second largest category of the border revenues are revenues collected from the excise duty (34.4 percent), amounting at euro 284.4 million, which is for 22.4 percent higher than in 2010. Revenues collected from the excise duty on tobacco increased by euro 9.0 million. Another important category of border revenues comprises of the revenues from the customs duty, which reached the amount of euro 121.0 million or 14.6 percent of total revenues collected at the border.

Figure 5. Main sources of border income, in millions of euro



Source: MF (2012)

Compared to year 2010, revenues collected from customs duty increased by 16.5 percent. Other revenues, which mainly come from the sale of confiscated goods, offenses, banners, etc., recorded a similar value to year 2010, amounting at euro 2.4 million or 0.3 percent of total border revenues.

Domestic tax revenues reached the value of euro 231.4 million, recording an annual growth of 19.1 percent. The majority of domestic taxes consists of the VAT collected within the country (40.8 percent of total domestic tax revenues), which in 2011 reached the net value of euro 94.3 million (Figure 6). In comparison to year 2010, revenues from the VAT collected within the country recorded an annual growth of 38.7 percent. Another important category within

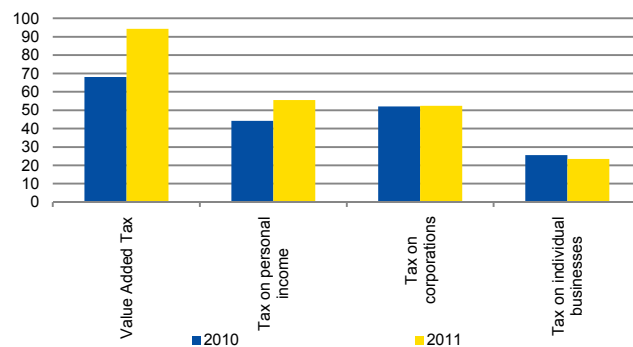
the domestic taxes consists of revenues from personal income taxes (mainly taxes on wages), which reached the net value of euro 55.5 million (24.0 percent of total domestic revenues) and recorded an annual growth of 25.4 percent. Revenues from corporate taxes reached the net amount of euro 52.4 million (22.7 percent of total domestic revenues), marking an annual increase of 1.0 percent. Revenues from individual businesses reached the value of euro 23.4 million (10.1 percent of total domestic revenues), marking an annual decline of 8.1 percent. Other categories of the domestic taxes with a lower share to total domestic revenues such as the presumptive tax, profit tax, interest taxes, dividend, ownership rights, rental, gambling, revenues from fines of KTA, the licenses for games, reached the value of euro 5.7 million compared to euro 4.6 million in year 2010.

Own revenues recorded the value of euro 115.5 million (8.9 percent of total budget revenues), representing an annual increase of 15.0 percent. The structure of own revenues is composed from revenues from the central and local level. In 2011, own revenues collected from the central level amounted to euro 59.9 million, whereas own revenues collected from the local level amounted to euro 55.6 million. Regarding one-off revenues, respectively the transfer of dividends to the budget of Kosovo, in 2011 this category of revenues amounted to euro 60.0 million (PTK dividend of euro 55.0 million and Airport dividend of euro 5.0 million), compared to the dividends of euro 85.0 million that were transferred in 2010. Other revenues⁵ amounted to euro 69.8 million, recording an annual decline of 29.8 percent.

3.2.2 Budget expenditures

Budget expenditures in 2011, not including the designated donor grants and trust funds, amounted at euro 1.39 billion marking an annual increase of euro 9.1 percent, which represents a higher increase than the increase recorded in the previous year (3.2 percent). The budget expenditures to GDP ratio stood at 29.5 percent, which is lower to the region's average of 41.0 percent in 2010. Budget expenditures designated for consumption stood at 11.5 percent of GDP, while capital investments stood at 11.2 percent of GDP.⁶

Figure 6. Main income sources of domestic taxes, in millions of euro



Source: MF (2012)

⁵ Grants to support the budget, bank interest, borrowings, etc.

⁶ Consumer spending include wages and salaries, goods and services, while investments include capital expenditures.

Capital expenditures absorbed the majority of budget expenditures, with a share of 38.1 percent to total expenditures. Capital expenditures reached the amount of euro 528.2 million, marking an annual growth of 16.0 percent (Figure 7). The major part of the capital expenditures during 2011 were designated for infrastructure projects (65.4 percent of capital expenditures), where a significant share consists of the investments in the Morinë-Merdarë highway,

which began to be constructed in April 2010. The second largest category consists of wages and salaries, which reached the amount of euro 385.0 million (27.7 percent of total expenditures). Wages and salaries represent the category which marked the highest increase, recording an annual growth rate of 23.6 percent. Subsidies and transfers represented the third largest category, accounting for 18.5 percent of total expenditures. Expenditures for subsidies and transfers in 2011 reached the amount of euro 256.2 million, marking an annual growth of 1.4 percent following the decrease of 1.6 percent in year 2010. Within the expenditures for subsidies and transfers, some of the categories that increased during year 2011 are the subsidies to public enterprises which reached at euro 60.5 million in 2011 (euro 56.4 million in 2010), and the payments to war invalids and the families of war victims which amounted to euro 29.3 million, marking an annual growth of 24.3 percent. Whereas, base pensions which comprise the largest part of subsidies and transfers decreased to euro 93.5 million in 2011 from euro 95.0 million as they were in 2010.

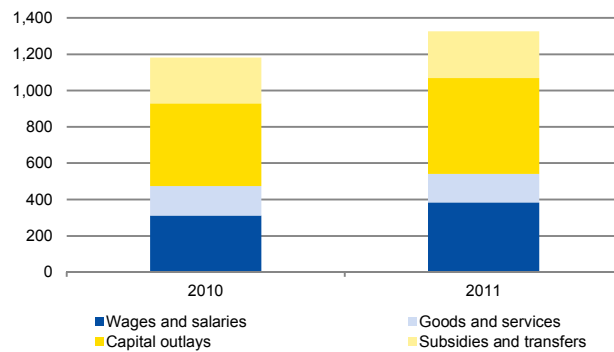
The smallest category of the budget expenditures was composed from expenditures for goods and services which amounted at euro 156.6 million (11.3 percent of total expenditures), recording an annual decline of 3.7 percent. The decline of expenditures for goods and services was mainly due to the reduction of expenditures for maintenance and repair⁷, contractual services⁸, and marketing. Within other expenses, loans to KEK amounted to euro 30.0 million, municipal utilities euro 20.4 million, and payments on external debt were euro 11.5 million.

3.3. Financial sector

3.3.1 General characteristics

Kosovo's financial sector during 2011 continued to expand its activity and at the same time maintained the sustainability in all of its components. The value of total financial sector assets at the end of 2011 reached euro 3.5 billion, representing an annual increase of 9.3 percent. Compared to the annual growth of 15.1 percent that was recorded in 2010, it is noticed that financial sector assets in 2011 followed a slower pace of growth. The slower growth of the total financial sector assets is mainly due to the slower growth of the banking

Figure 7. Structure of main categories of budget expenditures, in millions of euro



Source: MF (2012)

⁷ Maintenance and repair of vehicles, maintenance of buildings, maintenance of road infrastructure, IT maintenance, maintenance of furniture and equipment, etc.

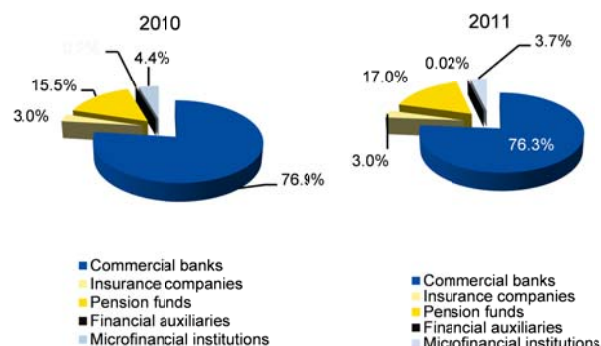
⁸ Education and training services, advocacy, various health services, advisory services, printing services, software maintenance, compensation of judicial decisions, etc.

system assets (8.3 percent compared to the growth rate of 11.4 percent in 2010), which represents the main component of the financial sector of Kosovo. The slowdown of the total sector assets was affected also by the reduction of other financial institutions assets (microfinance institutions and financial auxiliaries). Total assets of other financial institutions decreased to euro 128.3 million in 2011 from euro 145 million in 2010. This decline in assets was mainly caused by the slowdown of lending by these institutions which was mainly due to the more difficult conditions in securing funds from the external markets that represent the main source of financing for these institutions. Whereas, pension funds and insurance companies continued to expand their activities, thus contributing to the growth of total financial sector assets. In 2011, the value of pension funds assets recorded an annual growth of 20.2 percent and amounted to euro 593.3 million, while the value of the assets of insurance companies amounted to euro 106 million, representing an annual increase of 9.4 percent.

The activity of financial institutions in Kosovo continues to be concentrated in the provision of traditional financial services, whereas more sophisticated financial instruments still have not taken place in the country's financial sector. Commercial banks' main activity continues to be the crediting of the domestic economy, which essentially is financed by the deposits collected within the country. In the insurance industry, Third Party Liability (TPL) insurance is the main activity, from which is generated the majority of the premiums received. Microfinance institutions continue to have lending as their primary activity, mainly financed by funds borrowed from financial institutions operating abroad since they do not have the right of receiving deposits.

The structure of the Kosovo's financial system assets in 2011 did not record any significant change in terms of the participation of its components. Commercial banks continued to represent the main participant of the financial sector, managing 76.3 percent of total assets of the sector. An increase is noticed in the share of the pension funds, which at the end of 2011 managed 17.0 percent of the financial sector assets, compared to 15.4 percent in 2010. A decrease

Figure 8. Structure of financial system assets, by sectors



Source: CBK (2012)

is noticed in the share of other financial institutions and financial auxiliaries (Figure 8). A more significant decline is marked in the share of financial auxiliaries, which already had a low share of 0.2 percent in 2010 and decreased further to only 0.02 percent in 2011.

Significant changes have not been noticed either in terms of the number of financial institutions that operate in Kosovo. Kosovo's financial sector is comprised of 101 financial institutions, the majority of which consists of microfinance institutions (20) and financial auxiliaries (58), but their share in the overall financial sector assets remains relatively low compared to the other components of the system (Figure 8). The number of commercial banks operating in Kosovo remained unchanged at eight (8) and also the number of pension funds remained unchanged at two (2). Changes are noticed in the number of insurance companies operating in Kosovo, where in late 2011 began operating two new companies, thus raising the number of insurance companies to 13. In general, despite the good ongoing

performance of the Kosovo's financial sector, the number of the new entries in the recent years has been quite low.

The number of new entries was certainly affected to a large extent by the economic and financial difficulties that are being present in the developed countries and in particular in the European countries. These difficulties are reflected in the performance of potential investors, thus affecting their capacity and interest to extend the activity into new markets.

Kosovo's financial sector continues

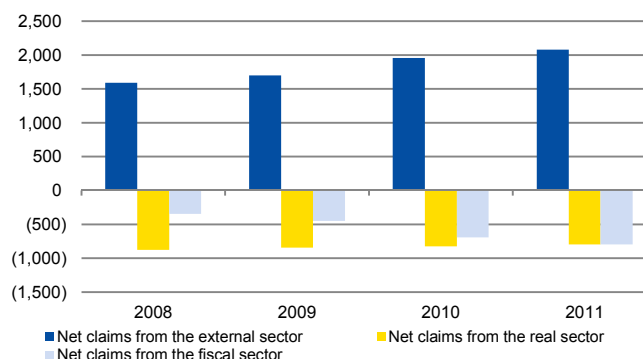
to have a low level of utilization of funding from abroad, while a significant part of assets of this sector continues to be invested in foreign markets.⁹ The value of Net Foreign Assets (NFA) continued to grow during 2011, but at a slower pace than in 2010. At the end of 2011, the value of NFA was euro 2.08 billion (Figure 9), representing an annual increase of 6.2 percent (15.1 percent in 2010).

The largest part of NFA of financial sector consist of CBK assets (52.8 percent of the total NFA), while the rest is shared among commercial banks (25.0 percent) and other financial institutions (22.2 percent) (Figure 10). The only institutions which have recorded a negative balance of NFA are microfinance institutions, since their amount of borrowings from abroad is larger than the amount invested abroad. This is because microfinance

institutions operating in Kosovo are mainly financed through the credit lines from financial institutions operating abroad.

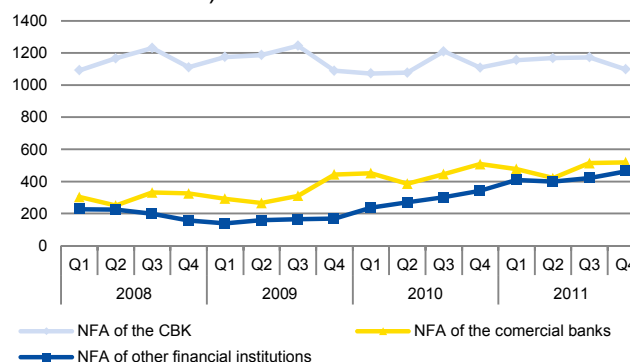
The slowdown in the growth of the NFA has mainly resulted from the lower growth rate of claims that financial institutions operating in Kosovo have on the external sector. In 2011, claims on the external sector recorded a growth of only 2.7 percent (compared with the annual growth of 17.3 percent in 2010). The amount of NFA in 2011 stood at euro 2.45 billion and was mainly composed from deposits (55.8 percent), stocks and other equities (21.7 percent) and securities (9.4 percent). Figure 11 shows that during 2011 there was a shift of investments from securities towards stocks and other equities. This shift of assets is made by pension funds operating in Kosovo, whose investments in the foreign sector were entirely concentrated in stocks and other equities. Similarly, during 2011 the CBK has shifted a significant part of investments from securities towards investments in deposits,

Figure 9. Net claims of the financial sector, in millions of euro



Source: CBK (2012)

Figure 10. Net foreign assets, by institutions (in millions of euro)



Source: CBK(2012)

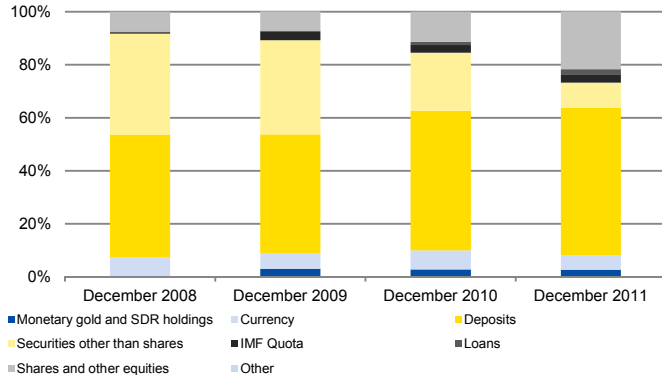
⁹ In this context, the financial sector of Kosovo includes the Central Bank of the Republic of Kosovo and all financial institutions operating in the Republic of Kosovo.

which reduced the share of investments in securities to total assets invested abroad (Figure 11). In 2011, 85.9 percent of the CBK claims from the external sector were comprised from investments in deposits (68.5 percent in December 2010) and only 2.0 percent consisted from investments in securities (16.0 percent in 2010). Only commercial banks shifted a small part of investments from deposits towards securities. In 2011, investments in securities comprised 30 percent of total assets invested abroad from commercial banks operating in Kosovo (24.4 percent in December 2010), while investments in deposits continue to represent the largest part with a share of 46 percent (56.8 percent in December 2010).

Liabilities of Kosovo’s financial sector to the external sector marked an annual decline of 13.1 percent in 2011. The value of these liabilities decreased to euro 374 million from euro 430.2 million as it was in the previous year. This is mainly due to lower levels of two major components of these liabilities, respectively loans that financial institutions in Kosovo receive from the financial institutions operating abroad (euro 172.2 million in 2011 compared with euro 205.8 million in 2010) and nonresidents deposits in commercial banks operating in Kosovo (euro 65.6 million in 2011 compared to euro 87.1 million in 2010). The structure of liabilities remained the same with similar to the previous year (Figure 12). The main categories of these liabilities remain loans received from abroad (46 percent of total liabilities) and non-residents deposits in banks operating in Kosovo (17.5 percent of liabilities). IMF account and the allocation of Special Drawing Rights (SDR) remained almost unchanged since 2009 when the membership agreement was signed with the IMF. Main bearers of obligations to the external sector continued to be commercial banks and microfinance institutions, as recipients of loans received from abroad and as holders of non-residents deposits (non MFIs).

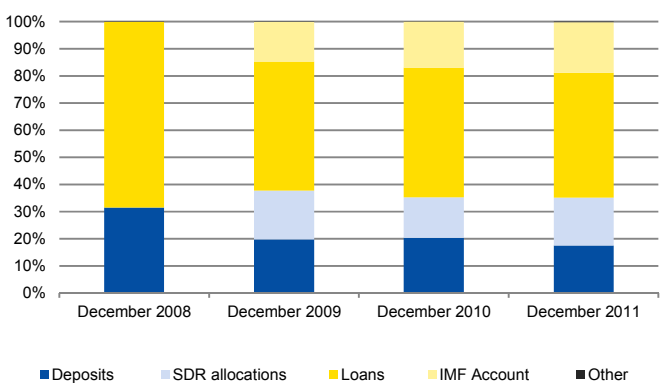
Financial sector net claims on the domestic sector continued to grow, reaching a value of euro 990.6 million, or an increase of 33.4 percent compared to year 2010. Increasing claims on the domestic sector were largely driven by the significant increase of claims on the real sector (14.15 percent) and the lower level of government deposits (for 3.2 percent), which are the main components of net claims. Net claims on the real sector continue to have a negative balance (Figure 9), since the liabilities on the real sector (consisting of deposits in commercial banks and insurance technical reserves) continue to be higher than the claims of this sector which mainly consist of loans issued by financial institutions.

Figure 11. Structure of claims from the external sector



Source: CBK (2012)

Figure 12. Structure of liabilities to the external sector



Source: CBK (2012)

3.3.2. Banking system

Kosovo's banking system during 2011 continued to consist of eight commercial banks, of which six are foreign-owned and two domestically-owned. High participation of foreign banks is also reflected in the structure of total assets of the banking system, where 89 percent of total assets are managed by foreign-owned banks. Although there has been no entry of new banks, in 2011, is recorded an entrance of new capital from abroad in the country's banking system, where the European Bank for Reconstruction and Development (EBRD) has purchased around 10 percent of shares of the bank "Banka për Biznes" (BPB), which is dominated by domestic ownership.

Market structure of the banking system continues to be characterized by a high degree of concentration, where the three largest banks manage about 73 percent of total banking system assets. However, the market share of the three largest banks has declined compared to year 2010, when they managed 77.4 percent of total assets. The decline in the degree of market concentration is also shown by the Herfindahl-Hirschman Index (HHI). In the recent years, it has been noticed a continuous decline in the value of HHI for banking system assets, loans, and deposits. In 2011, the degree of concentration in the three positions marked an equal level of about 2,090 points of HHI index (Figure 13). The concentration of the banks now is the same in all three positions, while in the previous years there was a higher concentration for loans and deposits compared to assets. The decline in the market concentration indicates an intensification of the activity of smaller banks, leading to increased competitive pressures in the banking market.

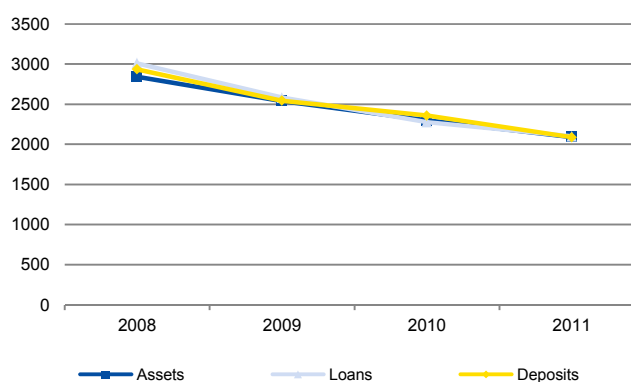
Regarding the banking system infrastructure, the number of operational units (including main offices, branches and sub-branches) in 2011 was 310, one less compared with the end of 2010. It is evident that the existing banks have achieved to consolidate quite well their network of operational units, since the significant expansion of branches and sub-branches that took place

during the recent years seems to have stagnated during 2011.

The number of employees has continued to grow, reaching 3,728 from 3,610 employees as they were in the previous year. At the same time, banks have continued the trend of expanding the network of points of sale (POS), Automated Teller Machines (ATM) and the number of e-banking accounts users. Besides the expansion of the physical infrastructure, also the value of electronic payments using the above forms is growing (Table 1).

While in 2010 the value of payments conducted via e-banking marked a total of euro 782 million, in 2011 the value of these payments was euro 1.19 billion. Also, the use of POS terminals was significantly higher during 2011, with the value of POS payments amounting to euro 142 million, compared with a total of euro 94 million in 2010.

Figure 13. HHI for assets, loans and deposits



Source: CBK (2012)

Table 1. Electronic payments, in millions of euro

Description	2009	2010	2011
ATM withdrawals	582.4	639.8	790.0
POS payments	68.4	94.3	142.4
E-banking payments	607.3	782.4	1191.8

Source: CBK (2012)

All these indicators suggest that cash payments are being reduced, hence giving priority to electronic payments.

3.3.2.1 Banking system balance sheet

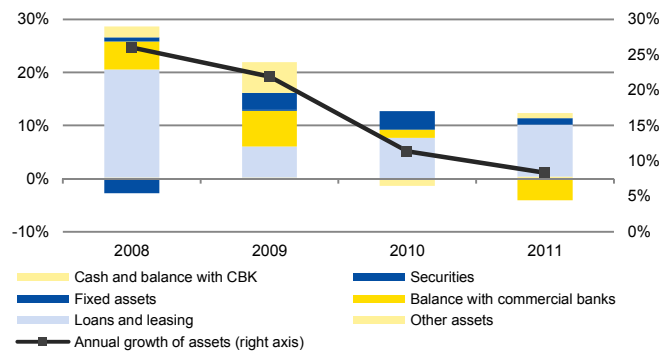
i. Assets

Total assets of the Kosovo's banking system reached the amount of euro 2.65 billion in year 2011, marking an annual increase of 8.3 percent (9.3 percent in 2010). As a share to GDP, the assets of the banking system reached the rate of 57.2 percent (58.2 percent of GDP in 2010).

The expansion of the banking system activity, expressed by the increase of total assets, was mainly driven by the credit growth and investments in securities. The

increase of loans and investments in securities contributed by 9.8, respectively 1.2 pp in the increase of total assets; whereas, the balance with commercial banks contributed negatively with -4.1pp due to the decrease of placements that banks operating in Kosovo hold at banks operating abroad (Figure 14). A part of these funds might have been oriented towards the lending activity in the country and investments in securities abroad - two categories which have increased in 2011. Lending activity continues to be the main activity of the banking system in the country. Loans, as the dominant category in the structure of total assets, represented 68.3 percent of total banking sector assets, amounting to euro 1.69 billion (euro 1.45 billion in 2010). In the last two years, banks' lending activity recorded an accelerated growth trend compared to 2009, when credit growth had significantly slowed down. The annual growth rate of loans in 2010 and 2011 was 13.3 and 16.4 percent, respectively, compared to the annual growth rate of 8.9 percent recorded in 2009. The continued credit growth may be a reflection of the continued economic growth in the country and the increase in the confidence of the banking system towards the private sector of the Kosovo's economy. Banks operating in Kosovo reported also an increase of enterprises' demand for bank loans, in particular from the small and medium enterprises.¹⁰ Also, continued credit growth in Kosovo is certainly a result of the favorable funding structure of banks, where the main source of funding continues to be deposits collected in Kosovo, which have followed a sustainable growth trend.

Figure 14. Contribution to the growth of the banking system assets by categories, in percent



Source: CBK (2012)

¹⁰ The Central Bank of the Republic of Kosovo conducts on quarterly basis the Bank Lending Survey with the banks operating in Kosovo.

Table 2. Structure of the banking system assets

Description	2008		2009		2010		2011	
	In millions of euro	In percent	In millions of euro	In percent	In millions of euro	In percent	In millions of euro	In percent
Cash and balance with CBK	218.2	12.1%	322.7	14.6%	307.5	12.5%	331.5	12.5%
Balance with commercial banks	283.9	15.7%	405.6	18.4%	439.0	17.9%	339.4	12.8%
Securities 39.7		2.2%	97.0	4.4%	173.4	7.1%	202.0	7.6%
Loans and leasing (gross)	1,183.4	65.4%	1,289.0	58.5%	1,458.7	59.4%	1,698.1	63.8%
Fixed assets	39.0	2.2%	43.1	2.0%	44.0	1.8%	47.4	1.8%
Other assets	43.1	2.4%	46.7	2.1%	32.3	1.3%	41.4	1.6%
Total	1,808	100%	2,205	100%	2,455	100%	2,660	100%

Source: CBK (2012)

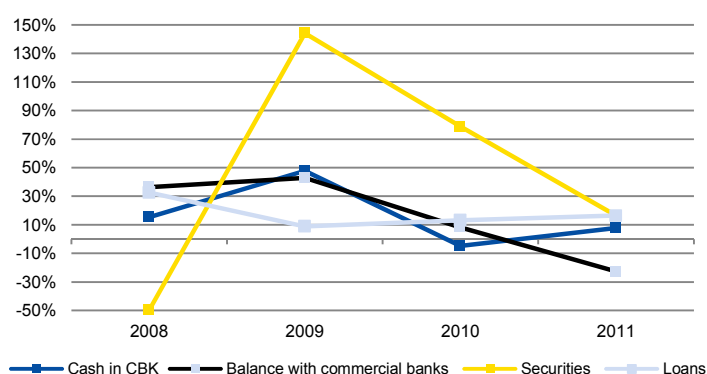
Year 2011 has also marked a slowdown of investments abroad by banks operating in Kosovo. The slowdown is more significant in the balance of commercial banks operating in Kosovo with other banks abroad, which recorded an annual decline of 22.7 percent, amounting to euro 339.4 million. Also, it has been observed a degree of reluctance of commercial banks in terms

of expanding the investments in securities in foreign markets. In 2011, investments in securities amounted to euro 202 million, marking a growth rate of 16.5 percent, which is significantly lower than the annual growth rate of 78.8 percent that was recorded in 2010 (Figure 15). The reduction of the balance with other banks and the slowdown of the growth of investments in securities may have occurred due to the increase of uncertainties in some of the eurozone economies, but also due to the growth of banks' lending activity in the Kosovo's economy. Despite the slower growth, the share of investments in securities in total banking system assets increased to 7.6 percent from 7.1 percent in 2010.

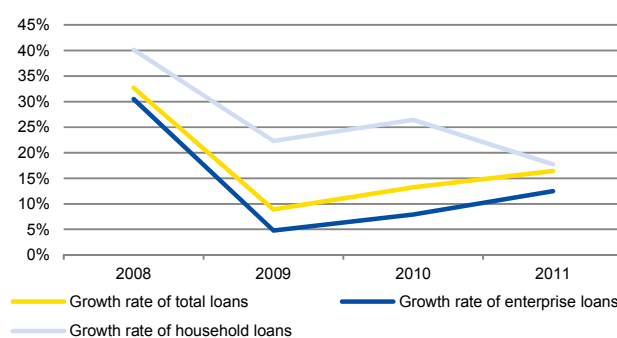
ii. Structure of loans

Loans to households continued to grow also during 2011, but at a lower rate compared to the last year. In 2011, loans to households recorded an annual growth of 17.7 percent, compared to the growth rate of 24.6 percent in 2010 (Figure 16). Conversely, the growth of loans to enterprises accelerated with a growth rate of 12.5 percent in 2011 compared to 7.9 percent in 2010 and 4.8 percent in 2009. Despite this, the growth

rate of loans to enterprises remained lower than the growth rate of loans to households. This is reflected in the structure of total loans, where it is marked a slight increase in the

Figure 15. Assets growth, in percent

Source: CBK (2012)

Figure 16. Growth rate of loans by sectors, in percent

Source: CBK (2012)

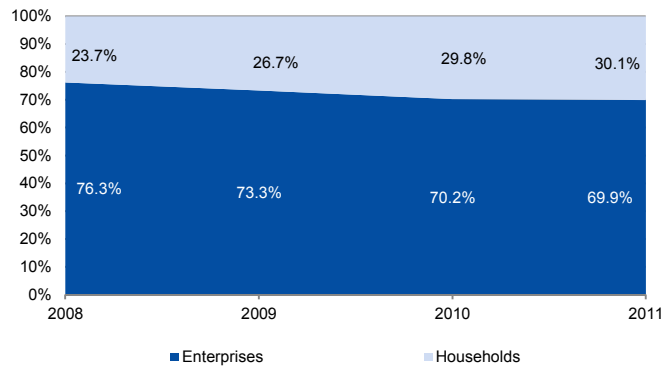
share of loans to households and a decline of the share of loans to enterprises (Figure 17). The share of loans to households in total loans issued by the banking system reached 30.1 percent at the end of 2011, but loans to enterprises continue to dominate the structure of total loans with a share of 69.9 percent.

Loans to enterprises continued to have a similar structure with the previous year in terms of the economic activity exercised by borrowing enterprises. In year 2011, 71.7 percent of the total loans to enterprises were issued to the services sector, most of which having been received by the trade sector. Loans to the trade sector represented 52.7 percent of the total loans issued to enterprises. Loans to the industry sector, which includes mines, manufacturing and construction, represented 24.8 percent of total loans to enterprises (Figure 18). The least credited sector by the banking system continued to be the agriculture sector, with a share of 3.5 percent of total loans to enterprises.

Loans issued to the agriculture sector have traditionally maintained a low level since when the banking system started to operate in Kosovo. Given the relatively low volume of loans to this sector and also higher interest rates of loans to agriculture compared to other sectors, it can be considered that banks face greater uncertainties with regard to the crediting of the agriculture sector. In addition, higher interest rates on these loans can certainly discourage the demand for loans by the agriculture sector, thus preventing a further expansion of loans towards this sector. The reluctance of banks to expand lending activity to the agriculture sector is also noticed from the fact that around 90 percent of total loans to the agriculture sector in Kosovo are issued only by one of the banks operating in our country.

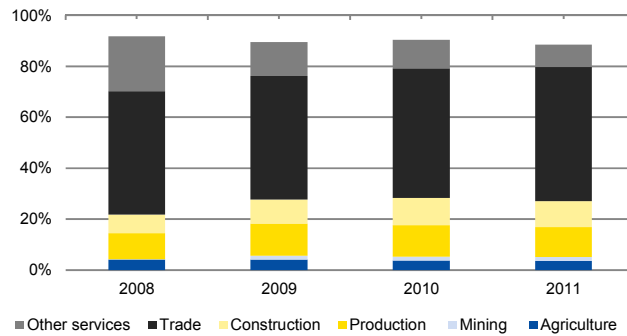
Loans to the trade sector amounted to euro 606.2 million, marking an annual growth of 16.3 percent (13.6 percent in 2010). On the other hand, loans to the construction sector in

Figure 17. Structure of loans, in percent



Source: CBK (2012)

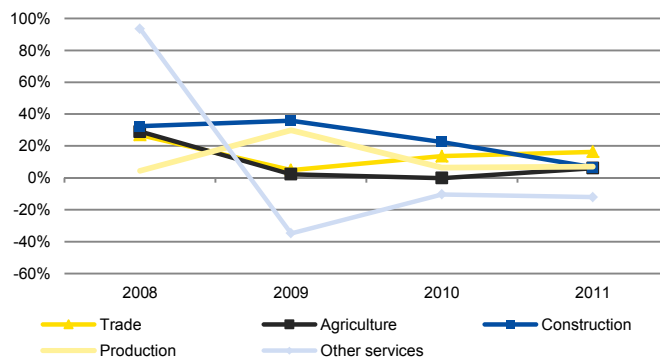
Figure 18. Structure of loans by economic activity, in percent



Source: CBK (2012)

continued to be the agriculture sector, with a share of 3.5 percent of total loans to enterprises.

Figure 19. Annual growth rate of loans by economic sectors



Source: CBK (2012)

2011 amounted to euro 116.3 million, decreasing by 6.6 percent (22.5 percent annual increase in 2010). Loans to the agriculture sector reached at euro 40.5 million, which is annual growth rate of 6.1 percent.

The structure of loans by maturity remains similar to the previous years, where the majority of loans are comprised by loans with long-term maturities. In 2011, loans with maturity over two years up to five years represented 42 percent of total loans, while loans with maturity over five years up to ten years represented 25.6 percent of total loans (Figure 20). A substantial share of total loans is represented also by loans with maturity up to one year, which accounted for 21.1 percent of total loans, while loans with maturity over one year up to two years represented 7.2 percent of total loans. Loans with maturity of over ten years continue to represent a lower share, comprising 3.7 percent of total loans in year 2011. The remainder of 0.4 percent of total loans belongs to non-euro currency loans.

The annual growth rate of loans with maturity over two years in 2011 was 13.6 percent, compared with the growth rate of 19.3 percent in 2010. This may be a sign of reluctance by banks to extend loans with longer term maturities. Given that loans with longer term maturities can be used more by enterprises, it may be considered that there is a level of uncertainty that may be present to banks in relation to developments in the real sector of the economy.

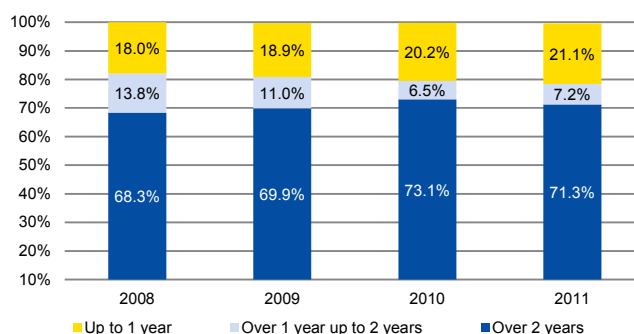
This uncertainty may be sourced to the economic problems that some of the eurozone countries are facing, which in various forms could be reflected also in other countries.

iii. Liabilities

The structure of banking system liabilities continued to be dominated by deposits, which represent the major source of funding for the banks operating in Kosovo. In 2011, deposits represented 79 percent of total banking system liabilities (Table 3). In December 2011, the deposits amounted to euro 2.1 billion, marking an annual growth of 8.5 percent, which is lower than the growth rate of 11 percent that was recorded in 2010.

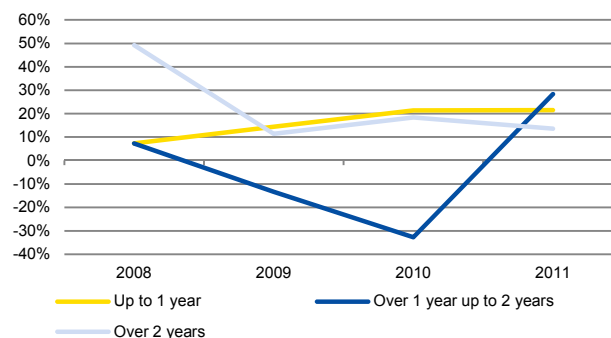
Another important source of funding for commercial banks consists of banks' own resources, which in 2011 represented 9.6 percent of total banking system liabilities. The own resources at the end of 2011 reached the value of euro 255.3 million and recorded an annual

Figure 20. Structure of loans by maturity, in percent



Source: CBK (2012)

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



Source: CBK (2012)

growth of 10.4 percent. Subordinated debt and balances from other banks, which for banks operating in Kosovo represent financial sources from external markets, in 2011 declined following the continuous growth during the past three years.

Table 3. Structure of banking system liabilities

Description	2008		2009		2010		2011	
	In millions of euro	In percent	In millions of euro	In percent	In millions of euro	In percent	In millions of euro	In percent
Balance from other banks	34.8	1.9%	58.5	2.7%	94.0	3.8%	40.0	1.5%
Deposits	1,444.1	79.9%	1,744.8	79.2%	1,936.9	78.9%	2,102.3	79.0%
Other borrowings	0.0	0.0%	0.0	0.0%	0.0	0.0%	30.4	1.1%
Other liabilities	140.2	7.8%	171.0	7.8%	160.0	6.5%	200.5	7.5%
Subordinated debt	7.0	0.4%	24.4	1.1%	33.5	1.4%	31.0	1.2%
Own resources	182.3	10.1%	205.6	9.3%	230.5	9.4%	255.3	9.6%
Total 1,	808	100%	2,204	100%	2,455	100%	2,660	100%

Source: CBK (2012)

The subordinated debt in 2011 amounted to euro 31 million, decreasing by 7.2 percent compared to 2010, while the balance from other banks abroad marked the value of euro 40 million, which is the half of the value that was recorded in year 2010.

Conversely, for the first time after three years, it is noticed that banks have also used as financial source other borrowings (credit lines from international institutions such as EBRD, KfW, etc.), which in 2011 amounted to euro 30.4 million. The use of this source of financing to some extent may have served as a substitute for subordinated debt and balances from other banks, which declined during this year. Subordinated debt is recognized as a financial source with a higher cost, and therefore, could be replaced with other borrowings that may bear lower costs for the banks. Also, a significant increase is observed in the category of other liabilities, which amounted to euro 200.5 million in year 2011, representing an annual growth of 25.3 percent.

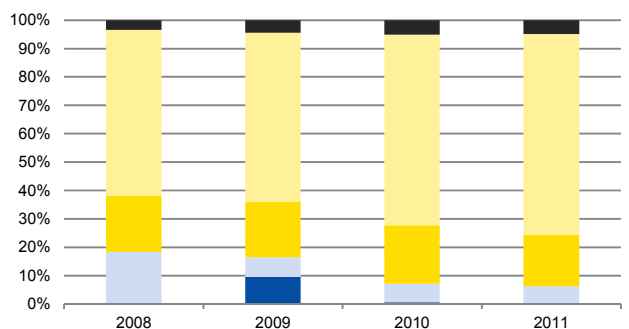
iv. Structure of deposits

Households continue to generate most of the deposits in the banking system, comprising 71 percent of total deposits in 2011 (67 percent in of total deposits in 2010) (Figure 22). The amount of household deposits in 2011 reached at euro 1.5 billion, recording an annual growth of 14.7 percent, compared with the growth rate of 25 percent in 2010.

Amounting to euro 509.3 million, deposits of enterprises recorded an

annual growth of 0.2 percent. The structure of enterprises deposits was dominated by deposits of private enterprises (74.7 percent of total enterprises deposits). However, the deposits of private enterprises in year 2011 declined with an annual rate of 4.8 percent. Deposits of public enterprises reached the value of euro 128.6 million, marking an annual increase of 1.6 percent. The share of public enterprises deposits to total deposits remained similar to the previous year, standing at 6.1 percent (Figure 22). Government deposits in

Figura 22. Structure of deposits by sectors, in percent



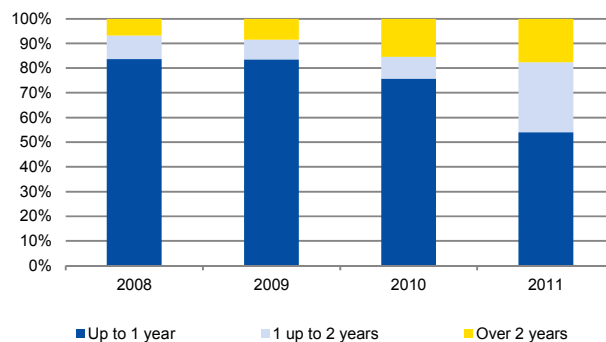
Source: CBK (2012)

the commercial banks decreased from euro 11.7 million in 2010, to euro 2.7 million in 2011. The share of government deposits to total in year 2011 was 0.1 percent (0.6 percent of total deposits in year 2010). Decline is recorded also in the share of non-residents deposits to total deposits that in 2011 dropped to 3.1 percent from 4.4 percent of total deposits in 2010. The value of nonresidents deposits in the Kosovo's banking system amounted to euro 64.2 million, compared with euro 84.8 million in 2010.

The structure of deposits in terms of maturity remained similar to the previous year. Time deposits continue to represent the largest share of deposits (50.3 percent of total deposits). The remainder consists of transferable and savings deposits, which at the end of 2011 had a share of 33.2 percent and 16.6 percent of total deposits, respectively.

The structure of time deposits continued to be dominated by deposits with short-term maturity, in particular deposits with maturity up to one year, and deposits with maturities of 1 up to 2 years. However, unlike in the last three years when deposits with maturity up to one year had a share of about 80 percent, in 2011 the share of these deposits declined by 22pp (Figure 23). Deposits with maturity over 1 year up to 2 years represented 28

Figure 23. Structure of time deposits by maturity, in percent



Source: CBK (2012)

percent of total deposits which, compared with the previous year, increased their share by 20pp. The increased share of these deposits was caused partly by renewed time deposits of households with maturity up to 1 year into deposits with maturity over 1 year up to 2 years. The remainder of the banking system deposits consists of deposits with maturity over two years, which in 2011 composed 18 percent of total time deposits (16 percent in 2010). In general, it is noticed an increase in deposits with longer term maturities, reflecting the continued growth of public confidence in the banking system of Kosovo. Public confidence on the banking system to some extent might have been strengthened by the approval of the law and the functionalization of the deposit insurance scheme in July 2011.

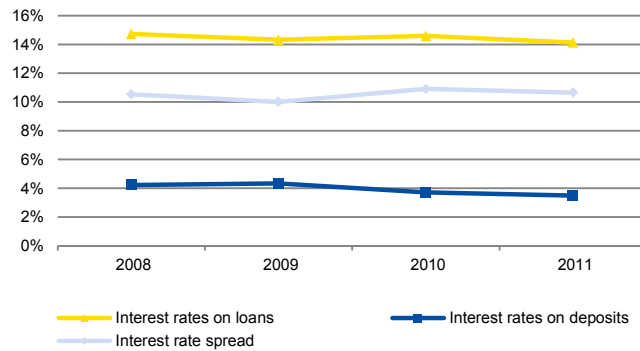
Regarding the currency breakdown of the deposits, 94 percent of total deposits are denominated in euro. Given the fact that assets and liabilities of the Kosovo's banking system are mainly denominated in euro, it can be concluded that the commercial banks operating in Kosovo are minimally exposed to the exchange rate risk.

3.3.2.2 Interest rates

Year 2011 was characterized with decrease of interest rates both in deposits and loans. Consequently, the the interest rate spread declined from 10.9pp as it was in 2010 to 10.6pp in 2011.

With a further improvement of overall business environment and increase of banks efficiency, loan interest rates are expected to continue decreasing. The average interest rate on deposits for the period January-December 2011 declined to 3.5 percent, compared with 3.7 percent as it was during the period January-December 2010 (Figure 24). Whereas, the average interest rate on loans declined from 14.6 percent in January-December 2010 to 14.1 percent for the period January-December 2011.

Figure 24. Average Interest Rates, in percent



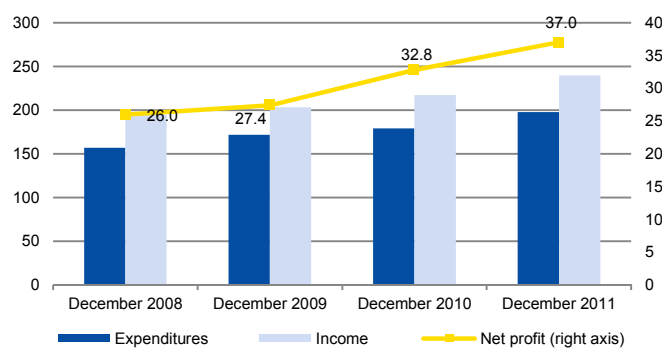
Source: CBK (2012)

The average interest rates on household and enterprise deposits were similar. The highest average interest rate on enterprise deposits, in December 2011, was 5.25 percent for deposits over euro 250 thousand and with maturity over six months up to one year. Similarly, the highest average interest rate on household deposits, in December 2011, was 5.36 percent (deposits with maturity over two years). Regarding loans, the highest interest rate on enterprise loans, in December 2011, was 17.1 percent, while the highest interest rate on household loans was 16.4 percent. Regarding enterprise loans, average interest rates on investment loans decreased to 14.3 percent compared with the average of 15.6 percent in 2010. Also, the average interest rate on other business loans declined to 16.5 percent, compared with the average interest rate of 17.5 percent in 2010. The average interest rate on overdrafts and credit lines remained similar to last year's rates, 12.1 percent and 13.2 percent, respectively.

3.3.2.3 Banking system performance

Kosovo's banking system concluded year 2011 with a net profit of euro 37.0 million, which is for 12.8 percent higher than the profit recorded in 2010 (Figure 25). The increase of the profit mainly resulted from the faster increase of the total income compared to the total expenditures of the banking system.

Figure 25. Balance of income and expenditures, in millions of euro



Source: CBK (2012)

The annual growth rate of total income was 10.5 percent, while expenditures grew by 10.3 percent (Figure 26).

In December 2011, the banking system income amounted to euro 240 million compared with euro 217.2 million in December 2010. The higher growth rate of lending activity by banks was reflected in the accelerated growth of interest income, which represents the main source of the banking system income (Figure 27). Total interest income amounted to euro 195.0 million in 2011, marking an annual growth of 11 percent.

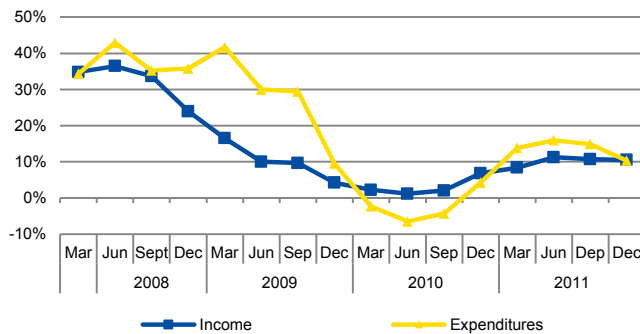
The structure of total banking system income continues to be dominated by interest income on loans, which in year 2011 represented 77.6 percent of total income (Figure 28). Continuing dominance of this category of revenues is explained by the fact that Kosovo's financial system is still not enough developed to provide financial instruments that could diversify the structure of banks' investments and, consequently, the structure of their revenues.

Year 2011 also marked a higher level of interest income from placements of banks operating in Kosovo in banks abroad. Although the volume of placements abroad decreased compared to 2010, the continuous increase of interest rates during the first half of 2011 was reflected in increased interest income from these placements. In December 2011, the income from this category amounted to euro 4.1 million, marking an annual growth of 53.5 percent compared with the previous year (Figure 29).

Banking system income in 2011 was positively affected also by the income from investments in securities. This category of income continued to increase, reaching at euro 4.2 million or an increase of 35.3 percent compared with the same period of the previous year. The improved performance of the income from investments in securities was primarily a result of the continued growth of assets invested in securities and, secondly, the increased cost of public debt financing and the increase of premiums on securities due to the crisis in the eurozone.

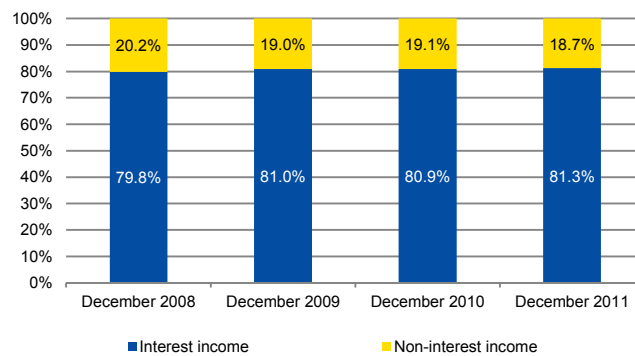
Another important component of banking system revenues consists of the non-interest income, which in 2011 recorded a value of euro 45.0 million (euro 41.4 million in 2010) representing 18.7 percent of total banking sector income (Figure 29). The main component

Figure 26. Annual growth rates of income and expenditures



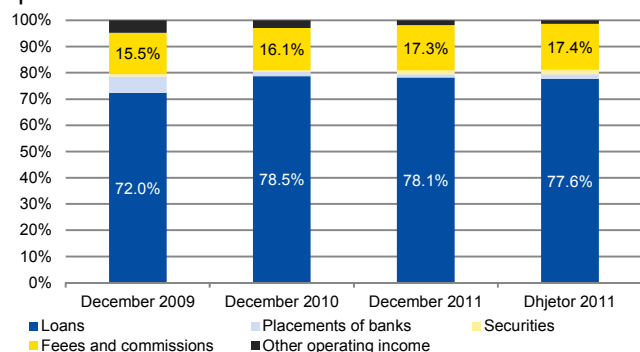
Source: CBK (2012)

Figure 27. Structure of income, in percent



Source: CBK (2012)

Figure 28. Structure of income by category, in percent



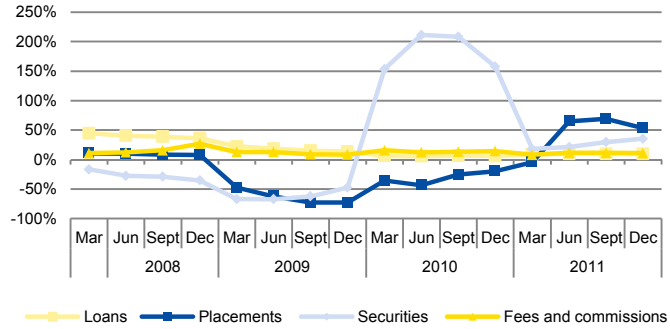
Source: CBK (2012)

of the non-interest income consists of fees and commissions. Revenues from fees and commissions represented 17.4 percent of total revenues in year 2011 (Figure 29). This category of revenues in recent years has increased its share to total banking revenues as a result of the increased range of banking services.

Banking system expenditures reached a value of euro 197.8 million in year 2011, marking an annual growth of 10.3 percent which is higher than the growth rate of 4.3 percent that was recorded in year 2010. The accelerated growth was present in almost all the items of banking expenditures.

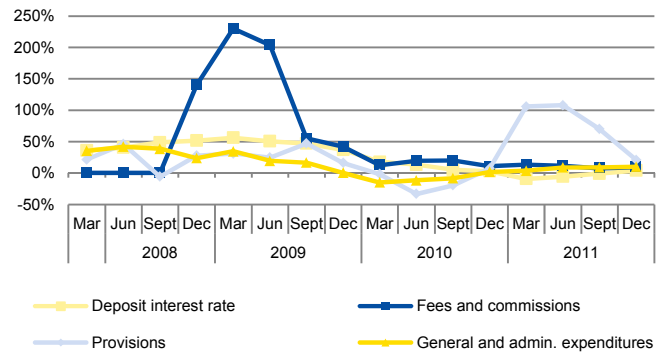
Among the main categories of banking sector expenditures, a more significant growth was recorded by loan-loss provisions. The increase of expenditures for provisions was due to the deteriorating quality of loan portfolio during the first half of 2011. Until June 2011, expenditures on provisions amounted to euro 19.7 million, recording a substantial increase of 107.8 percent compared to June 2010 (Figure 30). However, in the second half of 2011, banks showed more cautious in managing the credit risk, resulting in a slowdown of expenditures for provisions as a consequence of the improvement in the quality of the loan portfolio. At the end of 2011, expenditures on provisions amounted to euro 34.2 million, which represents an annual increase of 20.8 percent. Expenditures for loan-loss-provisions are reported within non-interest expenditures, which in 2011 amounted to euro 42.7 million or 18.3 percent higher than in December 2010 (Figure 31). Growth was noticed also in the category of general and administrative expenditures, which reached the amount of euro 96.7 million, recording an annual growth of 9.9 percent. The growth of this category of expenditures was mainly driven by the increase of personnel expenditures, which recorded a value of euro 40.7 million or 7.7 percent higher compared with the previous year. The growth of

Figure 29. Annual growth rate of income by categories



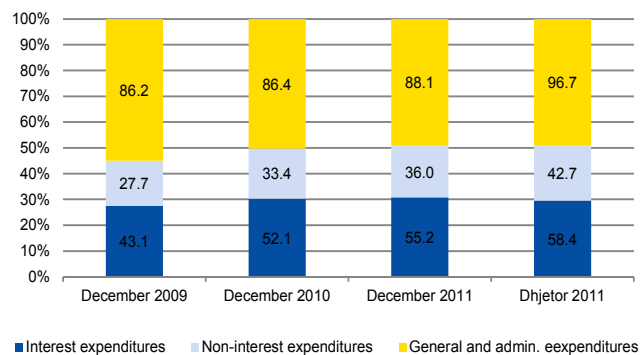
Source: CBK (2012)

Figure 30. Annual growth rate of expenditures by categories, in percent



Source: CBK (2012)

Figure 31. Structure of expenditures of the banking sector, in millions of euro



Source: CBK (2012)

personnel expenditures reflects the increase in the number of the banking system employees. Also, other non-interest expenditures recorded a significant growth, reaching at euro 22.5 million (annual growth of 78.4 percent). Within the general and administrative expenditures, the only category that recorded a decrease were rental expenditures, which decreased by 10.9 percent and amounted to euro 33.5 million.

Interest expenditures in 2011 recorded an annual increase of 5.9 percent, reaching at euro 58.4 million. Within this category of expenditures, a more significant growth was noticed in interest expenditures on deposits that increased to euro 51.3 million (euro 49.4 million in 2010) and the interest paid on borrowings that reached at euro 5.6 million (euro 4.8 million in December 2010).

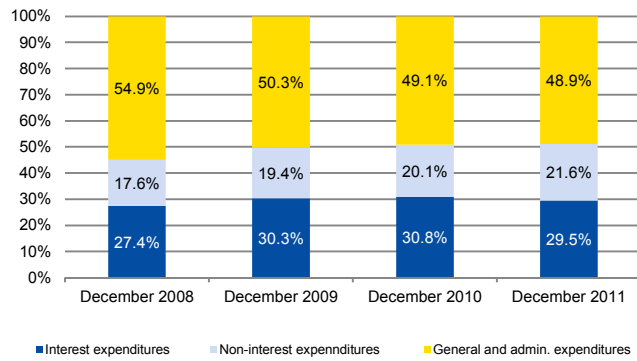
General and administrative expenditures remain the dominant category within the structure of total banking system expenditures with a share of 48.9 percent (Figure 32). Interest expenditures are the second largest category with a share of 29.5 percent to the total expenditures (30.8 percent in December 2011), the share of non-interest expenditures increased to 21.6 percent of total expenditures (20.1 percent in December 2011).

3.3.2.3.1 Banking system profitability and efficiency

The increase of the net profit was reflected also in the Return on Average Equity (ROAE), which in 2011 reached at 15.3 percent compared with 14.8 percent in 2010. Whereas, the Return On Average Assets (ROAA) remained at the same level of 1.5 percent as in the previous year (Figure 33).

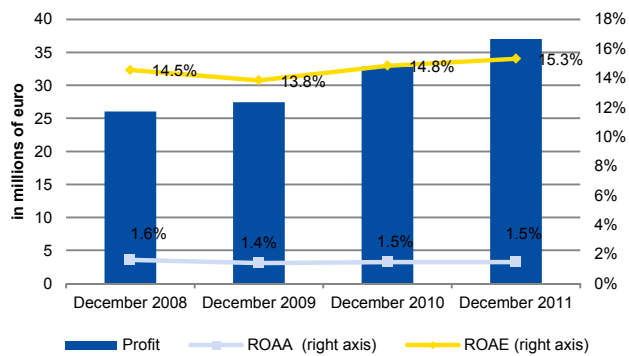
The higher growth rate of the banking sector income compared to the growth rate of expenditures resulted in a slight improvement of the efficiency indicator of the banking system, measured as the ratio between expenditures and income (Figure 34). In December 2011, the ratio between expenditures and income decreased to 82.4 percent from 82.5 percent in December 2010. The downward

Figure 32. Structure of expenditures, in percent



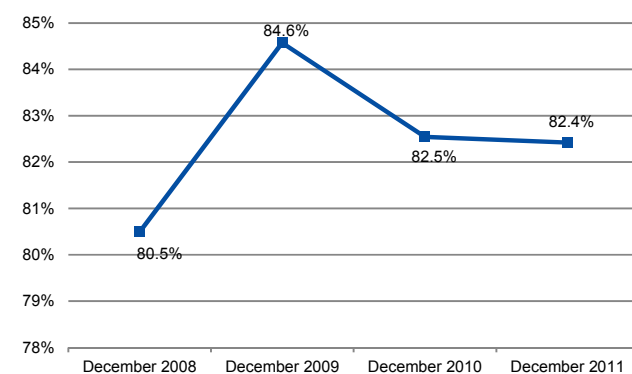
Source: CBK (2012)

Figure 33. Profitability indicators



Source: CBK (2012)

Figure 34. Expenditures/income ratio, in percent



Source: CBK (2012)

trend of this indicator has begun in 2010, when this figure was reduced to 82.5 percent from 84.6 percent in 2009.

3.3.2.4 Banking system risks

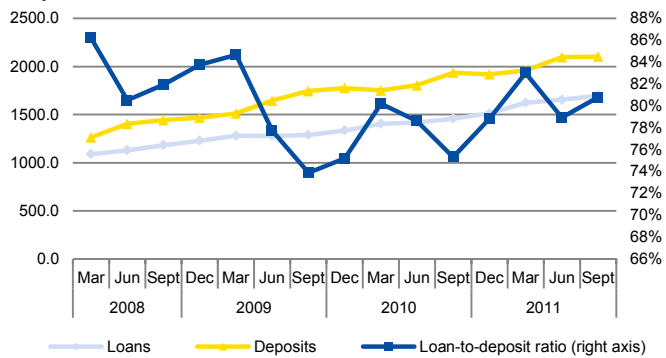
i. Liquidity risk

Kosovo’s banking system continues to be characterized by a satisfactory level of liquidity, which enables the commercial banks to fulfill their obligations to depositors and other lenders on time and without difficulty. The satisfactory liquidity position in the commercial banks operating in the country is a result of the careful management of the balance sheet by commercial banks both in terms of assets and liabilities.

The structure of financing of the banking operations in Kosovo in 2011 was similar to that of the previous year, where the deposits collected in the country continued to represent the dominant category of banking system liabilities. In December 2011, deposits represented 79 percent of total banking sector liabilities. The high reliance of banks in financing their operations with deposits may represent a potential risk to the Kosovo’s banking system, as a deterioration in the general economic situation in the country may negatively affect the saving capacity of the public and, consequently, the banks could face difficulties in securing adequate funding to finance their activities. It is therefore particularly important that banks be able to use also other sources of finance, which may emphasize the need of the functionalisation of the interbank market and the access to financial resources abroad.

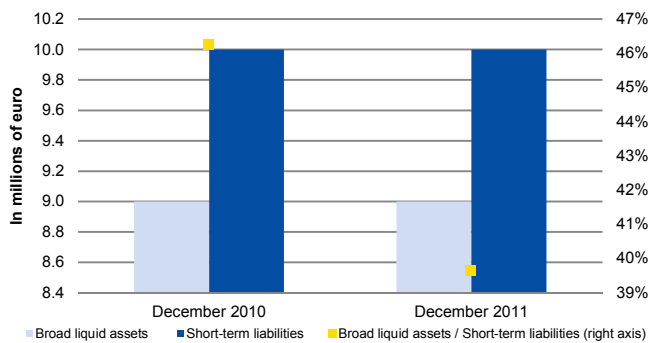
An important indicator of the liquidity level in the banking system is the ratio between loans and deposits. In December 2011, loan-to-deposit ratio stood at 80.8 percent, while in December 2010 this ratio was 75.3 percent (Figure 35). The increase of this indicator reflects the faster growth of loans compared to the growth of deposits. Despite the increase, the current ratio between loans and deposits remains in line with the CBK recommendation to keep the loan-to-deposit ratio at 80 percent on average.

Figure 35. Loans and deposits of the banking system, in millions of euro



Source: CBK (2012)

Figure 36. The ratio of broad liquid assets / short term liabilities



Source: CBK (2012)

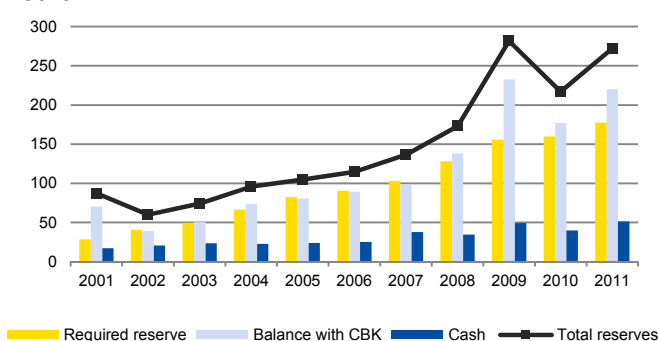
Another important indicator for the liquidity level in the banking system is the ratio between liquid assets and total assets. Based on the definitions used by the International Monetary Fund, liquid assets are classified into core liquid assets and broad liquid assets.¹¹ The higher growth rate of loans is also reflected in the decline of the share of core liquid assets and broad liquid assets to the total banking sector assets. In December 2011, the share of core liquid assets to total assets stood at 26.6 percent, compared with 32.3 percent as it was in December 2010. The share of broad liquid assets to total assets reached at 31.3 percent compared with 36.8 percent as it was in December 2011. The decline of these two indicators is a reflection of the decrease of the assets invested as placements abroad by the banks, which in December 2011 were around euro 100 million lower compared to the same period of the previous year. Despite the decline, the current ratio between liquid assets and total assets ensures a satisfactory liquidity position in the banking system. Nevertheless, banks must be constantly cautious in order to prevent a further deterioration of these indicators.

Another important indicator for the liquidity level is the ratio between liquid assets and short-term liabilities. Through this indicator it can be assessed the ability of banks to meet the liabilities that mature within a short time period, in other words, to meet the requests for deposits withdrawal or to pay other debts that mature within a short period. In December 2011, the ratio between core liquid assets and short-term liabilities stood at 33.7 percent marking a decline of 6.9pp compared to the same period of the previous year. During the same period, the ratio between broad liquid assets and short-term liabilities stood at 39.6 percent, which also represents a decline of 6.6pp compared with the previous year (Figure 36). However, compared to the first half of 2011, in the second half of the year both of these indicators increased, considering that in June 2011 the ratio between core liquid assets and short-term liabilities was 31.1 percent, while the ratio between broad liquid assets and short-term liabilities was 38.1 percent. This indicates that the decline of the liquidity indicators has occurred mainly in the first half of 2011, while the second half of the year is characterized by improvement of these indicators.

Kosovo's banking system has consistently maintained liquidity reserves at a higher level than the minimum level required by the Central Bank. Based on the existing rules, in December 2011, commercial banks operating in Kosovo were obliged to hold

reserve assets amounting to euro 177.4 million. At the end of 2011, liquidity reserves exceeded the mandatory level by euro 94.5 million, standing at euro 271.9 million (Figure 37). Compared with the previous year, the amount of banking system reserves which exceeds the required level of reserves marked an increase. This level of liquidity makes the Kosovo's banking system sustainable against various potential shocks in the financial markets or against potentially large deposit withdrawals. The satisfactory liquidity position

Figure 37. Banking system reserves, in millions of euro



Source: CBK (2012)

¹¹ Core liquid assets include cash and balance with CBK, current accounts at other banks, and placements at other banks with maturity up to 90 days. Broad liquid assets include the core liquid assets and tradeable assets and securities with maturity up to 90 days.

of the Kosovo's banking system is also indicated by the stress -test results on liquidity risk (Section 3.3.2.4.1).

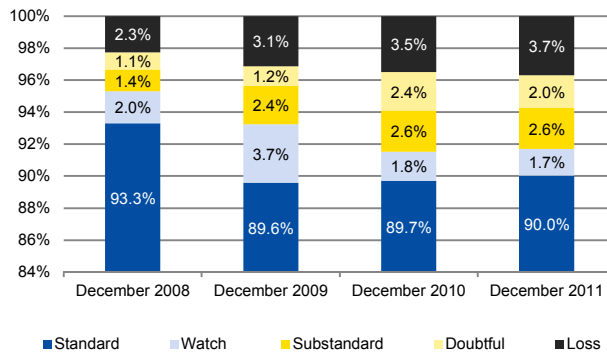
ii. Credit risk

The improved performance of the economy during year 2011 also reflected in the performance of the banking system both in terms of the increased lending activity and the improved quality of the loan portfolio.

The structure of loans by quality classification¹² continued to be similar to the previous year, but with a slight shift of loans from categories with poorer quality towards standard category loans (standard category includes loans that have no return problems). Figure 38 shows a slight increase of standard loans compared to the previous year, standing at 90.0 percent of total banking system loans (89.7 percent in December 2011).

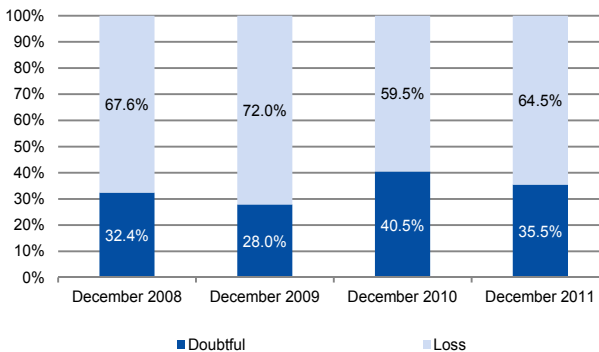
In December 2011, loans classified as “watch” represented 1.7 percent of total loans, which is a decline of 0.1pp compared with the previous year. The category of “substandard” loans maintained its share to total loans at 2.6 percent. In general, the share of classified loans to total loans marked a lower level in 2011, suggesting a slight improvement of the loans quality. During this period, the share of classified loans decreased to 10.0 percent of total loans from 10.3 percent in December 2010 (10.4 percent in December 2009). Also, the group of loans classified as problem loans decreased its share to total loans at 8.3 percent, compared with 8.5 percent in December 2010.

Figure 38. Structure of loans by classification



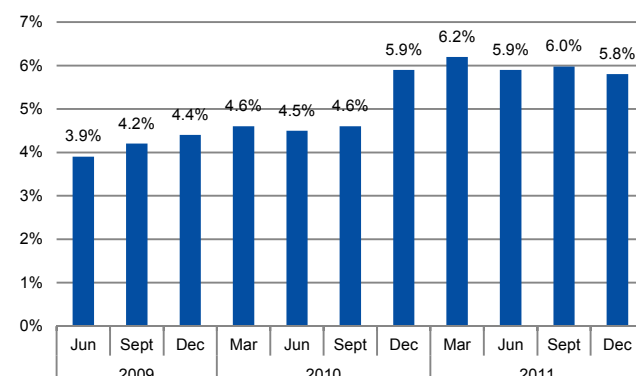
Source: CBK (2012)

Figure 39. Structure of non-performing loans, in percent



Source: CBK (2012)

Figure 40. The ratio of NPL to total loans, in percent



Source: CBK (2012)

¹² Based on the CBK regulations, loans in the banking sector are classified into five main categories: standard, watch, substandard, doubtful and loss. Classified loans include categories: watch, substandard, doubtful and loss. Problem loans include categories: substandard, doubtful and loss. Non-performing loans include categories: doubtful and loss.

A more significant growth was recorded in the categories of loans classified as “loss”, while the category of loans classified as “doubtful” has marked a decrease. These two categories comprise the category of Non Performing Loans (NPL). In December 2011, the share of NPL to total loans stood at 5.7 percent, representing a decline of 0.2 pp compared to December 2010. The structure of NPL continues to be dominated by loans classified as “loss”, which in December 2011 increased their share at 64.5 percent of total NPL, from 59.5 percent as it was in December 2010. The remainder of the NPL consists of loans categorized as “doubtful” (Figure 39). During this period, the value of “loss” loans recorded an annual growth of 23.1 percent (euro 11.6 million), while “doubtful” loans declined by 0.4 percent (euro 130 thousand), compared with the previous year.

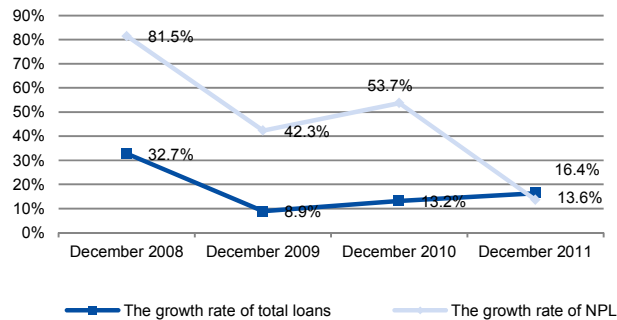
Figure 40 shows that the NPL ratio has pursued a volatile trend during 2011. In the first quarter of 2011, NPL reached at 6.2 percent, representing the highest level of NPL since the beginning of operation of the banking system of Kosovo. However, during the rest of 2011, the level of NPL was highly volatile recording a decline in the second quarter, and then further deteriorated in the third quarter, reaching 6.0 percent. In the end of the year 2011, the NPL ratio decreased to 5.7 percent.

The total value of NPL in December 2011 reached at euro 96.2 million, representing an annual increase of 13.6 percent. During the period 2009-2011, the average annual growth rate of NPL was 36.5 percent, while the average growth rate of overall loans was 12.8 percent (Figure 41).

Kosovo’s banking system has continuously shown to be conservative in terms of NPL coverage with provisions for loan losses, thus keeping provisions consistently at higher level than NPL. In December 2011, the coverage rate of the NPL with

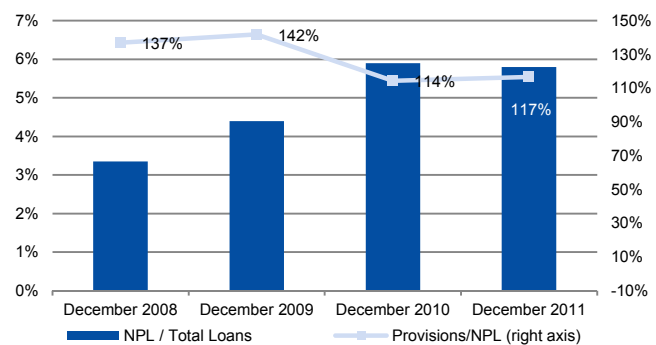
provisions for loan losses increased to 116.7 percent from 114.4 percent in December 2010 (Figure 42). The average coverage ratio during the last 4 years was 127 percent. In December 2011 the total amount of loan-loss provisions was around euro 113.2 million compared with euro 96.8 million in December 2010.

Figure 41. Annual growth rate of total loans and NPL



Source: CBK (2012)

Figure 42. NPL and provisions



Source: CBK (2012)

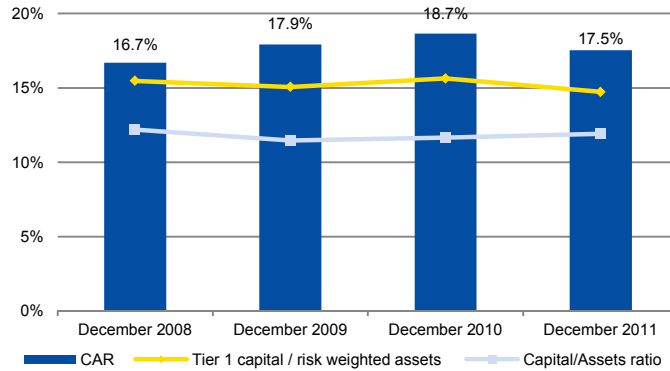
ii. Solvency risk

Capital Adequacy Ratio

The Capital Adequacy Ratio (CAR)¹³ of the Kosovo’s banking system stood at 17.5 percent in 2011, compared to 18.7 percent in the previous year (Figure 43).

The current level of capitalization is satisfactory considering that significantly exceeds the minimum rate of 12 percent required by the Central Bank. Therefore, despite the decline of the overall CAR level, the banking system continues to be characterized by a high level of capitalization that has consistently exceeded the minimum required level. Also, the capital structure of the banking system is dominated by the Tier 1 capital, which represents a good quality of the banking system capital.

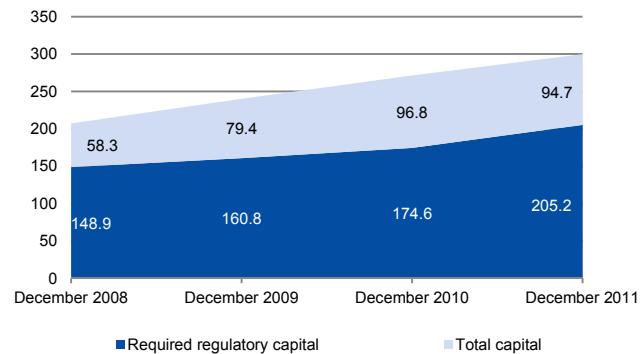
Figure 43. Banking system capitalisation



Source: CBK (2012)

Capital adequacy ratio is calculated as the ratio between the total level of capital in the banking system and the Risk-Weighted Assets (RWA). The decline of CAR during 2011 was due to the faster growth of RWA in comparison to the growth of capital. During 2011, RWA recorded an annual growth of 17.1 percent, while the annual growth rate of the capital was 10.5 percent. At the end of 2011, five banks reported a decrease of CAR, while two other banks reported a increase of their CAR level. However, it is important that all banks operating in Kosovo are well capitalized and all have met the criteria of 12 percent of CAR.

Figure 44. Total capital and regulatory capital, in millions of euro



Source: CBK (2012)

Commercial banks operating in Kosovo have consistently maintained higher level of capital than required by the CBK regulative. During 2011, total capital of the banking system amounted to euro 300 million, while the required regulatory capital based on the CBK regulation was euro 205.2 million (Figure 44). This shows that in 2011 the capital held by banks was by euro 94.7 million higher than the level required under the existing regulations.

¹³ Based on the relevant rule of the CBK, banks are obliged to keep the ratio between capital and risk weighted assets at least at 12%.

Capital

In December 2011, the capital of the banking system reached euro 300 million, marking an annual increase of 10.5 percent, while the average annual growth rate of the capital during the period 2008-2010 was 20.8 percent. Figure 45 shows that during the last four years the capital of the banking system has continuously increased, but the growth rate has followed a downward trend. Along with the continuous growth trend, the capital of the banking system has constantly maintained also a good quality. The quality of a bank's capital mainly refers to the degree of participation of the shareholders capital in the total capital of the bank, where the larger it is the shareholders' capital, the higher the quality of capital is considered to be.

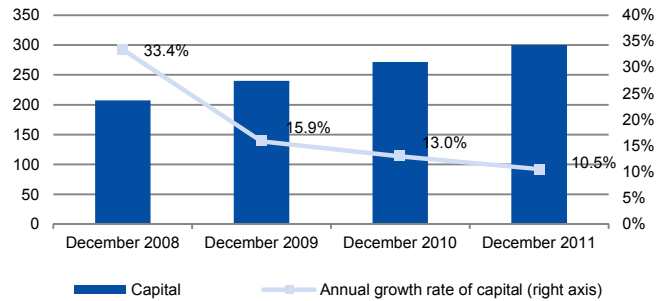
Therefore, considering that the capital of Kosovo's banking system mainly consists of the shareholders capital (59 percent of total capital), it can be concluded that the banks' capital in Kosovo is characterized with a good quality. During the recent years, banks have begun to use also forms of external financing to increase their capital, in particular the subordinated debt, which is categorized as part of the tier 2 capital.

Capital structure of the banking system continued to be dominated by tier 1 capital which reached at euro 252.0 million (84 percent of total capital) compared to euro 227.4 million in 2010. Tier 2 capital reached the amount of euro 48 million compared to the amount of euro 44.1 million in December 2010 (Figure 46).

Tier 1 capital

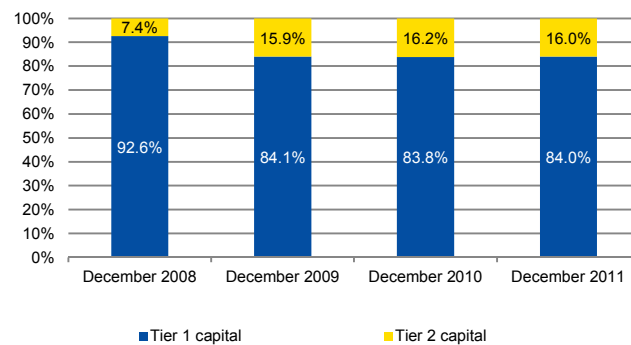
At the end of 2011, the total amount of tier 1 capital in the banking system amounted to euro 252 million, representing an annual increase of 10.8 percent. The structure of the tier 1 capital continues to be dominated by the shareholders capital, which in December 2011 represented 70.1

Figure 45. Total capital and annual growth rate, in millions of euro



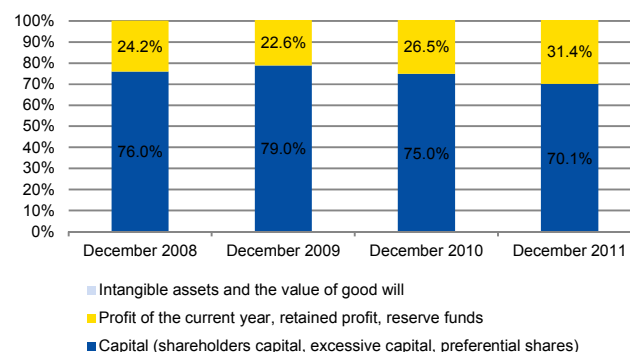
Source: CBK (2012)

Figure 46. Structure of the banking system capital



Source: CBK (2012)

Figure 47. Structure of Tier 1 capital, in percent



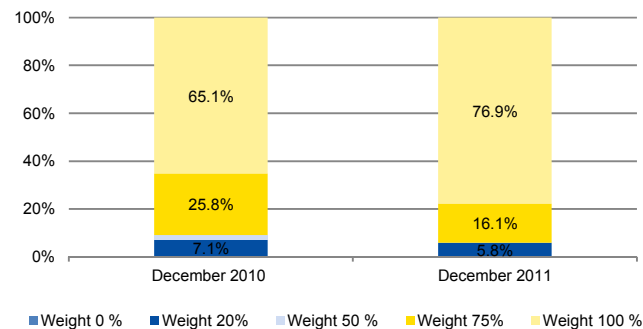
Source: CBK (2012)

percent of the tier 1 capital (75 percent in 2010). The second category in terms of size consists of the retained earnings, representing 31.4 percent of total tier 1 capital (26.2 percent in December 2010). Intangible Assets and the value of goodwill had a share of 1.5 percent in the total tier 1 capital (Figure 47).

Risk-Weighted Assets

At the end of 2011, the total value of Risk-Weighted Assets (RWA) in the banking system amounted to euro 1.71 billion, representing an annual increase of 17.1 percent. The RWA structure is dominated by assets with risk weight of 100 percent, whose share increased to 76.9 percent from 65.1 percent in December 2010 (Figure 48). The increase of this category can be attributed to the higher growth rate of off-balance sheet items and to the higher growth rate of loans which represent the main component of the RWA with risk weight of 100 percent. The remainder of the assets with risk weight of 100 percent consists of fixed assets and the real estate owned by banks. The share of assets with risk weight of 75 percent to total RWA declined to 16.1 percent from 25.8 percent at the end of 2010. This category comprises loans guaranteed by first mortgage on real estate and those delayed for less than 30 days.

Figure 48. Structure of Risk Weighted Assets



Source: CBK (2012)

The category with the lowest share in the structure of the RWA consists of assets with risk weight of 50 percent, whose share declined to 1.1 percent of total RWA from 1.9 percent in December 2010.¹⁴

3.3.2.4.1 Stress test analysis

Stress-test analysis is an additional tool through which it can be assessed the sustainability of the banking system. Different scenarios have been used to simulate potential shocks to credit risk and to the liquidity risk in order to test the sustainability of the banking system in general and the level of individual banks. The stress-test analysis that is presented in this publication is based on the December 2011 data. The main focus of the analysis is credit risk and liquidity risk. The interest rate risk and the exchange rate risk, which are less important in the Kosovo's banking sector, have been incorporated in the credit risk scenarios.¹⁵ In general, the results of the stress-test analysis show a satisfactory position of the banking system both with regard to the credit risk and the liquidity risk.

Credit risk

To evaluate the sensitivity of the banking system against credit risk it is assumed that the share of nonperforming loans (NPL) to total loans of the banking system will increase to

¹⁴ This category consists of claims with maturity of 1 year or less in banks operating in OECD countries, but which are not classified or are ranked by Standard & Poor's to B or lower grade or which are classified by Moody's to P-3 or lower grade.

¹⁵ For more details on stress-test methodology you are suggested to consult the Financial Stability Report no. 1, pp. 53-54, CBK (2010) and the Financial Stability Report no. 2, pp. 69-72, CBK (2011).

4.8pp, from the current ratio of 5.7 percent in December 2011.¹⁶ Besides increasing the share of NPL to total loans, in this scenario it is also assumed that euro will depreciate against the U.S. dollar by 20 percent and interest rates will decrease by 2.0 pp. The increased share of NPL to total loans affects the growth of provisions; the depreciation of euro affects the loss/profit from the net open positions, and the decrease of interest rates affects the losses/gains in the net interest income by considering the maturity gap between loans and deposits. Besides the assumptions for the above mentioned shocks it is also considered the expected profit as a loss absorber of these shocks.

By the combination of these three scenarios it was assessed the impact on the level of the banking system regulatory capital, risk-weighted assets and, consequently, on the Capital Adequacy Ratio (CAR). The results indicate that, under such a scenario, four of the banks operating in Kosovo would face problems in meeting the regulatory level of capital, since in this case their capital adequacy ratio would drop below the required level of 12 percent. The amount needed for the recapitalization of these banks would reach at euro 19.7 million, or 0.4 percent of GDP. Under such developments, the CAR for the overall banking system would decline to 16.2 percent from the level of 17.5 percent that was recorded in December 2011. The CAR level of 16.2 percent would still represent a satisfactory level of capitalization since it exceeds the minimum level required by the regulator. The share of NPL to total banking system loans would amount to 10.5 percent, while in the level of individual banks the share of NPL would be within the range of 4.9 percent to 12.7 percent.

Liquidity risk

To assess the sensitivity of the banking system against the liquidity risk it is assumed a more significant withdrawal of deposits from the banking system to take place. In this context, it was considered a withdrawal of deposits over a period of five consecutive days. The liquid assets available to banks to service the deposits withdrawal during this period have been considered to consist only of the existing liquid assets at the banks' balance sheets, while excluding the possibility that banks access additional liquid assets from abroad. In this regard, it is assumed that banks would be able to convert 80 percent of their liquid assets into cash on daily basis, and also 1 percent of their illiquid assets to be converted into cash on daily basis.

Under the assumption of deposits withdrawal at a rate of 10 percent of total deposits on daily basis at each of the banks, the total value of deposits withdrawn after 5 consecutive days would reach at around 41 percent of the total deposits of the banking system. Based on the results of the stress-test analysis, under this hypothetical scenario, the shortages of liquid assets would begin to emerge on the second day, but still isolated at only one of the banks operating in the country. The amount necessary to cover the additional liquidity needs of this bank would be euro 4.2 million. After the third day, liquidity problems would emerge also in another bank and until the end of the fifth day liquidity problems would be present in four banks (Table 4). The total amount of liquid assets necessary to face these problems, at the end of the fifth day, would amount to euro 71 million. In this case the loan-to-deposit ratio of the overall banking system would reach at 135.9 percent, assuming that the value of loans would remain unchanged during this period.

¹⁶ The assumed growth rate of NPL is defined by taking into account the average rate of economic growth in Kosovo in the recent years, the assumption of economic decline and the elasticity coefficient of the NPL against the output gap, which is based on an unpublished analysis of the IMF "CESE Bank Loss Projection and Stress Testing Exercise", July 2010.

Table 4. Summary of the stress-test analysis results: liquidity risk

Description	Number of banks 1/	Necessary additional liquid assets (in thousands of euro)	Loan-to-deposit ratio (in percent)
After the first day	0	0	89.2
After the second day	1	4,156	99.1
After the third day	2	21,566	110.1
After the fourth day	2	38,856	122.3
After the fifth day	4	71,063	135.9

Note: 1/ Number of banks which would need additional liquid assets.

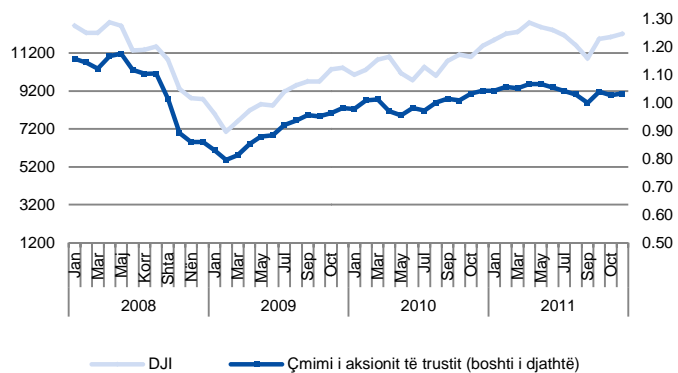
Within the stress-test analysis, it is also tested the maximum rate of deposits withdrawal that could be sustained by banks operating in Kosovo by relying on the liquid assets currently available to them. In the level of the banking system in general, liquidity problems would begin to appear when the rate of deposits withdrawal would reach at about 31 percent of total deposits. However, this rate varies between individual banks, where at some banks is lower whereas at the other banks is higher. Similar to the previous scenario, banks are assumed to be able to convert into cash 80 percent of their liquid assets and 1 percent of their illiquid assets.

3.3.3. Pension funds

Pension system represents an important component of Kosovo’s financial sector, with a share of 14 percent to total financial sector assets. In 2011, the assets of the Kosovo’s pension system amounted to euro 593.3 million (12.7 percent of GDP). Around 99.4 percent of total pension system assets in the country are managed by the Kosovo Pension Saving Trust (KPST), while the remaining 0.6 percent is managed by the Slovenian-Kosovo Pension Fund (SKPF).

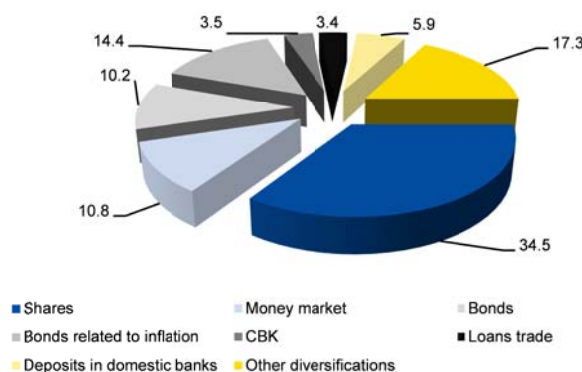
The investments of the KPST assets during 2011 were characterized by changes in the share price, especially during September 2012 when the price per unit decreased to 1 euro, which was the lowest level during the year. However, by the end of the year, the recovery of financial markets was reflected in the performance of the KPST investments, making the unit price reach euro 1.034, which implies a return of euro 3.3 million for 2011. The performance of

Figure 49. KPST share price and DJI index



Source: Trust (2012), DJI (2012)

Figure 50. Structure of KPST investments



Source: Trust (2012)

the KPST investments has followed a similar trend to the movements of the key indicators of external markets. As shown in Figure 49, there is a very high correlation between the Dow Jones index and the investment performance of the KPST. The KPST investments continue to be concentrated in the stock market. Also, a significant part of the KPST investments is concentrated in investment funds that diversify their portfolio in different instruments and countries (Figure 50, other diversification category). A relatively high share of KPST investments in the foreign markets is represented also by bonds, bonds related to inflation and the money market. In the economy of Kosovo, until the end of 2011, the KPST invested 5.9 percent of its total assets mainly as bank deposits.

A positive performance during 2011 was recorded also by the SKPF. The value of the SKPF share in 2011 increased by 4.1 percent while the SKPF investment structure is dominated by funds invested in bonds (about 75 percent). The remainder of over 20 percent consists of investments in bank deposits. A relatively small part of assets under SKPF management are invested in stock markets and cash.

3.3.4 Insurance companies

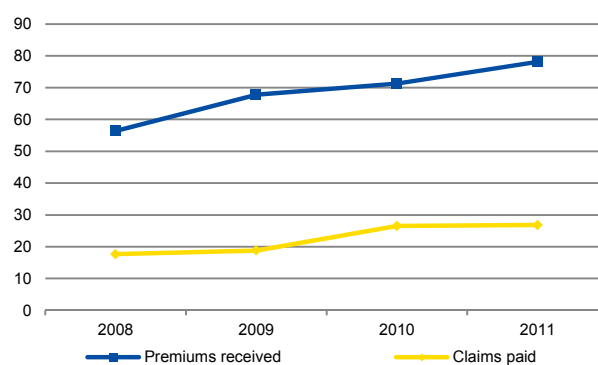
The insurance companies system continued to expand its activities in year 2011. Unlike last year when the insurance industry operated with a total of 11 insurance companies, in 2011 two new companies “Sigal Life” and “Graw Kosovo” which provide life insurance policies joined this industry. Consequently, the number of insurance companies providing life insurance in Kosovo reached at three. Along with 10 other insurance companies, which provide non-life insurance in Kosovo, a total of 13 insurance companies operated in Kosovo in year 2011.

Regarding the ownership structure, nine insurance companies are foreign owned and the other four companies are domestically owned. The ownership structure of the insurance companies’ assets remained similar to the previous years. After the insurance company with domestic ownership “Sigal Life” became part of the industry, the share of domestically owned assets in 2011 increased to 32.7 percent (28.9 percent in 2010), whereas the remainder of 75.3 percent of total assets is managed by the foreign-owned companies. Total assets of the insurance companies at the end of 2011 amounted to euro 106 million, marking an annual increase of 9.4 percent.

The capital to total assets ratio, which expresses the level of capitalization of insurance companies, in 2011 stood at 41.2 percent (41.8 percent in 2010). Whereas, the ratio between capital and technical reserves, which indicates the ability of insurance companies to cover potential losses, in 2011 was 79.8 percent compared with 84 percent in 2010.

Net profit of the insurance companies in 2011 increased to euro 5.7 million, compared with euro 3.8 million in 2010. The improvement of the financial results during 2011 was reflected in the Return on Average Assets

Figure 51. Premiums received and claims paid, in millions of euro



Source: CBK (2012)

(ROAA) and Return on Average Equity (ROAE). ROAA increased to 1 percent, compared with 0.9 percent in 2010, while ROAE increased to 2.5 percent, from 2.2 percent in 2010.

During 2011, the number of policies sold by insurance companies was 605.2 thousand, representing an annual increase of 11.9 percent (Figure 51). Also, an accelerated growth of 9.6 percent was recorded by the amount of premiums received by insurance companies that reached a value of euro 78.1 million. This increase primarily reflects the increase in the number of Third Party Liability (TPL) and voluntary insurance policies sold by the insurance companies.

The activity of insurance companies is mainly oriented towards providing TPL policies, which generate most of the premiums received (about 59 percent of total premiums received). Premiums received from the sale of TPL policies in 2011 amounted to euro 45.8 million, marking an annual growth of 12.6 percent. The rest of premiums received consists of voluntary insurance policies (29 percent of total premiums) and border insurance policies (12 percent of total premiums). The premiums received from the voluntary insurance policies during 2011 recorded an annual growth rate of 13.3 percent which higher than the growth rate of 6.8 percent that was recorded in 2010. The total amount of premiums received from the sale of voluntary insurance policies reached the value of euro 22.7 million in year 2011. As a category with lower share in total premiums received are border insurance policies, which in 2011 reached a value of euro 9.6 million decreasing by 9.6 percent compared with the previous year. The decline of the value of the sold insurance policies at the border may have been due to the decrease of the fee for these policies since the second half of 2011.

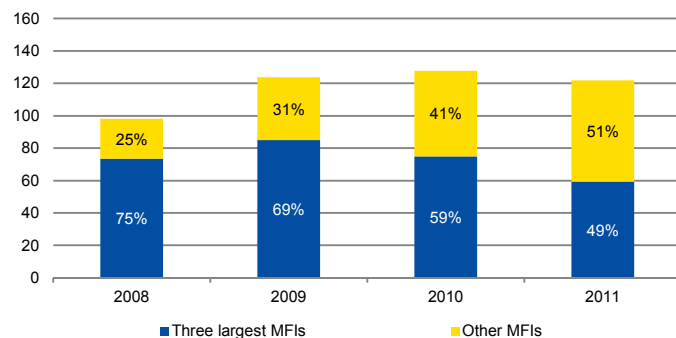
Claims paid by insurance companies recorded an annual growth of 1.1 percent in 2011 reaching a value of euro 26.8 million. However, the increase in premiums paid slowed down compared to the previous year when the annual growth rate was about 40 percent. The slower growth of claims paid during 2011 was mainly due to the decline of claims paid to TPL policy holders and border insurance. The majority of claims paid by insurance companies consist of payments to TPL policy holders, representing 67 percent of total claims paid. The share of claims paid to TPL policy in the overall amount of claims paid by insurance companies decreased by 5pp. Payments to TPL holders reached a value of euro 18 million decreasing by 6.2 percent in year 2011, compared with the growth rate of 39 percent in year 2010. The remainder of the claims paid by insurance companies consists of payments to other policy holders, which in 2011 reached a value of euro 7.9 million (euro 6.3 million in 2010).

3.3.5. Microfinance institutions and financial auxiliaries

In year 2011, in Kosovo operated a total of 20 microfinance institutions (MFI) and 32 financial auxiliaries. During this period, two new MFI were licensed, namely "Timi Invest" and "Agro Invest".

The level of concentration in the MFI market continued to decline during 2011. The market share of

Figure 52. MFI assets, in millions of euro



Source: CBK (2012)

the three largest MFI in 2011 decreased to 49 percent from 59 percent in 2010 (Figure 52). The decline of the degree of concentration in the MFI market is also shown by the Herfindahl-Hirschman Index, which dropped to 1,293 points, compared to 2,097 points in 2010.

The activity of the MFI continues to be focused on the financing of the small businesses and households. The number of loans issued by these institutions in the end of 2011 amounted to 57,536 loans, representing an annual decrease of 8.2 percent. Total value of loans issued by MFIs decreased in 2011 by 9.8 percent marking a value of euro 104.7 million. The decline of loans issued by microfinance institutions is mainly due to the tightening of the financial conditions for these institutions by external markets. The main source of funding for the microfinance institutions operating in Kosovo consists of the credit lines from external markets since these institutions do not have the right to receive deposits. The average value of a loan issued by MFI in 2011 was euro 1,819, representing a slight decrease compared to 2010 when it amounted to euro 1,852.

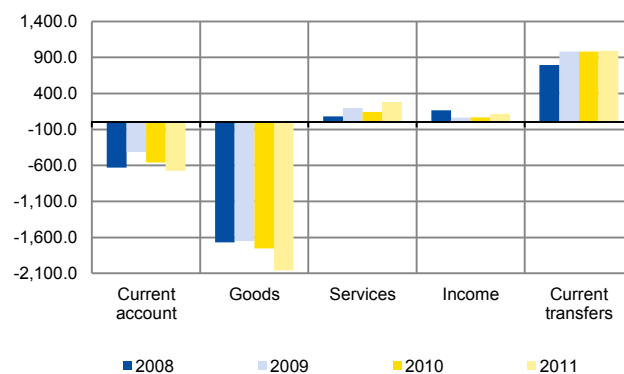
The performance of the MFI sector during 2011 improved compared to the year before. The net profit of the MFI sector in 2011 increased to euro 0.9 million compared to 0.8 million in 2010. Consequently, the return on average equity (ROAE) reached 2.5 percent from 2.2 percent in 2010. Whereas, the return on average assets (ROAA) decreased to 0.9 percent from 1 percent in 2010.

Financial auxiliaries in Kosovo are composed of exchange bureaus and money transfer agencies (MTA). The amount of transfers through financial auxiliaries during 2011 amounted to euro 246.3 million, representing an annual growth of 6.3 percent. Out of this amount, euro 220 million were incoming transfers to Kosovo while euro 26.1 million were outgoing transfers. Transfers through MTA in 2011 represented 3.8 percent of total transefers, while the largest part of transfers continues to be conducted through commercial banks (around 80.9 percent of total transfers).

3.4. External sector

Kosovo's economy continued to be characterized with a high level of current account deficit during 2011. In this year, mainly due to increase of negative balance of goods account, the deficit in the current account recorded an annual growth of 20.5 percent. While in 2010, as a result of the global demand recovery which greatly affected sales of the metal industry, in particular nickel, exports recorded a fairly high growth rate, in 2011 this trend was slower. The growth rate of imports was considerably higher than exports growth. Due to this reason and because of the high weight that imports have in the overall Kosovo's trade, the effect of exports growth is neutralized. As a result, the trade deficit was higher for 17.5 percent compared to the previous year. Accounts of services, income, and current transfers continued to contribute in the reduction of the current account deficit, whose positive balances were characterized by annual growth of 95.3, 70.8, and 0.8 percent, respectively. At the same

Figure 53. Current account balance, in millions of euro



Source: CBK (2012)

time, capital and financial account (which includes the capital account, FDI, portfolio investments, other investments and reserve assets) was concluded with a positive balance of euro 419.6 million, representing a growth of 41.2 percent which results from the increase of the financial account balance by 36.9 percent and the increase of the capital account by 97.3 percent.

3.4.1 Current account

Current account deficit reached euro 672.9 million, representing an annual growth of 20.5 percent. The ratio between the current account deficit and GDP reached 14.4 percent compared with 13.2 percent in 2010. The trade deficit which has recorded an annual growth of 17.5 percent, continues to be the main driver of the high level of current account deficit (Figure 53). On the other hand, the positive balance of accounts such as trade in services, income, and in particular current transfers, to some extent continued to off-set the impact of the trade deficit on the current account balance. The services account recorded an annual growth of 95.3 percent (-25.9 percent in 2010). Also, the income account recorded an annual growth of 70.8 percent (8.5 per cent in 2010). The current transfers account was characterized by a slight annual increase of 0.8 percent (-0.1 percent in 2010). Current transfers represent the main category within the current account receipts, which in 2011 accounted for 47.9 percent of total receipts in this account. Whereas, current account payments mainly consist of payments for the imported goods which constitute 80.1 percent of total payments.

3.4.1.1 Goods and services

Kosovo's economy continued to expand its foreign trade activity also during year 2011, leading to a trade openness ratio of 65.6 percent of GDP, compared with 57.9 percent of GDP in 2010. The increase of imports during 2011 has resulted in a lower coverage ratio of imports with exports, which stood at 12.6 percent, compared with 13.7 percent in the previous year (Table 5).

Table 5. Kosovo's trade balance, in millions euro

Description	2008	2009	2010	2011
Exports	198.5	165.3	294.0	312.5
Imports 1	,928.2	1,935.5	2,144.9	2,479.3
Trade balance	-1,729.7	-1,770.2	-1,850.9	-2,166.8
Ratio exports/imports (%)	10.3	8.5	13.7	12.6
Trade openness (% of GDP)	55.2	53.7	57.9	65.6

Source: CBK (2012)

Amounting to euro 2.17 billion, Kosovo's trade deficit in 2011 was for 17.5 percent higher than in 2010. The share of trade deficit to GDP marked a significant growth, increasing from 43.9 percent of GDP in 2010 to 50.9 percent of GDP in 2011.

Kosovo's imports recorded an annual growth of 15.6 percent, reaching a value of euro 2.48 billion. The annual increase of oil prices by around 17.0 percent during 2011 affected the increase of the nominal value of imports, when considering that mineral products represent one of the main categories of Kosovo's imports. On the other hand, Kosovo's exports increased by only 6.3 percent annually, reaching a value of euro 312.5 million.

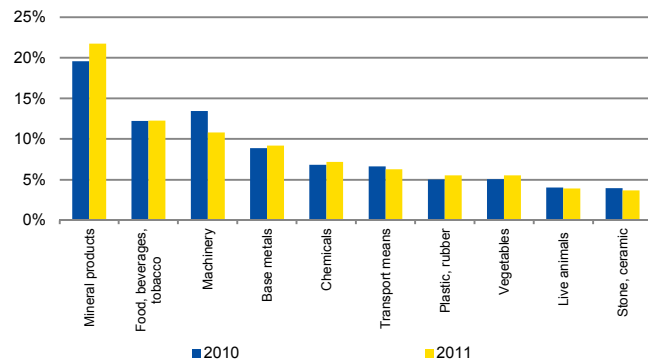
Although the prices increase during 2011 had a global character, Kosovo's economy faced

a higher level of inflation compared with the average inflation rate of the EU and CEFTA countries. The higher rate of inflation in Kosovo for about 6.2pp compared to CEFTA and EU countries led to real effective exchange rate (REER) appreciation. The REER in year 2011 recorded an annual average appreciation rate of 3.3 percent against EU countries and 4.1 percent against CEFTA countries. The REER appreciation against the main trading partners discourages Kosovo's exports while encouraging the imports.

The structure of imports was similar to the previous year (Figure 54). The categories of imports that increased in year 2010 continued with the same trend also in 2011, excluding the category of machinery and equipment which marked an annual decline of 7.2 percent, decreasing from euro 288.2 million as it was in 2010 to euro 267.6 million in 2011. Imports of mineral products recorded an annual growth of 28.4 percent contributing with around 3.4pp in the increase of total imports. Mineral products represent the category with the largest share to total imports with a value of euro 538.1 million. Imports of food products, beverages, and tobacco marked an annual growth of 16.2 percent, reaching a value of euro 303.9 million, recording almost the same share to total imports as in 2010 (12.3 percent). The category

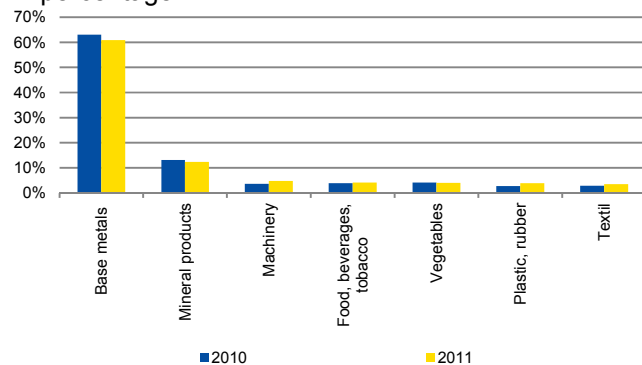
of base metals in 2011 reached euro 228.0 million, marking an annual growth of 20.0 percent. The share of this category to total imports reached at 9.2 percent compared to 8.9 percent in 2010. Chemicals and plastics and rubber products increased their share to total imports to 7.2 and 5.5 percent, respectively.

Figure 54. Main categories of the structure of imports, in percent



Source: CBK (2012)

Figure 55. Main categories of the structure of exports, in percentage



Source: CBK (2012)

The structure of exports continues to be dominated by base metals, which represented 60.8 percent to total exports, compared with 63.0 percent in December 2010 (Figure 55). This category of exports marked an annual increase of 2.6 percent amounting to euro 190.1 million (euro 185.2 million in 2010). The the category of machinery and equipments (mainly representing export of electricity) recorded an annual growth of 40.6 percent, thus representing a significant contributor to the total Kosovo's exports. The value of this category of exports in 2011 was euro 15.1 million (4.8 percent of total exports). The category of plastics and rubber products, which accounted for 4.0 percent of total

exports, increased by 54.1 percent reaching at euro 12.4 million. On the other hand, unlike in the previous year when exports of mineral products marked an annual increase of 55.3 percent, in year 2011 this category recorded an annual decline of 0.4 percent. The value of exports of mineral products amounted to euro 38.6 million and their share to total exports stood at 12.4 percent.

The structure of of imports by Broad Economic Categories (BEC) remained similar to the previous years. In year 2011, it was noticed an increase in the share of intermediate goods to total imports by 6.0pp. The share of this category of imports represented 53.8 percent of total imports, followed by consumer goods with a share of 30.9 percent of total imports (Figure 56). The large share of intermediate goods to total imports indicates that the production activity in the Kosovo's economy considerably depends on the import of raw materials from abroad. Also, the large share of consumer goods to total imports shows that domestic production remains low. The share of capital goods to total imports decreased to 8.2 percent from 10.2 percent in 2010, in spite of the increase of investments in the country during year 2011.

The structure of Kosovo's trading partners in 2011 was similar to the previous years. In 2011, around 73.8 percent of total trade exchanges were conducted with the European Union (EU) and CEFTA members. The amounts of trade exchanges with the EU and CEFTA countries in year 2011 increased by 13.2 and 12.9 percent, respectively.

Kosovo's export to the EU countries amounted to euro 136.4 million, which represents an annual growth of 3.7 percent, whereas their share to total Kosovo's exports declined by 1.1pp (Figure 57). Within EU countries, Italy represents the main destination for Kosovo's exports, with a share of 26.8 percent to total exports. Most of the

Figure 56. Imports by BEC, in percent

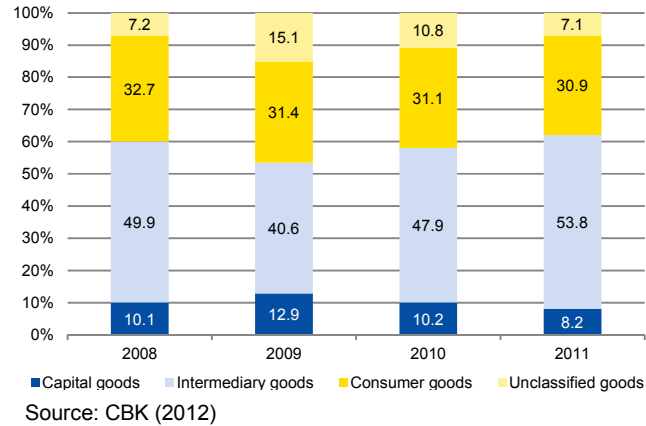
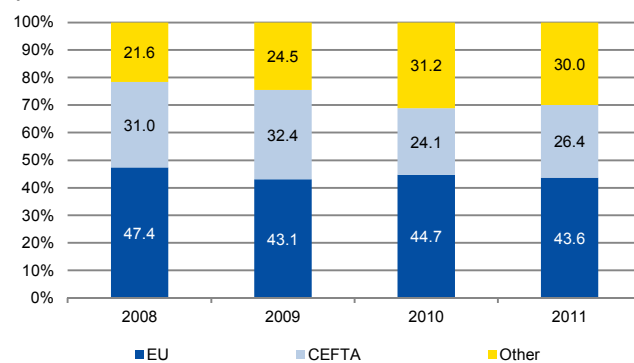


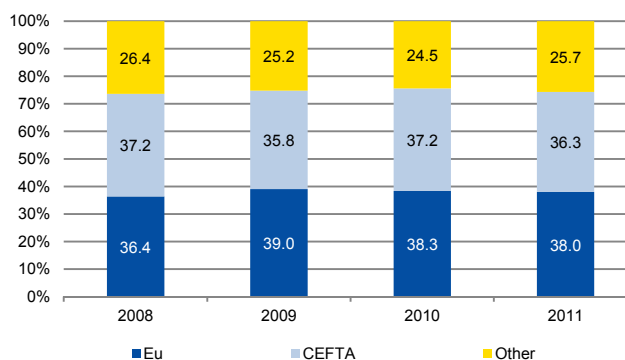
Figure 57. Structure of exports by trading partners, in percent



exports to Italy consist of nickel ore. The growth of exports to Germany by 52.0 percent represents the main contributor to the overall growth of exports to the EU countries. Also exports to other countries such as Austria, Holland, France, etc. increased their share to total exports.

Exports to the CEFTA countries reached a value of euro 82.4 million, representing an annual increase of 16.2 percent. Within the CEFTA countries, Kosovo continues to export mostly to Albania and Macedonia (with a share of 10.6 and 9.8 percent of total exports, respectively). Exports to Serbia and Bosnia and Herzegovina amounted to euro 8.3 and 0.6 million, respectively. While exports to Serbia marked an annual increase of 116.9 percent, exports to Bosnia and Herzegovina marked an annual decrease of 67.6 percent.

Figure 58. Structure of imports by trading partners, in percentage



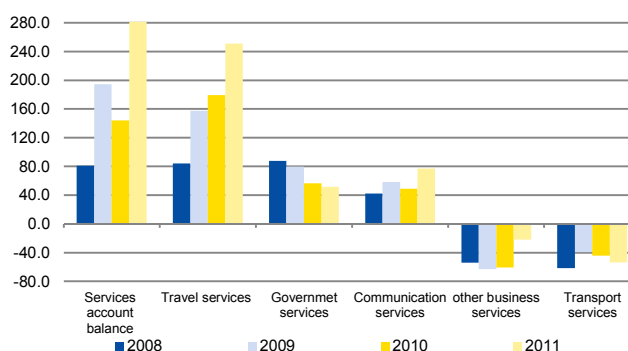
Source: CBK (2012)

The EU and CEFTA countries remain the main trading partners for Kosovo also with regard to the imports. The imports from EU countries amounted to euro 941.7 million, representing an annual increase of 14.7 percent compared with the previous year. Imports from EU countries comprise around 38.0 percent of total imported goods in Kosovo (Figure 58). Most of the imported goods from the EU come from Germany (11.8 percent of total imports) and Italy (6.3 percent of imports). Within CEFTA countries, the largest part of imported goods comes from Macedonia and Serbia, with a share of 14.7 and 10.9 percent of the total imports, respectively.

The services account was characterized by a positive balance of euro 281.3 million compared with euro 144.0 million in 2010 (Figure 59). The positive balance of this account indicates more revenues from the sale of services to non-residents, compared with payments for services to nonresidents. More specifically, the revenues in the services account recorded an annual increase of 19.6 percent, reaching at euro 634.0 million, while payments for services to nonresidents reached a value of euro 352.8 million, representing an annual decline of 8.6 percent.

The increase in the positive balance of the services account primarily reflects the increase of revenues from travel services and other business services, which recorded an annual growth of 24.3 and 78.3 percent, respectively. Also, the payments for these services declined at an annual rate of 3.0 and 5.7 percent, respectively, which contributed positively to the services account balance. The faster growth of travel services revenues and other business

Figure 59. Services account - main categories, in millions of euro



Source: CBK (2012)

services as well as the reduction of payments for these services made the balances of these two categories reach euro 251.2 million and euro -22.0 million, respectively (euro 179.2 million and euro -60.6 million in 2010, respectively). Also, revenues from communication services recorded an annual growth of 22.7 percent, while payments for these services declined by 37.5 percent. Consequently, this category recorded a positive balance of euro 77.0 million representing about 27.4 percent of the balance of total services. The income from construction services reached euro 13.7 million (euro 6.4 million in 2010), while payments for construction services amounted to euro 19.0 million (euro 26.6 million in 2010). Other services which recorded a positive balance in 2011 were government services (services provided to the embassies and the military presence of NATO) and cultural and recreational services. Conversely, all other categories of services, insurance services, financial services, etc. concluded the year with a negative balance.

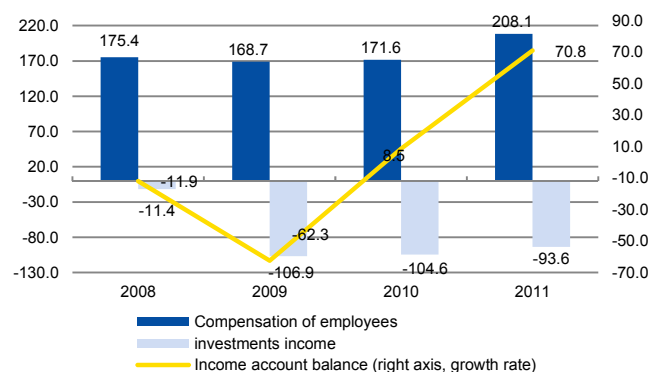
3.4.1.2 Income and current transfers

The income account recorded a positive balance of euro 113.8 million, representing an annual increase of 69.7 percent. The inflows in the income account amounted to euro 241.3 million, representing an annual increase of 36.4 percent. At the same time, payments reached a value of euro 127.5 million, representing an annual growth of 16.1 percent. The increased income in this account mainly resulted from the subcategory of compensation of employees¹⁷ abroad which recorded an annual growth of 25.6 percent in 2011 (Figure 60).

At the same time, inflows from the compensation of employees represent the dominant category of inflows in the income account (91.7 percent total inflows), marking a value of euro 221.2 million in 2011 (euro 176.1 million in 2010). The largest part of income from the compensation of employees for 2011 consists of the income of Kosovars employed in Afghanistan and Iraq, as well as of the local staff employed in KFOR. At the same time, the payments for compensation of employees (nonresident employees engaged in Kosovo for short term periods - less than one year) amounted to euro 13.1 million in 2011 compared with euro 4.5 million in 2010.

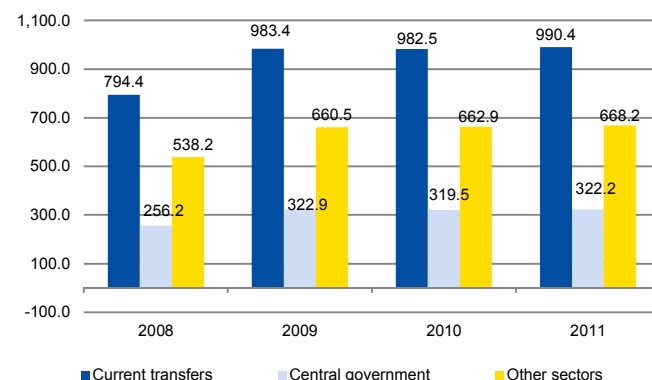
The other subcategory of the income account consists of the

Figure 60. Income account, in millions of euro



Source: CBK (2012)

Figure 61. Current transfers, in millions of euro



Source: CBK (2012)

¹⁷ Compensation of employees includes salaries, wages and other economic benefits received by Kosovar seasonal or short-term (up to one year) employees abroad.

income from investments, which have consistently recorded a negative balance, but in 2011 the negative balance of euro -94.3 million was for 9.8 percent lower compared with the previous year. Inflows within this account amounted to euro 20.1 million, while payments amounted to euro 114.4 million. Income from investments primarily consist of income that are realized from investments of domestic institutions in securities in foreign markets, while payments mainly consist of income of foreign companies, such as foreign financial institutions and other foreign enterprises, from their investments in Kosovo.

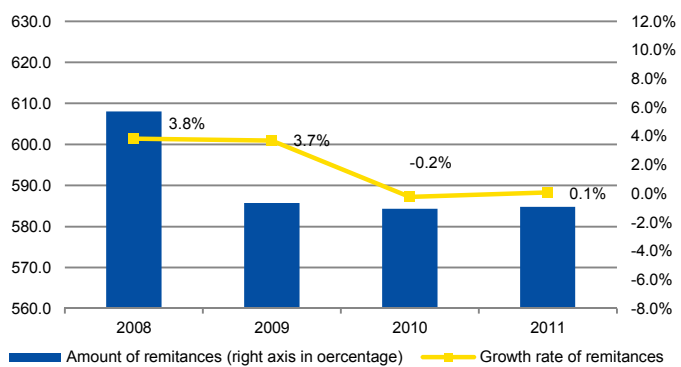
One of the most important categories of the balance of payments, which has consistently contributed to the narrowing of the current account deficit, consists of the current transfers, which has continuously been characterized by a positive balance. The balance of the current transfers account reached euro 990.4 million, representing a slight annual increase of 0.8 percent (Figure 61). Current transfers consist of government transfers (32.5 percent) and private transfers (67.5 percent). Central government transfers reached a value of euro 322.2 million, representing an annual growth of 0.8 percent. The government current transfers mainly include transfers from donors, EULEX and UNMIK.

Current transfers of private sector are dominated by remittances, which represent about 74.9 percent of total private sector transfers. During the year 2011 remittances received in Kosovo amounted to euro 584.8 million, representing an annual increase of 0.08 percent. On the other hand, remittances of nonresidents in Kosovo to other countries recorded a value of euro 95.5 million (euro 91.4 million in 2010), (Figure 62). Remittances received in Kosovo mainly come from EU member countries, such as Germany (33.2 percent of total remittances), Switzerland (23.1 percent), Italy (7.0 percent), Austria (5.5 percent), and a smaller percentage from Slovenia, USA, Sweden, etc. Remittances from the EU countries may considered to have remained quite stable despite the increase of unemployment and the deterioration of employment conditions in EU countries.

3.4.2 Capital and financial account

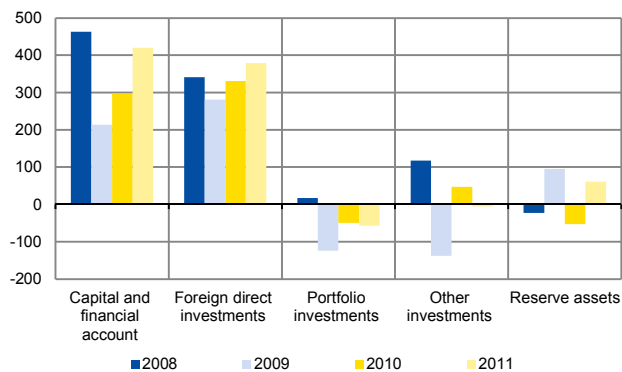
The capital and financial account was characterized with a positive balance of euro 419.6 million during 2011 (an increase of 50.8 percent compared with 2010). The balance of the capital account in 2011 amounted to euro 42.0 million (euro 21.3 million in 2010) and was mainly comprised of donations to the

Figure 62. Remittances received in Kosovo



Source: CBK (2012)

Figure 63. Financial account, in millions of euro



Source: CBK (2012)

government. Financial account which includes Foreign Direct Investment (FDI), portfolio investments, other investments and reserve assets recorded a balance of euro 377.5 million. As shown in Figure 63, the main contributor within the financial account continued to be FDI, while other categories have a lower share. Portfolio investments had a negative impact on the financial account balance, contributed positively to the financial account balance. Other investments during 2011 did not have any significant impact on the overall financial account balance.

3.4.2.1 Foreign Direct Investments

Foreign Direct Investments in year 2011 recorded a net value of euro 378.9 million. The annual growth rate of FDI reached double-digit rate of 14.4 percent. The FDI inflows in Kosovo during year 2011 amounted to euro 394.6 million, whereas the outflows of FDI from Kosovo amounted at euro 15.7 million.

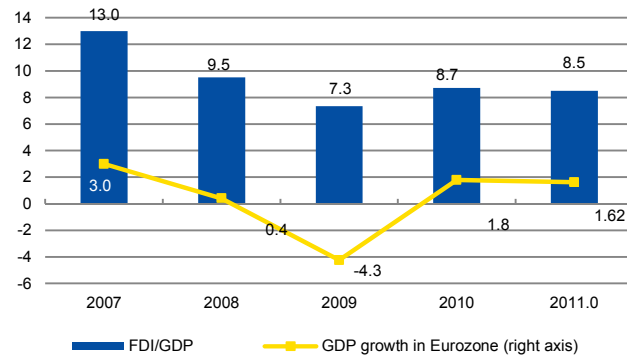
The share of FDI to GDP in Kosovo in the recent years on average stood at the level of 9 percent. A higher level of FDI inflows was recorded during the years 2007 and 2008 which mainly resulted from the licensing of the second mobile telephony operator in Kosovo and its accompanying investments. The lowest level of FDI was recorded in year 2009, which mainly reflects the unfavourable developments in the global economy during this period. FDI began to recover during 2010, while a more significant increase was registered in 2011.

Foreign investments in Kosovo mostly belong to the form of equity investments which represent 72.8 percent of total FDI (70.5 percent in 2010).

Another important form which is part of FDI in the country consists of reinvested earnings with a share of 14.7 percent (20.0 percent in 2010) and other forms of FDI with a share of 12.5 percent (9.5 percent in 2010). Conversely, Kosovo residents' investments abroad belong to the form of equity investments, which mainly consist of purchasing real estates abroad.

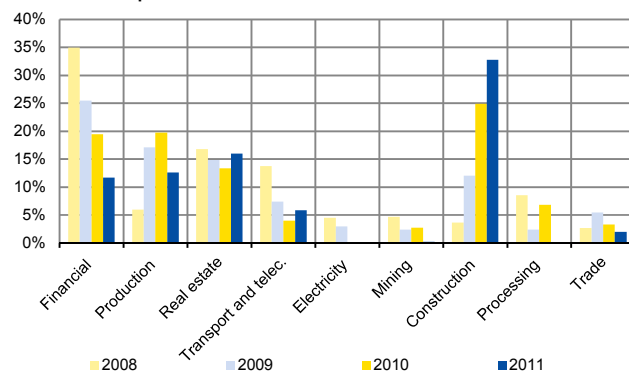
FDI in Kosovo are primarily concentrated in the economic sectors such as construction with 32.8 percent, manufacturing 12.6 percent, financial sector 11.7 percent, real estate 16.0 percent, followed by the transport and telecommunications sector with a share of 5.9 percent of total FDI (Figure 65).

Figure 64. Foreign Direct Investments as percentage to GDP



Source: CBK (2012)

Figure 65. Foreign direct investments by economic sectors, in percent

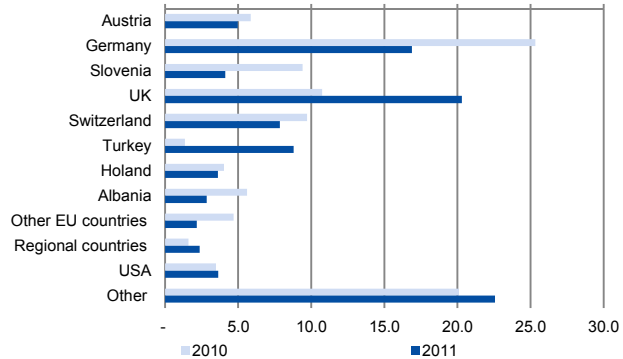


Source: CBK (2012)

The FDI in the processing industry marked a sharp decline during this period, while a higher growth is observed in the construction sector as well as transport and telecommunications sector.

EU countries continue to represent the main source of FDI in Kosovo. Unlike last year, when the major part of FDI by country originated from Germany (25 percent of total FDI), during the period of January-September 2011 Great Britain represented the country with the most of FDI in Kosovo (29.6 percent of total FDI). Significant increase of FDI was also marked by Turkey, representing the third country in

Figure 66. Foreign direct investments by country of origin, in percent



Source: CBK (2012)

terms of the size of FDI in Kosovo. Also, Switzerland, Austria, Slovenia and the USA continue to have significant levels of FDI in Kosovo (Figure 66).

3.4.2.2 Portfolio investments, other investments and reserve assets

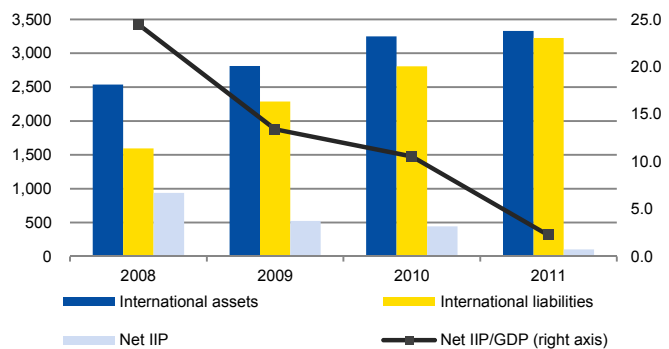
The balance of portfolio investments abroad amounted to euro 57.8 million in 2011 (euro 49.2 million in 2010). The major part of portfolio investments are pension funds assets which are invested in financial markets instruments abroad, while the remaining are investments of commercial banks operating in Kosovo. Within the balance of euro 57.8 million, euro 96.5 million represent new investments in capital markets abroad, while euro 38.7 million are composed of assets returned in Kosovo's economy.

Other investment category is characterized recorded a balance of euro 5.7 million, of which euro 81.7 million are investments abroad (outflows), while euro 76.0 million are investments of nonresidents in the Kosovo's economy (inflows). The outflows of other investments mainly consist of deposit placements abroad and returns of loans to nonresident institutions. On the other hand, investments in Kosovo are mainly in the form of trade credit of nonresident companies to companies operating in Kosovo.

3.4.3 Inter national in vestments position and external debt

International Investments Position (IIP) represents the value of assets and liabilities of Kosovo to other countries. The credit balance of Kosovo within the IIP in 2011 was euro 104.5 million, or 2.2 percent of GDP. The international investment position of Kosovo over the years narrowed considering that the country was a net creditor with 10.5 percent of GDP in 2010. The factors that led to a narrowing of Kosovo's credit balance were the growth of FDI stock in Kosovo, but also the significant reduction of reserve assets and investments in securities abroad.

Figure 67. International investments position, in millions of euro



Source: CBK (2012)

3.4.3.1 Assets and liabilities in International Investments Position

The category of other investments represents the main part of Kosovo's assets abroad (57.3 percent of total assets) and includes mainly the deposits in banks abroad. A substantial share in the stock of assets abroad is represented also by portfolio investments (22.3 percent) and reserve assets (17.3 percent). The lowest share of Kosovo's assets abroad consists of FDI (investment of Kosovo's residents in other countries) with a share of 3.1 percent of total assets abroad. In terms of sectors, other sectors (pension funds, NGOs and private sector) account for the largest share of assets with 44.2 percent, followed by the Central Bank with 35.5 percent and commercial banks with 20.3 percent.

The structure of Kosovo's liabilities to the external sector is dominated by foreign direct investments with a share of 73.2 percent and other investments with a share of 26.8 percent (mainly trade credits and other loans).

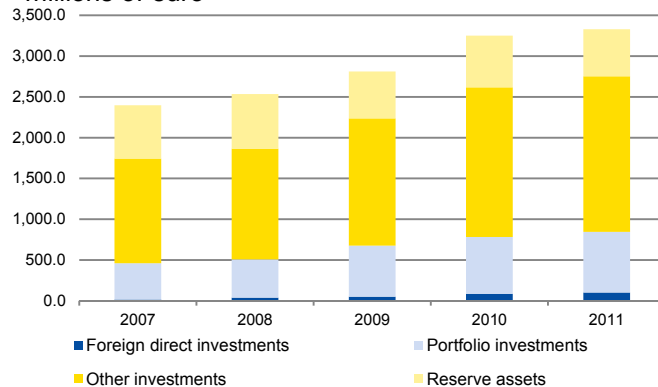
Foreign direct investments, as one of the most important components of Kosovo's IIP on the liability side, over the years have reached a value of euro 2.36 billion.

3.4.3.2 External debt

Kosovo's external debt, which includes the private debt and the public debt, at the end of 2011 amounted to euro 1.4 billion. Conversely, the debt to Kosovo's economy amounted to euro 2.9 billion. This position of external debt makes Kosovo a net creditor of euro 1.5 billion.

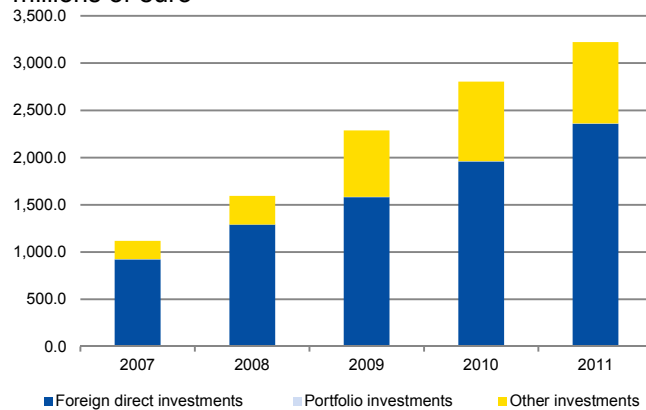
The largest part of the external debt belongs to intercompany loans between foreign companies and their subsidiaries in Kosovo. Consequently, foreign companies operating in Kosovo owe to foreign sector the amount of euro 565.4 million or 39.6 percent of total external debt. Also, other sectors have considerable share in the total external debt coming from trade credits issued to domestic companies and other loans. The vast majority (75.3 percent) of other sectors debt consists of short-term debt, while 24.7 percent consists of long-term debt. The short-term debt of commercial banks to the external sector represents 13.8 percent of total external debt, consisting of loans and deposits from abroad. With the

Figure 68. Assets by form of investments, in millions of euro



Source: CBK (2012)

Figure 69. Liabilities by form of investments, in millions of euro



Source: CBK (2012)

lowest share in the total external debt is represented the Central Bank (euro 66.4 million or 4.7 percent of total external debt).

Also, the public sector participates in the external debt with an amount of euro 253.6 million (or 17.8 percent of the total external debt), which is 5.5 percent as a share to GDP.

The debt of the external sector to the Kosovo's economy, by the end of 2011, amounted to euro 2.9 billion. External sector owes mostly to the Central Bank (40.3 percent of total liabilities or euro 1.2 billion). External sector also owes to other sectors of Kosovo's economy such as pension funds and also the private sector with an amount of euro 1.1 billion or 36.6 percent of total debt. Out of euro 1.1 billion of liabilities to other sectors of the Kosovo's economy, euro 1.0 billion consists of long-term debt. The external sector owes to domestic banks an amount of euro 675.5 million or 23.1 percent of total external sector liabilities to the economy of Kosovo.

4. Supervision of Financial Institutions

Practicing the best international standards in financial sector development, the CBK aims at a financial supervision and a flexible and efficient regulatory process, promoting a market economy-based competitive financial sector.

Consequently, one of the major functions of CBK is to ensure supervision and regulation of financial sector, with purpose of establishing a sound, reachable and competitive financial sector – a trustworthy financial market and with a wide range of financial services. Departments such as Licensing and Regulation Department, then Banking Supervision Department, Insurance Supervision Department and the Pension and Securities Market Division are the responsible organizational units ensuring the achievement of this aim and function of the CBK.

4.1. Licensing and Regulatory Framework

4.1.1. Licensing

The CBK's vision on the financial sector is to have a sustainable financial sector driven by the market forces and operating within a prudent regulatory framework and a supervision policy framework in compliance with the EU and EC directives. Criteria and terms for obtaining a license for exercising banking activities and other financial activities in the Republic of Kosovo are established under the Law on the Central Bank of the Republic of Kosovo No. 03/ L-209 and under the other bylaws issued by the CBK. Pursuant to the legislation governing its statutory functions, the CBK has an authority to set criteria for licensing of financial institutions and to reject those failing to satisfy such standards.

Licensing criteria established under the legislation aim at ensuring a fair financial market and regulated through a process built on justice, honesty and equality-based principle. Licensing terms and criteria are of the supervision character and do not aim at setting barriers for investors. Foreign investors entering the Kosovo market, especially in financial sector, infers the CBK's open policy towards foreign investments, without violating the legal requirements.

The CBK's strategy in the area of licensing of financial institutions is focused on attracting foreign investors, who have good financial position, who satisfy the necessary ethical and professional criteria and are suitable for shareholders and management, are able to drive an approach in the prudent business development to protect the clients' interests, thus aiding at strengthening the financial sector and increasing the trust on it.

The duty of the Licensing and Regulation Department is to complete the legal framework on financial supervision in accordance with the European Union Directives and the best international practices, as presented under "Core Principles for Effective Banking Supervision" published by the Bank for International Settlement (BIS), and "Core Principles for Effective Insurance Supervision" published by the International Association of Insurance Supervisors (IAIS). In accomplishing this mission, the Licensing Department is responsible for receiving, reviewing and recommending the applications of institutions applying for licensing, respectively registration to operate in Kosovo, such as commercial banks, insurance companies and insurance intermediaries, pension funds and all the other non-bank financial institutions.

Licensing activity of financial supervision during 2011 mainly included the following:

- Approval of eighty (80) requests for opening new branches and dislocation of branches of banks, insurance companies as well as the other financial institutions in Kosovo;
- Preliminary approval of the request by a bank to change the shareholders structure;
- Approval of five (5) requests for increasing the insurance activities and products;
- Approval of fifty-one (51) requests of the insurance companies agents;
- Approval of seven (7) requests from banks to change the charter and statute;
- Approval of (2) requests for distribution of dividends;
- Approval of thirty-seven (37) requests for appointments of administrators and senior management of banks, insurance companies and non-bank financial institutions;
- Approval of licensing of life insurance companies, registration of microfinance and non-bank institutions, and exchange bureaus.

Out of cases approved for administrators of banks, eleven (11) of them are for the managing board members of banks, four (4) case are for audit committee members, and six (6) cases are for the general director and deputy director of banks and microfinance institutions. Regarding insurances, seven (7) of them are for managing board members of insurance companies, six (6) case are for the general director and the deputy director of insurance companies and intermediaries and three (3) case are for internal auditors.

Banks and insurance companies have constantly worked in extending their activity towards diversification of banking and insurance products, offering further investment opportunities and various choices for their clients. During 2011, only one application for establishment of a bank was received, yet foreign investors have shown their interest in applying for bank or bank branches, mostly from Turkey. In 2011, we had 8 banks with 311 bank branches and sub-branches in the banking sector, whereas in the insurance market we had thirteen (13) insurance companies – ten (10) non-life insurance companies and three (3) life insurance companies.

The CBK Executive Board has approved during 2011 a final license for the insurance company “Sigal Life Uniqa Group Austria J.S.C” for life insurance.

Two pension funds kept operating in the pension area: the compulsory pension fund – Kosovo Pension Savings Trust (“Trust”) and the individual pension fund: Slovenian-Kosovo Fund.

Table 6. Banks, insurance companies and pension funds licensing activity by year, 2009 – 2011

Description	2009	2010	2011
Banks 8		8	8
Insurance Companies	11	12	13
Obligatory and individual pension funds	2	2	2

Source: CBK (2012)

Microfinance and Financial Non-Bank Institutions. Fifteen (15) microfinance institutions and five (5) non-bank financial institutions with lending activity have been operational in Kosovo by the end of 2011. The Executive Board approved the registration of two microfinance institutions and one non-bank financial institution for lending: “Timi Invest” (Prishtina), “Agro Invest” (Krushë e Vogël, Prizren) and “Fundway Mortgage” (Prishtina).

Insurance Intermediaries. Three (3) insurance intermediaries have been operational by the end of 2011. The Executive Board has withdrawn the license of the insurance intermediary “ENB L.L.C” in Prishtina because of violation of the legal regulatory framework

Exchange Bureaus and Money Transfer Agencies. During 2011, the CBK Executive Board approved an additional activity of money transfer for the non-bank financial institution “Vllesa CO”, as well as the registration of five exchange bureaus: “Ismeti dhe Safeti” (Gjakova), “Kemi” (Peja), “Yllka” (Gjilan) and “Mani” (Rahovec). Registration of the exchange bureau “Pëllumbi” (Rahovec) was withdrawn pursuant to the applicable legal regulatory framework. Thirty (30) exchange bureaus and four (4) money transfer agencies operated in Kosovo by the end of 2011.

Table 7. Microfinance, non-bank financial institutions, money transfer agencies and money exchange offices licensing activity by year, 2009– 2011

Description	2009	2010	2011
Microfinancial Institutions	14	13	15
Non-bank crediting institutions	5	4	5
Money Transferring Agencies	3	3	4
Exchange Bureaus	23	26	30

Source: CBK (2012)

Table 8. Insurance intermediaries licensing activity by year, 2009-2011

Description	2009	2010	2011
Agents/Operators	528	679	744
Insurance brokers	4	3	2
Damage adjusters	4	1	1

Source: CBK (2012)

4.1.2. Regulatory framework

a) Legal framework

The legal framework in the financial supervision regulatory area is under the reviewing and updating process in order to ensure an effective financial supervision. With purpose of advancing and consolidating the legal basis for financial sector in Kosovo, a new draft law on banks, microfinance institutions and non-bank financial institutions was drafted, which has already entered into force. This law is drafted in cooperation with the technical assistance of the International Monetary Fund the US Treasury Department and in full compliance with the best international practices, the EU standards and directives in banking supervision and regulatory area, as well as in accordance with the Basel Core Principles on Effective Banking Supervision. The above-mentioned law provides a wider comprehensive background in regulating the financial supervision, including among the others:

- Strengthening of governance criteria;
- Inclusion of the right of Consolidated Supervision of banking groups and financial conglomerates;

- Provisions for procedures of “Settlement of Problematic Banks and Exit Strategies” have been amended and supplemented;
- Crediting the bank related parties;
- Extension of the right to impose administrative fines for different violation of the banking law; and
- Promotion of Islamic Banking.

This law also includes a higher advancement of the legal basis for regulation and supervision of microfinance institutions. The general law on insurance and the law on pension funds of Kosovo were also drafted in cooperation with the World Bank Technical Assistance. In the course of significant developments that characterized 2011 was also the entry into force of Law No. 04/L-018 on Compulsory Motor Liability Insurance, which law entered into force in July 2011. Upon the entry into force of this law, in September 2011, the CBK, in cooperation with the insurance industry and the other relevant stakeholders, founded Kosovo Insurance Bureau (KIB). The KIB foundation was preceded by a two-day visit of a delegation from the Council of Bureaux of Green Card, with its seat in Brussels, which visit was implemented for the first time in Kosovo, namely in the CBK, and which contributed towards triggering the possibility of joining the Council of Bureaux of Green Card, with its seat in Brussels. In the course of these developments, in November 2011, with the CBK's assistance, the Kosovo Insurance Bureau prepared and submitted an application for membership in the Council of Bureaux of Green Card, with its seat in Brussels.

b) Regulations

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

In accordance with the new law on banks, microfinance institutions and non-bank financial institutions and in cooperation with the International Monetary Fund technical assistance, new banking regulations have been drafted and reviewed. The relevant commissions, established to review the regulatory framework and prepare the new supervision regulations as per the requirements set forth under the new law and the new international standards on banking supervision, have finalized drafting of the new regulations and internal policies and procedures on financial supervision.

Year 2012 will be a year of continuity of consolidation of the legal framework on banking supervision in accordance with the new law on banks and at the same time of establishment of a regulatory framework reflecting the needs and requirements identified during a twelve-year period of the existence of banking supervision in Kosovo.

c) List of Financial Institutions

Table 9. Commercial Banks

Commercial banks		
No.	Name	Affiliates/existing branches
1	ProCredit Bank	64
2	Raiffeisen Bank Kosovo J.S.C.	52
3	NLB Prishtina sh.a	53
4	Banka për Biznes	43
5	Banka Ekonomike	46
6	TEB h.a s	22
7	Banka Kombetare Tregtare – Branch in Kosovo	23
8	Komercijalna Banka – Branch in Mitrovica	8
	Total	311

Source: CBK (2012)

Table 10. Pension Funds

Pension funds		
No.	Name	Affiliates/existing branches
1	Kosovo Pension Saving Trust – II-nd pillar	1
2	Slovenian Kosovar Fund – III-rd pillar	1
	Total	2

Source: CBK (2012)

Table 11. Money Transferring Agencies

Money Transferring Agencies		
No.	Name	Affiliates/existing branches
1	UFP (sub-agents)	175
2	DMTH (sub-agents)	87
3	Vllesa Co	24
4	KLM Enterprise	1
	Total	287

Source: CBK (2012)

Table 12. Microfinance Institutions

Microfinancial institutions		
No.	Name	Affiliates/existing branches
1	Finca	21
2	KEP	35
3	KGMA MF-Grameen	4
4	AFK	12
5	Besëlidhja	11
6	KRK	13
7	Mështekna	1
8	Qelim Kosovë	1
9	KosInvest	6
10	Start	2
11	Perspektiva 4	1
12	KAD	1
13	ACP	1
14	Agro Invest	1
15	Timi Invest	1
	Total	111

Source: CBK (2012)

Table 13. Non-bank Financial Institutions

Non-bank financial institutions		
No.	Name A	Affiliates/existing branches
1	Crimson Finance Fund	1
2	Lesna	9
3	Raiffeisen Leasing	1
4	Factor Leasing	1
5	Fundway Mortgage	1
	Total	13

Source: CBK (2012)

Table 14. Insurance Intermediaries

Insurance intermediaries		
No.	Name	Affiliates/existing branches
1	WVP Sh.p.k	1
2	Risk Sh.p.k	1
3	Ansia Sh.p.k	1
	Total	3

Source: CBK (2012)

Table 15. Insurance Companies

Insurance companies		
No.	Name	Affiliates/existing branches
1	Dardania	31
2	Illyria	48
3	Kosova e Re	34
4	Siguria	37
5	Insig	32
6	Sigma	39
7	Sigal	44
8	Croatia Sigurimi	23
9	Sigkos	25
10	Graw e Elsig	38
11	Illyria Life	1
12	Graw e Kosova	1
13	Sigal Life Uniqa Group Austria	1
	Total	354

Source: CBK (2012)

Table 16. Money Exchange Offices

Exchange Bureaus		
No.	Name	Affiliates/existing branches
1	ZK uro Eufa C	1
2	ZK BS N	1
3	ZK Monedha	1
4	ZK uro E	1
5	ZK Euro Këmbimi	1
6	ZK Euro Eki	1
7	ZK ipa G	1
8	Zk Xeni	1
9	ZK gimiA	1
10	ZK Indriti	1
11	ZK Agoni	1
12	ZK Ximi	1
13	ZK Beni	1
14	ZK Prizreni	1
15	ZK Valuta	1
16	ZK Edona	1
17	ZK Ebani	1
18	ZK Te Gazi	1
19	ZK Hamza	1
20	ZK Veli	1
21	ZK Mena	1
22	ZK Sara	1
23	ZK Kujtimi	1
24	ZK Adis	1
25	ZK Aral	1
26	ZK Ismeti	1
27	ZK Kemi	1
28	ZK Safeti	1
29	ZK Yllka	1
30	ZK Mani	1
	Total	30

Source: CBK (2012)

4.2. Banking Supervision

4.2.1. Banking Sector – General Characteristics

Throughout 2011, Kosovo banking sectors continued to grow and maintain the sustainability of integral liquidity, profitability and capital adequacy. The value of total banking sector assets reached at euro 2.515 billion, recording an annual growth of around euro 187.9 million or 8.1 percent compared to the last year's growth level of euro 231.2 million or 11.0 per cent. The asset structure continued to be primarily funded by deposits and was concentrated on lending activity. In the end of 2011, the credit portfolio consisted around 62.2 percent of total assets of the banking system.

The growth dynamics was characterized by a constant system consolidation, respectively an increasing weight of small banks and branches of foreign banks and a slight decreasing weight of large banks, while there was no difference in the total number of banks. Similar to the last year, the banking sector in 2011 was represented by eight (8) banks, of which four (4) banks of foreign capital, two (2) of domestic capital ownership with some new attractions of foreign capital, and two (2) branches of foreign banks.

Small banks (G2)¹⁸ recorded a growth of total assets with around euro 92.4 million or 4.0 percent, followed by branches of foreign banks (G3)¹⁹ the growth of which is estimated to be around euro 51.6 million or 2.2 percent and large banks (G1)²⁰ with a growth of euro 43.9 million or 1.9 percent. Following these changes, the share of small banks (G2) and branches of foreign banks (G3) in the banking system increased to 19.5 respectively 7.1 percent in 2011 from 17.1 and 5.5 percent that was in 2010, whereas the share of large banks decreased to 73.4 percent from 77.4 percent.

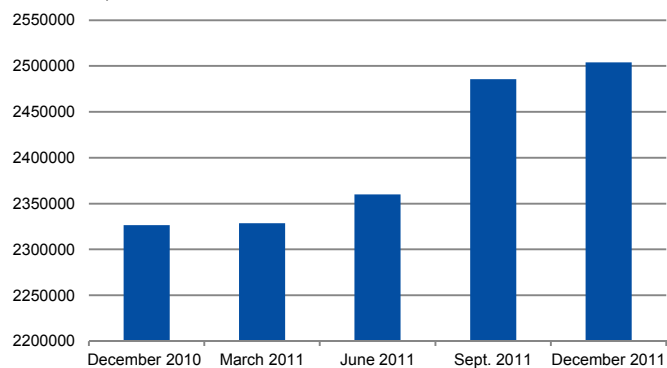
The above-mentioned changes serve to trigger the interbank competition, increasing the weight of small banks and branches of foreign banks operating in Kosovo. The supervision activity was also adapted to these changes during the year, increasing the monitoring focus on financial performance examinations and more frequent examinations in group-banks with a faster growth trend and more comprehensive profiling of large banks based also on the financial consolidated sustainability analysis of the group which they belong to.

Assets and Deposits – Developments and Trends

During 2011, the banking system recorded a growth of 8.1 percent of total assets, indicating a slowdown in the growth trend during this year compared to a growth of 10.2 percent during 2010.

The structure of the banking system assets compared to the same period of previous year is characterized by the following main developments:

Figure 70. Assets trend in banking sector - total assets, in thousands of euro



Source: CBK (2012)

¹⁸ Banks with a share in market of <10% of total assets.

¹⁹ It includes branches of foreign banks operating in Kosovo.

²⁰ Banks with a share in market of >10% of total assets.

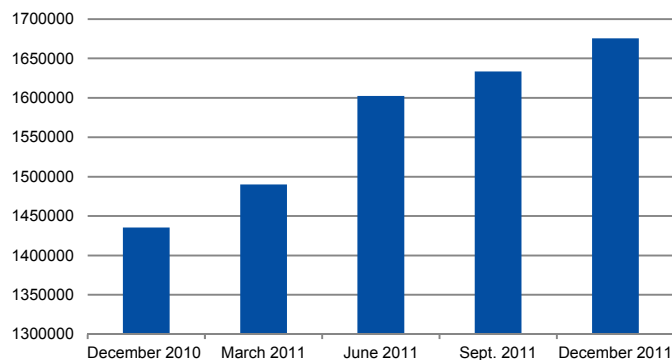
“Cash and balance with CBK” recorded a growth of around euro 24.5 million or 8.0 percent, namely the cash increased by euro 7.9 million or 7.7 percent, while the balance with CBK by euro 16.6 million or 8.1 percent. However, the share of the item “Cash and balance with CBK” within the total assets of the banking system remained the same as in the previous year, respectively 13.2 percent. This position comprises the most liquid banking system funds, thus re-emphasizing the maintenance of the system liquidity level in spite of the growth level of other assets, especially the risk-weighted assets.

“Claims against banks/placements” recorded a decline of around euro 99.7 million or 22.7 percent compared to the previous year, which was reflected by a decline of their weight within the total assets from 18.9 percent to 13.5 percent in 2011. The decline of placements was mainly driven by the growth of crediting level of domestic economy, restriction of credit-risked exposures and continuation of the growth of investments in central government securities in countries that preserved a favorable rating. This year, similarly to the last two years, the CBK followed a rather prudent approach regarding the existing limits of banks’ exposures to financial institutions abroad. In this aspect, a regulatory level of 20 percent was kept in credit-risked exposures against the Tier I capital. This approach was dictated to a considerable extent by the inconsistency of global financial markets and fluctuations in regional markets.

Although being increased by euro 28.5 million or 16.4 percent, “Investment in securities” recorded a lower growth level compared to the previous year of 78.8 percent. The inclination to a slower growth of the item of securities was driven by the banks’ strategies for directing free assets in the lending activity. The share of securities within the total assets stands at a level of 8.0 percent, while their quality is better since they comprise of securities of central governments of countries with favorable rating, respectively with high solvency.

“(Gross) Loans and Leasing” is the item recording the highest growth within the total assets with around euro 240.2 million or 16.7 percent compared to last year. Financial intermediation from banking system, especially from lending activity, is another important component supporting the economic activity in the country. Lending from banking system recorded a higher growth level compared to the previous period. During 2011, loans recorded an annual growth of 16.7 percent, while the growth in last year was 13.5 percent. By all means, the sufficient liquidity and good financial position of banks enabled the banks’ capacity to increase the lending level. A faster growth of loans was reflected on the growth of share of total (net) loans within the total assets from 57.5 percent in 2010 to 62.2 percent in 2011.

Figure 71. Loans trend in banking sector, total loans, in thousands of euro



Source: CBK (2012)

Lending activity in 2011 was also oriented towards crediting the trade sector, the share of which in total banking system loans increased to 36.2 percent from 35.7 percent that was in 2010. This is followed by individual-consuming loans, the weight of which in total loans also increased to 28.9 percent from 26.0 percent. On the other hand, a decline of share in total loans was recorded by loans for real estate to 8.1 percent from 9.1 percent, those for

services, tourism, hotel business to 7.5 percent from 8.8 percent, loans for manufacturing to 7.1 percent from 8.1 percent, loans for agriculture to 2.4 percent from 2.6 percent, thus keeping a very low share in total loans given to the country's economy.

Table 17. Loans by industry

Description	2010		2011	
	Thousands of euro	Share (%)	Thousands of euro	Share (%)
Agricultural loans	37,718.5	2.6%	40,489.3	2.4%
Mining 14,	629.7	1.0%	17,227.1	1.0%
Production 115,	198.9	8.0%	119,594.9	7.1%
Electricity 26,	087.3	1.8%	23,675.3	1.4%
Service, tourism, hotels, restorants	126,268.4	8.8%	125,239.4	7.5%
Communication	4,949.0	0.3%	2,467.8	0.1%
Trade	512,658.7	35.7%	606,972.1	36.2%
Financial services (others from claims to banks)	4,003.5	0.3%	5,065.9	0.3%
Real estates.-construction of real estates	131,244.3	9.1%	135,649.5	8.1%
Individual loans fro households, family& other personal expences (consumption loans)	373,631.8	26.0%	484,929.9	28.9%
Other loans	89,014.6	6.2%	114,269.9	6.8%
Leasings	0.0	0.0%	0.0	0.0%
Total loans and leasings	1,435,405	100%	1,675,581	100%

Source: CBK (2012)

Despite loan growth, the credit portfolio of banks remains at a satisfactory quality with a manageable level of nonperforming loans and adequate coverage by provisions for loan losses. Changes in categories of credit portfolio quality are herein described.

- “delayed loans²¹ / total loans” decreased from 10.3 percent that were in the previous year to 10.0 percent in 2011,
- “problematic loans²² / total loans” from 8.5 percent to 8.3 percent, and
- “nonperforming loans²³ / total loans” from 5.9 percent to 5.7.

These developments in the loans quality have influenced on the growth of reserve for loans compared to last year by euro 15.7 million or 16.2 percent.

The structure of banking system financing resources compared to the same period of last year evidences the following major changes:

“Total Deposits” recorded an annual growth of euro 165.9 million or 8.6 percent. Interest free deposits decreased by euro 13.8 million or 2.6 percent, while interest deposits increased to euro 179.7 million or 12.8 percent compared to the previous year.

The following changes have been recorded with the structure of interest free deposits: bank deposits decreased to euro 2.0 million or 57.0 percent; individual deposits increased to euro 39.1 million or 13.7 percent, while enterprise deposits decreased to around euro 51.0 million or 21.6 percent.

²¹ Delayed loans include loans classified as: watch, substandard, doubtful and loss loans.

²² Problematic loans include loans classified as: substandard, watch and loss loans.

²³ Non-performing loans include loans classified as: watch and loss loans.

Whereas, within the structure of interest deposits the following changes have been recorded: bank deposits increased to around euro 5.0 million or 146.2 percent, individual deposits increased to around euro 156.3 million or 14.9 percent and enterprise deposits increased to euro 18.3 million or 5.2 percent.

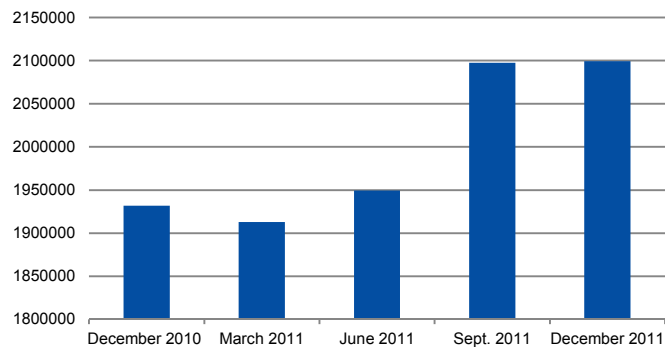
Deposits keep maintaining a high weight of their position within the assets resources. The share of total deposit within the banking sector resources during the current year is evidenced around 83.4 percent.

“Shareholders Equity” recorded an annual growth of around euro 24.9 million or 10.8 percent, increasing the share within the banking sector assets from 9.9 percent that was last year to 10.2 percent in the current year.

Regulatory Capital – Adequacy and Trends

The total of regulatory capital²⁴ in banking system also continued a growing trend during 2011. The value of total regulatory capital is reported to be around euro 300.3 million, which represents an annual growth in the amount of euro 29.0 million or 10.7 percent. Profits earned during the year in the amount of euro 37.0 million had the main impact on the capital growth. In 2011, two banks distributed dividends from reinvested profits in the amount of euro 20.0 million, of which euro 7.5 million was returned to equity.

Figura 72. Deposits trend in banking sector - total deposits, in thousands of euro



Source: CBK (2012)

The major capital adequacy ratios continued to be evidently over the minimum level required under the regulatory framework. In addition to the increase of profits, the maintenance of capital level was also driven by the increase of new capital in the amount of euro 1.1 million.

As presented in the table below, the capital quality corresponds to the significant share of Tier I capital, which in 2011 recorded a growth of euro 6.2 million or 3.7 percent. The banking system net profit was euro 37.0 million, which is higher by euro 4.2 million or 12.8 percent than that of 2010.

The quality of the overall capital is considered as satisfactory. Tier I capital comprises around 84.0% of regulatory capital, while the share of Tier II capital is evidenced around 16.0%. The growth of Tier I capital is mostly driven by large banks (G1), with a growth of around euro 20.2 million. Three banks of group (G2) have recorded a growth of the Tier I capital with around euro 4.6 million, while branches of foreign banks operating in Kosovo (G3) recorded a growth of only euro 278.3 thousand.

²⁴ Regulatory capital = Tier I capital + Tier II capital

Table 18. Structure of regulatory capital and development of its components

Description	2010		2011	
	Thousands of euro	Share (%)	Thousands of euro	Share (%)
Capital (shareholders capital, surplus, preferential shares)	170,402	62.8%	176,574	59.0%
Reserve funds	622	0.2%	606	0.2%
Profit (loss) of the current year	32,841	12.1%	35,973	12.0%
Retained profit of the previous years	26,642	9.8%	41,933	14.0%
Intangible assets and the value of goodwill	3,243	1.2%	3,821	1.3%
Total of tier 1 capital	227,264	83.8%	251,266	84.0%
General provision on loans*	12,711	4.7%	16,489	5.5%
Preferential ordinary shares	0	0.0%	0	0.0%
Time preferential shares	0	0.0%	0	0.0%
Subordinated debt	31,045	11.4%	31,045	10.4%
Other instruments (limited to 50% of the tier 1 capital)	298	0.1%	442	0.1%
Total tier 2 capital	44,054	16.2%	47,976	16.0%
Total capital (I+II)	271,318	100%	299,242	100%

Source: CBK (2012)

The ratio of risk-based capital, respectively “total capital / total risked assets” in 2011 was 17.6 percent from 18.6 percent that was in 2010. The decline of this indicator is attributed to a faster growth of total risked assets compared to the growth of total capital. While the total risked assets recorded a growth of around euro 254.3 million or 17.5 percent (as a result of growth of loans and securities level), the total capital increased to around euro 29.0 million or 10.7 percent compared to the last year.

Table 19. Capital adequacy ratios, in percentage

Description	December 2010	March 2011	June 2011	September 2011	December 2011
Total capital / Total risk weighted assets	18.6	18.1	17.2	17.1	17.5
Shareholders equity / Total assets	9.9	10.1	10.2	9.8	10.2
Problem loans (net) / Tier 1 capital	17.1	18.4	16.7	17.4	16.7

Source: CBK (2012)

However, the level of risk-based capital of 17.6 percent remains considerably above the regulatory level of 12 percent.

The weight of problematic net loan against Tier I capital is estimated to be 16.7 percent from 17.1 percent that was by the end of last year. The decline of this indicator is driven by faster growth of Tier I capital (with 11.0 percent) compared to the growth of problematic net loans (with 8.5 percent). Consequently, the banking system capacity to absorb potential losses from problematic loans results to have been achieved during 2011.

The ratio “shareholders equity / total assets” as an indicator of support of assets from the shareholders equity recorded a growth trend. The growth of this indicator from 9.9 percent to 10.2 percent means that the banking system relies less on debts for funding the assets, enabling the system capacity to face possible financial risks through capital. This change mainly resulted from the growth of shareholders equity by a faster trend, respectively a

growth of euro 24.9 million or 10.8 percent compared to the growth trend of total liabilities to around euro 163.0 million or 7.8 percent compared to the last year.

Loans Quality

Year 2011 presented a faster growth of lending, which is estimated to be around euro 240.2 million or 16.7 percent, compared to a growth of euro 170.4 million or 13.5 percent in the previous year. The loan level growth was mainly driven by large banks (G1), followed by small banks of group G2 and branches of foreign banks of G3, respectively a growth of euro 114.4 million (8.0 percent), euro 80.9 million (5.6 percent) and euro 44.9 million (3.1 percent).

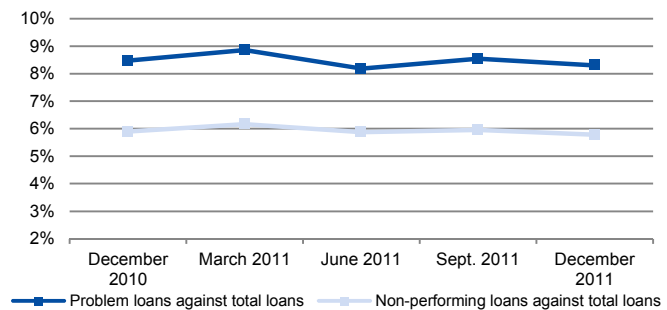
Table 20. Indicators loan quality, in percentage

Indicators	December 2010	March 2011	June 2011	September 2011	December 2011
Delayed loans / Total loans	10.3	11.3	10.7	10.7	10.0
problem loans / Ttoal loans	8.5	8.9	8.2	8.5	8.3
Non-performing loans / Total loans	5.9	6.2	5.9	6.0	5.8
Reserves on loan losses / Non-performing loans	114.4	114.7	115.4	117.2	116.7

Source: CBK (2012)

Indicators “problematic loans/ total loans” and “nonperforming loans / total loans” recorded the levels of 8.3 percent and 5.7 percent in 2011 from the levels of 8.5 percent and 5.9 percent that were in 2010. The improvement of credit portfolio impacted on the growth of coverage rate of nonperforming loans from reserves for loan losses to 117.0 percent from 114.4 percent that was in 2010. This is an indicator of an increased prudence in dealing with nonperforming loans through the coverage from reserve for loan losses.

Figure 73. The share of problem and non-performing loans to total loans, in percent



Source: CBK (2012)

From the loans quality analysis based on credited sectors it is evidenced that no significant change was reported in the end of 2011 compared to the end of 2010. A higher level of nonperforming loans keeps being reported at trade loans, the share of which in the total banking system loans is increased to 3.1 percent from 2.9 percent that was in the last year.

Table 21. Nonperforming loans by industry

Description	2010	2011
	Share (%)	Share (%)
Agricultural loans	0.10	0.06
Mining	0.08	0.02
Production 0.	97	0.92
Electricity	0.04	0.03
Service, tourism, hotels, restaurants	0.70	0.70
Communication	0.00	0.00
Trade	2.87	3.09
Financial services (others from claims to banks)	0.01	0.01
Real estates.-construction of real estates	0.40	0.29
Individual loans fro households, family& other personal expences (consumption loans)	0.48	0.42
Other loans	0.23	0.24
Leasings	0.00	0.00
Total loans and leasings	5.90	5.79

Source: CBK (2012)

Banking System Profitability

The banking system performance during 2011, in relation to the net profit is presented by higher growth trends compared to 2010. Net profit earned during 2011 in the amount of euro 37.0 million was by euro 4.2 million or 12.8 percent higher, with the growth of banking activity being a determinant factor. Around 33.6 percent of total net outcome of entire 2011 was generated only in the fourth quarter. The key profitability indicators, respectively the Return on Average Assets (ROAA) kept the same level as in the previous year of 1.5 percent, whereas the Return on Average Equity (ROAE) recorded a growth from 14.8 percent that was in the last year to 15.3 percent in the current year. .

Table 22. Profitability indicators (appropriated), in %

Indicators	December 2010	March 2011	June 2011	September 2011	December 2011
Return on Average Assets	1.5	0.9	1.3	1.4	1.5
Return on Average Equity	14.8	9.1	12.6	13.7	14.9
Interest Net Margine	6.4	6.1	6.3	6.3	6.4
Interest Net Income / General expenditures	137.0	145.0	142.8	144.3	140.7

Source: CBK (2012)

The analysis of ROAA indicator by group-banks indicates a higher break-even of large banks (G1) against the other two groups (G2 and G3). The ROAA indicator for G1 is estimated around 1.8 percent, recording a sling decline compared to that of previous period of 1.9 percent. For bank of G2 and G3, ROAA is presented at the levels 0.8 percent (from 0 percent) and 0.2 percent (from 0.4 percent). Net interest margin (NIM)²⁵ remained at the same level as in the last year of 6.4 percent. The high level of efficiency indicator²⁶ of 141.2

²⁵ NII = Net interest income / Profitable average asset

²⁶ Efficiency ratio = Net interest income/ General expenses

percent indicates a high efficiency in covering general expenses from net interest income. The high profitability of banks keeps ensuring the key support to the capital sustainability.

Banking System Liquidity

The banking system continues having a satisfactory liquidity situation although the key liquidity indicators reflected a declining tendency compared to the last year. The indicators “liquid assets / total assets” and “liquid assets / total deposits” are estimated at 32.5 and 39.0 percent from the level of 37.3 and 45.0 percent that were in the last year. The declining inclination of these indicators is a result of developments that embraced the banking system during this year, where it was gradually moved from investments in liquid assets, which are generally considered as having low risk, towards investments in long-term assets having a higher risk, and also with a higher profit margin, such as loans. Also, another influencing factor in the decline of liquidity indicators was a slower growth of deposits.

Table 23. Liquidity indicators (in %)

Indicators	December 2010	March 2011	June 2011	September 2011	December 2011
Loans / Deposits	74.3	77.9	82.2	77.9	79.8
Liquid assets / Total assets	37.3	35.3	30.6	33.4	32.3
Liquid assets / Total deposits	44.9	43.0	37.1	39.6	39.0
Liquid assets / Total liabilities	41.4	39.3	34.1	37.1	36.2

Source: CBK (2012)

The ratio loans – deposits, among the important liquidity indicators increased during 2011 from 74.3 percent to 79.9 percent, as a consequence of loans growth by a faster trend compared to the deposits growth. While loans recorded a growth of 16.7 percent, deposits increased to around 8.6 percent. According to group-banks, a growth of deposits is recorded in the three groups, respectively to around euro 78.0 million in G2, euro 64.7 million in G3 and euro 23.2 million in G1. During 2011, all banks have been in full compliance with the CBK rule, which sets forth the minimum requirement for keeping a liquidity reserve.

On-site Examination

Continuation of the credit portfolio growth by more significant trends and adaptability of managing capacities against banking risks, and especially of the credit risk, was a milestone of supervision activity. Furthermore, a particular attention is paid to banking groups profiling, namely the potential effects from the consolidated risk profile of the banking group, part of which are also subsidiaries and branches of foreign banks in Kosovo.

Towards implementation of such approach, during 2011, more examinations are conducted focused on certain risk segments of banks and assessment of compliance with the legal regulatory framework. Furthermore, full examinations have also been extended in assessing the ‘sensitivity towards the market risk’ as an increased component for the overall assessment, respectively for determination of risk profile of banks.

During 2011, nine (9) examinations were conducted in banks, of which four (4) full and five (5) focused examinations.

Table 24. Examinations in banks

Full and focused examinations	Full examinations	Focused examinations
Banks	4	5

Source: CBK (2012)

Microfinance and Non-bank System²⁷ - General Characteristics

Microfinance institutions remain active actors in financial intermediation, in crediting those with low income, households and individual businesses that can hardly find access to financing resources.

In 2011, the microfinance and non-bank system consisted of fifteen (15) microfinance institutions, five (5) non-bank financial institutions, exercising the financial activity of crediting, (two (2) of which offer the financial leasing product), four (4) non-bank financial institutions of money transfer and twenty-six (26) exchange bureaus.

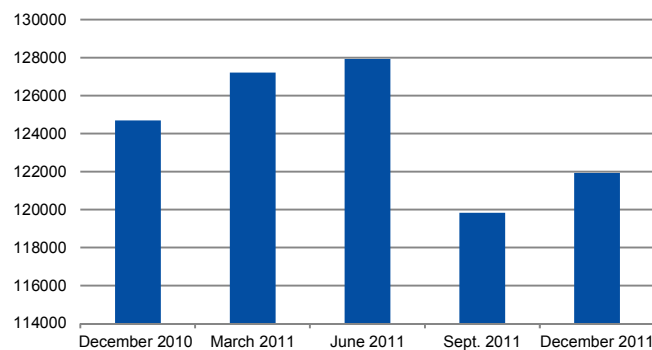
Crediting microfinance and non-bank financial institutions reflected in 2011 a slight decline of total asset unlike their growth throughout 2010. The amount of total assets of this system reached at euro 121.9 million or by 2.2 percent lower compared to the annual growth of 0.8 percent in 2010. The decline of total assets mainly refers to the decrease/return of borrowings to creditors in the two largest microfinance institutions.

Microfinance system keeps being characterized by a high concentration rate where around 57.7 percent of total assets are managed by four microfinance institutions. Nevertheless, in 2011, it is recorded a decline on concentration rate compared to the previous years, from 67.4% in 2010, respectively 75.0% in 2009, which triggers a competition between these institutions.

Assets in this sector are mainly financed by borrowings, which comprise around 67.9 percent of equity of 32.1 percent of total assets. Compared to 2010, liabilities in relation to total assets decreased to 4.1 point percent; respectively the share of equity is increased by the same point percentage. Liabilities during 2011 recorded an annual decline of around euro 7.0 million or 7.8 percent, while the equity increased to euro 4.2 million or 12.3 percent.

The activity of these institutions continues to be concentrated on crediting small businesses and households. Loan portfolio in the end of 2011 is over euro 104.4, an annual growth of 6.8 percent in 2010. Also, from 2010 to 2011, gross loans decreased their weight within total assets by 7.7 point percent. Net loans in the amount of euro 98.8 million participate in the structure of total assets with 81.0 %, recording a decline of euro 11.9 million from 2010. Currently, loans of this system comprise only 6% of total loans of the financial sector.

Figure 74. Movement of total assets in microfinancial and non-banking crediting sector



Source: CBK (2012)

²⁷ Including :

- Non-bank institutions having crediting as their activity – including also the financial leasing,
- Money transfer agencies,
- Exchange bureaus

Loans Quality

Quality indicators of loan portfolio had an approximate development with the previous year. The ratio of problematic loans against total loans and the ratio of nonperforming loans against total loans is reflected at the levels of 4.8 percent and 3.8 percent; while in the end of 2010 it was 4.6 percent, respectively 3.9 percent. Reserves for loan losses stand at levels of 5.3 percent, which is a similar level to 2010. In December 2010, the coverage rate of nonperforming loans by reserves for loan losses reached at 138.0% from 136.0% that was in the last year, presenting a satisfactory coverage rate.

Table 25. Development of loan quality indicator (December 2010 – December 2011)

Indicators	December 2010	March 2011	June 2011	September 2011	December 2011
Problem loans / Total loans	4.6	4.7	5.3	6.6	4.8
Non-performing loans / Total loans	3.9	3.9	4.5	5.5	3.8
Reserves on loan losses / Non-performing loans	136.0	148.1	137.7	128.7	138.0

Source: CBK (2012)

Microfinance System Profitability

The microfinance and non-bank credit system during 2011 generated net profits in the amount of euro 449 thousand, whereas in the end of 2010 the financial performance was negative – loss in the amount of euro 3.0 million. Net interest income and general expenses in 2011 recorded similar levels to those of 2010, which means that the sector profitability mainly corresponds to the decrease of provisions for loan losses.

The key profitability indicators evidenced a significant improvement compared to 2010. Return on Average Assets (ROAA) and Return on Average Equity (ROAE) recorded positive levels of 0.4 percent and 1.3 percent from minus 1.6 percent, respectively 3.3 percent that were in 2010. Net interest margin historically was quite high in this sector and by the end of 2011 it reached at a level of 15.5 percent, which is the highest level reported in the last three years. The efficiency indicator of 107.4 percent stands at an approximate level with 2010.

Table 26. Development of profitability indicator (December 2010 – December 2011)

Indicators	December 2010	March 2011	June 2011	September 2011	December 2011
Return on Average Assets	-1.6	0.3	1.2	0.7	0.4
Return on Average Equity	-5.5	1.1	3.9	2.3	1.3
Interest Net Margine	14.5	14.1	14.1	14.3	15.5
Interest Net Income / General expenditures	104.4	108.7	108.5	105.8	107.4

Source: BQK (2012)

Money Transferring Agencies and Exchange Bureaus

In addition to non-bank financial credit institutions there are also thirty (30) other non-bank financial institutions, of which four (4) are money transfer agencies and twenty-six (26) exchange bureaus.

In 2011, euro 246.3 million or 6.26 percent more than in 2010 have been transferred through money transfer agencies. Out of this amount, 89.4 percent are incoming transfers to Kosovo.

On-site Examinations

During 2011, the number and frequency of examinations in microfinance and non-bank institutions have been increased. Eight (8) full examinations and twenty-nine (29) focused examinations have been conducted in total. Primarily, the governance adequacy of institutions as one of the most evidenced deficiencies, compliance with the regulatory framework, credit risk – adequacy of recognition and provisioning of credit portfolio were in the focus of supervision activity area.

Table 27. Performed examinations during 2011

Microfinancial non-bank institutions - Full and focused examinations		
Description F	ull examination	Focused examination
Microfinancial institutions	5	
Non-bank microfinancial institutions:		
Crediting		1
money transferring agencies		1
Exchange bureaus	3	26
Total	8	28

Source: CBK (2012)

Prevention of Money Laundering and Terrorist Financing

An important part of supervision during 2011 was raising the awareness of private and public sector on prevention of money laundering and terrorist financing (hereinafter “PML&TF”), improvement of legal infrastructure and reporting structure in relation to PML&TF.

The CBK gave an essential contribution to raising the awareness of private and public sector on PML&TF through different presentations by the professional staff of the Banking Supervision Department during round tables and various meetings in campaigns in cooperation with the Police of the Republic of Kosovo, Bankers’ Association, the US Treasury Department, Organization for Security and Co-operation in Europe and other stakeholders. To this end, the CBK has distributed all the necessary information of international level to institutions supervised at the level of resolutions issued by the United Nations against individuals, entities and countries with which the financial activity is prohibited or against which a particular attention was required.

As to the legal infrastructure, the CBK played an important role in identifying the legal gaps relating to the adequacy of Law on Prevention of Money Laundering and Terrorist Financing decreed in 2008. A working group was established during 2011 to supplement this law and the CBK was involved in it together with the Ministry of Finance, Financial Intelligence Unit of the Republic of Kosovo, the EU Rule of Law Mission (EULEX) and the Technical Assistance of the US Treasury Department. In this period, among the others, the CBK has also updated the form (as standard form) for use by financial institutions to identify the origin of funds and determination of the custodian together with the necessary instructions on implementation of this form.

Supervision, in addition to general periodical examinations in banks, microfinance institutions and non-bank financial institutions, has also conducted particular examinations focused on the compliance with the PML&TF legislation. From these examinations, it was evidenced that the above-mentioned institutions have advanced the necessary infrastructure related to PML&TF, such as policies, procedures and system in identifying, recognizing and reporting the suspicious transactions and in addressing in general this sensitive area both in local and international level. However, issues requiring particular attention by banking financial institutions and non-bank financial institutions have been identified with a view to advancing the human capacities and compliance systems in PML&TF, and which remains subject to constant monitoring by the CBK in the course of regular on-site supervision and off-site monitoring.

Compliance with Regulatory Legal Framework – Mandatory Actions

On-site examinations, both of full and focused level, in banks and non-bank financial institutions have identified cases of noncompliance with regulatory legal framework. Among the most evidenced shortcomings identified in the course of examinations are those relating to the governance of institutions, credit risk, exceeding the limits in credit-risked exposures and reporting adequacy.

Identified cases have been followed by administrative and mandatory actions against entities supervised and regulated by the CBK. The administrative actions undertaken thereof include warning measures against the managing and controlling structures, administrative and monetary fines and the measure of temporary administration in the microfinance Institution KEP Trust.

Administration of the Financial Institution “KEP TRUST”

Examination of KEP Trust, conducted in the last quarter of 2010, re-emphasized the shortcomings previously evidenced (2009), and which mainly related to the governance of the institution. These shortcomings, carried on for a considerable period of time, by the end of 2010, resulted in lack of authorizations, respectively of legitimacy of control and management structures of the microfinance institution KEP Trust. The whole this problem became more evident from the reserved positioning, lack of consensus and later on by the abandonment of the institution by its founder himself, thus disbanding the entire necessary governing structure.

Consequently, with purpose of avoiding such shortcomings evidenced and maintaining the liquidity and solvency capacity of the institution, the CBK had to impose the measure of temporary administration in the beginning of 2011.

According to the engagement terms, the temporary administrator, in addition to running the institution with all executive rights, was required to continue efforts with the founders to reinstate the governing structures in this institution within three months from his appointment. Being not able to achieve the key objective within this period, the temporary administration was extended several times, until a meeting was organized by the CBK with all stakeholders of the institution under administration in October 2011. This meeting resulted in an agreement between the founders to elect the new managing board. The temporary administration measure came to an end in November 2011 following the positive results of the eligibility test for the managing board members nominated by the founders and the appointment of the managing director. Consequently, the executive right was transferred from the administrator to the new managing board.

The successful conclusion of this entire process re-emphasized the importance of prompt and well coordinated actions by the CBK. The microfinance institution KEP Trust, during the administration process, managed to maintain the business continuity, fulfilling its contractual liabilities against creditors, maintaining the levels of liquidity, credit portfolio quality and capital, and as a result of this, maintaining the financial sector reputation.

Development of Liquidation Process of the Credit Bank of Prishtina

Liquidation process of the Credit Bank of Prishtina continued during 2011. The liquidation process was enabled from collections of loans. During 2011, a total of euro 962,887 was collected from loans and as a result of this, by the end of 2011, a total of 53% of the amount of deposits, respectively 99.80% of the number of deposits accounts was reimbursed. The liquidation process perspective relates closely to the efficiency of collections of loans, secondary collections from collateral as well as from potential buyers of the remaining credit portfolio.

Table 28. Loans – collection trend

Description	Number of accounts	Amount	Change in account		Change in sum	
			Number P	ercent	Number P	ercent
Loans on 13.03.2006		28,438,587				
Loans on 01.01.2011		23,277,414			5,161,173	18.15%
Loans on 31.12.2011		22,497,071			5,941,516	20.89%
Loans received in 2011		962,887			962,887	3.39%

Source: CBK (2012)

Table 29. Deposits – reimbursement trend

Description	Number of accounts	Amount	Change in account		Change in sum	
			Number P	ercent	Number P	ercent
Deposits on 13.03.2006	35529	33,454,222				
Deposits on 01.01.2011	76	16,418,553	35453	0.9979	17,035,669	50.92%
Deposits on 31.12.2011	76	15,649,533	35453	0.9979	17,804,689	53.22%
Deposits received in 2011						

Source: CBK (2012)

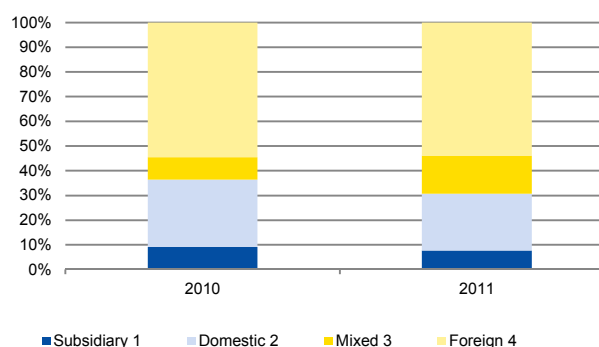
4.3. Insurance Supervision

Insurance Companies, Ownership Structure

During 2011, the number of insurance companies operating in Kosovo was thirteen (13), of which ten (10) provided non-life products, whereas three (3) companies operating in the market provided life insurance products.

If we take into consideration the structure of the insurance companies by ownership during

Figure 75. Structure of ownership of the insurance companies



Source: CBK (2012)

2011, it appears that there has been no significant change in Kosovo insurance market compared to the last year. It is worthy to mention that during 2012, two more companies joined Kosovo insurance market and which operate with life insurance products, where one of them is of mixed capital (the majority is of foreign capital), while the other is 100% of foreign capital.

As indicated in the figures above, out of the total number of companies operating in insurance industry, seven (7) companies were of foreign ownership, two (2) companies of mixed ownership, three (3) of them are insurance companies of full domestic ownership and one (1) company is a subsidiary.

Structure of Insurance Portfolio – Number and Amount of Contracts (Policies)

The total number of policies written during 2011 was 604,735 or 12% more than in 2010.

Table 30. Number of written policies

Period: January - December	Number of Policies		Change	The share to total	
	2010	2011		2010	2011
Obligatory insurance	258,022	285,900	10.80%	47.64%	47.28%
Voluntear insurance	89,916	98,862	9.95%	16.60%	16.35%
Border insurance	192,801	219,343	13.77%	35.60%	36.27%
Lifie insurance	813	630	-22.51%	0.15%	0.10%
Total 54	1,552	604,735	11.67%	100%	100%

Source: CBK (2012)

The portfolio structure of insurance products for 2011 is characterized by 47.64% policies for products of compulsory motor liability insurance, 36.27% polices of border insurance and 16.35% policies of voluntary insurance.

Due to a low demand for life insurance products, a considerable decline is noticed in the number of policies written for life insurance products (-23%) which also reflects the decline of these products in total share of policies portfolio for 2011 and 0.10 % for 2010)

Table 31. Gross written premiums

Period: January - December	Gross written premiums		Change në %	The share to total	
	2010	2011		2010	2011
Motor liability	40,926,008	43,950,031	7.39%	56.55%	58.52%
Border insurance	10,491,743	9,526,802	-9.20%	14.50%	12.69%
Voluntear insurance	20,244,145	21,623,327	6.81%	27.97%	28.79%
Life insurance	704,885	1,040,715	47.64%	0.97%	1.39%
Gross w ritten premiums	72,366,781	75,100,161	3.78%	100%	100%

Source: CBK (2012)

During 2011, the value of gross written premiums reached at euro 75,100,161. Out of the total gross written premiums, 58.52% of the premiums result from compulsory motor liability insurance, then 28.79% from voluntary insurance, 12.69% from border insurance and only 1.39% from life insurance.

Life insurance still remains low compared to the other non-life insurance products. This market, although recording a modest growth in the value of life gross premiums, is estimated to have a low trend and it comprises only 1.39% of total gross written premiums for 2011.

The increase of the share of voluntary products in gross written premium to 36.27% was reported to be positive. One of the key factors which impacted on the increase of these products is the demand for these products by companies operating in Kosovo.

It is also worth mentioning that during 2011, there has been an increase of the number of border insurance policies and a decline in the value of these policies as a result of the decrease of border insurance tariffs from the CBK by in the end of 2010.

Number and Amount of the Paid Claims

During 2011, the number of paid claims recorded a growth compared to the last year, the highest growth was recorded by voluntary insurance.

Table 32. Number of paid claims

Period: January - December	Number of damages		Change	The share to total	
	2010	2011		2010	2011
Obligatory insurance	14,860	14,211	-4.37%	24.72%	20.10%
Voluntear insurance	45,252	56,494	24.84%	75.28%	79.90%
Total 6	0,112	70,705	18.00%	100.00%	100.00%

Source: CBK (2012)

Paid claims by number during 2011 reached at 70,705 or 18% more than in 2010, whereas the value of paid claims for this year was euro 27 million or 3.60% less than in 2010.

Table 33. Paid claims

Periudha: Janar - Dhjetor	Paid claims		Chnagne në %	The share to total	
	2010	2011		2010	2011
Motor liability	16,865,141	14,857,285	-11.91%	23.31%	19.78%
Border insurance	1,113,796	974,286	-12.53%	1.54%	1.30%
Guaranteed fund	3,342,806	3,320,840	-0.66%	4.62%	4.42%
Voluntear insurance	6,816,856	7,974,583	16.98%	9.42%	10.62%
Total paid claims	28,138,599	27,126,994	-3.60%	39%	36%

Source: CBK (2012)

The ratio of paid claims²⁸ in 2011 is 44% compared to that of 2010 that was 48.88%. The table below shows a decline in the amount of paid claims during 2011 compared to 2010. A higher ratio of paid claims during 2010 came as a result that payments of claims that were a legacy of previous years were being made this year.

Despite the decline of the level of paid claims during 2011, the IMD continued further with the enhanced and effective supervision regarding the control of claims payout in order to protect the policyholders' interests, where in 2011, compared to 2010, it was recorded an increase of paid claims to 18%.

Considering the CBK's role and objectives, respectively the IMD's, in protecting the policyholders' interests; the IMD performed a risk-based supervision, conducting on-site examinations and off-site examinations.

Based on monthly, quarterly and annual reports, it was performed the off-site monitoring – analysis of the insurance companies performance, whereby reports on industries and individual companies have been produced, taking for granted different financial indicators that show the development and maintenance of the insurance companies, such as: minimal solvency margin, financial force – liquidity, calculation of technical reserves, risk exposure,

²⁸ Amount of paid claims in relation to Net Written Premiums.

maximum retention of risk by insurance companies, reinsurance quality and the other relevant financial indicators.

Financial Position of the Insurance Companies

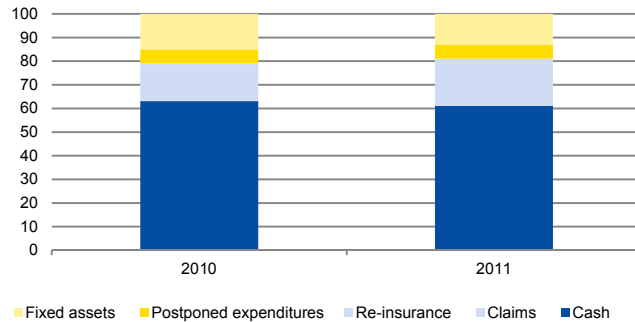
Insurance Industry Assets

On 31 December 2011, current assets continue their domination compared to the other assets within the total assets with 61%, whereas fixed assets comprise 13.2% of total assets. Claims and other receivables have recorded a growth compared to the last year, while reinsurance and stayed and prepaid expenses declined to the same level with the previous year.

Making a comparison to 2010 where current assets consisted 63% and fixed assets consisted 15.6%, it is noticed a tendency of change of assets structure as a result of increase of the number of life insurance companies that entered the market during 2011.

The growth of total assets and the change of assets structure is a characteristic of 2011, the former as a result of two life companies entering the market and the latter as a result of investments in real estates. Growth of money as an asset is also a result of retained earnings by the insurance companies.

Figure 76. Structure of assets of the insurance industry



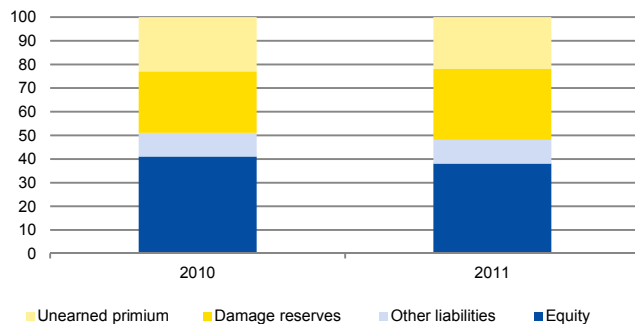
Source: CBK (2012)

Liabilities and Equity

On 31 December 2011, the technical reserves consisted 51.6% of total liabilities, other liabilities consisted 10.0% whereas the capital and other reserves consisted 38.4%.

During 2011, it is reported a continuity of the increase of growth trend of funds allocation to technical reserves. Technical reserves recorded a growth of 33% whereas the capital of 15%. Within the technical reserves, the highest growth was recorded by the known but unsettled claims and the incurred but not reported claims.

Figure 77. Structure of liabilities of the insurance industry



Source: CBK (2012)

Positive movements which occurred in relation to the share in technical reserves and in the total premium are significant indicators of stabilization and regulation of the insurance market. The growth of technical reserves in line with the growth of premiums is a result of establishment of criteria for technical reserve based on an instruction issued by the CBK in

2010 and a result of a continues monitoring of allocation of technical reserves resulting from this instruction. Consequently, this enabled a real estimation of the insurer's reserves as well as better protection of interests of policyholders or insurance beneficiaries.

Performance Indicators

Monitoring of insurance companies is done through the Reporting and Analysis Division (RAD) in a systematic way and in standardized forms, issuing regular monthly, quarterly and annual analyses pursuant to the CBK internal regulations, based on the IFRS standards and IAIS practices.

RAD prepares reports for the CBK Board on regular monthly basis, it monitors the financial performance of insurance companies, it calculates the minimum margin of solvency, liquidity and the other risk indicators.

Solvency Level in Insurance Industry

Solvency is the capacity of a company to cover its long-term liabilities. Solvency differs in comparison to liquidity, which shows the organization's capacity to cover its short-term liabilities. Solvency for Kosovo insurance industry is regulated under the CBK Regulation No. VIII, which in calculation of solvency it does not recognize as assets: i) 100% of debtors of premiums over 90 days, ii) 100% of advance payments and other intangible assets and iii) 25% of stayed and prepaid expenses. As a result of this, when we deduct liabilities and shareholders' equity from net assets then we obtain the solvency result which has to be over the amount of euro 600,000, as set forth under the CBK Regulation No. VIII.

Based on the financial reports as of 31 December 2011, Kosovo insurance industry is solvent by euro 27,957,180 and compared to 2010 this solvency increased by 32%. As a result of this, Kosovo insurance industry keeps having euro 27,957,180 assets over the level of liabilities and the level required under the CBK Regulation No. VIII.

Table 34. Calculation of minimum Solvency Margin

Description 2011		2010
Total Assets	120,945,630	97,168,934
Minus: Unaccepted assets	(86,388,451)	(69,438,177)
Net assets =1 +(2 - 8)	34,557,180	27,730,756
Thelevel of minimal margine of solvence	6,600,000	6,600,000
The level of solvence	27,957,180	21,130,756
The position of solvence	Solvent	Solvent

Source: CBK (2012)

Meanwhile, intangible assets recorded a decline in 2011 compared to 2010 by 6% which is a good performance indicator of the industry and growth of qualitative assts in relation to total assets.

Insurance Industry Profitability

As a very important indicator which determines the insurance policy cost and the adequacy of premiums to cover claims from liabilities deriving from the insurance contract, the net loss ratio of the insurance market in Kosovo in 2011 consisted 67% compared to 2010 which

was 52%. The increase of this indicator for this year resulted from the increase of technical reserves for claims.

Return on Average Assets (ROAA) for Kosovo insurance industry had a decreasing trend from 1.51% in 2010 to 0.81% in 2011. This decrease came as a result of the increase of reserves for this year. Also, a decline was recorded in the Return on Average Equity (ROAE) from 3.65% that was in 2010 to 2.15% in 2011.

Insurance Industry Liquidity

During 2011, the insurance industry in general resulted in sustainable liquidity indicators.

As indicated in the table above, cash and its equivalents in relation to technical reserves is 119%, (2010:130%), whereas in relation to total liabilities it was 100% (2010:107%). Liquidity shrinking in 2011 mainly resulted as a consequence of fast growth trend of the total technical reserves compared to the last year, driven by the implementation of Instruction on the methodology of calculation of technical reserves issued by the CBK in 2011.

Table 35. Liquidity indicators

Description	2011	2010
The net ratio of risk: NPSH / Equity	125%	135%
The gross ratio of risk: BPSH / Equity	149%	155%
Prepayments in relation to equity	4%	4%
The ratio of total expenditures	37%	43%
Total liquid assets, cash / Technical provisions	119%	130%
Total liquid assets, cash / Total Liabilities	100%	107%
Investments income / Total income	23%	10%
Non TPL / GWP	33%	32%

Source: CBK (2012)

On the other hand, the two other ratios from the table above, the net risk ratio and the gross risk ratio which show the risk assumed in relation to the equity have recorded a decline compared to 2010.

Reinsurance in Insurance Industry

Reinsurance is quite effective means for transferring the large risks to reinsurance companies. Principally, the insurance companies, which have no sufficient funds to cover losses deriving from such risks, make the allocation of the premium and the claim to the reinsurance companies. Given that Kosovo insurance market has a growth tendency of voluntary products, the insurance companies underwrite large risks by transferring the part of the premium and the claim to the reinsurance companies. During 2011, the part of ceded premium in total gross written premiums is 12% whereas in 2010 it was 9%. This growth trend of ceded premium is a very positive indicator which is mainly a result of the trend growth of voluntary products.

On-site Supervision

On-site supervision is an essential process of supervision of the insurance companies, because on one hand it ensures the expansion of information based on the financial statistics that are reported by the insurance companies and insurance intermediaries which

contribute to analyze the way of exercising the business activity, and on the other hand it provides the necessary information on developments in supervised entities in relation to the exercise of management and governance activities, financial activities and other activities in the course of exercising their operation.

As a part of supervision of the insurance companies' activity and with purpose of protection of the policyholders' interests, the ISM has conducted full examinations and focused examinations during 2011.

Full examinations have been conducted in compliance with the CBK supervision policy and the annual examinations plan drafted previously, whereas focused examinations are undertaken and have been performed as a result of developments in the insurance industry, in line with the continuous supervision and monitoring.

It is worthy to mention that the largest part of examination conducted during 2011 have covered the financial years 2009 and 2010.

Examinations are conducted in the area of finances, insurance undertaking and in the area of claims (the latter was implemented in two periods during the year).

Table 36. Full and focused examinations

Description	Insurance companies	Insurance unit	Kosovo Guaranteed Fund
Full examinations	8	1	1
Focused examinations	40	1	1

Source: CBK (2012)

Examinations have been conducted in all insurance companies and in the Compulsory Insurance Unit/Kosovo Insurance Association (CIU/KIA) as well as in the Guarantee Fund of Kosovo (GFK), which as units have already been transferred to the Kosovo Insurance Bureau. Various findings have been ascertained during the examinations and as such they have been evidenced in examination reports. Issues found out have been addressed through orders issued by the CBK Executive Board, and recommendations in examination reports through which it was required to undertake the necessary measures for improving and avoiding discrepancies as well as for fulfilling the recommendations as per the certain dynamics.

Unlike previous examinations which were mainly oriented in the regulatory-based supervision, supervision and realization of examinations are considerably focused now on a risk-based approach.

4.4. Pension Supervision

Kosovo pension system during 2011 did not have any significant change, although the fluctuation of financial markets has a direct impact on pension funds assets invested outside Kosovo. The purpose of pension supervision remains preserving the participants' assets.

- Pension system in Kosovo functions pursuant to Law 03/L-084 amending UNMIK Regulation 2005/20 on Pensions in Kosovo. The said law is based on three pillars:
- Basic pension provided to all elderly Kosovars aged over 65, funded by Kosovo Consolidated Budget revenues (know as Pillar I);

- Invested pensions, funded by mandatory fully funded contributions by employers and employees for current employees (known as Pillar II) and;

Voluntary pension schemes, funded by voluntary individual contributions (known as Pillar III).

Pursuant to Law 03/L-084 on Pensions in Kosovo, the second pillar is funded by mandatory monthly contributions established by law, where the employees contribute by 5 percent of their gross wage and the employers contribute by another 5 percent. Payments are transferred to individual accounts of participants in Kosovo Pension Savings Trust (Trust).

During 2011, full and focused inspections have been conducted according to the examination plan of Pension Division.

Table 37. Examinations conducted by pension supervision during 2011

Description	Full examination	Focused examination
Kosovo Pension Saving Trust	1	0
Slovenian Kosovo Pension Fund	1	1
Total 2		1

Source: CBK (2012)

a) Pillar II

Kosovo Pension Savings Trust (hereinafter "KPST")

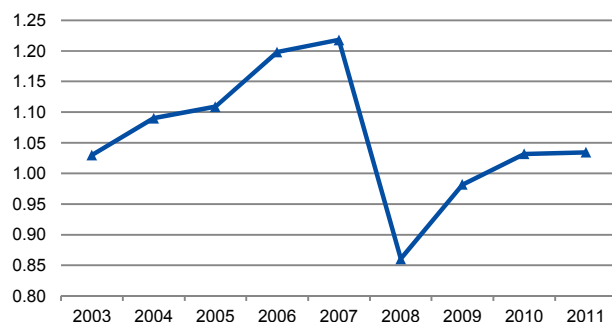
KPST is established to administer and manage the second pillar of pensions as provided for under the Law 03/L-084 on Pensions.

KPST was established pursuant to the UNMIK Regulation No. 2001/35 (December 2001), as amended later by UNMIK Regulation 2005/20, which was then amended by Law No. 03/L-084 of the Republic of Kosovo as a nonprofit legal entity the sole and exclusive purpose of which is to administer and manage the individual accounts of pension savings, ensure a prudent investment and protection of pension assets and paying out flows from individual accounts for purchase of annuities for pension savings, as a trustee management acting on behalf of contributors and its beneficiaries.

KPST is run by the Governing Board which has seven members who supervise its operation.

The number of contributors by the end of 31 December 2011 was 384,574 whereas in 2010 was 350,960 which resulted in an increase of contributors by 9.58%. During 2011, the amount of asset under the KPST management increased to 100,079,934.00€. The total value of asset under Kosovo Pension Savings Trust management as of 31 December 2011 was euro 595,618,335.00, whereas in 2010 it was euro 495,538,401.00.

Figure 78. Graphic presentation of unit price movements



Source: KPST (2012)

During 2011, the KPST investments had a return on gross amount of euro 3,313,459.00 in the total assets invested or 0.56%. In the end of 2011, the value of Trust unit was euro 1.0346, whereas in 2010 it was euro 1.0327, which is an increase of the unit price by 0.18%.

The table below shows the share of investments categories of pension assets during 2011 in the total KPST assets.

Table 38. Structure of investment of pension assets as of 31 December

Institutions where pension assets are invested	Assets type	Assets	The share in percent
Vanguard	Equity 203,454,177		34.58%
BNP Paribas	Money market	63,654,874	10.82%
Schroders	Bonds	59,964,591	10.19%
European Credit Managment	Credit trade	19,980,969	3.40%
Aquila	Diversified	50,641,026	8.61%
AXA GILB	Bonds related to inflation	84,909,413	14.43%
BNY Mellon	Different	50,361,646	8.56%
Raiffeisen Bank	Banking deposits certificates	18,844,793	3.20%
NLB Prishtina	Banking deposits certificates	15,855,128	2.69%
CBK	Uninvested 20,736,	598	3.52%
Total		588,403,214	100.00%

Source: CBK (2012)

The table below also shows the return from investment for each institution where pension assets are invested:

Table 39. Structure of return from investments of pension assets as of 31 December

Institutions	Assets type	Gross returns
Vanguard	Equity	-9,984,210
BNP Paribas	Money market	741,523
Schroders	Bonds	-552,629
ECM ECL	Credit trade	1,056,691
ECM DEC	Credit trade	-519,385
Aquila	Diversified	641,026
AXA GILB	Bonds related to inflation	10,220,048
BNY Mellon	Different	361,464
Raiffeisen Bank	Banking deposits certificates	415,307
NLB Prishtina	Banking deposits certificates	551,969
CBK	Uninvested 75,	122
Auriel Sp		306,533
Received contributions	Uninvested	
Total		3,313,459

Source: CBK (2012)

b) Pillar III

Slovenian-Kosovo Pension Fund (hereinafter "SKPF")

SKPF is founded as a shareholding company by "Prva Group" from Ljubljana and Corporation "Dukagjini" from Peja on 4 September 2006 pursuant to Law 03/L-084 amending UNMIK Regulation 2005/20 on Pensions in Kosovo. SKPF is licensed as Supplementary Pension Fund and Pension Assets Manager.

In 2011, the SKPF Board decided to withdraw from the market as Pension Assets Manager. Consequently, the CBK Executive Board decided to revoke the SKPF license for exercising

its activity as Pension Assets Manager and extend the license as Supplementary Individual Pension Fund.

On 31 December 2011, the Supplementary Individual Pension Fund assets in Slovenian-Kosovo Pension Fund reached at euro 4,079,674.97, which represents a growth of 12.80% compared to 2010.

The value of unit as of 31 December 2011 was euro 125.6594, whereas in 2010 it was euro 120.9082. SKPF managed to have a positive return of euro 147,927.28, respectively 3.93% during 2011.

Table 40. Structure of investment of SKPF pension assets (as of 31 December 2011)

Description	Euro	Percent
Shares	105,118	2.58%
Obligations and other fixed securities	3,089,274	75.72%
Deposits	753,600	18.47%
Cash	77,919	1.91%
Other assets	53,765	1.32%
Total assets	4,079,675	100.00%

Source: CBK (2012)

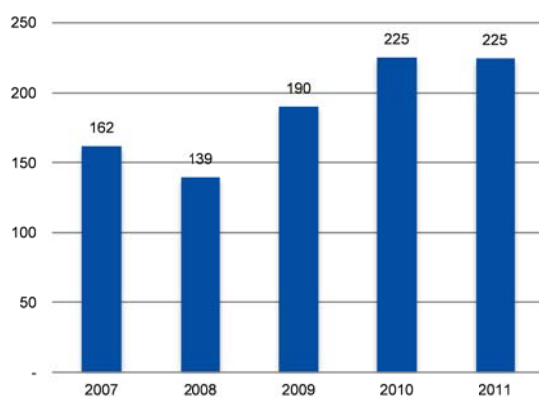
The number of contributors for 2011 reached at 3,513 members, whereas in 2010 it was 3,404 members. Similar to the other financial institutions and pension system operators, both KPST and SKPF have been subject to analysis performed by the CBK Pension Division.

5. Services Provided to the Authorities, Financial Community and Public

The CBK provides the basic services which are to be offered by a central bank to the state institutions, financial institutions and wide public. In general, these services have to do with cash flow, account transactions, managing the financial means, interbank payment system, credit registry as well as economic statistics and analysis

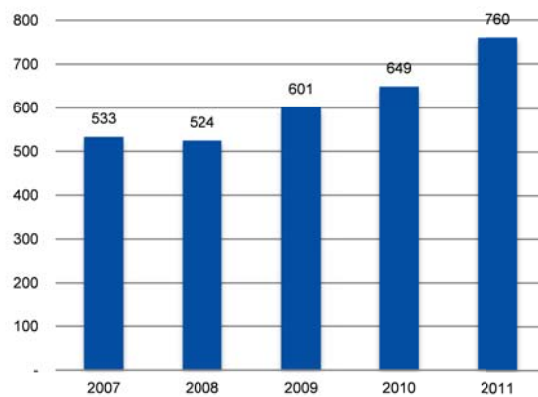
5.1. Operations and Cash Management

Figure 79. Cash supply (amount), in millions of euro



Source: CBK (2012)

Figure 80. Cash admission (amount), in millions of euro

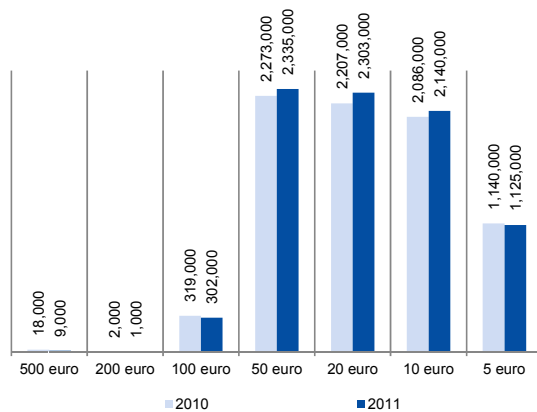


Source: CBK(2012)

The CBK function to ensure a proper supply of banknotes and coins for execution of cash transactions in the economy during 2011 was successfully performed. Since Euro is a currency that is being officially used in Kosovo, the CBK's responsibilities with respect to operations and cash management are related to Euro in the first place.

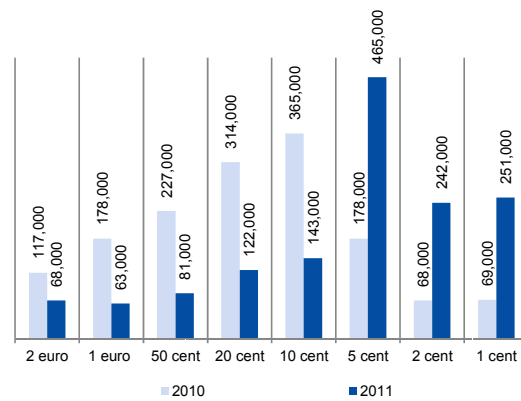
Regarding the overall amount, the cash supplied during 2011 has a decrease of 1 percent compared to 2010, whereas the structure of cash supplied by denominations in 2011, which first of all is determined by the banking sector demands, did not have any significant change from 2010. As to the euro banknotes, low denominations 5, 10, 20 and 50 euro) kept dominating, while higher denomination volumes of 200 and 500 euro remain evidently lower.

Figure 81. Supply with euro banknotes by denominations (number of pieces)



Source: CBK (2012)

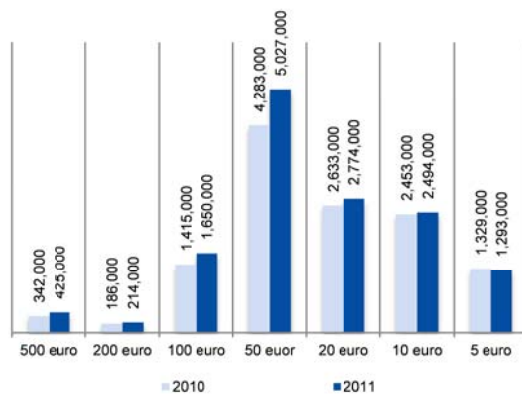
Figure 82. Supply with euro coins by denominations (number of pieces)



Source: CBK (2012)

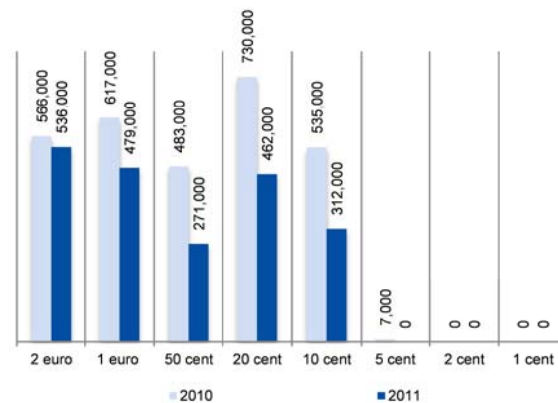
While the supply of euro coins in 2010 was mainly dominated by coins with medium value from 10 eurocent to 50 eurocent, the volume of low denominations in 2011 recorded a considerable growth compared to the previous year when they were higher compared to denominations of coins from 10 cent to 2 euro.

Figure 83. Euro banknotes received by denominations (number of pieces)



Source: CBK (2012)

Figure 84. Euro coins received by denominations (number of pieces)

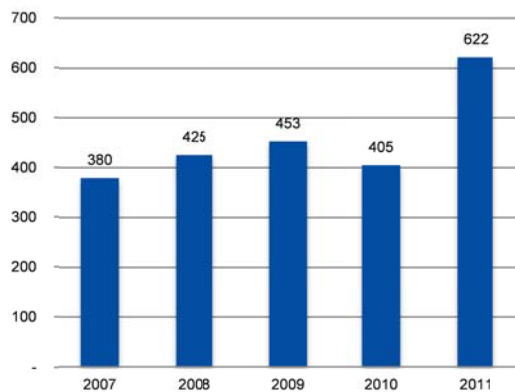


Source: CBK (2012)

As presented in the figures above, the CBK supplied commercial banks and other institutions with approximately 8.2 million pieces of euro banknotes (in the amount of over euro 224 million) and over 1.4 million pieces of euro coins (in the amount of around euro 0.3 million). In 2011, the overall value of cash received as deposits recorded an increase of 17.13 percent compared to the previous year. The CBK received around 13.9 million pieces of euro banknotes (an average of 55,500 pieces of banknotes per day) and over 2 million pieces of euro coins (an average of around 8,020 pieces of coins per day) as cash deposits from commercial banks and other institutions. Expressed as a value, these deposits have approximately reached the amounts of euro 758.2 million and 1.8 million, respectively. The structure of euro banknotes and coins received does not have a great difference compared to previous year.

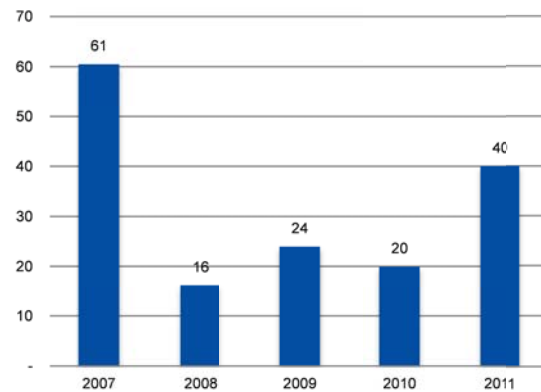
Likewise previous years, in 2011, the net deposited cash²⁹ was in a higher amount than the cash supply. In fact, by reaching at nearly euro 535.2 million, the variation of cash deposit was considerably higher compared to the previous year when it was around euro 423.6 million.

Figure 85. Export of cash (value), in millions of euro



Source: CBK (2012)

Figure 86. Import of cash (value), in millions of euro



Source: CBK (2012)

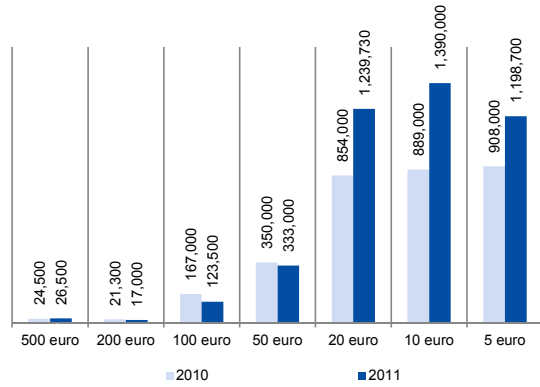
Since, the CBK keeps only the minimum required level of cash by remitting the overflow to the Euro-zone banks, wherein they are refunded into the interest assets and are also used for execution of international payments and investments, the annual increase of the deposited cash against the cash supplies has also resulted in net increase of cash remittances outside the country. The net remittances of cash outside the country in 2011, reached the amount of euro 581.9 million (2010: euro 405.3 million) compared to the previous year, when they were euro 429 million. The cash export and import situation during the recent years are depicted in the two figures above.

The cash operations kept being executed through modern processing equipment and in compliance with standard rules. All the cash received by commercial banks and other institutions are processed and classified in accordance with the extent of their age. During 2011, around 4.3 million euro banknotes (31.2 percent of deposited euro banknotes number) were classified as outdated and were excluded from the circulation by being remitted towards the central Euro-zone banks. Such capacity of considerable outdated euro banknotes excluded from circulation has evidently contributed to the improvement of the quality of cash in circulation in the Republic of Kosovo. Banknotes that mainly were

²⁹ Deposits minus Withdrawals

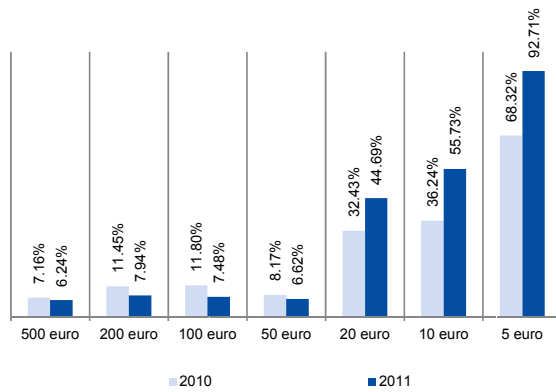
classified as highly outdated and were excluded from circulation were those of denominations 20, 10 and 5 euro, due to their higher circulation in the economy.

Figure 87. Number of outdated banknotes withdrawn from circulation (number of pieces)



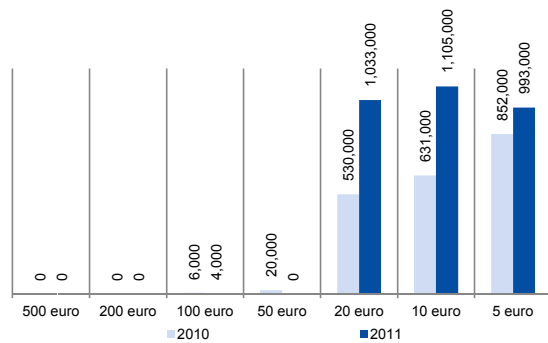
Source: CBK (2012)

Figure 88. Proportion of banknotes withdrawn from circulation from the total received ones



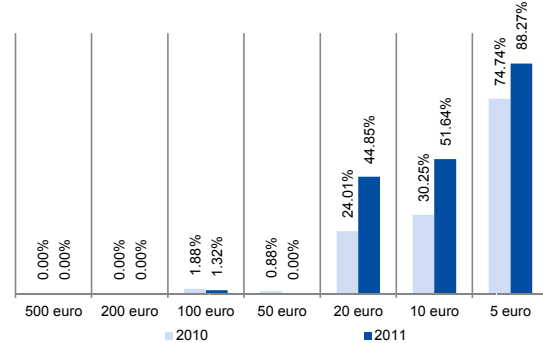
Source: CBK (2012)

Figure 89. Supply with new banknotes (number of pieces)



Source: CBK (2012)

Figure 90. Proportion of new banknotes induced in circulation from the total supplied

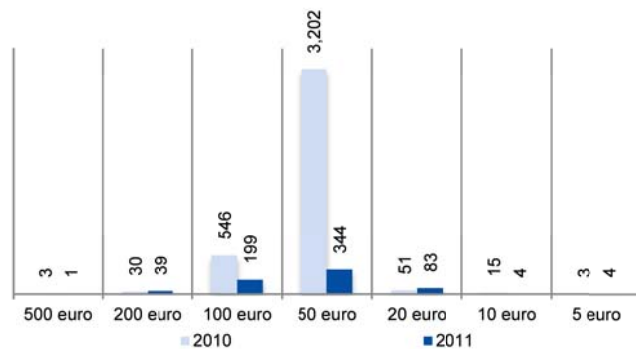


Source: CBK (2012)

The quality of cash in circulation has also improved through the supply of banks and other institutions with completely new euro banknotes, which were brought from Euro-zone. During 2011, CBK supplied the banking sector with over 3.1 million pieces of new euro banknotes (39 percent of the overall number of euro banknotes supplied).

Most of the new banknotes supplied were those of low denominations (20, 10 and 5 euro), and mainly commercial banks were supplied with them aiming at

Figure 91. Counterfited euro in Kosovo (number of pieces)



Source: Forensic Agency of Kosovo (2012)

equipping their ATM machines. In addition, all the used euro banknotes that were supplied were of the highest standard quality (proper quality for ATMs).

Regarding measures against the counterfeiting, the CBK proceeded on following up the cases of counterfeit money in 2011. In particular, it proceeded with its cooperation with authorities in charge to advance the reporting of cash suspected as counterfeit and with organizing relevant trainings on counterfeit money designated for the staff of financial institutions operating in cash. In this context, regular meetings of Counterfeit Money Analyzing Central Committee³⁰ are being held. In 2011, the CBK together with the Kosovo Police and the Forensic Laboratory published in its website³¹ statistics on counterfeit money in the Republic of Kosovo wide. The published materials aim at informing a wider public of counterfeit banknote and coins.

5.2. Account Maintenance and Transactions

CBK provides banking services to the Treasury and other institutions of Government the Republic of Kosovo, such as Privatization Agency of Kosovo (PAK), and other institutions such as banks and other financial institutions, public entities, foreign banks, central banks, international financial institutions (IMF, WB) and international organizations as specified under Article 9 of Law No. 03/L-209 on CBK.

In 2011, similar to the previous years, these services consisted mainly of account maintenance and transactions execution, excluding any form of crediting.

During 2011, the CBK kept advancing the processes of execution of transactions and allocations of the Treasury and PAK. Types of payments and ways of communications have been adapted to their demands. It is worthy to mention the complete automation of transfer orders.

In the beginning of 2011, all stages of the Direct Banking project have been concluded, including all financial aspects, those of design as well as the compilation of Terms and User Manual for Direct Banking to be used by clients. Clients have been connected to Direct Banking throughout 2011 and they have seen at real time the transactions and the balance of their account kept with CBK.

Table 41. Value of transactions by their main types of payments (in thousands of euro)

Types of transactions	2007	2008	2009	2010	2011
Cash transactions	+371,745	+385,113	+411,055	+423,658	+535,190
Deposits in cash	533,178	524,346	601,207	648,911	760,082
Cash withdrawals	161,433	139,233	190,152	225,253	224,892
Domestic transfers	+358,182	+78,078	+41,169	+392,587	+462,867
Incoming domestic transfers	1,055,472	1,076,145	1,225,527	1,568,021	1,615,232
Outgoing domestic transfers	697,290	998,067	1,184,358	1,175,434	1,152,365
International transfers	+13,124	-364,795	-463,816	-408,689	-558,778
Incoming international transfers	335,613	203,113	202,755	326,319	266,706
Outgoing international transfers	322,489	567,908	666,571	735,008	825,483

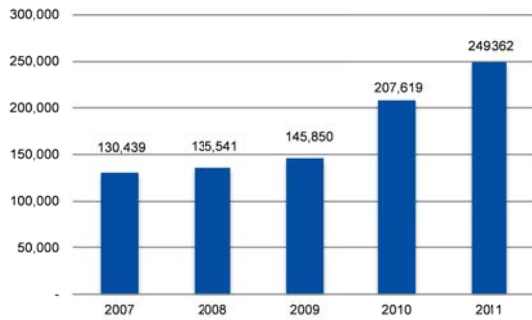
Source: CBK (2012)

³⁰ The Committee consists of three KP senior representatives and three CBK representatives

³¹ <http://www.bqk-kos.org/?cid=1,141>

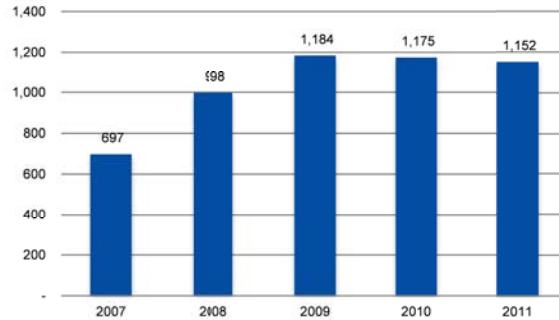
While the largest part of the CBK cash operations is related to commercial banks, the largest part of the CBK domestic payments are executed on behalf and in the interest of Treasury³².

Figure 92. Volume of domestic outgoing transactions, number



Source: CBK (2012)

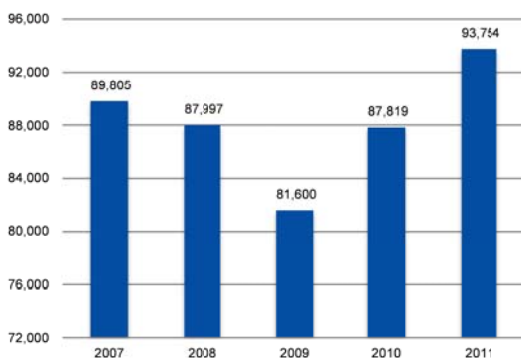
Figure 93. Value of domestic outgoing transactions, in millions of euro



Source: CBK (2012)

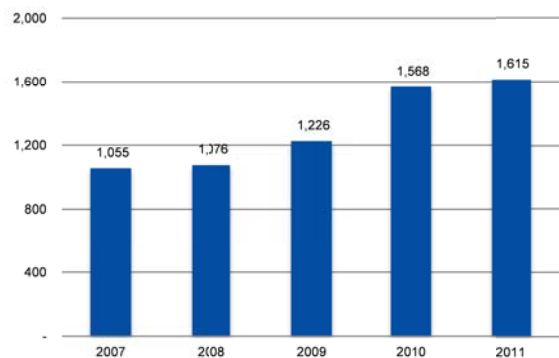
The CBK takes part in channelizing the domestic payment orders on behalf and in the interest of its accountholders as a direct participant the Electronic Interbank Clearing System (EICS). During 2011, through EICS, the CBK has transmitted on behalf of its clients around 250 thousand outgoing payment orders (a growth of 20.1 percent compared to the previous year), and it received around 94 thousand incoming payment orders (a growth of 6.76 percent compared to the previous year). Expressed in value, the outgoing payment orders in 2011 reached at euro 1.15 billion (a decrease of 1.96 percent compared to the previous year) and the incoming payment orders reached around euro 1.61 billion (a growth of 3 compared to the previous year).

Figure 94. Volume of domestic incoming transactions, number



Source: CBK (2012)

Figure 95. Value of domestic incoming transactions, in millions of euro



Source: CBK (2012)

The CBK also remained the largest participant in EICS both in terms of value and volume of transactions.

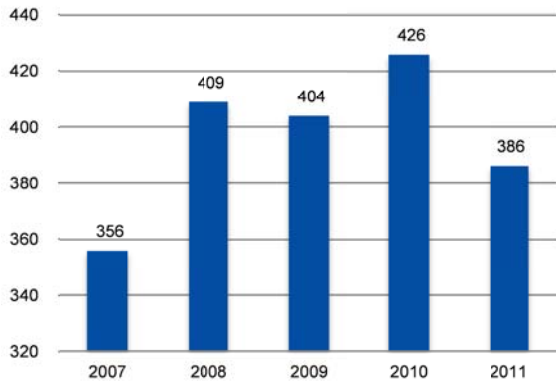
When mentioning the domestic payment transactions, it should be emphasized that all commercial banks generate them on their own as participants in EICS, whereas the insurance institutions execute the largest number of their payments through commercial banks. In fact, all the other CBK accountholders make use of payment services provided by the CBK in a limited way, since they all have accounts in commercial banks.

³² Treasury – Ministry of Economy and Finance

Regarding the international transactions in 2011, the largest number of them was executed by CBK upon the Treasury order.

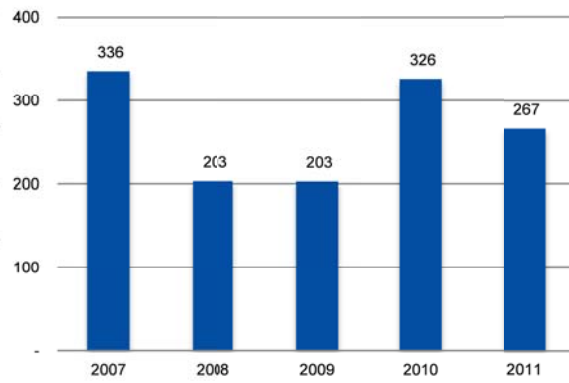
On the other hand, considering their value, the largest number of international

Figure 96. Volume of international incoming transactions, number



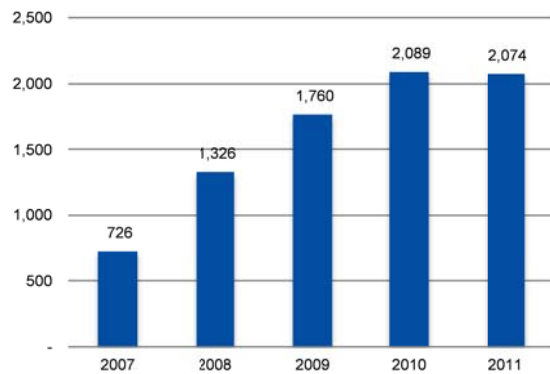
Source: CBK (2012)

Figure 97. Value of international incoming transactions, in millions of euro



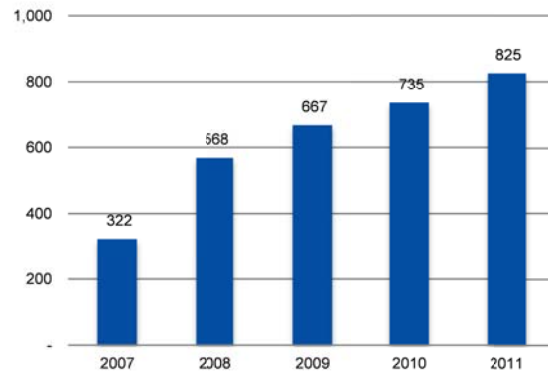
Source: CBK (2012)

Figure 98. Volume of international outgoing transactions, number



Source: CBK (2012)

Figure 99. Value of international outgoing transactions, in millions of euro

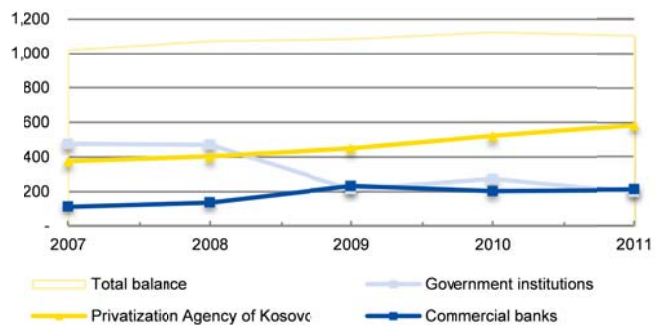


Source: CBK (2012)

transactions executed by CBK relate to the transfer of commercial banks funds. Annual data on international transactions for the last five years are presented in the following figures.

With purpose of advancing the validation of the international transfer orders and due to the lack of SWIFT – BIC code (because the Republic of Kosovo has not yet its own code), the CBK has implemented in the beginning of 2011 the basis of BIC codes with purpose of using the accountancy system and Direct Banking while executing the international payments.

Figure 100. Deposit motion of the key account-keepers of the CBK, in millions of euro



Source: CBK (2012)

Source: CBK (2012)

Deposits of the Kosovo Government institutions along with the deposits of PAK compose the major part of the overall deposits held in CBK by the end of 2011 (70.7 percent). On 31 December 2011, deposits of Kosovo Government institutions and of PAK reached the amount of euro 194.33 million, whereas those of PAK reached the amount of euro 585.76 million.

Among the other accountholders, the commercial banks and insurance institutions are the most important ones in regard to the deposits level that are kept in the CBK accounts. Deposits of commercial banks and of insurance institutions kept in CBK mainly have to do with their regulatory obligations. They consisted 19.7 percent of total deposits kept in CBK during 2011. On 31 December 2011, deposits of commercial banks and of insurance institutions reached an amount of euro 217.39 million.

The level of deposits of Kosovo Pension Savings Trust (KPST) kept in CBK decreased during 2011. They consisted around 1.9 percent of total deposits kept in CBK during 2011 and they reached at euro 20.74 million by the end of the year.

Table 42. Level of deposits by the types of accounts, in millions of euro

Types of accounts	2007	2008	2009	2010	2011
I. Current accounts	1,009.66	796.34	959.00	441.76	677.95
Government institutions	475.54	202.89	88.84	48.80	89.33
Kosovo Privatisation Agency	375.60	403.31	451.04	65.09	265.31
Other Government Institutions (TKPK)	5.57	34.43	122.00	38.09	20.74
Supplementary Pension Funds	1.92	0.07	0.07	0.07	0.07
Commercial Banks	113.55	137.01	233.23	203.56	209.70
Insurance Companies	14.87	15.39	7.66	5.78	7.69
public Institutions (PTK, KEK, RTK etj)	20.99	1.54	0.51	0.04	0.22
International Institutions (EULEX etc.)	0.02	0.00	0.80	1.68	0.73
International Institutions (IMF, WB)	0.00	0.00	53.11	76.99	73.39
Other	1.61	1.70	1.74	1.67	10.77
II. Time deposits	10.56	7.20	125.00	597.10	425.45
Government institutions	0.00	(0.00)	125.00	140.00	105.00
Kosovo Privatisation Agency	0.00	0.00	0.00	457.10	320.45
Supplementary Pension Funds	5.40	0.00	0.00	0.00	0.00
Insurance Companies	5.16	7.20	0.00	0.00	0.00
III. Government securities	0.00	267.89	0.00	84.75	0.00
Government institutions	0.00	267.89	0.00	84.75	0.00
Total balance	1,020.22	1,071.44	1,084.00	1,123.61	1,103.40

Source: CBK (2012)

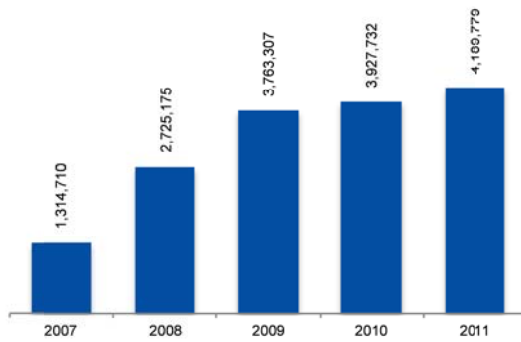
5.3. Payment System

5.3.1 Electronic Interbank Clearing System Operation

Development of an efficient, safe and sustainable national payment system, as a key standard of the financial infrastructure, is one of the CBK's primary functions. Electronic Interbank Clearing System (EICS) operated by the CBK is the only interbank payment system in the Republic of Kosovo. EICS functions as a hybrid system which enables interbank channeling of a wide range of payment instruments.

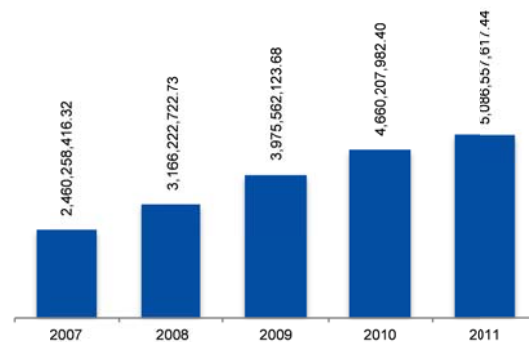
During 2011, an increase was marked in volume and value of EICS transaction ratio and a further advancement of the system was carried out. Among the developments of particular importance was the successful fictionalization of the securities module in EICS and the designing of a fully EICS automated interface with the central system of securities market (DEPO/X) as a startup of implementation of some of the development projects planned within the National Payment System Development Strategy.

Figure 101. IECS transaction number



Source: CBK (2012)

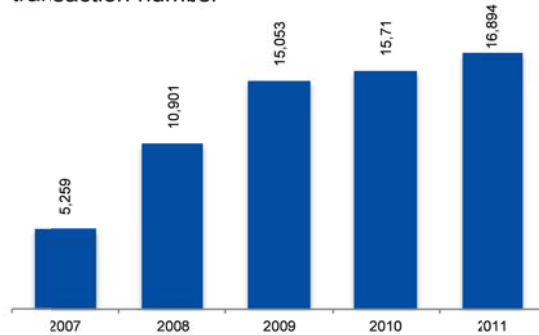
Figure 102. IECS transaction value



Source: CBK (2012)

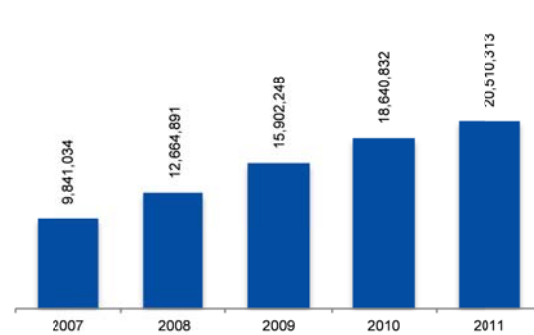
The constant increase of the volume and amount of the EICS transactions reflects the relative payment increase without cash and the increase of confidence in the domestic banking system. As in previous years, in 2011, the annual increase of volume as well as amount of EICS transactions was evident. Around 4.2 million transactions with an overall amount of euro 4.2 billion were channelized through EICS during 2011.

Figure 103. Average daily IECS transaction number



Source: CBK (2012)

Figure 104. Average daily IECS transaction value



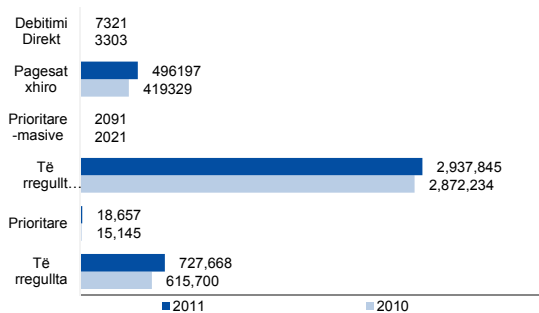
Source: CBK (2012)

Compared to EICS transactions in the previous year, the transaction volume increased by 6.67 percent whereas the transaction value increased by 9.15 percent. EICS considerable transaction increase can be seen also from the average daily data. The increase of EICS transactions can be seen from daily data. In 2011, the EICS daily transaction value was around euro 20.5 million, compared to around euro 18.5 million in 2010. Furthermore, in 2011, the EICS daily transaction volume was nearly 16.9 thousand, compared to around 15.6 thousand in 2010. One of the factors that impacted on the increase of the value of EICS transactions was the fiscal transactions from the Post and Telecommunication of Kosovo. On the other hand, the increase of the number of interbank payments during this year was not as significant as in the previous years.

There are some specific types of EICS transactions, such as regular (individual and massive), priority (individual and massive), Kos-Giro and Direct Debit. Their volume and amount levels for 2011 and 2010 are presented in the figures below.

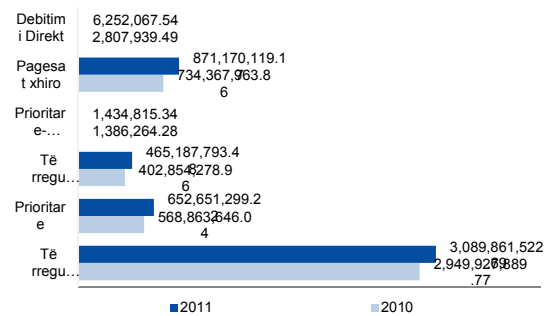
Regular payments (individual and massive) compose around 87.5 percent of the EICS transactions volume and around 69.9 percent of the EICS transactions value. They are channelized through the EICS either as individual transactions (one-to-one) or as massive transactions (one-to-many or many-to-one). They are processed through regular clearing sessions and are cleared on net basis.

Figure 105. Annual transaction volume of EICS, by their types



Source: CBK (2012)

Figure 106. Annual transaction value of EICS, by their types



Source: CBK (2012)

The Kos-Giro transactions represent a special type of regular transactions, which are also processed through clearing sessions and are cleared on the net basis. They are channelized through the EICS as massive transactions (many-to-one). While regular individual transactions are meant for payments in general, the massive regular payments are meant for payments and collections of different enterprises and institutions, the Kos-Giro transactions are meant for standardized and automated cashing of the large recipient entities. A growth was recorded during 2011 both in their volume and amount.

Priority (urgent) transactions are processed and immediately cleared on the gross basis. Same as regular transactions, priority transactions can be channelized through EICS either as individual or massive transactions. They still represent a small part of overall EICS transactions. In 2011, in terms of their volume, they represented less than 1 percent of transactions, while in terms of their amount; they achieved to represent more than 12.8% of transactions. This type keeps mainly being used for urgent payment transactions and for those of high amounts.

Direct Debit as a new payment instrument and scheme in Kosovo launched in 2009 provides an advanced method of periodical automated payment (without cash) from a bank account, which have to do, in the first place, with regular services with regard monthly expenses for electrical energy, water supply, telephony, heating, maintenance, etc. As a new type of EICS transactions this is not still used as much as the other types. As a new type of EICS transactions, it is still not being used to the extent the other types are used, thus during 2011, Direct Debit represented less than 1 percent of both in volume and amount of EICS transactions. During 2011, three new companies joined the Direct Debit scheme.

A detailed overview of concentration indicators of the share of more active institutions in EICS during 2011 against the total activity in this system is presented in the figure below.

Table 43. Concentration indicators for transactions initiated/transmitted in EICS

IECS system	Volume	Value
Three banks	52.20%	61.90%
Five other banks	47.80%	38.10%
Total (absolute value)	4.189.777	5.086.555.947

Source: CBK (2012)

Referring to the overall value of the EICS cleared transactions during 2011, the overall value was 5,086,555,947.69 €, where the three first institutions with a higher initiated transfers comprise 61.9 percent of the absolute value, whereas all the other institutions comprise 38.1 percent. As far as the number of initiated transfers is concerned, out of their overall number of 4.189.777, the three first institutions with higher initiated transfers comprise 52.2 total of the total number, whereas all the other institutions comprise 47.8 percent.

Table 44. Concentration indicators for transactions received/incoming in EICS

IECS system	Volume total w eight	Value Total w eight
Three banks	90.90%	67.10%
Five other banks	9.10%	32.90%
Total (absolute value)	4.189.777	5.086.555.947

Source: CBK (2012)

Regarding the received transfers, the three institutions with a higher value of received transfers comprise 67.1 of the absolute value, whereas all the other institutions comprise 32.9 percent. Whereas, out of the total number of received transfers, the three first institutions comprise 90.9 percent of the total number, whereas all the other institutions comprise 9.1 percent.

5.3.2 General Developments, Payment System Analysis and Supervision

In the course of implementation of the National Payments System Development Strategy, activities have been undertaken almost in all its relevant pillars during 2011, such as: i) legal framework, ii) large amount and urgent payments, iii) low amount payments, iv) governmental transactions, v) securities, vi) monetary market, vii) remittances, viii) supervision of payment system and ix) cooperation and coordination between the payment stakeholders.

With view to initiatives for implementation of the strategy, working groups have been established for all pillars envisaged in the strategy and a wide range of relevant activities have been undertaken. Namely, the terms of reference have been prepared for new payment system (pillar ii, iv and vi) and the new draft law on payment system (pillar i) was finalized and is expected to be adopted in 2012. Within the last pillar (ix), the National Payment Council (NPC) was constituted to support the development and growth of sustainable efficient clearing and settlement systems to settle payments and securities in Kosovo. During this year, a management group for the project on reduction of payments not

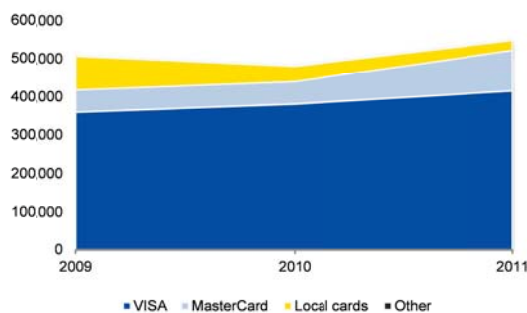
in cash in Kosovo performed successfully under the auspices of the NPC. In this area, particular analyses have been conducted regarding the use of electronic instruments in the country and comparisons have been made with the regional countries and other countries as well as analysis have been conducted in relation to payments not in cash – a research into the client and the trader, etc. Simultaneously, in the course of activities of this team, the first contacts have been initiated and maintained with representatives of the companies “MasterCard” and “Visa”, to exchange ideas and cooperation regarding the promotion of the ways of electronic payments, etc.

In the payment system supervision area (pillar vii), the CBK has established and developed the relevant function in with the international principles and standards, and regular publications have been made on payment instruments analytical indicators in Kosovo. Also, during 2011, the new Regulation on statistics for payment instruments was drafted and adopted and the Payment Instruments Reporting Methodology was revised and harmonized, which aim at:

- Collecting and perfecting the periodical data processing as well as the efficient maintenance of the database on the use of payment instruments in Kosovo.
- Monitoring the developments in the payment systems area in order to assess the risk rate carried by them and to ensure transparency in arraignments related to the payment instruments and services.
- Improving the quality of reports, analyses and publications on payment instruments in accordance with the European Central Bank reports, aiming at publication of the data on Kosovo in a relevant publication in a near future.³³
- Analyzing the developments in the payment instruments area vis-à-vis Southeastern Europe and Central European countries.³⁴

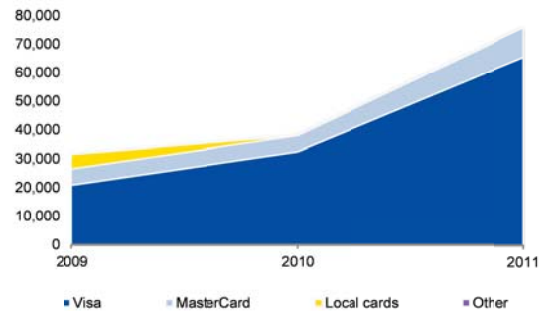
From the data collected and analyzed during 2011, a clear picture was crated on the level of development in national payment system. In general, it is noticed that the payment infrastructure and instruments are developing with a rapid trend.

Figure 107. Number of debit accounts, by type



Source: CBK (2012)

Figura 108. Number of credit accounts by type



Source: CBK (2012)

The number of payment function cards has constantly increased. The network of bank terminals in Kosovo is also increasing. In December 2011, 548.253 debit cards and around 75.000 credit cards as well as 12.391 prepaid cards have been reported. These cards could

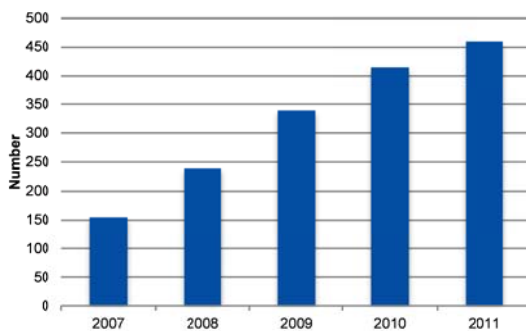
³³ Source: <http://www.bqk-kos.org/?cid=1,59,54>

³⁴ Source: <http://www.bqk-kos.org/?cid=1,59,55>

have been used in more than 460 ATM terminals and in more than 7.534 POS terminals distributed throughout Kosovo.

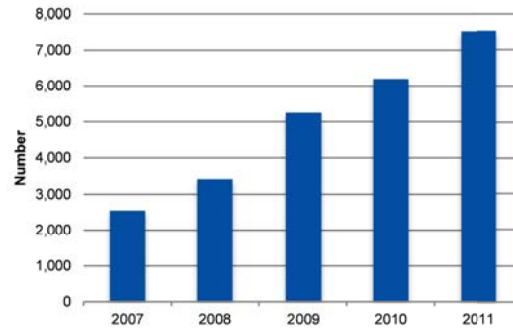
Compared to the previous year, the number of ATM terminals increased by 20.84 percent and the number of POS terminals increased by 21.63 percent.

Figure 109. Number ATM terminals



Source: CBK (2011)

Figure 110. Number of POS terminals



Source: CBK (2011)

From the bank reports, it results that the total number of clients' bank accounts by the end of 2011 was around 2.1 million, with an increase of 11% compared to the end of 2010. Around 98.3% of them are resident accounts, whereas around 1.7% are nonresident accounts.

Table 45. Number of accounts

Description	Total clients accounts			Accessible through internet		
	2009	2010	2011	2009	2010	2011
Clients accounts (1+2)	1.780.451	1.857.608	2.059.878	40.924	50.274	68.99
1-residents accounts (a+b)(%)	98.50%	98.40%	98.34%	94.10%	94.20%	94.80%
a-individual (%)	94.00%	94.30%	94.36%	81.90%	83.60%	80.00%
b-company (%)	6.00%	5.70%	5.63%	18.10%	16.40%	20.00%
2-non-residents accounts (c+d)	1.50%	1.60%	1.66%	5.90%	5.80%	5.20%
c-individual (%)	95.40%	96.10%	96.60%	94.80%	94.30%	90.80%
d-company (%)	4.60%	3.90%	3.40%	5.20%	5.70%	9.20%

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

Out of the total accounts by the end of 2011, around 69 thousand accounts have "online" access in internet to make payments and check account balance, recording an increase of 37 percent compared to 2010. Regardless of the evident increase of this indicator during 2011, the level of use of banks accounts through "e-banking" keeps remaining low.

Compared to the other Central and Southeastern Europe countries, Kosovo has much more to do. Regarding the number of terminals in 1 million residents, Kosovo stands among the last regional countries. However a positive sign in this direction is a faster trend of infrastructure development which is above the average development of the regional countries. The number of payment function cards keeps growing.

Table 46. Comparative table of payment instruments and terminals³⁵

Description K	osovo	Albania	Czech Republic	Turkey S	lovenia	Bulgaria	Hungary	Bosnia and Herzegovina	Croatia	Macedonia
Inhabitants 2.	1	3.19	10.51	73.3	2.05	7.54	10.02	3.77	4.42	2.06
Square kilometer (km ²)	10,887	28,748	78,865	783,562	20,273	110,879	93,028	51,197	56,594	25,713
Density (per km ²)	193	111	133	94	101	68	108	74	78	80
ATM	460	771	3,742	27,649	1,814	5,718	4,843	1,098	3,794	869
per 1 million inhabitants	219	242	356	377	885	758	483	291	858	422
per 100 km ²	4	3	5	4	9	5	5	2	7	3
POS	7,534	4,903	96,958	1,823,530	35,622	60,762	78,441	17,834	92,690	31,491
per 1 million inhabitants	3,587	1,537	9,225	24,878	17,377	8,059	7,828	4,731	20,971	15,287
per 100 km ²	69	17	123	233	176	55	84	35	164	122
Credit cards	74,873	27,300	1,587,889	46,956,124	122,638	992,428	1,367,928	-	1,990,395	303,158
per 1 million inhabitants	35,654	8,558	151,084	640,602	59,823	131,622	136,520	-	450,316	147,164
Debit cards	548,253	667,548	7,888,879	69,916,462	2,742,470	6,623,423	7,553,209	-	6,846,034	1,048,180
per 1 million inhabitants	261,073	209,263	750,607	953,840	1,337,790	878,438	753,813	-	1,548,876	508,825
E-Banking	68,992	27,368	-	/	-	-	-	67,802	989,862	211,599

Source: CBK (2012) and central banks or supervision authorities of relevant countries

5.4. Asset Management

5.4.1 Asset Management and CBK Investment Policy

Pursuant to the Law on Central Bank of Kosovo (CBK) No. 03/L-209 (Article 1, paragraph 1.6), the CBK acts as a fiscal agent of the Government, whereas pursuant to Law on Public Finance Management and Responsibilities No. 03/L-048 (Article 7), the CBK is authorized to invest the Government assets. This form of financial investments enables the return on investments, generating assets paid from interest, which are then collected in Kosovo Consolidated Budget.

Funds deposited in the CBK mainly belong to Government institutions; Ministry of Finance (budget reserves), Privatization Agency of Kosovo (PAK) as well as financial institutions (mandatory liquidity reserves).

Management of Treasury investments is done by CBK in cooperation with Treasury through Liquidity Committee which meets on regular monthly basis. PAK started time bank deposits with maturity up to one year as of August 2010. These investments are carried out in accordance with Investment Policy and Interest Rate Policy approved by the CBK Executive Board. The CBK is also in charge of management of funds deposited by public agencies, financial institutions and donor organizations.

The Investment Policy approved by the CBK Board is implemented by the Asset Management Directorate. Since a large part of funds under its management are assets of public funds, which can be returned at a short period of time, the primary objective under the investment policy are security, liquidity and return on investments.

5.4.2 Asset Management in 2011

Pursuant to the investment policy approved by the CBK Board on 16 March 2011, throughout 2011, all assets have been invested in financial instruments falling under a more safe and liquid instruments category. Respectively, there are two financial instruments categories where assets under the CBK management are invested:

- Time deposits with superior rating financial institutions, respectively time euro-deposits with commercial and central banks of the most credible EU and Euro-zone countries, and

³⁵ Data in the table are of 2010, since some regional countries have not yet published their data for 2011, whereas data on Kosovo belong to 2011.

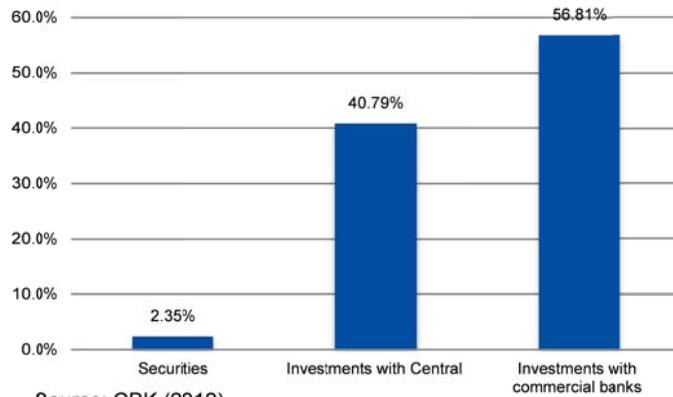
- Treasury bonds of countries with the most advanced Euro-zone economy with a maximum maturity up to one year and issued in euro.

Complying with the capital security and liquidity criterion, all assets invested in deposits and treasury bonds are done with a short period of time, respectively the average timeframe of investments for 2011 is 13 days (timeframe of investments in deposits and treasury bonds varies from 1 to 365 days), whereas the short-term rating of financial institutions is no lesser than A-2, P-2 or F1 from the largest ranking agencies (Standard and Poor's, Moody's Investors Services and Fitch Ratings).

According to this principle, around 40.79% of investments in deposits are done in the Central Banks of three most eminent Euro-zone countries, respectively in Central Bank of Germany (Deutsche Bundesbank), Bank of France (Banque de France) and Central Bank of Luxembourg (Banque Centrale du Luxembourg). As of 31 December 2011, 2.35% of assets were left in treasury bonds of Belgium, debt instruments which still have a superior short-term ranking or grading from P-1 and A-1 from the above-mentioned ranking agencies.

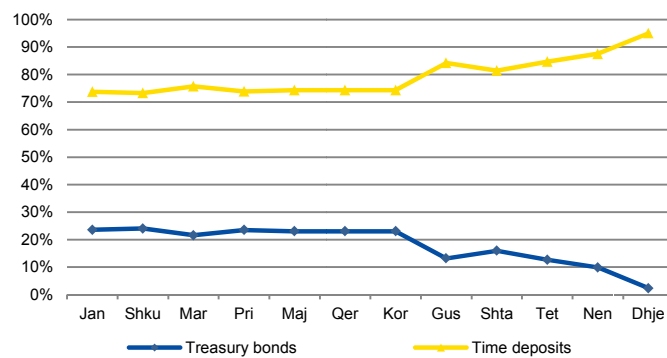
Year 2011 was characterized as a year of continuation of difficulties for the Euro-zone economy, which was affected by the sovereign debt crisis in a number of countries within this monetary union. Under such difficult market conditions, return on debt instruments denominated in euro became disadvantageous for investments. The possibility to invest in short-term made the sovereign debt instruments split into two. The first possibility was investing in treasury bonds of safer countries, such as Germany, France, Finland and Netherlands, which provided extremely low return rates, zero and even negative, thus making the investment in these instruments costly and non-profitable. The

Figure 111. CBK Investments Report



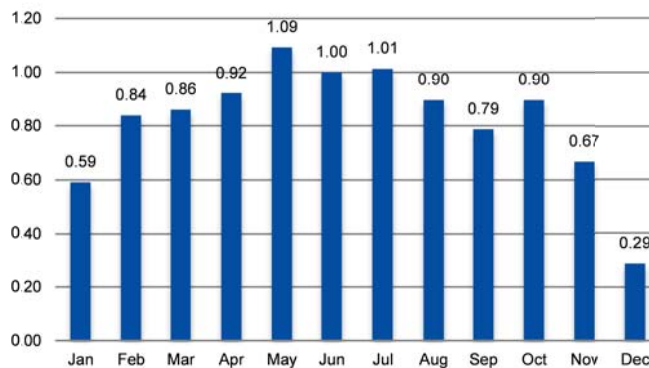
Source: CBK (2012)

Figure 112. Monthly investments spread



Source: CBK (2012)

Figure 113. Monthly average ratio provided by corresponding banks to CBK portfolio



Source: CBK (2012)

second possibility was investing in treasury bonds of countries which provided attractive interest rates but with a higher risk, such Italy, Portugal and Ireland.

Considering this disadvantageous situation and the high market risk, the CBK decreased the allocation of assets for investment in treasury bonds by allocating more assets for investments in short-term deposits. This alternative provided a larger control on the risk and liquidity needs. From approximately 22% of assets invested in treasury bonds from the total portfolio in January 2011, this ratio dropped to only 2.35% in December 2011. Accordingly, investments in time deposits started increasing as of the seventh month of the year, where from approximately 75% of portfolio assets invested in deposits in January, this ratio increased to over 97% in December 2011.

Compared to 2010, the growth of reserves or assets under the CBK management is higher by 3.11%. This growth comes as a result of a larger return from investments realized during 2011.

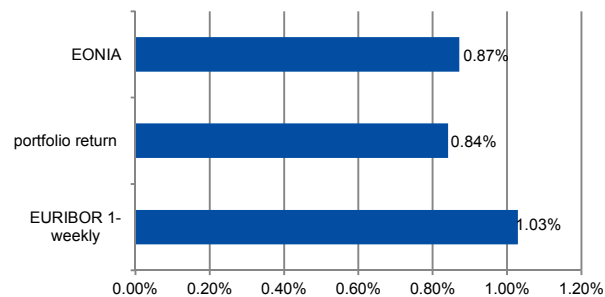
The average rate on investments in deposits and treasury bonds reached at 0.84% for 2011, which is by 2.7 times higher compared to the return rate realized during 2010.

The key factors that impacted on the realization of a higher return rate in 2011 can be summarized as follows:

(i) Improvement of situation in the money market in Euro-zone during the first half of 2011, which started with the increase of interest rates in interbank lending market. EONIA (Euro Overnight Index Average) was 0.85% during the first six months 2011. This index is a reference point for interest rates in one-day investments that the CBK performs through current accounts with Deutsche Bundesbank, Raiffeisen Bank International and Commerzbank³⁶.

(ii) The general increase of interest rates for interbank lending from those of one week up to one year³⁷. This increase is a result of: a) departure of investors from the debt market due to fluctuations in securities and their focus on short-term investments in interbank market, b) the increase of liquidity demand in market due to measures undertaken by the European Central Bank (ECB), one of which was changing the interest rates from the ECB on 13 April 2011, which was the first intervention since 2009³⁸.

Figure 114. Return average in portfolio and in benchmark



Source: CBK (2012)

³⁶ Average of EONIA for 2010 is 0.44%, whereas in the first half of 2011, this average rate is 0.85%, which is a growth of 93%.

³⁷ As a reference point here it is taken Euribor 1-Month, Euribor 3-Months and Euribor 6-Months. These average rates doubled compared to 2010.

³⁸ On 13 April 2011, the CBK increased by 0.25% the three key rates, respectively the Lending Rate from 1.75% to 2.00%, the refinancing operational rate from 1.00% to 1.25%, and the deposits rates from 0.25% to 0.50%.

5.4.3 Investment Risk Management

5.4.3.1 Interest Rate Risk and Credit Risk

We can make a relative measurement of the interest rate risk by comparing the realized interest rates or the return on portfolio with the interest rate of a reference point (+margin). Reference points with which we compared returns on portfolio are EONIA and EURIBOR (Euro Interbank Offered Rate), which are the average rates of interbank offered funds in 2011.

During 2011, the reference was set by EONIA – 0.30% for one-day deposits, and EURIBOR 1-week – 0.30% for 1-week. The realized return rate on the CBK portfolio of 0.84% exceeds the scope of 0.47% up to 0.73%, implying a better realization of return in relation to the reference points.

The relative measurement of the interest rate risk can also be done by considering the statistical indicators availing the changeability or volatility effects of the interest rates as a standard deviation or variance. Standard deviation in the interest rates for 2011 resulted to be +/-0.237%, which implies that the interest rates in average can be negatively avoided by 0.237% or 23.7 basis points, which is lesser than the established margin of -0.30%. This means that efforts have been made to keep quite a low risk level for the portfolio from the change of interest rates in market.

5.4.3.2 Market Oscillations

Regarding developments in financial markets, year 2011 was characterized by numerous fluctuations (volatilities). Deterioration of the financial situation of Greece and the threat deriving from possible bankruptcy of this country and the instability of the Euro-zone countries made many investors feel powerless. The CBK managed to allocate its assets in safer financial instruments, keeping the credit risk, liquidity risk and market risk as well as the operational risk under control at all times and ensuring sufficient liquidity at all times.

5.4.3.3 Securities Market Operations

Pursuant to the Law on Public Debts No. 03/L-175, (Article 2, paragraph 1.1. and 1.2.), the Central Bank of the Republic of Kosovo acts as an agent of the Ministry of Finance (MoF) to discharge certain duties relating to the fiscal issues of the Republic of Kosovo, and as a monetary authority of the Republic of Kosovo. Towards this end, the CBK's duty is to conduct Government Securities auctions, register the issuance and transfer of dematerialized securities, facilitate the establishment of the secondary market of the Government Securities as well as perform and facilitate any other activities in relation to the Government Securities.

Legal documents (Regulation on the Primary and Secondary Market of the Government Securities and the Arrangement on the Primary Actors) approved by the CBK and MoF represent the basic ground for operation of the primary and secondary market of the Kosovo Government Securities. In December 2011, the Primary Actors were notified of the envisaged schedule of issuance of the Kosovo Government Securities for 2012.

In March 2011, the CBK established the Open Market Operations Division, the basic duty of which is to implement laws and regulations related to the Government Securities market. Timely establishment and adequate staff training by the USA Treasury Department expert made the Project of Securities of the Government of the Republic of Kosovo become functional both on time and content.

In June 2011, the technical and functional preparations started with purpose of implementing the Securities electronic trading project in the Primary and Secondary market. In this context, the CBK made all necessary preparations for providing and ensuring the installation of the Government Securities trading and settlement system, thus the Accountancy Registry System (ARS) has already included the key categories of the securities market, such as:

- Maintenance of issuance and transfer registry of the dematerialized securities;
- Registration of securities transactions and securities ownership;
- Share monitoring with purpose of risk management related to transactions.

This electronic system is connected in an automated way with the CBK Electronic Interbank Clearing System, enabling the settlement of all securities transactions in electronic way.

The Kosovo Government Securities trading platform is a project funded by the Ministry of Finance and Treasury Department, the value of which reached at USD 1,102,524.00.

5.4.4 Government Securities Trading Process

The Government Securities are offered for sale through auctions organized and held by the CBK. For the time being, seven commercial banks take part in auctions as Primary Actors, whereas the other interested parties may participate indirectly through the Primary Actors.

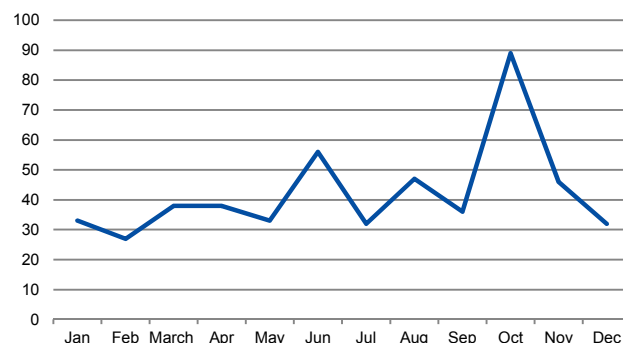
The interest rate for the Government Securities trading is determined from market, depending on the supply and demand. It is expected to create gradual conditions for participation of the other actors other than the commercial banks.

5.5. Credit Registry of Kosovo

5.5.1 Generation of Authorizing Certificates

Supplying the lending and borrowing institutions with individual credit information through the Credit Registry of Kosovo (CRK) is an important CBK service. CRK is designed as an internet-based application which can be accessed directly in real time by lending institutions. Access may be granted only to the

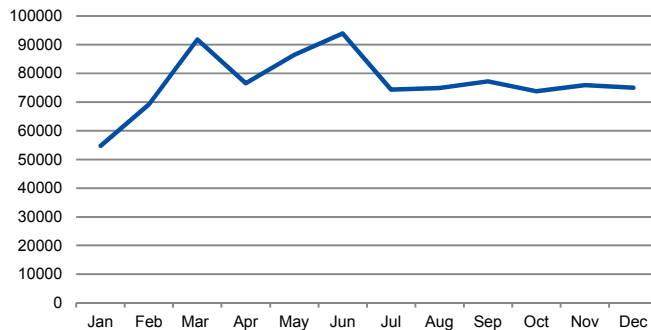
Figure 115. Number of generated certificates on monthly basis



Source: CBK (2012)

certified officers who have previously been supplied with authorizing certificates. These authorizing certificates are generated by the credit registry based on the requests received for special authorization by the credit registry system members. Pursuant to the applicable regulations, all lending institutions licensed by the CBK are members of this registry. Currently there are 28 institutions with 1200 active users in the credit registry system. During 2011, the credit registry generated 507 new certificates deriving from requests submitted by the member institutions.

Figure 116. Researches in credit registry system



Source: CBK (2012)

5.5.2 Searches in the Credit Registry System

The credit registry system users, who are authorized by the lending institutions, have access to the system with purpose of searching on the credit liabilities and background of the credit applicants. According to the statistics issued by the credit registry system, the number of searches during 2011 exceeded the figure of 920 000 searches.

5.5.3 New Loans Reporting by Lending Institutions

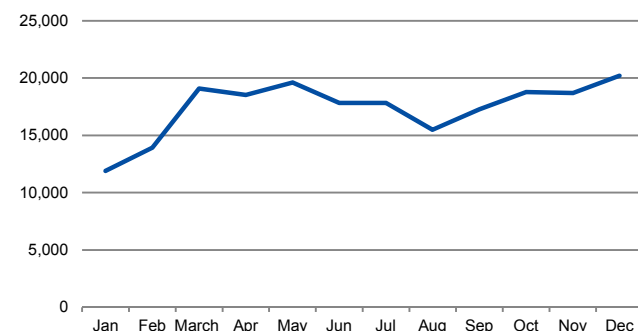
According to the Banking Rule No. XXVIII and pursuant to the CRK developed system, all lending institutions – members of the credit registry system are obliged to report information on loans approved and distributed.

During 2011, the lending institutions reported over 200,000 new loans in the credit registry system.

According to the presented chart, we have a growing trend of reported loans from August 2011 until the end of 2011.

Based on the data issued from the credit registry system, the number of active loans and the number of loans classified as “write-off” throughout 2011, specifying the number on monthly basis, is presented below.

Figure 117. The report of new loans from crediting institutions



Source: CBK (2012)

Subjects of the CRK information resources are the natural persons and the individual lending businesses. As appropriate, for example, to verify disputed records, any individual borrower may receive its own credit details registered with CRK, in CBK. During 2011, over 480 such reports have been generated.

5.5.6 BEEP Project

BEEP (Business Environment Enhancement Project) is a three-year project for improving the business environment in Kosovo, and through a component it is focused also on the credit information reporting area, namely on the credit registry. Many activities, researches and permanent engagements at work have been undertaken throughout 2011 with purpose of identification of necessary segment for advancement. It was worked on the legislative and informative segment and in advancing the credit registry system in general. Regarding these issues, two seminars in special forms for commercial banks and lending institutions were held. As a concrete product of all these activities can be mentioned the drafting of the new Regulations on Credit Registry and publication of the information booklet dedicated to borrowers. Credit Registry of Kosovo is a member of the International Credit Registry Association.

5.5.8 Doing Business 2012 Report

Credit registry was a direct contributor also in 2011 for the data collected by the World Bank for the purpose of Doing Business 2012 Report. According to the published report, the getting credit area during the three years has continuously reflected an improvement, being ranked at the same level with the regional countries.

5.6. Economic and Financial Stability Analysis Activities

In the course of further advancement of functions and responsibilities, during 2011, the Economic Analysis Directorate (EAD) was promoted within the Financial Stability and Economic Analysis Department (FSEAD). Accordingly, the key objective of FSEAD is to ensure a good assessment of financial stability in the country, interweaving the financial sector development in the country with the overall economic developments.

During 2011, FSEAD published the second edition of the Financial Stability Report, which represents a detailed analysis of the financial system situation in the country and among the others it also includes a number of specific analyses treating particular subjects on developments in the financial sector and the country's economy in general.

FSEAD continued compiling on regular basis the "stress-test" analysis, which is presenting a good tool for assessment of the sustainability of banks operation in Kosovo. FSEAD also kept compiling on regular basis the financial system soundness indicators in order to have a better observation on developments related to the financial system sustainability in the country.

During 2011, FSEAD recorded a significant progress in preparing a sample for forecasting the balance sheet and the banking system income statement, which will aid in forecasting future developments and also forecasting the general macroeconomic developments in the country.

Within the new FSEAD project during 2011 was also the beginning of implementation of banking crediting questionnaire with banks operating in Kosovo. This project aims at increasing the capacities for a better assessment of lending activity development in the country. The bank crediting survey provides a clear picture of developments of credit standards, credit rules and conditions, banks' perception towards the risk, banks' readiness to extend crediting and it also provides an overview of factors affecting the credit demand.

During 2011, FSEAD advanced the compilation methodology of Early Warning Indicators, enabling a quantified assessment of the impact of developments of the country's economy

different sectors in the overall economic activity and the economic risk. Furthermore, the new methodology made possible the determination of different weights of the impacts that developments in particular economy sectors may have in the economic activity and risk within the country's economy.

During this period, FSEAD has also advanced the Balance of Payments Bulletin within the Balance of Payments Report, which publication is published on regular basis and represents a detailed analysis on macroeconomic developments in general and the balance of payments in Kosovo's economy in particular. This periodical publication also contains special analyses which address different segments relating to economic developments in the country, especially those related to the balance of payments.

In 2011, within the Monthly Statistical Bulletin, FSEAD continued publishing the quarterly analyses on economic developments in the country and in the external sector, including particular discussion on comparison of certain segments of Kosovo's economy with those of the region.

During 2011, FSEAD organized a conference presenting the Financial Stability Report and it took part in different local and international meetings and conferences. During 2011, DSFAE was also granted an award by the CBK Governor for its particular achievement in researching area in the international level as well as for exemplary representation in international seminars in the previous years. As a result of such encouragement and recognition of the researching competency, in 2011, FSEAD staff was awarded by the UNDP the price for the best study in the migrant remittances in an international competition. FSEAD staff was proactive during 2011 in the public communication area with a view to a transparency towards the public regarding financial sector developments and economic developments in general.

5.7. Statistics Activities

Similarly to the previous years, the CBK Statistics Department continued its prompt development trend during 2011 as well, Adoption of new regulations, preparations of statistical projects on non-bank institutions as well as publication of the balance of payment statistics on quarterly basis represent some of the achievements during 2011. A successful cooperation with the International Monetary Fund (IMF) in context of the expertise in certain statistical areas as well as in the context of statistical reporting to IMF represents another particular attribution.

With purpose of further strengthening the legal ground regarding the compilation and distribution of statistics which are under direct CBK's responsibility, the following regulations were adopted in November 2011:

- *Regulation on Monetary – Financial Statistics and financial accounts, and*
- *Regulation on Balance of Payments Statistics and International Investment Position.*

While the first regulation enables reporting for statistical purposes of all financial institutions (banking and non-banking), the second regulation strengthens the legal aspect of statistical obligations by the reporting entities that relate to nonfinancial sector.

In the monetary – financial statistics area, year 2011 is characterized with preparations, respectively finalization of some statistical projects, which started to be implemented in January 2012. Furthermore, this is about the *Statistical Report on Microfinance Institutions, Report on the Interest Rates of Microfinance Institutions* as well as the

Statistical Report on Money Transfer Agencies. These statistical projects are consistent with the international statistical standards of IMF, European Central Bank, Eurostat, etc. This also shortened the reporting frequency from quarterly to monthly basis. Furthermore, the publication of these statistics in monthly frequency is planned to take place as of 2013. In addition, in 2011, statistics on the international investment position, published in the beginning of 2012, were compiled for the first time.

Regarding cooperation with IMF and other institutions, the Statistics Department continued regular periodical reporting to the IMF in the context of some publications, notably:

- International Financial Statistics,
- Balance of Payments Statistical Yearbook,
- Financial Access Survey, and
- Global Financial Stability Report.

Also, the IMF Stand-By program reporting continued on regular basis. For the first time, in 2011, it was started with reporting to Eurostat of the selected statistical indicators in the balance of payments area, parallel to reporting from the other countries.

Compiled statistics have been published in periodical and non-periodical CBK's publications. In this context, a distinction should be given to the Monthly Statistical Bulletin which has been published for more than 10 consequent years now, and the CBK Time Series, which represent the main statistical publications. In addition, the monetary – financial statistics and those of the external sector serve as a key input for the other CBK publications. The Statistics Department staff represented the CBK in several international meetings within the relevant purview, such as: Monetary – Financial and Balance of Payment Statistics Committee organized by Eurostat, etc.

In particular, it should be emphasized that during 2011, the Statistics Department Director has accomplished successfully his first mission in the capacity of the IMF monetary and financial statistics expert in the Central Bank of Bosnia and Herzegovina, whereas the CBK Balance of Payments Division Head was accepted in the IMF expert list regarding the balance of payments statistics.

6. Internal Developments

6.1. Internal Control

Head of Internal Audit

Duties and responsibilities as well as the authorities of the Head of Internal Audit (HIA) are defined and established under the Law on CBK (Articles 60 and 61). Following the implementation of the IMF recommendations, respectively the CBK safeguard assessment, the HIA continued to be focused only the internal audit area.

Internal Audit

During 2011, the action plan envisaged for this year was realized, which plan was drafted in accordance with the IIA 2010 standard (planning). Based on the Audit Charter and pursuant to 2020 standard (communication and approval), the Head of Internal Audit

presented the action plan of the Internal Audit Department (IAD) for 2011 before the Audit Committee and following its approval by this Committee, the action plan of the Internal Audit for 2011 was presented to the CBK Board for the Board's approval.

The Internal Audit Department complies with the strategy according to which the Internal Audit action plan has a key role towards increasing the quality and fulfilling the IAD's purposes, objectives and mission.

During 2011, it was implemented the International Monetary Fund recommendation given through CBK safeguard assessment, thus comprehensive processes and systems, such as Flexcube, Statistics, Human Resources, Interbank Payment System and Credit Registry of Kosovo have been audited.

To follow up the Investment Portfolio in the CBK Corresponding Banks, the Internal Audit during 2011 prepared 52 special reports on weekly basis for the period January – December 2011. In addition to audits envisaged according to the IAD annual plan, 11 ad hock audits have been performed in 2011 upon the request of the Audit Head.

Based on the Technical Memorandum of Understanding concluded with the IMF Program, six (6) independent audits of the Government accounts balance on quarterly basis were performed, where four (4) of these audits were performed for the calendar year 2011 and two (2) audits for the period July – December 2010.

Based on the IIA 2500 standard (progress monitoring), a special report for the period January – December 2011 was compiled to follow up the implementation of recommendations, where the recommendations of the reports of audits performed during 2010 were also followed up. This report reflects the findings, recommendations, management responses, recommendation status and auditors' responses.

During 2011, four reports have been compiled, reflecting the Internal Audit performance for quarterly periods. These prepared reports have been submitted to the Internal Audit Head, who then forwarded them to the Audit Committee pursuant to the Law No. 03/I-209 on Central Bank of the Republic of Kosovo, Article 61, paragraph 1.4 referring to duties of the Internal Audit Head. These reports presented the performance of the internal auditors, who provided their independent and objective opinion on the risk management, governance and effective assessment in achieving the institution's objectives based on the IIA 1100 standard (on independence and objectivity).

Table 47. Determination of risk-based auditing areas (2008-2011)

Directorates 201	1	2010	2009	2008
Assets Management	16.00%	11.00%	16.90%	14.00%
General Services	12.90%	9.10%	8.30%	
Accounting 11.	20%	9.90%	15.60%	18.00%
Information Technology	10.30%	10.00%	4.20%	
Procurement 9.	30%	9.20%	10.40%	10.00%
Cashier and Treasury	7.30%	17.80%	16.50%	14.00%
Human Resources	6.10%	8.80%	9.40%	
Financial Supervision	5.00%	6.40%		

Source: CBK (2012)

The major objectives of the CBK internal auditors (the internal audit status) was focused on auditing the compliance with applicable laws and rules (legitimacy objective), auditing the presentation of full financial and managerial information (information objective), auditing the efficiency and effectiveness of utilization of the CBK's assets and other resources (business objective).

Identified audit areas by risk rate for the period 2008-2011 are presented in the following tabular and graphical form:

With purpose of maintenance of reports, follow-up and working papers in 2011, an electronic archive was created in the CBK servers. In this archive, auditors have the possibility of access and archiving of their reports and follow-up documentation. Access to the archive is done based on the procedures written by the auditors and approved by the Internal Audit Head.

With a view to implementation of the international standards of internal audit, during 2011 it was done the coding of reports and working papers for which written procedures are in place and which have been approved by the Internal Audit Head. It is also done the standardization of follow-up forms in the course of audit report compilation. The follow-up forms are:

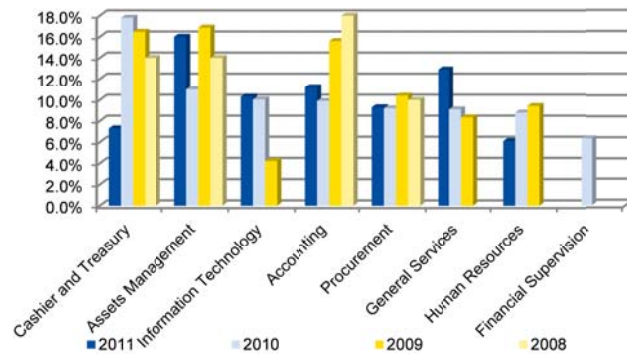
Internal audit report form,
Evidence keeping form regarding the audit process,
Working papers indexing form.

Implementing the IMF recommendations, the "Action Plan and Timeframe" form was created, which is enclosed to each audit report with purpose of reflecting the findings, recommendations, comments by the staff in charge (management comments) and auditors' responses. The table includes a column where timeframes for implementation of recommendations are places. Through this table it is also enabled to follow up the implementation of recommendations from the previous reports if such recommendations exist.

"Audit Universe 2012-2014" is defined taking for granted the new CBK organizational structure and the risk matrix. The audit universe contains nine (IX) audit areas, where each audit area has its own identifying code. Audits to be performed pursuant to the Audit Universe 2012-2014 plan are determined within the audit areas. These audits are coded in a way that the code of each audit contains the area code which it belongs to and the ordinal number. The table below provides an explanation for one audit area only.

The IAD action plan derives from the Audit Universe 2012-2014. The internal audit action plan is compiled taking for granted the risk-based methodology, where the highest auditing priority is given to the audit universe areas at which a higher risk was estimate when compiling the matrix risk. The risk matrix provided a clear picture of risk in audited areas based on preliminary findings and recommendations through these two indicators: probability and impact.

Figure 118. The determination of the fields to be audited based on risk, 2008-2011



Source: CBK (2012)

Table 48. Audit area

Number	CODE	NAME	ZONE
1	DPRF-001	Management Auditing Report	Financial Planning and Reporting Department - FPRD
	DPRF-002	Auditing of Payable account and Patty Cash	Financial Planning and Reporting Department - FPRD
	DPRF-003	Budget Auditing	Financial Planning and Reporting Department - FPRD

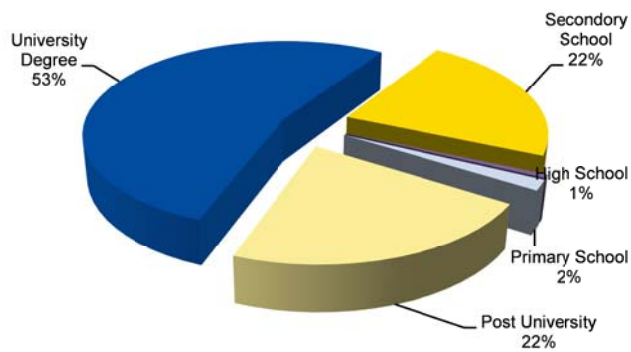
Source: CBK (2012)

Action plan 2012 is drafted pursuant to the IMF Mission recommendation and the CBK objectives.

6.2. Human Resources

Human resources are the most valuable CBK asset, which asset determines the effectiveness and efficiency of implementation of the CBK’s business agenda. In the light of this, it was proceeded with the rational recruitment and professional training of the existing staff. In December 2011, the number of the CBK’s employees was 176. Out of the total number of employees (176), 82 are female and 94 male employees. Female employees

Figure 119. Structure of CBK employees qualification



Source: CBK (2012)

participate with 35% in the managerial structure, whereas male employees with 65%. The average employees’ age by the end of December 2011 was around 40 years.

In 2011, the qualification structure of the CBK’s employees is as follows: 38 MSc/MA (of whom 6 candidate for PhD), 93 having university diploma, 39 having secondary school diploma, 1 having high school and 3 having primary school completed.

The CBK is constantly supporting its employees’ education through course, seminars, workshops, important conferences as well as academic programs relevant for the CBK with purpose of satisfying their performance requirements in line with the highest standards and giving the opportunity for institutional and personal promotion. Special awards have been awarded to the CBK staff for the CBK exemplary representation in international seminars in a three-month course “Applied Economic Policy” organized by the IMF Institute in Vienna.

Trainings attended during 2011 are mainly organized by: the IMF Joint Vienna Institute, Bank of France, Bank of Netherlands, Bank of Poland, Bank of Czech Republic, “Center of Excellence in Finance” of Slovenia, Crown Agents, Deutsche Bundesbank, European Central Bank, International Academy of Financial Management, Islamic Banks Association of Turkey, etc. The CBK has also constantly provided opportunities to students from universities/colleges both from the country and from abroad to carry out the practice in CBK, thus sixteen (16) students have finalized a practice program in CBK during 2011.

Table 49. Education, professional development and training of staff

Education	Number of employees
Bachelor degree	2
Master degree	29
PHD	6
Professional certificates	
CFA	2
ACCA	2
ShKÇAK	26
FSI Connect	6
Professional developments	
Seminars in Kosovo	4
Seminars abroad	68
Training on management skills	14
Internship	
Internship program during July, August 2011 with participants studying in Kosovo and abroad	16

Source: CBK (2012)

6.3. Legal Activity of the CBK

During 2011, the legal activity of Central Bank of the Republic of Kosovo was focused on the development and advancement of the legal and regulatory framework, which pursuant to the applicable legislation are part of the CBK's duties and responsibilities. During this year, the CBK continued with reviewing the legal and regulatory framework and its harmonization in accordance with the EU legislation, international standards and practices, always adapting it to the most recent dynamics of developments in the country.

Thus, with the constant technical assistance provided by the International Monetary Fund and the World Bank, legal acts have been issued and all the necessary preparations have been done towards adoption of other legal acts provided for under the CBK legal strategy.

In July 2011, the Kosovo Assembly adopted the Law on Compulsory Motor Liability Insurance, which law regulates the motor liability insurance for damages caused to third parties, and which law also established the compulsory insurance.

With purpose of advancing and consolidating the legal ground on the financial system in Kosovo, the Draft Law on Banks, Microfinance Institutions and Non-bank Financial Institutions was drafted during 2011, and it was submitted for processing and adoption to the competent authorities. The new draft law is drafted in full compliance with the best international practices and the EU directives in the banking supervision and regulation area, as well as in accordance with the Basel Core Principles for Effective Banking Supervision.

With purpose of advancing the existing legal infrastructure on licensing, supervision and regulation of Pension Funds, ensuring protection of the pension funds contributors in Kosovo, the Draft Law on Pension Funds was prepared and was submitted for processing and adoption to the competent authorities. This draft law establishes the Pension Savings Fund competencies in managing, administering and investing the participants' pension assets and determines licensing, regulation, supervision and investment of supplementary pension funds of the employees and the individual supplementary funds.

Moreover, the consultations and the work on drafting the Draft Law on Payment System as well as on the Draft Law on General Insurance continued during 2011. Both these draft laws are included in the legislative strategy for 2012, when they are expected to be adopted.

Furthermore, with purpose of modernization and harmonization in line with the most recent developments, the legal activity continued also with issuing sublegal acts, concluding cooperation agreements with domestic and foreign institutions, as well as a variety of other activities towards further development of the financial system, thus fulfilling the CBK's objectives and duties.

6.4. Information Technology

Information Technology and Systems Infrastructure

The core of development process remains the infrastructure, which enabled the centralization of all banking systems that had an impact on the decrease of the cost of assets used by the CBK. Specifically, all users are in an infrastructure having access to the banking applications, for example: *Flexcube* (the key banking application), *Depo/X* (securities application), *Intranet* (internal communication and reports exchange network), *Storage* (a part where the key records of the CBK's users are stored).

The centralization process has significantly decreased the management cost of systems, assets of the Information Technology and Systems and it has improved the productivity and security of services.

Servers

16 new servers have been released during 2011, of which 5 will be used to replace old servers in the main banking system and 4 other servers will be used for updating the e-mail. Consolidation and centralization of new servers had a considerable impact on the decrease of informational technology operational cost. All servers have been standardized according to the CBK's needs.

Connection by optical fiber with relevant institutions and for purposes of ensuring the business continuity plan was released during 2011. Configuration of network devices for safe connection with banks was completed during 2011 and now this communication is done through safe subways using relevant integrity and encryption algorithm. All banks have access to our systems (CSD and EICS) using relevant IP addresses allocated to commercial banks by the CBK.

Flexcube System Upgrading

Flexcube main system continued its upgrading moving into its more advanced version which increased the efficiency of inclusion, processing and reporting of data both to the clients and to the CBK.

This is of great importance for current payment system –electronic interbank clearing system as well as for systems expected to be implemented by CBK - Real Time Gross Settlement (RTGS) and SWIFT, etc. Furthermore, the recent version is built on the European compatible banking system rules and principles with Single Euro Payments Area (SEPA).

The security and encryption level is much higher, which has a great importance for the CBK operations. The system components interaction is much faster, which facilitates and expedites the staff performance of banking operations.

Installation of Securities Investment Component

This Flexcube system component is installed for the needs of performing securities investments operations, which the CBK performs for its clients. This component has enabled the technological standardization and automation and also the simplification of securities registration and their supervision by Financial Planning and Reporting Department, including the Internal Audit Department.

Installation of Internet Banking Component

This Flexcube system component is installed for the needs of a more standardized management of reporting to clients and enabling them to initiate transfer orders from clients' site. This component has improved the performance efficiency of the Unit for banking relations and communication security with clients. This component has particularly increased the communication quality (transmission of electronic reports and receipt of electronic transfer orders) with the Treasury Department of Ministry of Finance. This component may also be used for electronic reports for other government agencies (Customs, Tax Administration etc.) and the other clients (banks, insurance companies).

Regarding all these above-mentioned components, a preliminary official visit by the CBK experts was paid to Friesland Bank in Netherlands, whereby the advantages brought by the above-mentioned components were analyzed.

Securities Trading Application DEPO/X

Installation, making functional and operational maintenance of the securities trading system has been done successfully and at a record timeline. The securities trading application DEPO/X is a complex of systems including some responsive component for certain services.

DEPO/X is a maintenance and registration system of different financial systems. Regarding the securities, auctions are being used in our case where the electronic data on authorizations, execution of different transactions in real time, interest automated payments at the maturity time and their registration in the payment system (EICS).

This system uses special hardware devices for three disaster recovery primary sites and the test & development sites. Thus, there are no interferences in any cases and action scenario with this system.

Primary Site

This site consists of a group of devices of high available cluster which is used to manage the database and the system of components of this system. Servers in cluster function by using a basis that provides an automated service of activation of the secondary resources in order to avoid the service discontinuation. The system also uses groups of disks that provide security in case of eventual breakdowns of any disks and the continuous consistency of records.

Oracle 11g is used for data maintenance and management together with the relevant sub-product which provides an automated management of identical copies of data. For servers where users are connected, it is used a system load balancing technology so that the application performance is as good as possible. The application security is based on digital certificates that are activated through the safe technology in the information flow area. Leading servers in this area are also used for this technology.

Network Architecture

Networking is realized by using the latest technology updates, using devices for information traffic direction and redirection but also the computer networks security devices.

Connections with the commercial banks are realized by using special devices and special communication routes, using optical fibers where it was also applied the encryption and virtual private network (VPN) technology that was allocated to each bank.

Policies, Procedures and Forms

In the area of policies, procedures and forms, an information technology manual was prepared during 2011, which includes all Policies, Procedures and Forms of the Information Technology and it is divided into 5 sections, such as TIS Administration, TIS Asset Management, Training and Support, Security and Disaster Recovery, and Software Development and Management. The World Bank provided technical assistance to this manual, giving the necessary recommendations on this issue.

7. Regional and International Cooperation

7.1. International Agreements, Promotion and Representation

During 2011, the CBK continued its engagements towards enhancing cooperation with similar supervision institutions and authorities of different countries.

Central Bank of the Republic of Kosovo signed in 2011 a Memorandum of Understanding with the Financial Supervision Federal Authority in Germany (BaFin), and the Memorandum of Understanding with the USAID Mission in Kosovo, the purpose of which was to support the development of Credit Registry of Kosovo. CBK has also become a member of the European Forum for Money and Finances, members of which forum are over 30 well-known international banks.

Among the important activities in this area were also the participation in inauguration of the European Central Bank (ECB) President, participation in the international Conference of Bank of Italy with the topic "Italy and the World Economy", participation in the international Conference in Vienna "European Integration in Global Context" organized by Bank of Italy and Bank of Finland, participation in the annual spring and autumn meetings of the International Monetary Fund (IMF) and the World Bank (WB), participation in different international forums, participation in supervision panels, in annual meetings of the European Fund for Southeastern Europe (EFSE), respectively in the EFSE Advisory Board activity, then in the Advisory Board and round tables organized by Center of Excellence in Finance (CEF) with its seat in Ljubljana, etc..

The IMF, WB and ECB technical assistance programs played a very important role in increasing the CBK staff's representation level in international professional events. It is worthy to mention that in 2011, it was successfully completed the technical assistance program provided by the ECB on "Strengthening the Macro and Micro Prudential Supervision". Professional benefit of the CBK staff was extraordinarily important. To make concrete some of the above-mentioned CBK activities during 2011, those considered as more relevant will be elaborated briefly:

The ECB project was a very important and quite prestigious project both in terms of benefit of the CBK's staff and supporting mechanisms/institutions of its implementation. The CBK

singed partnership agreement with fourteen (14) Euro-system central banks to implement this project. In addition, the other international financial institutions were an active participant in the implementation of this project, such as the International Monetary Fund, World Bank, Joint Vienna Institute (JVI), Financial Stability Institute (FSI Basel), Centre of Excellence in Finance (CEF – Ljubljana), European Banking Federation (Brussels), Basel Committee for Banking Supervision (BCBS Basel), Central European Banking Supervision (CEBS – London) and European Parliament (Brussels and Strasbourg).

This project had three major components:

- 20 trainings and 3 workshops of high levels have been held in the European Union countries within the first component.
- In the second component, through a tripartite agreement between ECB, CBK and Bank of Finland it was worked towards advancing the early warning system, forecasting and data collection samples.
- The third component of the project is focused on the crisis management and the international crisis management.

A very successful cooperation was realized in the exchange information area with other institutions with which the CBK has cooperation agreements in place. Such successful cooperation during 2011 was realized between the CBK and the Financial Supervision Authority (FSA) in Austria on quarterly basis, the CBK and the Bulgarian Supervision Authority (FSC).

In cooperation with the WB (and using its technical assistance through assessment experts) two important reports have been realized, which have to do with the assessment of standards and codes of corporative governance of banks and microfinance institutions and with the compliance assessment of the 'insolvency standards and codes and debtors and creditors' regime. At the same time, it was also initiated the assessment of standards and codes in the audit and accountancy area.

The KIB foundation was preceded by a two-day visit of a delegation from the Council of Bureaux of Green Card, with its seat in Brussels, which visit was implemented for the first time in Kosovo, namely in the CBK, and which contributed towards triggering the possibility of joining the Council of Bureaux of Green Card, with its seat in Brussels.

In the course of these developments, in November 2011, with the CBK's assistance, the Kosovo Insurance Bureau prepared and submitted an application for membership in the Council of Bureaux of Green Card, with its seat in Brussels.

Such projects were enabled owing to the international cooperation, respectively the technical assistance provided by the World Bank. During 2011, the CBK in cooperation with the World Bank technical assistance prepared the Draft Law on General Insurance, which draft law is under the revision stage. One of the projects initiated in the end of 2010 was the "Assessment of insurance core principles", which project was finalized in 2011.

The CBK has also used the technical assistance provided by the USA Treasury Department.

Among the others, it is worthy to mention that the CBK has actively participated in a study initiated by the European Fund for Southeastern Europe on researching the Kosovo borrower's overdue payment, where the credit registry gave a direct contribution in implementation of this study. The study which involved seven lending institutions with a

total of 1200 cases resulted successful, pointing out the good registry quality and its importance in protecting the borrowers when it comes to their overdue payment of loan.

In this regard, it should be mentioned in particular that except the increase of the international cooperation in all levels of its duties and responsibilities, the CBK staff benefitted a lot from this cooperation, which started providing technical assistance to the central banks in the region and wider area, thus transforming CBK from a recipient to a deliverer of technical assistance.

In addition to the CBK's representation in the regional and wider arena, during 2011, the CBK continued to be an organizer and co-organizer of important events for the Kosovo financial sector and economy.

Challenges that followed CBK in this area during 2011 relate to constant efforts in finding the opportunities to ensure access to the SWIFT System (Society for Worldwide Interbank Financial Telecommunication), the Green Card System and at the same time enhancing and extending the international cooperation.

8. Financial Statements of the CBK



Central Bank of the Republic of Kosovo
Independent Auditors' Report and
Financial Statements
as at and for the year ended 31 December 2011

Central Bank of the Republic of Kosovo

Content	Page
Independent Auditor's Report	1
Statement of financial position	3
Statement of comprehensive income	4
Statement of changes in equity	5
Statement of cash flows	6
Notes to the financial statements	7 - 38

Independent auditors' report

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

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

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 2011, 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 2011, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Other matter

The financial statements of the Bank for the year ended 31 December 2010 were audited by another auditor who expressed an unmodified opinion on those statements on 27 May 2011.

Grant Thornton LLC

Grant Thornton
Prishtina, Kosovo

16 May 2012

Central Bank of the Republic of Kosovo

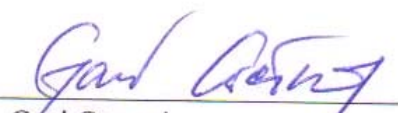
Statement of financial position


As at 31 December

<i>In thousands of EUR</i>	Note	2011	2010
Assets			
Cash on hand	7	13,456	60,194
Current accounts with non-resident banks	8	31,513	25,621
Treasury bills	9	24,988	199,275
Deposit accounts with non-resident banks	10	1,009,046	807,332
Assets related with International Monetary Fund	11	155,687	154,554
Property and equipment	12	1,576	1,725
Intangible assets	13	1,506	909
Other assets	14	446	429
Total assets		1,238,218	1,250,039
Liabilities			
Due to domestic banks	15	209,700	203,572
Due to IMF related accounts	16	156,509	153,868
Due to governmental institutions	17	782,178	798,721
Due to public and commercial entities	18	37,059	43,228
Other domestic liabilities	19	3,337	2,670
Total liabilities		1,188,783	1,202,059
Capital and reserves			
Statutory fund	20	30,000	30,000
Reserve fund	21	17,980	14,923
Retained Earnings		1,455	3,057
Total capital and reserves		49,435	47,980
Total liabilities, capital and reserves		1,238,218	1,250,039

The notes on pages 7 to 38 are an integral part of these financial statements.

These financial statements were approved by the management of CBK on 16 May 2012 and signed on its behalf by:


Gani Gerguri
Governor


Faton Ahmetaj
Director of Financial Planning and
Reporting

Central Bank of the Republic of Kosovo

Statement of comprehensive income

For the year ended 31 December 2011

<i>In thousands of EUR</i>	Note	2011	2010
Interest income		10,079	4,574
Interest expense		(7,585)	(2,852)
Net interest income	22	2,494	1,722
Fee and commission income		2,651	2,575
Fee and commission expense		(290)	(248)
Net fee and commission income	23	2,361	2,327
Grant revenue	24	44	57
Other operating income	25	1,620	1,522
Foreign exchange net (loss)/gain	28	(1,139)	1,408
Operating income		5,380	7,036
Personnel expenses	26	(2,249)	(2,395)
Depreciation and amortization	12,13	(625)	(564)
General and administrative expenses	27	(1,051)	(1,020)
Operating expenses		(3,925)	(3,979)
Profit for the year		1,455	3,057
Other comprehensive income		-	-
Total comprehensive income for the year		1,455	3,057

The notes on pages 7 to 38 are an integral part of these financial statements.

Central Bank of the Republic of Kosovo

Statement of changes in equity

As at 31 December

<i>In thousands of euro</i>	Statutory fund	Reserve fund	Retained earnings	Total
Balance at 1 January 2010	30,000	11,203	3,720	44,923
Transactions with owner	-	-	-	-
Total comprehensive income for the year				
Profit for the year	-	-	3,057	3,057
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	3,057	3,057
Transactions required by law, recorded directly in equity				
Transfer to statutory fund	-	-	-	-
Total transactions required by law, recorded directly in equity	-	3,720	(3,720)	-
Balance at 31 December 2010	30,000	14,923	3,057	47,980
Balance at 1 January 2011	30,000	14,923	3,057	47,980
Transactions with owner	-	-	-	-
Total comprehensive income for the year				
Profit for the year	-	-	1,455	5,733
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	1,455	5,733
Transactions required by law, recorded directly in equity				
Transfer to reserve fund	-	3,057	(3,057)	-
Total transactions required by law, recorded directly in equity	-	3,057	(3,057)	-
Balance at 31 December 2011	30,000	17,980	1,455	49,435

The notes on pages 7 to 38 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 2011

<i>In thousands of EUR</i>	Note	2011	2010
Cash flows from operating activities			
Profit for the year		1,455	3,057
<i>Adjustments for:</i>			
Depreciation	12	484	489
Amortization	13	141	75
Grant revenue	24	(44)	(57)
Interest income	22	(10,079)	(4,574)
Interest expense	22	7,585	2,852
		(458)	1,842
Change in treasury bills		104,122	250,380
Change in deposit accounts with nonresident banks		(40,989)	(163,904)
Change in assets with IMF		(1,112)	(22,477)
Change in other assets		30	(85)
Change in due to domestic banks		6,128	(29,672)
Change in due to IMF related accounts		2,678	21,490
Change in due to governmental institutions		(17,212)	132,947
Change in due to public and commercial entities		(6,170)	(87,619)
Change in other domestic liabilities		77	652
		47,094	103,554
Interest received		9,147	4,119
Interest paid		(6,895)	(2,347)
Cash generated from operating activities		49,346	105,326
Cash flows from investing activities			
Purchase of equipment	12	(334)	(99)
Purchase of intangible assets	13	(738)	(810)
Cash (used in) investing activities		(1,072)	(909)
Cash flows from financing activities			
Proceeds from grants		634	53
Cash generated from financing activities		634	53
Net change in cash and cash equivalents		48,908	104,470
Cash and cash equivalents at 1 January		723,305	618,835
Cash and cash equivalents at 31 December	29	772,213	723,305

The notes on pages 7 to 38 are an integral part of these financial statements.

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

1. Reporting entity

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

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

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

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

33 Garibaldi Street

Pristina, Kosovo.

Central Bank Board, Executive Board and Governor

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

As at 31 December 2011, the Central Bank Board of CBK comprised the following members:

- Gazmend Luboteni – Chairman
- Gani Gerguri – Governor
- Zilif Lufi – Member, Acting Director of Treasury of Ministry of Finance
- Sejdi Rexhepi – Member
- Mejd Bektashi – Member

2. Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

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

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

2. Basis of preparation (continued)

c) Functional and presentation currency

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

d) Use of estimates and judgments

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

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

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

3. Significant accounting policies

a) Foreign currency transactions

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

b) Interest

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

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

b) Interest (continued)

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

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

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

c) Fees and commission

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

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

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

d) Employee benefits

i. Defined contribution plans

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

CBK makes pension contributions as permitted by the Kosovo law, whereby the State provides pension benefits for employees upon retirement. CBK's contributions to the pension plan are charged to profit or loss as incurred.

e) Taxation and profit allocation

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

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

f) Financial assets and liabilities

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

Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified into the “financial assets at fair value through profit or loss category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking, or if so designated by management. The Bank has no assets classified in this category.

Loans and receivables

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

Held-to-maturity financial assets

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

Available-for-sale financial assets

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

i. Recognition

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

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

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

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 amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

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

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

vi. Identification and measurement of impairment

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

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

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

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.

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

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

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.

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

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:

	2011	2010
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.

k) Impairment of non-financial assets

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

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

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

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

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.

p) Changes in accounting policies and disclosures

(i) New and amended standards adopted by the Bank

The Improvements to IFRSs 2010 made several minor amendments to a number of IFRSs. The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Bank's accounting policies.

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

(ii) Standards, interpretations and amendments to standards issued but not effective for the financial year beginning 1 January 2011 and not early adopted by the Bank

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

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

IFRS 9 Financial Instruments (IFRS 9)

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. IFRS 9 is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2015. Further chapters dealing with impairment methodology and hedge accounting are still being developed. The Bank management has yet to assess the impact of this new standard on the Bank financial statements. However, they do not expect to implement IFRS 9 until all of its chapters have been published and they can comprehensively assess the impact of all changes.

Consolidation Standards

A package of consolidation standards are effective for annual periods beginning on or after 1 January 2013. Information on these new standards is presented below. The Bank's management have yet to assess the impact of these new and revised standards.

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. It revised the definition of control together with accompanying guidance to identify an interest in a subsidiary. However, the requirements and mechanics of consolidation and the accounting for any non-controlling interests and changes in control remain the same.

IFRS 11 Joint Arrangements (IFRS 11)

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

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

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

Consequential amendments to IAS 27 and IAS 28 Investments in Associates and Joint Ventures (IAS 28)

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

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

p) Changes in accounting policies and disclosures (continued)

Standards, interpretations and amendments to standards issued but not effective for the financial year beginning 1 January 2011 and not early adopted by the Bank (continued)

IFRS 13 Fair Value Measurement (IFRS 13)

IFRS 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013. The Bank's management has yet to assess the impact of this new standard.

Amendments to IAS 1 Presentation of Financial Statements (IAS 1 Amendments)

The IAS 1 Amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs: (a) will not be reclassified subsequently to profit or loss and

(b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after 1 July 2012. The Bank's management expects this will change the current presentation of items in other comprehensive income; however, it will not affect the measurement or recognition of such items.

Amendments to IAS 19 Employee Benefits (IAS 19 Amendments)

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

- eliminate the 'corridor method', requiring entities to recognize all gains and losses arising in the reporting period
- streamline the presentation of changes in plan assets and liabilities
- enhance the disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

The amended version of IAS 19 is effective for financial years beginning on or after 1 January 2013. The Bank's management has yet to assess the impact of this revised standard on the Bank's consolidated financial statements.

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.

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

Risk management framework

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

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

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

b) Credit risk

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

Management of credit risk

i. Investments and exposure to other banks

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

ii. Exposure to credit risk

The maximum exposure to credit risk as at 31 December 2011 and 31 December 2010 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.

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

c) Liquidity risk (continued)

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 Central Bank 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 Directorate.

Exposure to liquidity risk

Residual contractual maturities of financial liabilities, excluding future interest payments

31 December 2011		Carrying	Less than 1	1-3	3 Months
<i>Non-derivative liabilities</i>	Note	amount	month	months	to 1 year
Due to domestic banks	15	209,700	209,700	-	-
Due to IMF related accounts	16	156,509	136,045	-	20,464
Due to governmental institutions	17	782,178	355,365	165,171	261,642
Due to public and commercial entities	18	37,059	37,059	-	-
Other domestic liabilities	19	2,427	2,427	-	-
		1,187,873	740,596	165,171	282,106
31 December 2010					
<i>Non-derivative liabilities</i>					
Due to domestic banks	15	203,572	203,572	-	-
Due to IMF related accounts	16	153,868	131,775	-	22,093
Due to governmental institutions	17	798,721	497,145	226,351	75,225
Due to public and commercial entities	18	43,228	43,228	-	-
Other domestic liabilities	19	2,419	2,419	-	-
		1,201,808	878,139	226,351	97,318

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

c) Liquidity risk (continued)

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

Volatility in the global and Kosovo financial markets

The global financial and economic crisis has resulted in, among other things, a lower level of capital market funding, and lower liquidity levels across the banking sector, central bank interest rate cuts to help borrowers, government capital injection, higher interbank saving rates and volatility in stock markets. Further adverse developments resulting from the crisis might result in negative implications on the financial and liquidity position of CBK.

d) Market risks

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

Management of market risks

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

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

Exposure to interest rate risk non-trading portfolios

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

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

Exposure to interest rate risk-non-trading portfolios

	N ote	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years
31 December 2011						
Current accounts with non-resident banks	8	31,513	31,513	-	-	-
Treasury bills	9	24,988	-	24,988	-	-
Deposit accounts with non-resident banks	10	1,009,046	727,474	177,255	104,317	-
Assets with IMF	11	155,687	135,223	-	-	20,464
Total		1,221,234	894,210	202,243	104,317	20,464
Due to domestic banks	15	(209,700)	(209,700)	-	-	-
Due to IMF related accounts	16	(156,509)	(136,045)	-	-	(20,464)
Due to governmental institutions	17	(782,178)	(709,429)	(32,652)	(40,097)	-
Due to public and commercial entities	18	(37,059)	(37,059)	-	-	-
		(2,427)	(2,427)	-	-	-
Due to domestic liability	19					
Total		(1,187,873)	(1,094,660)	(32,652)	(40,097)	(20,464)
Gap		33,361	(200,450)	169,591	64,220	-
31 December 2010						
Current accounts with non-resident banks	8	25,621	25,621	-	-	-
Treasury bills	9	199,275	69,902	94,665	34,708	-
Deposit accounts with non-resident banks	10	807,332	567,765	103,143	136,424	-
Assets with IMF	11	154,554	132,461	-	-	22,093
Total		1,186,782	795,749	197,808	171,132	22,093
Due to domestic banks	15	(203,572)	(203,572)	-	-	-
Due to IMF related accounts	16	(153,868)	(131,775)	-	-	(22,093)
Due to governmental institutions	17	(798,721)	(527,101)	(100,222)	(171,398)	-
Due to public and commercial entities	18	(43,228)	(43,228)	-	-	-
Due to domestic liability	19	(2,419)	(2,419)			
Total		(1,201,808)	(908,095)	(100,222)	(171,398)	(22,093)
Gap		(15,026)	(112,346)	97,586	(266)	-

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

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

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

2011

	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	376	(376)

2010

	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	150	(150)

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:

2011

	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	35	(35)

2010

	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	7	(7)

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

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

31 December 2010	EUR	SDR (EUR equivalent)	Total
Assets			
Cash on hand	60,194	-	60,194
Current accounts with non-resident banks	25,621	-	25,621
Treasury bills	199,275	-	199,275
Deposit accounts with non-resident banks	807,332	-	807,332
Assets with IMF	22,141	132,413	154,554
Other assets	429	-	429
Total	1,114,992	132,413	1,247,405
Liabilities			
Due to domestic banks	203,572	-	203,572
Due to IMF related accounts	72,982	80,886	153,868
Due to governmental institutions	798,721	-	798,721
Due to public and commercial entities	43,228	-	43,228
Other domestic liabilities	2,670	-	2,670
Total	1,121,173	80,886	1,202,059
Net foreign currency position		51,527	

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

CBK deals predominantly in EUR, while the foreign currencies CBK deals with are predominantly Special Drawing Rights (“SDRs”). The exchange rates used for translation at 31 December 2011 and 2010 were as follows:

	2011	2010
	EUR	EUR
1 SDR	1.186	1.159

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 standards for the management of operational risk in the following areas:

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

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

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

(f) Capital management

Law no. 03/L-209 on the Central Bank of the Republic of Kosovo, approved on 22 July 2010 by the Assembly of the Republic of Kosovo, sets the capital requirements of CBK. According to this law, the authorized capital of CBK is EUR 30 million. The capital may be increased by such amounts as may be proposed by CBK and approved by the Government. No reduction of CBK capital shall be permitted at any time.

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

Net income is allocated in each year to a general reserve account until the aggregate amount of initial capital and general reserves equals five percent (5%) of the Central Bank's monetary liabilities.

50% of the net balance of realized income remaining after fulfilling the 5% criteria mentioned above is required to be transferred to the Ministry of Economy and Finance. The remaining 50% of the realized income is required to be allocated to the general reserve account of CBK.

5. Use of estimates and judgments

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

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

Key sources of estimation uncertainty

Allowances for credit losses

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

Critical accounting judgments in applying CBK's accounting policies

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

Financial asset and liability classification

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

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

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

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

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

<i>In thousands of EUR</i>	Note	Loans and receivables	Held-to-maturity	Other amortized cost	Total carrying amount	Fair value
31 December 2011						
Cash on hand	7	13,456	-	-	13,456	13,456
Current accounts with non-resident banks	8	31,513	-	-	31,513	31,513
Treasury bills	9	-	24,988	-	24,988	24,990
Deposit accounts with non-resident banks	10	1,009,046	-	-	1,009,046	1,009,046
Assets with IMF	11	155,687	-	-	155,687	155,687
		1,209,702	24,988	-	1,234,690	1,234,692
Due to domestic banks	15	-	-	209,700	209,700	209,700
Due to IMF related accounts	16	-	-	156,509	156,509	156,509
Due to governmental institutions	17	-	-	782,178	782,178	782,178
Due to public and commercial entities	18	-	-	37,059	37,059	37,059
Other domestic liabilities	19	-	-	2,427	2,427	2,427
		-	-	1,187,873	1,187,873	1,187,873
31 December 2010						
Cash on hand	7	60,194	-	-	60,194	60,194
Current accounts with non-resident banks	8	25,621	-	-	25,621	25,621
Treasury bills	9	-	199,275	-	199,275	198,490
Deposit accounts with non-resident banks	10	807,332	-	-	807,332	807,332
Assets with IMF	11	154,554	-	-	154,554	154,554
		1,047,701	199,275	-	1,246,976	1,246,191
Due to domestic banks	15	-	-	203,572	203,572	203,572
Due to IMF related accounts	16	-	-	153,868	153,868	153,868
Due to governmental institutions	17	-	-	798,721	798,721	798,721
Due to public and commercial entities	18	-	-	43,228	43,228	43,228
Other domestic liabilities	19	-	-	2,419	2,419	2,419
		-	-	1,201,808	1,201,808	1,201,808

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

7. Cash on hand

Cash on hand is all denominated in EUR.

8. Current accounts with non-resident banks

These accounts were held at the following banks:

	2011	2010
Deutsche Bundesbank	30,961	25,068
Raiffeisen Zentralbank	61	234
Commerzbank	481	315
Banque De France	-	4
Deutsche Bank	10	-
Total	31,513	25,621

All current accounts have credit ratings of A-1/P-1 as per 2011 rankings of the above banks by Standard & Poor's/Moody's ratings at 31 December 2011.

9. Treasury bills

Treasury bills are debt securities issued by governments of European Union countries. They have maturities up to twelve months and they held until maturity. All bills are denominated in EUR and have effective interest rates ranging from 0.35% to 1.20% p.a. (2010: 0.199% to 1.490% p.a)

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

	2011	2010
Italy	-	84,613
Portugal	-	34,787
Belgium	24,988	79,875
Total	24,988	199,275

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

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

10. Deposit accounts with non-resident banks

Deposit accounts with non-resident banks are composed of:

	2011	2010
Time deposits		
Raiffeisen Zentralbank	129,200	94,600
Svenska Handelsbanken	36,000	-
ING Bank	120,664	150,088
Deutsche Bundesbank	80,000	-
KBC	87,334	20,003
Rabobank	132,555	136,064
Danske Bank	98,534	97,392
Commerzbank	-	53,800
Banque de France	165,755	144,387
Banque Centrale du Luxembourg	157,279	110,379
	1,007,321	806,713
Interest accrued on time deposits		
Raiffeisen Zentralbank	434	35
Svenska Handelsbanken	185	-
ING Bank	387	132
Deutsche Bundesbank	9	-
KBC	186	1
Rabobank	140	358
Danske Bank	1	2
Commerzbank	-	58
Banque de France	354	14
Banque Centrale du Luxembourg	29	19
	1,725	619
Total	1,009,046	807,332

Deposits placed with non-resident banks are denominated in EUR and earn interest at effective interest rates ranging from 0.05% to 1.68% p.a. (2010: 0.10% to 1.20% p.a.) and have original maturities from 1 to 367 days (2010: from 1 to 366 days). All deposits have credit rating A-1/P-1, as per December 2011 ranking by Standard & Poors/Moody's ratings.

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

11. IMF related assets

	2011	2010
IMF quota	70,006	68,420
SDR Holdings	65,149	63,993
Accrued interest	68	48
IMF	135,223	132,461
Government		
Due from the Government for the use of IMF funds (SBA)	20,464	22,093
Total	155,687	154,554

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

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

SDR Holdings represents assets approved by the IMF Board of Governors as per allocations of SDRs to IMF's member countries (decisions made on 28 August 2009 and 9 September 2009). SDR holding assets bear annual average interest rates in 2011 ranging from 0.11% to 0.55% (2010: 0.25% - 0.36%).

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 92.6 million (EUR: 107.4 million). The interest rate of this arrangement is tied to IMF's market-related interest rate, known as the basic rate of charge, which is itself linked to the SDRs interest rate. The interest rate for the period 2011 fluctuated in quarterly basis annually in average as 1.11% - 1.55%, (from August 2010 until 31 December 2010 fluctuated from 1.33% to 1.36%).

Balance drawn as at 31 December 2011, SDR 18.8 million (EUR 20.5 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 on July 2010 "on the Procedure for Request, Acceptance, Service and Repurchase of the Funds from the IMF in terms of the Stand -By Arrangement". Based on this arrangement CBK withdraws the SDRs from IMF, on behalf of the Government, and credit's them to the Government's account.

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

12. Property and equipment

Property and equipment is composed as follows:

	Leasehold improvements	Equipment	Computers	Vehicles	Assets in the course of construction	Total
Cost						
At 1 January 2010	1,279	1,543	779	286	-	3,887
Acquisitions	-	23	67	-	9	99
At 31 December 2010	1,279	1,566	846	286	9	3,986
At 1 January 2011	1,279	1,566	846	286	9	3,986
Acquisitions	-	31	119	-	184	334
Disposals	-	(279)	(162)	-	-	(441)
At 31 December 2011	1,279	1,318	803	286	193	3,879
Depreciation						
At 1 January 2010	192	993	522	65	-	1,772
Charge for the year	64	227	142	56	-	489
At 31 December 2010	256	1,220	664	121	-	2,261
At 1 January 2011	256	1,220	664	121	-	2,261
Charge for the year	64	233	133	54	-	484
Disposals	-	(279)	(163)	-	-	(442)
At 31 December 2011	320	1,174	634	175	-	2,303
Carrying amounts						
At 1 January 2010	1,087	550	257	221	-	2,115
At 31 December 2010	1,023	346	182	165	9	1,725
At 31 December 2011	959	144	169	111	193	1,576

There are no assets pledged as collateral as at 31 December 2011 (31 December 2010: nil).

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

13. Intangible assets

Intangible assets are composed as follows:

	Software under development	Software	Total
Cost			
Balance at 1 January 2010	66	1,144	1,210
Acquisitions	760	50	810
Balance at 31 December 2010	826	1,194	2,020
Balance at 1 January 2011	826	1,194	2,020
Acquisitions	620	918	1,538
Transfer to Software	(800)	-	(800)
Disposals/write off	-	(177)	(177)
Balance at 31 December 2011	646	1,935	2,581
Amortization			
Balance at 1 January 2010	-	1,036	1,036
Amortization for the year	-	75	75
Balance at 31 December 2010	-	1,111	1,111
Balance at 1 January 2011	-	1,111	1,111
Amortization for the year	-	141	141
Eliminated on disposals/write off	-	(177)	(177)
Balance at 31 December 2011	-	1,075	1,075
Carrying amounts			
Balance at 1 January 2010	66	108	174
Balance at 31 December 2010	826	83	909
Balance at 31 December 2011	646	860	1,506

14. Other assets

Other assets are composed as follows:

	2011	2010
Accrued fee income	371	324
Accounts receivable and prepayments	75	105
Total	446	429

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

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

15. Due to domestic banks

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

CBK pays interest to commercial banks on the balances held by them at CBK representing up to 10% of the minimum required reserve. No interest is paid by CBK to commercial banks on amounts maintained at CBK above the 10% of the minimum required reserve. The annual interest rate for the year ended 31 December 2011 was 0.10% (31 December 2010: 0.10%).

Due to domestic banks

	2011	2010
ProCredit Bank Kosovë	29,255	28,790
Raiffeisen Bank Kosovë	28,314	25,970
NLB Prishtina	12,062	11,106
Banka Ekonomike e Prishtinës	5,356	4,029
Banka për Biznes	3,713	3,032
Banka Kombëtare Tregtare (Pristina branch)	4,674	1,594
Banka Ekonomike Turke	8,553	5,822
Banka Komerçiale	1,774	1,467
Total required reserve	93,701	81,810

Additional amount above required reserve

ProCredit Bank Kosovë	35,547	36,163
Raiffeisen Bank Kosovë	9,775	25,524
NLB Prishtina	8,105	14,945
Banka Ekonomike e Prishtinës	21,220	5,526
Banka për Biznes	25,630	15,033
Banka Kombëtare Tregtare (Pristina branch)	4,900	7,774
Banka Ekonomike Turke (TEB)	8,992	15,282
Commerçijaln Banka	1,816	1,508
Banka Kreditore e Prishtinës	14	7
Total Addition on current account	115,999	121,762
Total amount on current account	209,700	203,572

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

16. Due to IMF Related liabilities

	2011	2010
IMF Account No. 1	175	167
IMF Account No. 2	5	6
IMF Security Account	73,488	72,808
IMF SDR Allocation	65,697	64,209
Accrued Interest	68	48
Total due to IMF	139,433	137,238
Due to Government		
IMF - Paid portion of Government quota	17,076	16,630
Total Due to Government	17,076	16,630
Total	156,509	153,868

These positions are related to the admission of Kosovo to the IMF in June 2010.

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 2010 and 9 September 2010.

SDR Allocations and Paid portion of quota are interest-bearing with annual interest rates for 2011 in quarterly averages ranging from 0.11% - 0.55% (2010: 0.25% - 0.36%).

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

17. Due to governmental institutions

Due to governmental institutions includes the following:

	2011	2010
Current accounts		
Treasury - Ministry of Finance	89,326	49,572
Privatization Agency of Kosovo	265,310	65,089
Interim administration institutions	729	1,678
Total current accounts	355,365	116,339
Time Deposits		
Treasury - Ministry of Finance	105,042	140,010
Privatization Agency of Kosovo	321,771	457,680
Total time deposits	426,813	597,690
Securities		
Treasury – Ministry of Finance	-	84,692
Total securities	-	84,692
Total	782,178	798,721

The effective annual interest rate for current accounts for the year ended 31 December 2011 is 0.10% (for the year ended 31 December 2010: 0.10%). For time deposits the effective interest rates for the year 2011 ranged from 0.25% - 1.53% p.a. (2010: 0.17% - 1.09% p.a.).

18. Due to public and commercial entities

	2011	2010
Current accounts		
Insurance companies	6,938	5,027
Other public institutions	30,050	38,131
Pension funds	68	68
Other	3	2
	37,059	43,228

The effective interest rate for current accounts as at 31 December 2011 is 0.10% p.a. (31 December 2010: 0.10% p.a.).

19. Other domestic liabilities

	2011	2010
Safe custody accounts	2,427	2,419
Deferred grants income	595	5
Sundry creditors	62	17
Other liabilities	253	229
	3,337	2,670

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

19. Other domestic liabilities (continued)

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

Amounts EUR 1,134 rents collected by the CBK until 5 January 2004 on behalf of the Kosovo Government for the offices of the former national bank of Kosovo, which were rented out to various entities/individuals. This amount also included interest earned on these rent payments until 31 December 2011.

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

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 2010	9	-	-	9
Grants received during the year	12	10	31	53
Grant revenue for the year	(16)	(10)	(31)	(57)
Grant reconciliation from previous years	-	-	-	-
Deferred grant revenue at 31 December 2010	5	-	-	5
Deferred grant revenue at 1 January 2011	5	-	-	5
Grants received during the year	606	11	17	634
Grant revenue for the year	(16)	(11)	(17)	(44)
Grant reconciliation from previous years	-	-	-	-
Deferred grant revenue at 31 December 2011	595	-	-	595

20. Statutory fund

The CBK statutory fund as at 31 December 2011 is EUR 30,000 thousand as per Law no. 03/L-209 approved on 22 July 2010. The CBK statutory fund as at 31 December 2010 was EUR 30,000 as per the replaced CBK Law no. 03/L-074.

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

21. Reserve fund

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

Central Bank of the Republic of Kosovo

Notes to the Financial Statements

(in thousands of EUR, unless otherwise stated)

22. Net interest income

Net interest income is composed as follows:

	2011	2010
Interest income		
From deposit accounts	8,943	2,813
From treasury bills	696	1,496
From current accounts	440	265
	10,079	4,574
Interest expense		
On current accounts from non-banking entities	870	659
On current accounts from bank entities	598	163
On time deposits	6,117	2,030
	7,585	2,852
Net interest income	2,494	1,722

The interest income are resulted from our asset portfolio mainly on money market instrument and T-bills.

23. Net fees and commission income

Net fee and commission income is composed as follows:

	2011	2010
Fee income		
From cash deposits	372	344
From foreign incoming transfers	68	61
From foreign outgoing transfers	238	247
From the inter-bank clearing system	281	260
From the credit registry system	158	131
From management of treasury fund	1,500	1,500
Other fees	34	32
	2,651	2,575
Fee expenses		
For cash transportation	259	212
For correspondent bank transactions	31	36
	290	248
Net fee and commission income	2,361	2,327

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

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

24. Grant revenue

Grant revenue is composed as follows:

	2011	2010
European Central Bank ("ECB")	17	31
World Bank	11	10
Ministry of Economy and Finance	16	16
Total	44	57

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:

	2011	2010
Fees charged to insurance companies	938	922
Fees charged to commercial banks	611	546
Fees from non-banking financial institutions	67	51
Other fees	4	3
Total	1,620	1,522

26. Personnel expenses

Personnel expenses are composed as follows:

	2011	2010
Wages and salaries	1,639	1,578
Health insurance costs	261	258
Pension contributions	97	151
Staff training	85	214
Central Bank Board expenses	132	155
Other	35	39
Total	2,249	2,395

The average number of employees at CBK during 2011 was 167 (2010: 164).

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

27. General and administrative expenses

General and administrative expenses are composed as follows:

	2011	2010
Insurance expenses	223	258
Repairs and maintenance	53	39
Software maintenance	209	140
Communication expense (telephone, telex and internet)	79	105
Utilities	81	81
Audit and consulting expense	20	25
Security and guard services	79	54
Travel and transportation	95	82
Vehicle operating expenses	22	31
Stores and stationery	32	28
Representation expenses	16	16
Computer and other consumables expense	50	38
Publication and literature expenses	41	52
Official representation expenses	28	39
Other	23	32
Total	1,051	1,020

28. Foreign exchange net (loss)/gain

Foreign exchange net loss of EUR 1,139 thousand for the year ended 31 December 2011 (2010: gain of 1,408 thousand) represents realized and 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	2011	2010
Cash on hand	7	13,456	60,194
Current accounts with non-resident banks	8	31,513	25,621
Treasury bills with maturity up to three months		-	69,863
Deposit accounts with non-resident banks with maturity up to three months		727,244	567,627
Total		772,213	723,305

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

Central Bank of the Republic of Kosovo

Notes to the financial Statement

(in thousands of EUR, unless otherwise stated)

30. Commitments and contingencies

Legal

CBK is involved in routine legal proceedings in the ordinary course of business. It is management's opinion that the final outcome of these lawsuits will not have a material effect on CBK's financial statements as at and for the year ended 31 December 2011.

Other commitments

Other commitments are composed as follows:

	31 December 2011	31 December 2010
Upgrade of the core accounting system	-	45
Total	-	45

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.

During June 2010, the Government of Kosovo issued promissory notes to make payments concerning membership subscription to the World Bank sub-agencies mentioned above upon their requests and payment instructions. The total balance at 31 December 2011 and 2010 of these promissory notes was EUR 4,007 thousand.

31. Related party transactions

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

	2011	2010
Compensation to Central Bank Board members	99	121
Compensation to Audit Committee members	2	-
Compensation to Key Management Personnel	103	114
Total	204	235

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

Table 1.1. Financial corporation survey – net foreign assets and domestic claims

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

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	Deposits	Loans of which:						
											Other non financial corporations		Households				
2004 December	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 December	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 December	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 December	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 December	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 December	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 December	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 December	2,080.3	2,454.3	65.1	1,369.2	230.0	70.1	533.1	374.0	989.0	-798.4	—	798.4	798.4	1,787.4	1,761.7	1,244.1	514.6

Table 1.2. Financial corporation survey – liabilities

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

Description	Deposits								Loans	Insurance technical reserves			Shares and other equity	Other items (net)	
	Transferable deposits	of which:				Other deposits	of which:			Net equity of households in pension funds	Pre payment of premiums and				
		Public non financial corporations	Other non financial corporations	Households	Public non financial corporations		Other non financial corporations	Households							
2004 December	670.7	273.7	34.6	81.3	145.5	396.9	149.3	24.4	222.5	2.3	106.5	88.7	17.9	145.1	0.7
2005 December	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 December	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 December	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 December	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 December	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 December	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 December	1,940.2	665.1	75.5	208.1	360.9	1,275.1	60.8	79.7	1,129.6	...	647.8	593.3	54.5	395.1	86.2

Table 2.1. Depository corporation survey – net foreign assets and domestic claims

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

Description	Net foreign assets						Domestic claims									
	Claims on non residents	of which:				Less: Liabilities to non residents	Net claims on central government	Claims on central gov.	Less: Liabilities to central gov.	Claims on other sectors	of which:					
		Currency	Deposits	Securities other than shares	IMF Quota						Loans	Public financial corporations	Other non financial corporations	Households		
2000 December	133.3	145.8	28.5	117.3	—	12.5	-19	-5.7	—	5.7	3.8	3.3	—	3.3	—	
2001 December	583.3	604.8	239.2	358.1	7.5	215	-44.2	-70.3	—	70.3	26.1	25.9	—	25.9	—	
2002 December	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 December	695.8	727.0	73.2	533.6	19.6	—	31.2	-12.6	-346.4	—	346.4	233.8	232.8	—	193.5	39.0
2004 December	648.7	687.9	55.3	384.0	236.7	—	39.2	156.9	-216.8	—	216.8	373.8	373.7	—	289.9	83.7
2005 December	695.1	744.5	74.6	422.6	242.4	—	49.3	289.0	-225.7	—	225.7	514.6	513.9	—	387.9	126.0
2006 December	975.4	1035.6	63.4	660.0	303.1	—	60.2	162.2	-475.0	—	475.0	637.1	636.6	—	490.5	146.1
2007 December	1377.5	1426.1	145.3	955.0	308.2	—	48.6	39.1	-853.3	—	853.3	892.4	892.1	0.2	691.3	200.6
2008 December	1436.1	1512.0	121.1	794.9	581.8	—	75.9	311.9	-871.8	—	871.8	1183.8	1183.4	0.1	901.7	281.0
2009 December	1531.6	1782.2	111.4	910.0	626.4	64.3	250.6	442.9	-846.3	—	846.3	1289.2	1289.0	0.3	942.9	343.5
2010 December	1616.2	1957.1	164.3	1257.8	372.7	68.5	340.9	632.8	-824.8	—	824.8	1457.5	1457.1	6.3	1010.8	434.2
2011 December	1616.2	1908.5	24.9	1369.2	222.0	70.1	292.3	869.4	(798.4)	—	798.4	1667.8	1665.6	1.5	1139.6	514.6

Table 2.2. Depository corporation survey - liabilities

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

Description	Deposits included in broad money										Deposits excluded from broad money 1/	Shares and other equity	Other items net	
	Transferable deposits	of which:				Other deposits	of which:							
		Other financial corporations	Public non financial corporations	Other non financial corporations	Households		Other financial corporations	Public non financial corporations	Other non financial corporations	Households				
2000 December	115.9	115.9	—	22.9	93.0	—	—	—	—	—	3.0	11.1	1.5	
2001 December	486.8	361.5	—	7.0	135.3	219.2	125.2	—	—	31.3	93.9	12.9	25.2	14.3
2002 December	413.6	285.3	—	3.5	160.1	121.7	128.3	—	—	23.9	104.4	25.1	43.8	-4.8
2003 December	499.3	278.7	—	5.3	139.0	134.4	220.6	—	—	87.1	133.5	29.2	61.1	-6.4
2004 December	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 December	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 December	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 December	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 December	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 December	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	249.0	79.0
2010 December	1,747.9	674.3	53.1	83.8	218.6	303.5	1,073.6	85.2	30.2	73.5	884.7	138.2	278.5	84.4
2011 December	1,900.6	703.7	38.6	75.5	208.1	360.9	1,196.9	91.0	49.2	71.7	979.9	175.8	309.7	99.6

Table 3.1. CBK survey – net foreign assets and domestic demands

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

Description	Net foreign assets										Net claims on central government	Claims on other sectors	Liabilities to ODC
	Claims on non residents					Less: liabilities to non residents							
	Monetary gold and SDR	Currency	Deposits	Securities other than shares	IMF Quota	SDR allocations	IMF Account	of which:					
2000 December	52.1	61.7	—	15.8	45.9	—	—	9.6	—	—	-5.7	0.5	15.8
2001 December	293.7	296.2	—	150.8	145.4	—	—	2.6	—	—	-70.3	0.2	173.9
2002 December	345.4	345.8	—	17.5	328.3	—	—	0.4	—	—	-258.6	0.3	46.2
2003 December	454.3	454.6	—	26.6	427.4	—	—	0.3	—	—	-346.4	1.0	59.6
2004 December	344.7	349.9	—	12.1	213.2	124.4	—	5.2	—	—	-216.8	0.1	72.9
2005 December	394.4	397.5	—	24.5	213.4	159.5	—	3.1	—	—	-225.7	0.8	82.5
2006 December	641.1	641.2	—	11.1	424.9	203.6	—	0.1	—	—	-472.9	0.5	94.5
2007 December	1,057.6	1,057.6	—	63.8	759.0	229.3	—	...	—	—	-849.4	0.3	113.6
2008 December	1,110.7	1,110.7	—	39.7	529.0	54.13	—	...	...	—	-870.5	0.3	137.2
2009 December	1,088.3	1,198.5	60.3	218	522.3	529.7	64.3	110.2	60.3	49.1	-681.5	0.2	233.2
2010 December	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 December	1,098.8	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

Table 3.2. CBK survey - liabilities

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

Description	Deposits included in broad money							Deposits excluded from broad money			Shares and other equity	of which:		Other items (net)
	Transferable deposits	of which:				Other deposits		Other financial corporations	Local gov.	Funds contributed by owners		Profit/losses of the year		
		Other financial corporations	Local government	Public non financial corporations	Other financial corporations									
2000 December	22.9	22.9	—	—	22.9	—	—	3.0	—	3.0	4.9	2.6	.	0.4
2001 December	8.4	8.4	—	—	7.0	—	—	12.9	10.6	2.4	4.7	2.6	1.1	23.6
2002 December	3.9	3.9	—	—	3.5	—	—	25.1	24.6	0.5	10.6	2.6	3.6	1.3
2003 December	5.3	5.3	—	—	5.3	—	—	27.4	25.7	1.7	16.1	2.6	4.5	0.5
2004 December	37.7	32.6	20.7	1.9	9.9	5.1	5.1	—	—	—	18.0	10.0	3.0	-0.6
2005 December	66.6	62.5	23.3	1.6	37.6	4.1	4.1	—	—	—	20.4	10.0	3.0	...
2006 December	49.9	41.9	31.0	0.4	10.5	8.0	8.0	—	—	—	25.5	10.0	6.4	-1.2
2007 December	57.2	46.7	22.4	3.2	21.1	10.6	10.6	—	—	—	33.8	20.0	9.2	3.9
2008 December	63.9	56.7	49.9	5.3	1.5	7.2	7.2	—	—	—	41.4	30.0	7.5	-2.0
2009 December	130.8	130.8	129.7	...	1.1	...	...	—	—	—	44.9	30.0	3.7	-2.0
2010 December	45.6	45.6	43.9	...	0.0	...	...	—	—	—	47.9	30.0	3.0	-1.8
2011 December	39.5	39.5	28.5	...	9.3	...	...	—	—	—	54.3	30.0	5.8	-1.3

Table 4.1. Other depository corporation survey – net foreign assets and domestic claims

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

Description	Net foreign assets								Claims on CBK	Net claims on central government	Claims on other sectors				
	Claims on non residents	of which:			Less: liabilities to non-residents	of which:		Loans			Public nonfinancial corp.	Other nonfinancial corp.	Households		
		Currency	Deposits	Securities other than shares		Deposits	Loans								
2000 December	81.2	84.1	12.7	71.4	—	2.9	—	2.9	12.7	—	3.3	3.3	—	3.3	—
2001 December	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 December	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 December	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 December	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 December	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 December	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 December	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 December	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 December	443.6	583.9	89.6	387.7	97.0	140.3	65.5	74.5	233.1	-164.9	1,289.0	1,289.0	0.3	942.9	343.5
2010 December	508.1	710.2	104.1	403.3	173.4	202.1	85.5	116.6	203.4	-11.6	1,457.1	1,457.1	6.3	1,010.8	434.3
2011 December	519.1	675.6	111.5	309.9	202.0	156.5	64.8	90.5	220.0	-1.2	1,665.6	1,665.6	1.5	1,139.6	516.1

Table 4.2. Other depository corporation survey – liabilities

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

Description	Deposits included in broad money										Deposits excluded from broad money	of which:		Shares and other equity	Other items (net)
	Transferable deposits	of which:				Other deposits	of which:					Other nonfinancial corporations	Households		
		Other financial corporations	Public nonfinancial corp. 1/	Other nonfinancial corp.	Households 2/		Other financial corporations	Public nonfinancial corp. 1/	Other nonfinancial corp.	Households 2/					
2000 December	93.0	93.0	.	.	93.0	.	.	.	.	.	.	.	.	6.2	-2.0
2001 December	478.4	353.1	.	.	133.9	219.2	125.2	.	.	31.3	93.9	.	.	20.4	-6.4
2002 December	409.7	281.4	.	.	159.7	121.7	128.3	.	.	23.9	104.4	.	.	33.2	-6.6
2003 December	494.0	273.4	.	.	139.0	134.4	220.6	.	.	87.1	133.5	1.8	1.8	45.0	-7.0
2004 December	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	69.1	-0.1
2005 December	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	74.0	3.4
2006 December	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	103.3	50.9
2007 December	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	152.7	39.8
2008 December	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	192.3	48.1
2009 December	1,417.8	490.6	8.5	48.9	184.0	237.7	927.2	60.8	73.9	71.7	718.5	97.9	11.2	204.2	81.0
2010 December	1,702.3	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	230.5	86.1
2011 December	1,861.1	664.2	10.1	66.2	208.1	360.9	1,196.9	91.0	49.2	71.7	979.9	175.8	8.0	255.3	111.3

Table 5.1. Other Financial Corporation – net foreign assets

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

Description	Net foreign assets						Claims on depository corporations						Claims on other sectors		Loans
	Claims on non-residents	of which:		Less: liabilities to non-residents	Loans	CBK	Other depository corporations			Transferable depositst	Other deposits	Transferable depositst	Other deposits		
		Securities other than shares	Shares and other equity				Transferable depositst	Other deposits							
2004 December	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 December	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 December	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 December	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 December	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 December	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 December	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 December	462.4	544.1	3.1	533.1	81.7	81.7	137.9	28.5	28.5	...	109.4	6.5	102.9	129.6	104.4

Table 5.2. Other depository corporation – liabilities, excluding external and fiscal sector

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

Description	Loans	Insurance technical reserves				Shares and other equity					Other items			
		Net equity of households in life ins.	Net equity for households in pension funds	Prepayment of premiums and reserves	Funds contributed by owners	Retained earnings	General and special reserves	Profit/Loss for the year	Other liabilities	Less: other assets	Plus: consolidation adjustment			
2004 December	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 December	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 December	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 December	...	316.1	—	286.2	29.9	87.4	62.1	20.1	1.7	3.5	-0.4	9.6	10.0	—
2008 December	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 December	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 December	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 December	3.3	647.8	...	593.3	54.5	85.4	59.9	14.3	10.3	0.9	-6.6	16.0	22.6	—

Table 6.1. Euro deposits at other depository corporations – by initial maturity, main sectors

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

Description	Total deposits in euro														
	Government	Financial corporations						Non financial corporations		Other domestic sectors			Nonresidents		
		Other depository corporations	Other financial intermediaries	Insurance companies	Pension funds	Financial auxiliaries	Public nonfinancial corporations	Other nonfinancial corporations	Households	NPISH					
2000 December	93.0	--	--	--	--	--	--	93.0	--	93.0	--	--	--	--	
2001 December	492.3	--	--	--	--	--	--	165.2	--	165.2	313.1	313.1	--	13.9	
2002 December	427.2	--	--	--	--	--	--	183.6	--	183.6	226.1	226.1	--	17.5	
2003 December	515.8	--	1.8	1.8	--	--	--	226.1	--	226.1	267.9	267.9	--	20.0	
2004 December	674.9	1.3	25.6	3.7	3.5	15.5	--	2.9	275.3	173.5	10.18	360.3	350.7	9.6	12.3
2005 December	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 December	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 December	1092.0	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 December	1366.9	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 December	1640.1	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 December	1831.1	11.7	105.0	7.3	7.9	47.6	41.6	0.6	414.9	122.3	292.6	1220.1	1206.1	14.0	79.4
2011 December	1980.7	2.7	117.5	9.9	6.8	57.2	43.1	0.5	404.9	126.9	278.1	1395.6	1373.4	22.2	60.0

Table 6.2. Non-euro deposits at other depository corporations – by initial maturity

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

Description	Non-euro deposits														Non residents	
	Financial corporations	of which:				Nonfinancial corporations	Other domestic sectors			NPISH						
		CBK	Other depository corporations	Other financial intermediaries	Insurance companies		Public nonfinancial corporations	Other nonfinancial corporations	Households							
2004 December	23.4	1.1	--	...	...	1.1	4.4	0.5	4.0	17.5	17.3	8.7	--	8.7	0.1	0.3
2005 December	29.4	...	--	...	...	...	2.8	--	2.8	26.0	25.7	10.8	--	14.9	0.3	0.5
2006 December	34.3	...	--	...	...	...	3.7	0.3	3.5	29.8	29.6	12.4	--	17.2	0.2	0.5
2007 December	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 December	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 December	112.1	2.1	--	12	...	0.9	18.3	1.3	17.0	91.1	90.9	29.7	--	61.1	0.2	0.7
2010 December	113.8	3.1	--	2.9	--	--	13.7	4.3	9.4	93.8	93.3	33.1	25.9	34.3	0.5	3.1
2011 December	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

Table 6.3. Other depository corporation loans – by initial maturity

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

Description	Total														Loans in Non Euro Currency
	Financial corporations	of which:		Nonfinancial corporations	of which:			Other domestic corporations	ngat è cilat:						
		Other financial intermediaries	Insurance companies		Public nonfinancial corporations	Other nonfinancial corporations			Households	Up to 1 year	Over 1 year and up to 2 years	Over 2 years			
						Up to 1 year	Over 1 year and up to 2 years						Over 2 years		
2000 December	3.3	—	—	—	3.3	3.3	3.3	—	—	—	—	—	—	—	—
2001 December	25.9	—	—	—	25.9	25.9	24.6	13	—	—	—	—	—	—	—
2002 December	86.5	—	—	—	80.8	80.8	67.3	13.5	—	5.7	5.7	14	4.3	—	—
2003 December	232.8	—	—	—	193.7	0.2	193.5	124.7	68.7	0.2	39.0	39.0	114	16.0	116
2004 December	373.7	—	—	—	289.9	—	289.9	111.5	111.3	67.2	83.7	83.7	15.9	15.2	52.6
2005 December	513.9	—	—	—	387.9	—	387.9	117.9	125.2	144.7	126.0	126.0	19.5	21.0	85.4
2006 December	636.6	—	—	—	490.5	—	490.5	128.7	127.7	234.1	146.1	146.1	19.7	24.7	101.7
2007 December	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 December	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 December	1,289.0	2.3	12	11	943.2	0.3	942.9	215.7	113.0	614.2	343.5	343.5	27.0	32.1	284.5
2010 December	1,458.7	5.7	2.6	3.0	1,014.5	6.3	1,008.3	259.4	64.3	684.5	434.3	434.2	26.5	30.7	377.0
2011 December	1,698.1	8.3	6.6	17	1,137.6	15	1,136.1	307.8	83.4	744.8	512.4	510.9	44.0	38.1	428.8

Table 6.4. Other depository corporation loan – by industry

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

Description	Total									
	Agriculture			Industry, energy and construction				Services		
	Up to 1 year	Over 1 year		Up to 1 year	Over 1 year		Up to 1 year	Over 1 year		
2000 December	3.3	—	—	—	0.8	0.8	—	2.5	2.5	—
2001 December	25.9	—	—	—	3.8	3.8	—	22.2	22.2	—
2002 December	86.5	1.5	1.5	—	13.6	13.6	—	71.4	71.4	—
2003 December	232.8	4.7	3.9	0.8	22.2	12.6	9.7	205.8	119.7	86.1
2004 December	289.9	7.9	3.9	4.1	47.8	22.5	25.3	234.2	89.5	144.8
2005 December	387.9	12.5	4.1	8.4	74.2	24.5	49.7	301.1	92.4	208.8
2006 December	490.5	16.4	3.4	13.0	97.7	28.0	69.7	376.4	120.6	255.8
2007 December	691.5	29.0	4.1	24.9	144.5	32.8	111.7	518.0	149.5	368.5
2008 December	902.4	37.4	4.1	33.3	160.2	28.9	131.2	704.8	126.4	578.4
2009 December	945.5	38.2	3.8	34.4	236.7	54.8	181.9	670.5	113.2	557.3
2010 December	1,022.8	38.2	1.7	36.5	269.3	77.1	192.2	715.3	188.5	526.8
2011 December	1,149.5	40.5	0.8	39.7	284.7	82.3	202.4	824.3	220.5	603.8

Table 6.5. Other depository corporation effective interest rates

(New businesses, unless otherwise indicated)

Description	Deposit rates		Nonfinancial corporations							Households								
	Transferable deposits	Savings deposits	Other deposits							Transferable deposits	Other deposits						Savings deposits	
			Less than 250.000 euro				More than 250.000 euro				Up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years		
			Up to 1 month	Over 1 month and up to 3	Over 6 months and up to 1 year	Over 2 years	Up to 1 month	Over 1 month and up to 3	Over 6 months and up to 1 year									
2004 December	2.75	0.10	1.79	2.30	3.02	*	3.31	*	*	1.99	0.04	1.65	2.06	*	2.91	3.80	*	1.63
2005 December	3.12	0.26	2.07	2.37	3.40	*	2.90	*	*	1.71	0.04	1.85	2.24	*	3.33	3.87	4.04	1.74
2006 December	3.11	0.39	2.06	2.85	4.32	*	3.11	*	*	1.53	0.03	1.93	2.35	*	3.44	4.16	4.51	1.65
2007 December	4.00	0.48	2.68	2.93	4.35	*	4.27	4.15	*	2.45	0.02	2.55	2.75	*	3.60	4.72	5.27	2.25
2008 December	4.42	0.53	3.09	3.97	5.32	*	3.61	4.92	*	2.85	0.11	3.21	4.60	*	4.45	4.99	3.95	2.74
2009 December	3.98	0.72	3.42	3.42	5.03	*	3.88	4.88	*	2.63	0.34	3.09	3.28	*	4.39	5.00	5.50	2.51
2010 December	3.38	0.63	2.44	3.08	4.96	5.14	*	3.74	*	2.07	0.55	2.58	2.63	3.15	4.49	4.77	5.14	2.21
2011 December	3.71	0.86	0.00	2.91	4.90	5.05	*	3.88	5.25	2.20	0.48	2.49	2.47	2.88	4.21	4.56	5.36	2.06

Table 6.6. Other depository corporation effective interest rates - deposit rates

(New businesses, unless otherwise indicated)

Description	Loan rates		Nonfinancial corporations							Households							
	Up to 1 year	Over 1 year up to 5 years	Investment business loans		Other business loans (non-investing)		Overdrafts	Credit lines	Favourable loans		Overdrafts	Favourable loans		Consumer loans	Mortgage loans		
			Up to 1 year	Over 1 year up to 5 years	Up to 1 year	Over 1 year up to 5 years			Loans covered by deposits	Other loans		Loans covered by deposits	Other loans		Up to 5 years	Over 5 years up to 10 years	Over 10 years
			Up to 1 year	Over 1 year up to 5 years	Up to 1 year	Over 1 year up to 5 years			Loans covered by deposits	Other loans		Loans covered by deposits	Other loans		Up to 5 years	Over 5 years up to 10 years	Over 10 years
2004 December	15.17	15.16	14.47	14.47	15.04	15.32	15.06	12.53	...	*	*	...	*	12.53	*	*	*
2005 December	14.47	17.34	13.29	13.29	15.18	14.38	15.11	11.51	...	*	*	...	*	11.51	*	*	*
2006 December	14.70	*	14.50	14.50	13.60	15.18	15.72	12.36	...	*	*	...	*	12.36	*	13.36	*
2007 December	14.06	*	13.76	13.76	*	14.64	15.09	13.72	...	*	*	...	*	13.72	12.92	12.36	*
2008 December	13.79	*	13.92	13.92	14.20	13.45	15.03	13.50	...	*	19.48	...	...	13.50	9.81	10.82	8.13
2009 December	14.09	*	14.34	14.34	*	*	*	...	*	17.83	...	...	...	13.31	*	10.67	*
2010 December	14.31	16.13	13.95	*	18.66	14.44	12.65	13.27	7.69	*	22.57	6.55	8.56	14.56	*	11.67	10.26
2011 December	13.69	15.89	13.55	11.68	16.40	13.80	11.78	12.12	6.10	9.88	16.44	6.01	8.58	14.02	14.31	11.99	10.83

References

- CBK (2011): Financial Stability Report No. 2, The Central Bank of the Republic of Kosovo, Prishtina
- DJI (2012): Dow Jones Industrial Average, New York
- ECB (2011): *Monthly Bulletin*, European Central Bank, Frankfurt.
- ECB (2012): *Monthly Bulletin*, European Central Bank, Frankfurt.
- ASK (2012): *Indeksi i çmimit të konsumit*, Agjencia e Statistikës së Kosovës, Prishtinë.
- ASK (2012): *Indeksi i çmimit të importit*, Agjencia e Statistikës së Kosovës, Prishtinë.
- ASK (2012) *Indeksi i çmimit të prodhimit*, Agjencia e Statistikës së Kosovës, Prishtinë.
- ASK (2009) Anketa e Fuqisë Punëtore; Agjencia e Statistikës së Kosovës, Prishtinë.
- CIA (2012) World Factbook, Washington DC
- European Commission (2011): *EU Candidate and Pre-Accession Countries: Economic Quarterly*, European Commission, Brussels.
- European Commission (2012): *EU Candidate and Pre-Accession Countries: Economic Quarterly*, European Commission, Brussels.
- IMF (2012): *World Economic Outlook Database*, April 2012 International Monetary Fund, Washington DC.
- MEF (2012): Raporti Vjetor Financiar, Ministria e Financave, Prishtinë
- MPMS (2012): *Informatat e Tregut të Punës në Kosovë*; Ministria e Punës dhe Mirëqenies Sociale, Prishtinë.
- TRUSTI (2011): *Trustorja*; Trusti i Kursimeve Pensionale të Kosovës, Prishtinë.
- BMI (2012): Business Monitor International; Emerging Europe Monitor.



Street Garibaldi, No.33, Prishtina, Republic of Kosovo
Tel: +381 38 222 055; Fax: +381 38 243 763
web: www.bqk-kos.org