



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

# Annual Report 2014

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CENTRALNA BANKA REPUBLIKE KOSOVA  
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# Annual Report 2014



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## LIST OF ABBREVIATIONS

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
BQK	Central Bank of the Republic of Kosovo
CAR	Capital Adequacy Ratio
CEFTA	Central European Free Trade Agreement
CPI	Consumer Price Index
CRK	Credit Registry of Kosovo
DFSEA	Department of Financial Stability and Economic Analyses
DJI	Dow Jones Industrial Average
DLE	Department of Labour and Employment
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EFSE	European Fund for South-eastern Europe
ESCB	European System of Central Banks
EU	European Union
EULEX	European Union Rule of Law Mission in Kosovo
EUROSTAT	General Directorate of European Statistics
FDI	Foreign Direct Investments
FSKP	Slovenian-Kosovo Pension Fund
GBR	Great Britain Pound
GDP	Gross Domestic Product
HHI	Herfindahl-Hirschman Index
IAIS	International Association for Insurance Supervisors
IECS	Interbank Electronic Clearing System
IIP	International Investment Position
IMF	International Monetary Fund
IPI	Imports Price Index
KAS	Kosovo Agency of Statistics
KEK	Kosovo Energy Corporation
KIB	Kosovo Insurance Bureau
KKP	National Payment Council
KMB	Komercijalna Banka
KPST	Kosovo Pension Savings Trust
MF	Ministry of Finance
MFI	Microfinance Institutions

MLSW	Ministry of Labour and Social Welfare
MTA	Money Transfer Agencies
MTPL	Motor Third Party Liability Insurance
NFA	Net Foreign Assets
NLB	Nova Ljubljanska Banka
NPHSO	Non-profitable Household Service Organizations
NPL	Non Performing Loans
ODC	Other Depositing Corporations
PAK	Privatization Agency of Kosovo
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
SDR	Special Drawing Rights
SEE	South-East Europe
SEPA	Single Euro Payment Area
SFR	Swiss Franc
SRK	Accountancy Registry System
SWIFT	Society for Worldwide International Financial Telecommunication
TAK	Tax Administration of Kosovo
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 Encryption and Network Technology
WB	World Bank

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## Foreword of the Chairman of the Board

I am pleased to present, on behalf of the Board of the Central Bank of the Republic of Kosovo, through the Annual Report 2014, the major economic progress trends during 2014 in the real, fiscal, financial and external sector and CBK activities towards promoting and maintaining the sustainability of the financial sector through its regulatory and supervisory function. CBK considers the publication of its Annual Report more than a fulfilment of a legal and institutional obligation, presenting an essential element of transparency that contributes to the advancement of communication with readers and helps the financial education of the public. Regarding the content structure, the Annual Report 2014 is notable for a wide range of information presented in a wide expansion in economic and financial sectors, which were considered to be important for readers of all profiles, whether general public, participants in financial market, interest holder in ownership or potential investors.

In 2014, the governing system of the institution was further enriched with a professional and comprehensive approach of all governance and accountability mechanisms, maintaining the integrated role of licensing, supervision and regulation of the entire financial sector within the umbrella of the CBK, as well as strengthening its research, analysing and projection capacities.

In 2014, the commitments of the Board of the Central Bank of the Republic of Kosovo were particularly focused on advancement of the regulatory framework, approving 11 new regulations in the field of financial sector regulation, payments and central banking. All this resulted in an increased performance of financial institutions, increasing the quality of risk management, maintaining capital adequacy, liquidity, the overall quality of the loan portfolio, investments and above all, rationalizing the cost of financial intermediation. The regulatory framework advancement aimed at supporting European integration as well as legal and regulatory approximation with the EU *acquis* in the central banking domain.

CBK Board has further enriched the CBK general governing framework, supporting it with an appropriate budget, continuously supervising its execution and maintaining financial and operational independence of the CBK. Advancement of the internal regulatory framework in CBK has been oriented towards creating an effective environment of internal control, and fulfilling responsibilities regarding the management of institutions risk, controls, governance, and reliability of financial reporting of the CBK, increase of analysis, statistics, and other publications in view of a more comprehensive transparency.

Maintaining financial stability in the country, has been, and remains, the most important priority in the agenda of the CBK activities. In 2014, financial sector of Kosovo reflected growth and sustainability. The financial sector stability is evident in all components of capital, profitability, liquidity and risk management quality. Total assets amounted to euro 4.54 billion, or an annual growth of 7.4 percent. This increase reflects mainly the growth of commercial banks assets that coincides with an annual growth of 4.2 percent, while the total assets in the pension sector marked a growth of 19.1 percent. Banking sector continued to reduce interest rates on both loans and deposits. The average interest rate during December 2014 was 9.2 percent, whereas the average interest rate on deposits was 1.1 percent. The banking sector continues to have a good loan portfolio quality, with a non-performing loans rate of 8.3 percent in December 2014, which was lower than the rate of 8.7 percent in December 2013.

I emphasize that all dynamic activity during 2014, expressed through this report, is a reflection of the high commitment of the CBK employees and its decision-making bodies towards continuous increase of the CBK quality.

I would like to conclude my speech in this foreword of the Annual Report of the CBK for 2014, by expressing deep gratitude for all the financial institutions support and their ongoing contribution provided to the CBK, such as: US Treasury, International Monetary Fund, World Bank, German Development Fund, European Central Bank and Regional Central Banks.

Prof. Dr. Bedri Peci

A handwritten signature in blue ink, appearing to read 'B. Peci', with a stylized flourish at the end.

Chairman of the Central Bank Board  
of the Republic of Kosovo

## Foreword of the Governor

During 2014, Kosovo's economy marked a positive growth rate, while continued to reflect the satisfactory level of stability in the fiscal, financial and prices field. During this year, the growth of the overall economic activity was based primarily on increasing the private consumption, which was supported by the increase of salaries for civil servants, steady flow of remittances, as well as the acceleration of the lending growth from the banking sector. Kosovo continues to have a very low level of the budget deficit and public debt, while prices followed developments in the global markets, being characterized by a very low inflation rate. Kosovo financial system continued to expand its activity and maintain a high level of sustainability, thereby serving the economic developments and maintenance of the overall macroeconomic stability of the country. This, among others, represents the successful work of the Central Bank of the Republic of Kosovo (CBK) in meeting its objectives arising from the Law on the Central Bank.

During 2014, for the first time in the last two years, the banking sector accelerated the loans growth pace by increasing the funding for the local economy. Accelerating the loans growth reflects the easing of the credit standards and conditions from banks and, at the same time, increased demand for loans. However, in relation to the size of the economy, bank lending in Kosovo continues to be low compared to other countries in the region, standing at around 35 percent of Gross Domestic Product. This indicator can serve as an indication that there is still a possibility to expand the bank lending activity in the country, which would result in a further improvement of individuals and businesses opportunities to increase access to finances.

In addition to the continuous lending growth, Kosovo's banking sector continued to improve financing conditions, thus reducing significantly the interest rate on loans. In 2014, the interest rate on loans decreased to single-digit level for the first time since the beginning of the functioning of the banking sector in Kosovo, hence approaching the level of the interest rates applied in other countries in the region. Kosovo's banking sector has continued to maintain a high level of sustainability, maintaining a high level of capitalization, good loan portfolio quality and strong liquidity position.

During this period, other sectors of financial system of Kosovo have shown a good performance. Unlike previous years, when there was noticed a reduction of lending by the microfinance institutions, in 2014, this sector recorded a growth of lending, thus recovering its role in supporting the country's economy. Insurance sector and pension sector were characterized by favourable developments by recording an increase of activity and improvement of financial performance.

During 2014, the Central Bank of the Republic of Kosovo was very active in the further development of the legal infrastructure of the financial system. In this regard, special attention is paid to the advancement of the secondary legislation by issuing new regulations and amending/supplementing the existing ones. In addition to regulations that promote the development and maintenance of the financial stability, the CBK has treated closely the issue of protecting the rights of the users of financial services, by advancing the regulatory framework and efficiently handling the financial consumer complaints. Important advances have been made in other fields of operation, through which the CBK is continuously approaching the reaching of the standards of the central banks in the developed countries. In order to design, as clearly as possible, the path of further developments, CBK compiled, in 2014, the Strategic Plan for 2015-2019, which clearly defines the development objectives and detailed plan for further advancement of each field of the CBK activity during the five-year period, starting in 2015.

For 2015, CBK remains committed to implementing the action plan deriving from the strategic plan and, therefore, to continue advancing its capacity to achieve the objectives of the Law on Central Bank. Soundness of the financial system and the positive prospects for developments in this system and the economy in general, make us expect that 2015 will be characterized by an increased economic activity and with a satisfactory level of overall macroeconomic stability.

Bedri Hamza



Governor of the Central Bank  
of the Republic of Kosovo

## Central Bank Board, Executive Board and Audit Committee

### Central Bank Board

The activities of the Central Bank Board were focused towards successful implementation of competencies and duties set out by the Law on Central Bank of the Republic of Kosovo. Therefore, the Central Bank Board held continuous meetings, whereby it was informed and discussed the overall developments of the financial system in Kosovo. Central Bank Board held a total of 14 meetings.

The Board reviewed and approved the issuance and amending/supplementing regulations in the field of the financial system, according to the requests and proposals proposed by the Executive Board, as follows:

- Regulation on the reports and information requested by Kosovo Pension Savings Fund
- Regulation for the Licensing of Insurance Intermediaries
- Regulation on Internal Complaints Handling Process
- Regulation on Licensing of the Insurance Companies and Branches of Foreign Insurance Companies
- Regulation on Payment Instruments Statistics
- Regulation on Individual Savings Pension Payment
- Regulation on Licensing of Pension Funds Asset Managers
- Regulation on Bank Account Standard Numbering System
- Regulation on International Payments
- Regulation on Licensing the Supplementary Employer Pension Funds
- Regulation on Licensing the Providers of Supplementary Individual Pensions

Central Bank Board also approved as follows:

- Work plan of the Department of Internal Audit for 2014
- Reports and periodic financial position statements of the CBK;
- Statute of the CBK Internal Audit
- Code of Ethics for the CBK Internal Audit
- CBK Annual Report for 2013
- CBK financial statements for 2013 and External Auditor Report
- Annual Report of the Internal Audit for 2013
- Periodic reports of the Department of Internal Audit
- Statute of Audit Committee
- CBK budget for 2015

In order to fulfil the competencies set out by law, the Central Bank Board has performed on time all duties related to:

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

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

On 31 December 2014, the Board of the Central Bank consisted of the following members:

Bedri Peci, Chairman of the Central Bank Board (from 29 May 2014)

Bedri Hamza, Governor and member of the Central Bank Board

Fatmir Plakiqi, member of the Central Bank Board (Director of the Treasury at MoF)

As of 31 December 2014, there were two vacant positions of the non-executive 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, namely the Article 34, paragraph 3, the Executive Board is composed of the Governor (Chairperson of the Executive Board), and Deputy Governors.

During 2014, Executive Board of the Central Bank of the Republic of Kosovo held 28 meetings.

On 31 December 2014, the Executive Board was composed of Bedri Hamza (Governor/Chairperson of the Executive Board), Lulzim Ismajli (Deputy Governor for Banking Operations), Fatmir Gashi (Deputy Governor for General Functions) and Fehmi Mehmeti (Deputy Governor for Financial Supervision).

### **Audit Committee**

Within the transparent governance, in the organizational structure of the CBK, in accordance with Article 62 of the Law No. 03/L-209 on the Central Bank of the Republic of Kosovo and the statute of the Audit Committee, functions the Audit Committee, too.

Objectives of the Audit Committee are to assist the Governing Board of the CBK related to fulfilling of responsibilities in relation to the internal audit action, internal controls, business ethics and transparent governance as well as the financial report of the CBK.

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

On 31 December 2014, Audit Committee was composed of the following members:

Prof. Dr. Bedri Peci, Chairman of the Audit Committee; and

Prof. Dr. Arben Dermaku, External Member.

There is a vacant position within the Committee due to the absence of two non-executive members of the Central Bank Board.

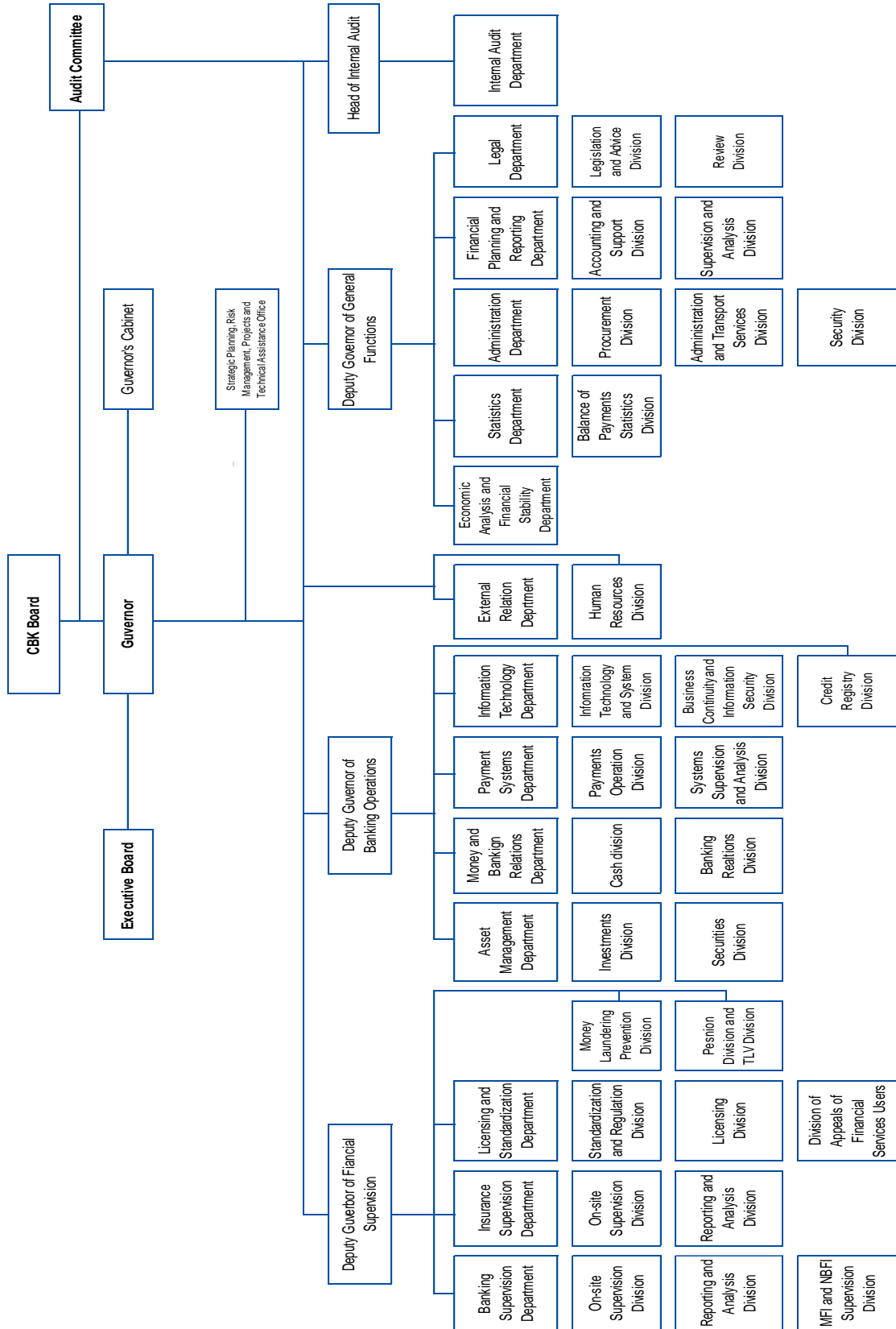
During 2014, the Audit Committee held a total of 13 meetings. The Committee meetings addressed various issues related to the drafting of the Statute of the Committee, review and approval of the Internal Audit Statute and the Code of Ethics, review and proposal for External Auditor for the period 2014-2016, as well as review and approval of the External Auditor Report for 2013.

The Committee addressed various issues related to the internal audit function within the CBK. Among the main issues addressed are:

- Review and approval of the Annual Work Plan of Internal Audit for 2014, which was subsequently approved by the Central Bank Board; and
- Review and approval of the Annual Report for 2013 and the quarterly reports of Internal Audit for 2014, submitted by the Head of Internal Audit, which were subsequently approved by the Central Bank Board.



Organizational structure of the CBK, 31 December 2014





## 1. Executive summary

Economic activity in the euro area was recovered during 2014, mainly as a result of improvement of consumer confidence and the gradual improvement of labour market conditions. In comparison to the euro area countries, the Western Balkans countries were characterized by slower pace of economic activity during 2014, compared to the previous year.

During 2014, Kosovo's economy, according to estimates of the CBK, was characterized by a growth of 2.7 percent. The growth for 2014 is based mainly on estimates on consumption growth, whereas investments and net exports are estimated to have contributed negatively. Total consumption has marked a considerable growth driven by remittances, consumer loans of the banking sector, public sector wages, etc. On the other hand, total investments were characterized by a decrease due to the reduction in public investments and reduction of foreign direct investments, as well. During 2014, also the trade balance was characterized by a deepening of trade deficit. Despite the increase in exports of goods and services during 2014, higher levels of imports made net exports have a negative contribution to the economic growth. 2014 was also favourable in terms of prices of imported products, which led to a low rate of inflation. The inflation rate in 2014 was 0.4 percent compared to the 1.8 percent marked in 2013. The fiscal sector was characterized by positive developments, since primary budget revenues marked an increase, while primary budget expenditures marked a level similar to the previous year.

The value of total assets of the financial system of Kosovo amounted to euro 4.5 billion in 2014, representing an annual increase of 7.4 percent. The growth of total assets of the financial system during 2014 mainly reflects the growth in assets of pension funds and commercial banks. In 2014, assets of the banking sector marked an annual growth of 4.2 percent, amounting to euro 3.2 billion. Within the banking sector assets, the value of the total loans issued by commercial banks in the country, was characterized by an annual growth of 4.2 percent, amounting to euro 1.9 billion. In the same period, the value of total deposits amounted to euro 2.5 billion, representing an annual growth of 3.6 percent. In 2014, the main indicators of the banking sector profitability were improved as a result of the significant increase of profits. Also, during 2014, the Capital Adequacy Ratio was 17.8 percent (16.7 percent in December 2013), while the banking sector's exposure to credit risk was reduced, expressed through the decrease of non-performing loans share to total loans at 8.3 percent (8.7 percent in 2013). Also the liquidity position of the banking sector remained at a satisfactory level during 2014.

Regarding the insurance market, the number and the structure of insurance companies remained same as in the previous year. In 2014, the total assets of insurance companies operating in the country reached a value of euro 140.4 million, representing an annual growth of 5.8 percent. During 2014, the insurance sector was characterized by net loss amounted to euro 318.8 thousand, which is significantly lower compared to the previous year when the sector marked losses amounted to euro 754.6 thousand. Reduction of losses was enabled mainly by better management of expenditures.

In 2014, the microfinance sector stopped the trend of activity contraction followed during the recent years. The value of total assets of MFIs amounted to euro 112.9 million in 2014, a similar level to the previous year, while the value of total loans marked an annual growth of 2.9 percent amounting to euro 74.4 million. MFIs ended the 2014 with a profit of euro 1.3 million compared to the loss of euro 324.4 thousand in the previous year.

In 2014, pension funds were characterized by a positive performance, where total assets of the pension system marked an annual growth of 19.1 percent and amounted to euro 1.1 billion. During 2014, KPSF (Kosovo Pension Saving Fund) was characterized by an increase in the share

price and increase in return on investment. During 2014, pension savings fund had a positive return on the investment of funds amounted to euro 66.7 million, while the share price has been higher for 6.5 percent in 2014 compared to the previous year.

During 2014, two draft laws, which are very important for the financial sector in Kosovo, were finalized and processed for review and approval by the competent institutions. These draft laws are: draft law on general insurance and the draft law on microfinance institutions and non-banking financial institutions.

In view of a stable banking system, during 2014 commercial banks have been examined in compliance to the foreseen plan. Consistent with international practices in the relevant field, special attention was paid to credit risk, liquidity, market and other risks, based on the approach of risk-based supervision. During 2014, CBK was committed in adopting the best practices of insurance supervision, based on the principles of the International Association of Insurance Supervisors and risk-based supervision, thus contributing to the increase of transparency of insurance providers operations towards the public. In view of maintaining the stability of the financial sector, during 2014 were examined pension funds, in compliance to the foreseen plan.

During 2014, similar to previous years, CBK provided a quantitative and qualitative offer of cash to the banking sector to enable the cash transactions in the economy. At the end of 2013 and beginning of 2014, all planned stages of the SWIFT project were concluded and all international payments were done through SWIFT network, thus shortening the time and increasing the efficiency of the processing of payments. During 2014 was marked an increase in volume and amount of Electronic Interbank Clearing System (EICS) transactions. Also, the Credit Registry of Kosovo (CRK) made a progress during 2014, where 314 new users were registered as a result of requests submitted by member institutions, while the number of researches on the obligations and credit background of credit applicants reached to 639.100 researches.

During 2014, development of the secondary market of government securities of the Republic of Kosovo was functionalised. In 2014, all the assets managed under the CBK were invested in financial instruments under the category of safe and liquid instruments. CBK had positive returns on investments, on which occasion the returns were more favourable from the investments in securities compared to the investments in bank deposits.

CBK continued to cooperate closely with relevant international institutions, including the International Monetary Fund (IMF), World Bank (WB), as well as other international financial institutions, such as: the European Central Bank (ECB), European Bank for Reconstruction and Development (EBRD), the central banks of the regional countries and other institutions with which CBK has cooperation agreements. During 2014, the program of technical cooperation of ECB with central banks of the Western Balkans region has been launched, which is aimed at preparing the central banks of the regional countries join the European System of the Central Banks (ESCB). The program is expected to strengthen the institutional capacity of the CBK by identifying the legal and organizational requests and resources to achieve compliance with the standard institutional and operational framework of the ESCB and ECB. Another important development in the field of the foreign relations is the commencement of the program of financial education and the International Money Week.

## 2. External Economic Environment

### 2.1. Euro area and Western Balkans

During 2014, the economic activity in euro area was recovered gradually, with the improvement of consumer confidence and the gradual improvement in the labour market conditions. However, the growth in the economic activity was focused in the central economy of the euro area, namely in Germany, while different parts of the euro area continued to be characterized by weak growth, namely economic decrease. In 2014, economic growth in the euro area reached 0.9 percent, compared to the economic decrease of 0.5 percent marked in the previous year. Even though this is still considered as a modest economic growth, signals for further strengthening of the activity in the euro area region rely mainly on the further decrease in oil prices, which is expected to be reflected in increased consumer trust and thus increase in expenses. Also, the increase in economic activity is expected to be supported by continuous growth in the euro area exports as a result of the depreciation of euro, as well as the commencement of the implementation of the European Central Bank (ECB) quantitative easing program. For 2015, the IMF foresees an economic growth of 1.5 percent in the euro area.

According to the ECB, the average inflation rate in the euro area in 2014 declined to 0.4 percent, from 1.4 percent in 2013. The ongoing decrease in prices on international markets resulted in a deflation of 0.6 percent and 0.3 percent, respectively, in January and February 2015.

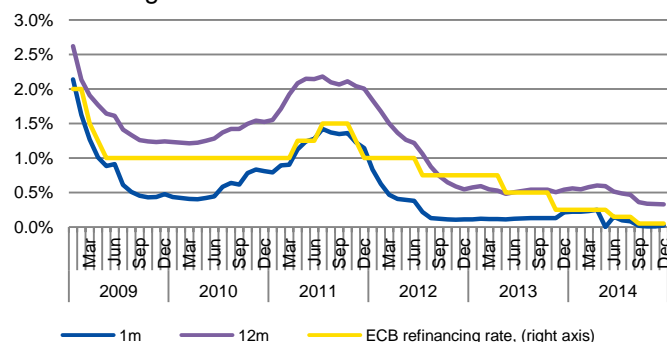
In order to counteract the increased deflation risk in the euro area and recover the fragile economy in the region, the ECB decided to launch the quantitative easing program, from March 2015. Through this program, the ECB is expected to conduct the purchase of securities of European governments, agencies and European institutions on the secondary markets. Purchase of securities in the public and private sector, within this program, is expected to reach a value of euro 60 billion per month. Quantitative easing program, in a large scale, is expected to last until September 2016.

In 2014, the ECB kept the refinancing rate unchanged, which led to a slight increase in one-month interest rates of Euribor interbank lending. In 2014, the one-month average rate of Euribor increased to an average of 0.023 percent from 0.018 percent in September 2014 (Figure 1). On the other hand, the 12-month rate of Euribor marked a decrease in an average of 0.33 percent in 2014, from the average of 0.36 percent in September 2014.

During 2014, the performance of the economic activity in the Western Balkans was estimated to have been generally weaker than in 2013. In 2014, the average economic growth in the Western Balkan countries was estimated to have been about 1.6 percent. The highest economic growth in the region marked Macedonia (3.8 percent) and Kosovo (2.7 percent), while Serbia was the only country in the region that was characterized by economic decline in 2014.

Similar to the euro area countries, in 2014, Western Balkan countries were characterized by lower level of inflation, namely deflation compared to the previous year. In 2014, the average inflation rate in the region was 1.6 percent. Serbia and Albania were characterized with the

Figure 1. EURIBOR interbank lending and ECB refinancing rate

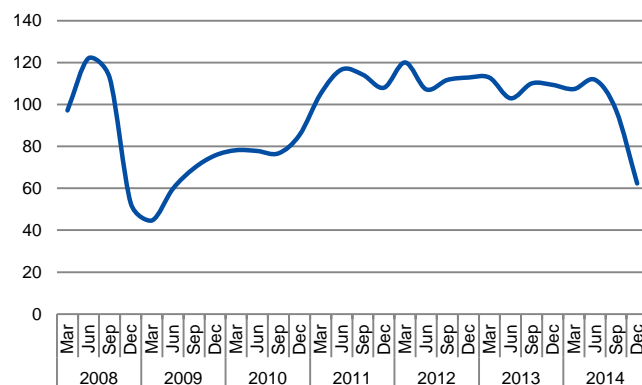


Source: Euribor (2014) and ECB (2014)

highest inflation rates of 1.7, and 1.6 percent, respectively, whereas Montenegro, Bosnia and Herzegovina and Macedonia were characterized with deflation.

In 2014, the oil prices (brentcrude)<sup>1</sup> marked an average annual decline of 9.1 percent. Gold was also characterized by a decline in price during 2014. In 2014, the price of gold was around 10.3 percent lower compared to the previous year. During 2014, food products at global level were characterized by a decline in prices compared to the previous year. During 2014, food products marked a lower price with an average of 3.7 percent, while cereals had lower price with an average of 12.5 percent, compared to the previous year.

Figure 2. Brent crude oil prices, in USD



Source: World Bank, EIA (2014), and CBK calculations

During 2014, euro **exchange rate** depreciated against major currencies. Euro marked an annual decrease of 5.0, and 1.3 percent, respectively, against the British sterling and Swiss Franc, whereas against the US dollar, the value of Euro appreciated slightly with 0.1 percent. Regarding the currencies of the regional countries, in 2014, euro appreciated against the Serbian dinar, Croatian Kuna and the Macedonian Denar with an average of 3.7, 0.7, and 0.1 percent, respectively, while it depreciated against the Albanian Lek for 0.2 percent.

<sup>1</sup> Brent Crude' represents commercial classification for oil produced in the North Sea as a representative of oil prices on the global level

### 3. Kosovo's economy

#### 3.1. Real sector

According to the CBK estimates, the economic growth rate for 2014 was 2.7 percent, which is lower than the initial forecast of 3.0 percent. This revision resulted after incorporating the effect of migration that characterized the end of 2014. The economic real growth rate in Kosovo for 2014 is based mainly on increased consumption, while investments and net exports are estimated to have contributed negatively.

The data for 2014 show a higher increase of consumption, which is affected by consumer credit growth, increase of wages and salaries in the public sector, then subsidies and transfers, etc. Also, the increase of consumption was supported by remittances, which in 2014 marked an annual growth of 11.7 percent. On the other hand, public investments in 2014 marked a decline of 22.3 percent, while Foreign Direct Investments (FDI) were characterized by a decrease of 46.0 percent compared to the same period.

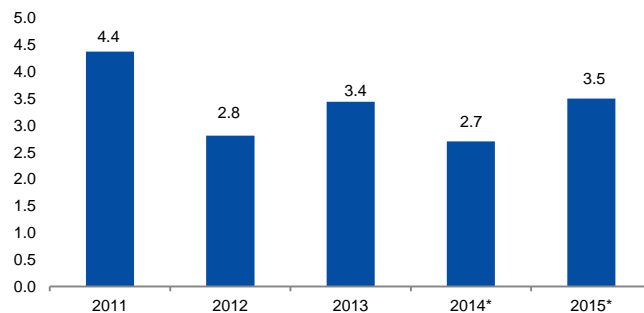
The decline of the public investments led to lower GDP real growth, compared to the previous year. Private sector activity is supported by loans of the banking system, which in late 2014 have accelerated their growth pace.

During 2014, the inflation in Kosovo, expressed by the Consumer Price Index (CPI), was characterized by a significantly lower rate compared to the previous year. The annual average inflation rate in 2014 was 0.4 percent compared to the average of 1.8 percent in the previous year (figure 4).

During 2014, the CPI components, such as alcoholic beverages and tobacco, marked an increase of 4.3 percent, energy for 4.1 percent and clothing for 2.8 percent. Whereas, education services marked a significant decrease in prices for 7.0 percent and transport services for 2.2 percent (figure 5). The decrease in the price of educational services is attributed to the government's decision to decrease the payment for 50 percent for public university students, whereas the decrease in prices of transport services is attributed to the decrease in

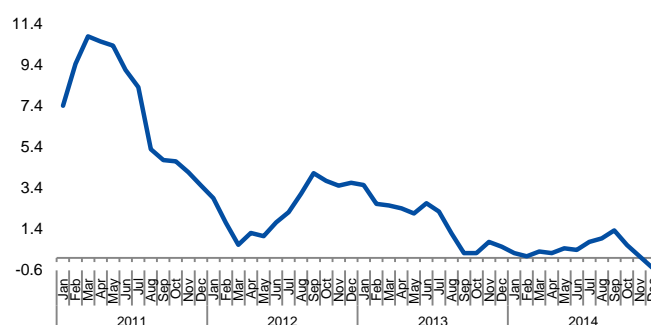
prices of oil products. Prices of food products and non-alcoholic beverages marked a decrease of 0.2 percent. Despite the slight decrease in price, food products represent one of the most influential categories in the reduction of inflation, considering that this category represents about 37.8 percent of the Kosovo consumer basket.

Figure 3. Real GDP growth rate, in percent



\* The data for 2014 and 2015 represent CBK estimates and forecasts  
Source: KAS (2015)

Figure 4. Inflation rate, annual change in percent



Source: KAS (2015)

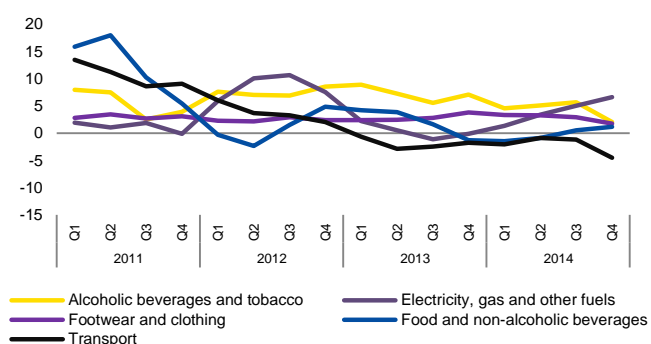
The movement of prices in Kosovo is similar to the price movements in international markets due to the high dependence of the Kosovo economy from imports. This is shown by the similar behaviour of import price index with the CPI (figure 6). In 2014, import prices were characterized by an average decrease of 0.6 percent, from the slight increase of 0.2 percent marked in the previous year. Within the import prices, the prices of vegetable products and footwear marked the highest increase with 24.1, and 17.0 percent, respectively, followed by base metals with 12.1 percent, whereas textile prices marked the largest decrease with 24.0 percent, followed by food products with 7.2 percent.

In 2014, the producer price index marked an annual average increase of 1.6 percent, whereas in the same period of the previous year, it was marked an increase of 2.4 percent. The increase of prices was more significant in the production of chemical products with 39.9 percent and the production of wood and its products with 12.9 percent. On the other hand, the decrease in producer prices was mostly marked by the mineral extraction with 15.2 percent, followed by decrease in prices of electrical equipment manufacturing with 17.1 percent, production of paper and paper products with 10.2 percent, etc.

During 2014, 9,404 new enterprises were registered or 16 enterprises fewer than in the previous year, whereas 1,671 businesses were closed or 163 more businesses than in the previous year (figure 7). The structure of newly registered enterprises is similar to the last year, where dominate trade, hotels, manufacturing, construction and agriculture. Compared to the previous year, there was a reduction in the number of registered businesses in the real estate market (198 enterprises) and construction (140 enterprises), whereas hotels and manufacturing marked an increase for 123, and 106, respectively, registered enterprises. Also, enterprises registered in the trade sector marked an increase.

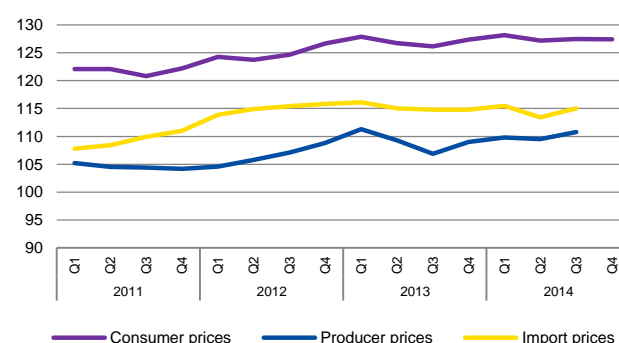
### 3.2. Fiscal sector

Figure 5. Price movement by components, annual change in percent



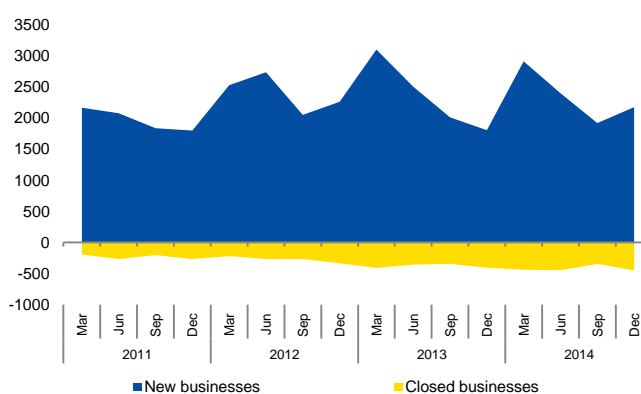
Source: KAS (2015)

Figure 6. Consumer, producer and import price indices



Source: KAS (2015)

Figure 7. Business registry, non-cummulative



Source: KAS (2015)

In 2014, primary budget<sup>2</sup> revenues amounted to gross of euro 1.37 billion. If excluding euro 33.5 million returns of VAT and other taxes from the Kosovo Customs and Tax Administration of Kosovo, the primary budget revenues mark a net amount of euro 1.33 billion, representing an annual growth of 1.5 percent. The higher level of revenues was reached despite the fact that in 2014 were collected only euro 15.0 million revenues in the form of the dividend from the public enterprises, whereas during the previous year were collected euro 43.0 million revenues from the dividend. If excluding revenues from the dividend, the budget revenues in 2014 would mark an increase of 3.8 percent. In 2014, primary budget<sup>3</sup> expenditures amounted to euro 1.5 billion, representing a similar level to the previous year. Consequently, during this period, the budget of Kosovo registered a primary deficit of about euro 131 million, compared to the primary deficit of about euro 150 million marked in 2013.

In 2014, the execution of planned expenditures was almost the same compared to the previous year (91 percent of the annual plan). Wages and salaries, as well as subsidies and transfers, marked a better level of realization compared to the plan, whereas capital outlays were realized up to 80.0 percent of the plan compared to the rate of 84.4 percent of the realization in the previous year. On the other hand, the realization of the budget revenues reached the level of 90.9 percent of the plan for 2014, which is for 1.4 percentage points lower than the realization rate reached in the previous year.

Regarding the structure of the budget revenues, it is observed an increase of revenues collected at the border, which marked an annual growth of 4.0 percent reaching the net amount of euro 871.0 million. Net revenues, which exclude customs returns of euro 2.4 million, amounted to euro 868.6 million. Revenues collected from domestic taxes reached the gross amount of euro 303.7 million. If excluding the returns of tax administration of euro 31.1 million, then net revenues from domestic taxes would mark an increase of 0.7 percent, reaching the amount of euro 272.6 million. Non-tax revenues amounted to euro 46.7 million, representing an annual increase of 8.0 percent. Also, own source revenues (central and local level) marked an increase of 3.4 percent, reaching the amount of euro 98.2 million.

Regarding expenditures, wages and salaries, subsidies and transfers marked an increase compared to the previous year, whereas capital outlays and goods and services marked a decrease. Capital investments, which in 2014 represented about 28.1 percent of total expenditures, marked the amount of euro 411.4 million, representing a decrease of 22.3 percent. The reduction of capital investments is addressed to the completion of the R-7 highway project, which in the previous year has been under implementation. Besides the completion of the R-7 highway project, the delay in the establishment of institutions after the June elections in 2014 led to the postponement of the implementation of some capital projects. Government expenditures on goods and services marked a decline of 3.6 percent and reached the amount of euro 205.8 million. On the other hand, government expenditures on wages and salaries marked an increase of 17.3 percent and amounting to euro 485.2 million, which is mainly a result of government's decision to increase the salaries. Also subsidies and transfers marked an increase of 15.4 percent and amounted to euro 361.2 million.

Public debt, at the end of 2014, amounted to euro 582.9 million from euro 476.3 million in the previous year, whereas as a percentage of GDP, reached 10.6 percent from 9.1 percent as it was in the previous year. In 2014, the public debt marked an increase of 22.4 percent compared to the debt of the previous year. In 2014, government internal debt amounted to euro 256.5 million,

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<sup>2</sup> Within the primary revenues are not included revenues from borrowings, receipts from total donor grants and receipts of deposit.

<sup>3</sup> Within the primary expenditures are not included debt payments, payments from designated donor grants and returns from deposit funds.

representing an annual increase of 62.2 percent. In the same period, government external debt marked an annual increase of 0.8 percent, reaching a value of euro 326.4 million.

### 3.3. External sector

In 2014, Kosovo's balance of payments position deteriorated compared to the previous year. During 2014, the current and capital account deficit amounted to euro 419.8 million, compared to the amount of euro 304.7 million as it was in the previous year. This deterioration of the current account deficit is mainly attributed to the increase of deficit in goods for 2.8 percent, while the balance of trade in services account was characterized by an increase of 4.4 percent. In 2014, the primary income account and secondary income account was characterized by a decrease in positive balance (12.5, and 4.4 percent, respectively).

By 2014, the goods account deficit amounted to euro 2.2 billion, representing an increase of 2.7 percent compared to the same period of the previous year (figure 8). In 2014, total exports amounted to euro 324.6 million, corresponding to an annual increase of 10.5 percent. The increase in exports during this period is mainly attributed to the increase in the value of exports of

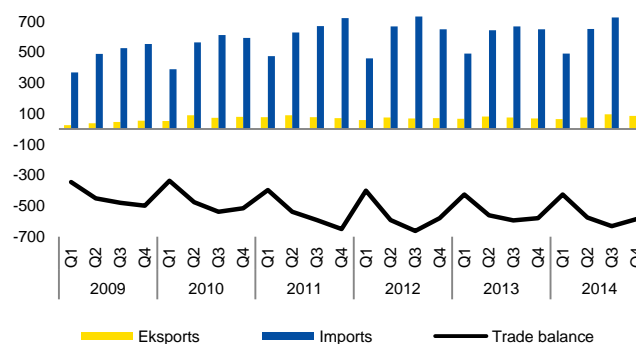
base metals, as the most important category within the total exports of the country, to the increase in exports of machinery and electrical equipment, as well as food products exports.

In 2014, the value of total imports in Kosovo amounted to euro 2.5 billion, representing an annual increase of 3.6 percent. Within the total imports, the category of machinery and electrical equipment, transport vehicles, as well as imports of vegetable products were characterized by an increase, whereas mineral products and food products were characterized with a decline of imported value. As a result of more rapid growth of the value of exports in 2014, the coverage rate of imports by exports increased to 12.8 percent from 12.0 percent in 2013.

In 2014, the trade in services was characterized by an increase in positive balance. The balance of services amounted to euro 336.1 million in 2014 (euro 312.2 million in 2013), while the most significant growth within the services balance was marked by the travel category which at the same time represents the main category in services account.

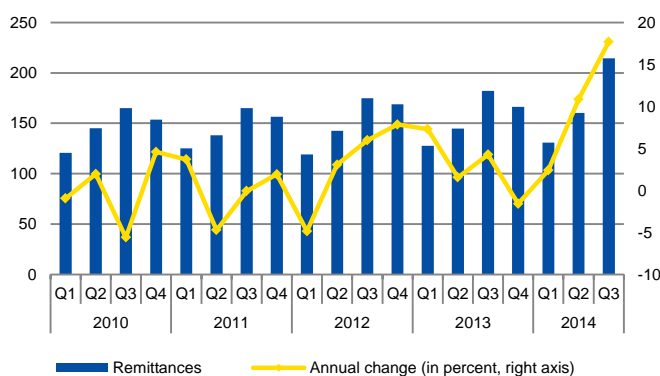
The largest category within revenues of primary income account remains the revenues from compensation of employees, namely revenues from the income of Kosovo employees abroad. Revenues from the compensation of employees marked an annual decline of 7.4 percent in 2014, declining in euro 206.5 million.

Figure 8. Exports, imports and trade balance, in millions of euro



Source: KAS (2015)

Figure 9. Remittances, in millions of euro

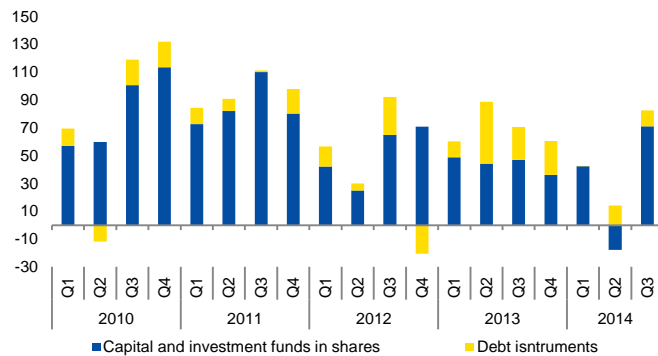


Source: CBK (2014)

Remittances, which represent the largest category within the secondary income account, continue to contribute to the narrowing of the current account deficit. In 2014, the value of total remittances received in the country amounted to euro 693.7 million, representing an annual growth of 11.7 percent (figure 9).

Another important component within the balance of payments is the category of Foreign Direct Investments (FDI). In 2014, the balance of FDIs was euro 123.9 million, which represents a significant decline compared to the value of euro 250.2 million in the previous year. This decline in FDIs can be attributed mainly to the sale of shares of some of the foreign companies operating in Kosovo to the Kosovo residents and distribution of the superdividend<sup>4</sup> of some of the foreign companies operating in Kosovo (figure 10).

Figure 10. Structure of FDI by components, in millions of euro



Source: CBK (2015)

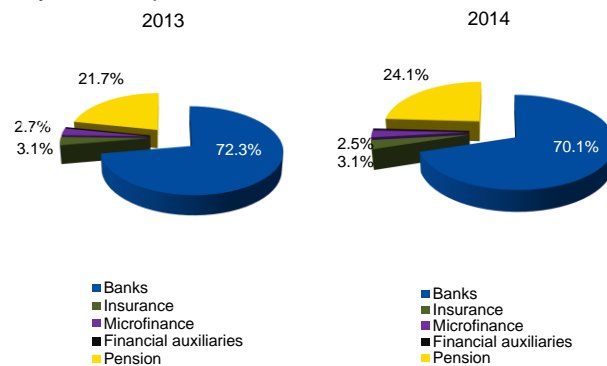
### 3.4. Financial sector

#### 3.4.1 General characteristics

In 2014, the value of total assets of the Kosovo financial system amounted to euro 4.5 billion, marking an annual increase of 7.4 percent (10.5 percent in 2013).

During 2014, the growth of financial system assets was mainly attributed to the growth of pension fund and commercial banks assets. The insurance sector, despite the expansion of its activity, had little contribution to the growth of total financial system assets. While the financial assets of microfinance sector and financial auxiliaries had almost neutral contribution to the growth of total assets.

Figure 11. Structure of assets of the financial system, in percent



Source: CBK (2015)

In 2014, the structure of financial system assets remains dominated by the banking sector assets, followed by pension funds (figure 11). Regarding the number of institutions, during 2014, to the financial market of the country was added a branch of a foreign bank (which has been granted the preliminary license), a microfinance institution established by foreign capital, as well as an insurance company with foreign capital (which has been granted the preliminary license). Also, during 2014, the number of financial intermediaries increased to 42 (39 in 2013) (table 1).

<sup>4</sup> Superdividend implies the dividend which is higher than the profit of the company for the respective period. The distribution of the superdividend impacts the reduction of foreign share capital, which represents a reduction of FDI.

**Table 1. Number of financial institutions<sup>5</sup>**

Description	2011	2012	2013	2014
Commercial banks	8	9	9	10
Insurance companies	13	13	13	14
Pension funds	2	2	2	2
Financial auxiliaries	34	38	39	42
Microfinance institutions	20	17	17	18

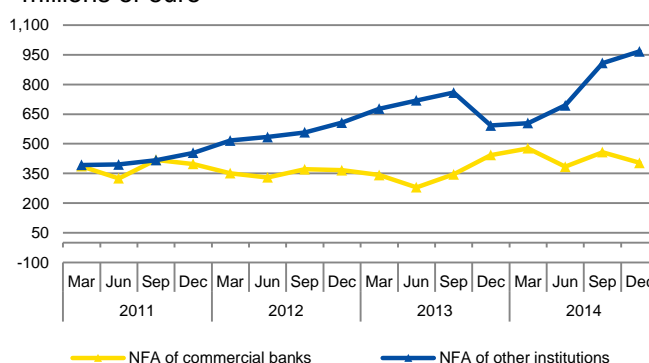
Source: CBK (2015)

A significant part of assets of the financial system continues to be invested in foreign markets. In 2014, the value of Net Foreign Assets (NFA) amounted to euro 1.4 billion, corresponding to an annual growth of 32.4 percent (6.4 percent in 2013) (figure 12).<sup>6</sup> Pension funds continue to have the highest share in total NFAs (about 75 percent of NFAs), whereas the remainder consists mainly of the banking sector NFAs.

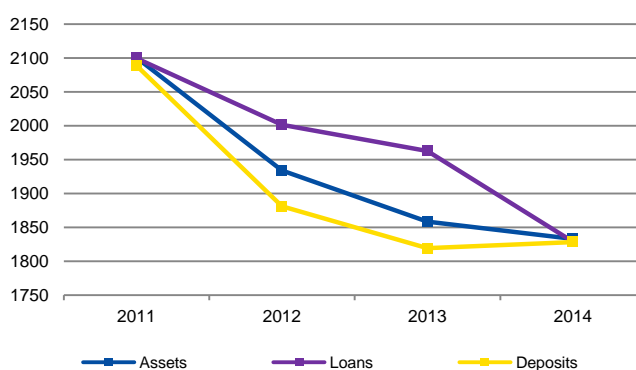
In 2014, claims on the external sector amounted to euro 1.6 billion, marking a significant annual growth of 26.8 percent<sup>7</sup> (7.9 percent in 2013). In the same period, liabilities to the external sector amounted to euro 243.3 million, marking an annual increase of 2.4 percent (15.4 percent in 2013). The increase for only 2.4 percent in liabilities to the external sector came as a result of the slowdown of loans obtained in foreign countries by commercial banks, which marked an annual growth of 6.5 percent in 2014 (63.9 percent in 2013).

The exposure of the financial system to the external sector continues to be more significant in the context of assets, along with lower exposure in the context of liabilities. More

specifically, in 2014, foreign assets to total assets of the financial system had a share of 35.5 percent, whereas foreign liabilities to total liabilities of the financial system had a share of 5.4 percent. Regarding the banking sector, foreign assets represent 18.3 percent of total assets, whereas only 5.7 percent of liabilities are to the external sector.

**Figure 12. Net foreign assets by institutions, in millions of euro**

Source: CBK (2015)

**Figure 13. HHI for assets, loans and deposits**

Source: CBK (2015)

<sup>5</sup>The number of financial institutions represents the number of institutions licensed to operate in the market of Kosovo.

<sup>6</sup>In this context, financial sector does not include the Central Bank.

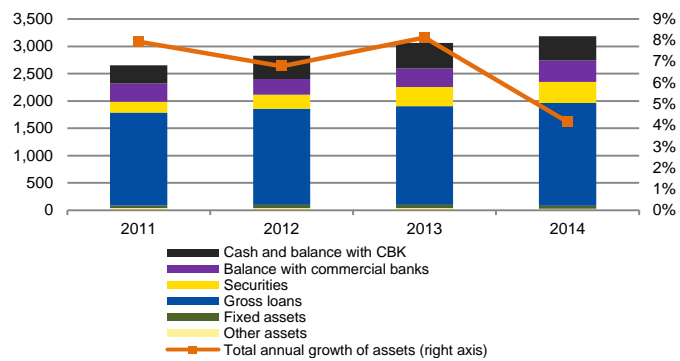
<sup>7</sup>Within the claims of financial system in Kosovo to the external sector is not included the category of "cash." This is due to the fact that euro in monetary and financial statistics is considered as an external asset (claims to non-residents); however, these assets are in Kosovo

### 3.4.2 Banking sector

In 2014, the structure of the banking sector in Kosovo was similar to the previous periods. According to the ownership, structure of the banking sector continued to be dominated by foreign banks, whose assets comprise 90.4 percent of total assets of the banking sector, whereas the remainder is managed by banks with domestic capital.

The market concentration rate in the banking sector continued its decreasing trend in assets and loans, whereas there was marked a slight increase in deposits. The decrease of concentration in assets was as a result of the more accelerated growth of the assets of the small banks compared to the slower growth of assets of the three largest banks. Whereas, the increase in concentration in deposits was due to the higher growth of deposits in the three largest banks compared to the slower growth of deposits in other banks (figure 12).

Figure 14. Structure of the banking sector assets, in millions of euro



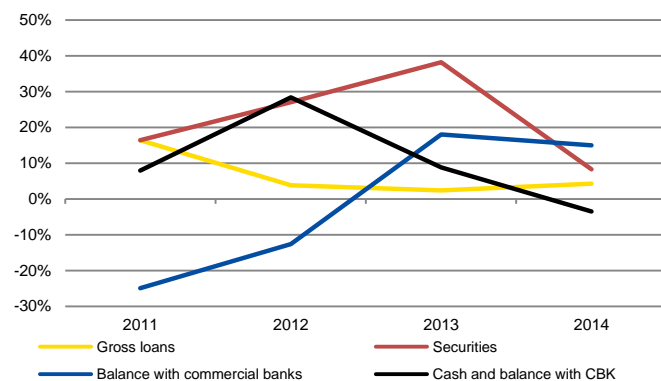
Source: CBK (2015)

#### 3.4.2.1 Banking System Balance Sheet

##### Assets

In 2014, the value of the assets of the banking sector amounted to euro 3.2 billion, representing an annual growth of 4.2 percent. During 2014, the growth pace of the banking slowed down compared to the accelerated growth marked in the previous year (figure 14). This was a result of the slowdown in the growth of deposits, which represent the main source of funding for banks.

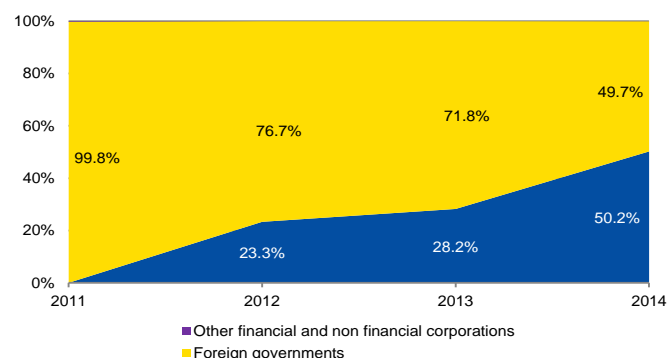
Figure 15. Annual growth of banking sector assets



Source: CBK (2015)

In general, the structure of the banking sector assets remains similar to the previous year. In 2014, there has been a slight increase in the share of the balance with other banks, securities and loans, whereas cash and balances with the CBK marked a decrease in share to total assets. This movement shows the shift of banks assets towards categories that bring interest and improve the financial performance of the banks.

Figure 16. Securities structure, in percent



Source: CBK (2015)

In 2014, investments in securities amounted to euro 383.8 million, marking an annual increase of 8.3 percent, an increase significantly lower than the growth of 38.2 percent marked in the previous year.

In the context of investments in securities, banks were more oriented in investments in securities of the Government of Kosovo, which increased their share to total investment portfolio to 50.2 percent (28.2 percent in 2013) (figure 16). While, investments in securities of foreign governments marked a decrease in the share to total investments portfolio, which in 2014 stood at 49.7 percent. This shift towards investments in the country was mainly as a result of higher rates of interest on securities of the Government of Kosovo compared to the previous year, and lower interest rates in the security markets of foreign governments.

**Table 2. Structure of assets in banking sector**

Description	2011		2012		2013		2014	
	Million of euro	Share (%)	Millions of euro	Share (%)	Millions of euro	Share (%)	Millions of euro	Share (%)
Cash and balance with CBK	331.5	12.5%	425.7	15.0%	463.3	15.1%	447.1	14.0%
Balance with commercial banks	329.5	12.4%	287.9	10.2%	339.9	11.1%	390.8	12.3%
Securities	202.0	7.6%	256.6	9.1%	354.5	11.6%	383.8	12.0%
Gross loans	1,698.1	64.1%	1,763.4	62.3%	1,805.8	59.0%	1,882.3	59.1%
Fixed assets	47.4	1.8%	57.7	2.0%	55.5	1.8%	53.7	1.7%
Other assets	41.3	1.6%	38.1	1.7%	40.3	1.4%	28.8	0.9%
Total	2,649.7	100%	2,829.3	100%	3,059.3	100%	3,186.6	100%

Source: CBK (2015)

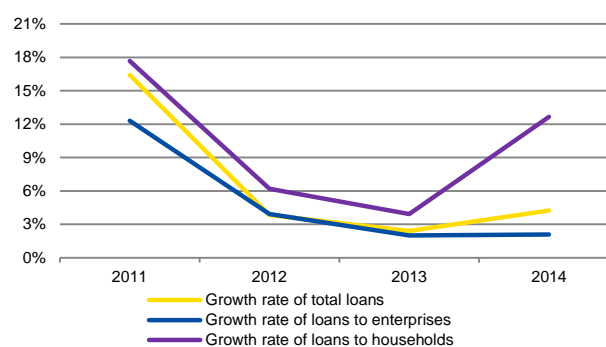
### Loans

After two years of slowdown in loans growth, 2014 was characterized by an acceleration of loans growth by the banking sector. In 2014, total loans amounted to euro 1.88 billion, representing an annual growth of 4.2 percent (2.4 percent in 2013) (figure 17).

Within the total active loans, loans to households marked an accelerated growth of 12.7 percent, compared to the growth of 3.9 percent in 2013. However, the acceleration of the growth is not observed in loans to enterprises, which were characterized by a similar growth rate compared to the previous year. Loans to enterprises marked a growth rate of 2.1 percent in 2014 (2.0 percent in 2013).

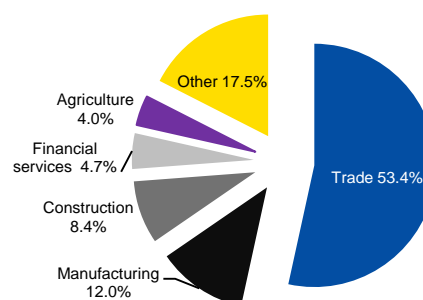
The acceleration of growth in loans to households may have been driven by salary increase for civil servants, which may have increased the demand for loans as well as strengthen the capacity of the return of this category of borrowers. Also, during this period, banks reported an ease in credit standards, which were reflected in accelerating the credit growth. Regarding enterprises, banks reported an increase in loans demand, but the demand from large enterprises was not so high.<sup>8</sup> Despite the easing of

**Figure 17. Growth rate of loans by sectors, in percent**



Source: CBK (2015)

**Figure 18. Loans by economic sectors, in percent (December 2014)**



Source: CBK (2015)

<sup>8</sup>Based on the results of the bank lending survey in 2014.

credit standards for enterprises, loans growth for this category remained similar to the previous year.

The structure of loans to enterprises by economic activity continues to be dominated by loans intended for trade, with a share of 53.4 percent, followed by manufacturing loans with 12.0 percent and construction with 8.4 percent. The agricultural sector continues to have the lowest access to the bank financing, with a share of 4.0 percent of total loans to enterprises (figure 19).

In 2014, the highest growth of 13.1 percent was marked by loans to manufacturing sector, followed by loans to agriculture and trade which marked a growth of 7.9 percent, and 3.6 percent, respectively. Whereas, loans to construction sector marked an annual decline of 12.2 percent (figure 19).

According to the maturity, structure of total loans continues to be dominated by loans with maturity of 'over 1 up to 5 years' (figure 19). Compared to the previous year, in 2014 it is observed an increase in the share of long-term loans 'over 5 years' and decrease of the share of loans with shorter maturity 'up to 1 year'.

## Liabilities

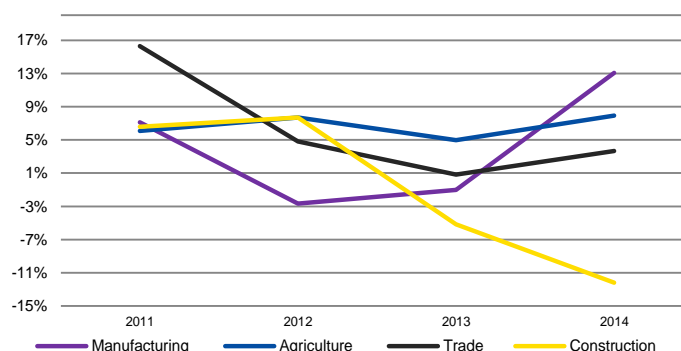
In 2014, the structure of liabilities of the banking sector continued to be dominated by deposits, which represent the main source of financing for commercial banks in Kosovo. The second category regarding the share to total liabilities structure remains the own resource assets category, which in 2014 amounted to euro 323.1 million, marking the most significant increase within the structure of liabilities of 16.3 percent (2.6 percent in 2013) (table 3).

**Table 3. Structure of liabilities of banking system**

Description	2011		2012		2013		2014	
	In millions of euro	Share (%)	In millions of euro	Share (%)	In millions of euro	Share (%)	In millions of euro	Share (%)
Balance from other banks	40.0	1.5%	6.0	0.2%	16.5	0.5%	31.8	1.0%
Deposits	2,104.0	79.4%	2,279.1	80.6%	2,449.0	80.1%	2,537.0	79.6%
Other borrowings	30.4	1.1%	18.9	0.7%	13.4	0.4%	14.9	0.5%
Other liabilities	191.5	7.2%	223.6	7.9%	246.2	8.0%	232.7	7.3%
Subordinated debt	31.0	1.2%	31.0	1.1%	56.3	1.8%	47.3	1.5%
Own resources	252.8	9.5%	270.7	9.6%	277.8	9.1%	323.1	10.1%
Total liabilities	2,649.7	100%	2,829.3	100%	3,059.3	100%	3,186.8	100%

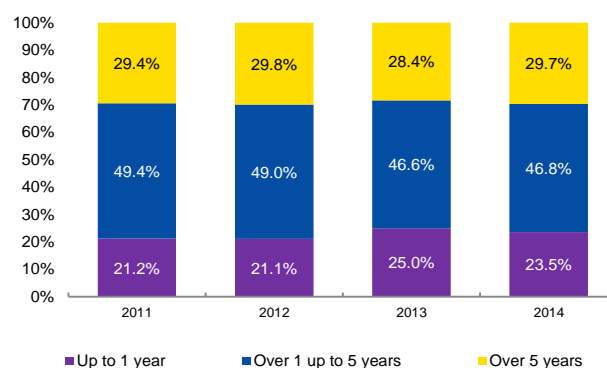
Source: CBK (2014)

**Figure 19. Annual growth of loans by economic sectors**



Source: CBK (2015)

**Figure 20. Structure of loans by maturity**



Source: CBK (2015)

During this period, the most significant increase of own resource assets is mainly a result of the increase of profitability of the banking sector during 2014. Within the structure of liabilities, subordinated debt amounted to euro 47.3 million in 2014, marking a decrease of 16.0 percent, compared to the significant increase of 81.5 percent in the previous year. The reduction of the value of subordinated debt mainly reflects the strengthening of the level of capitalization of the banking sector in 2014, while the growth of subordinated debt in the previous year was attributed to banks need to ensure sufficient capital to comply with the amendment of the CBK Regulation on capital adequacy.

### Deposits

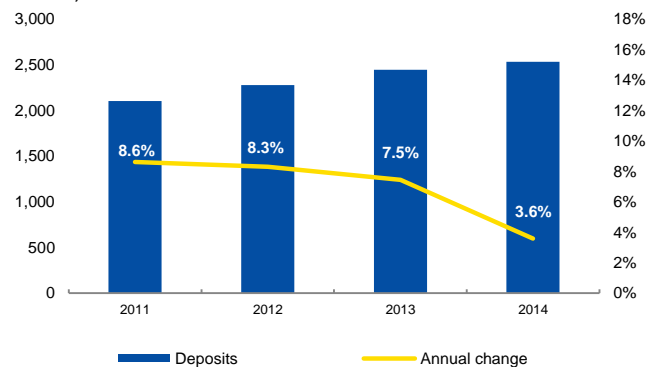
In 2014, total deposits in the banking sector amounted to euro 2.53 billion, marking an annual growth of 3.6 percent (figure 22). An important factor that may affect the slowdown in deposit growth is the decline in deposit interest rates in 2014. Also, the increase of emigration from Kosovo, during last months of 2014, may have had an impact on the slowdown in deposit growth.

The structure of deposits in the banking sector continues to be dominated by deposits of household, which comprise 72.8 percent of total deposits. The second category regarding the share to total deposits is comprised of enterprise deposits, which have a share of 22.1 percent (figure 22).

In 2014, household deposits marked an annual growth of 4.1 percent (8.2 percent in 2013), whereas enterprise deposits marked an annual growth of only 0.7 percent (5.4 percent in 2013). The category of other deposits (deposits of non-residents, non-governmental organizations etc.) marked an annual growth of 9.4 percent in 2014 (6.2 percent in 2013).

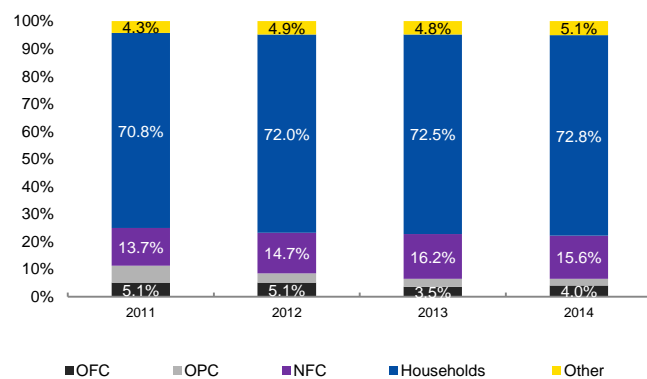
During 2014, the structure of deposits by maturity changed in comparison to the previous year when the deposit structure was dominated by time deposits. In 2014, most of the deposits were in the form of transferable deposits, which represent 47.2 percent of total deposits. Time deposits

Figure 21. Annual change of deposits in commercial banks, in millions of euro



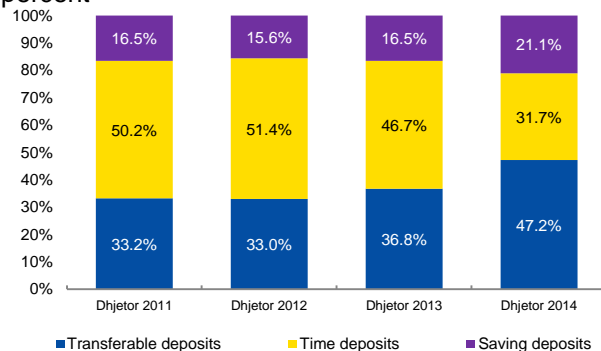
Source: CBK (2015)

Figure 22. Structure of deposits in commercial banks



Source: CBK (2015)

Figure 23. Structure of deposits by maturity, in percent



Source: CBK (2015)

represent 31.7 percent, whereas saving deposits were represented by 16.5 percent (figure 23). The significant decrease of interest rates may have had an impact on the significant reduction of the share of time deposits in total deposits, which may have discouraged scheduling of deposits by depositors.

Within the structure of deposits, deposits with shorter maturities, namely deposits with maturity of "up to one year" continue to have the highest share of 50.5 percent, even though in 2014 it has been noted a decrease in the share of this category of deposits. While the medium and long term deposits, which together have a share of 49.5 percent, were characterized by an increase of the share in the structure of time deposits in 2014 (figure 24).

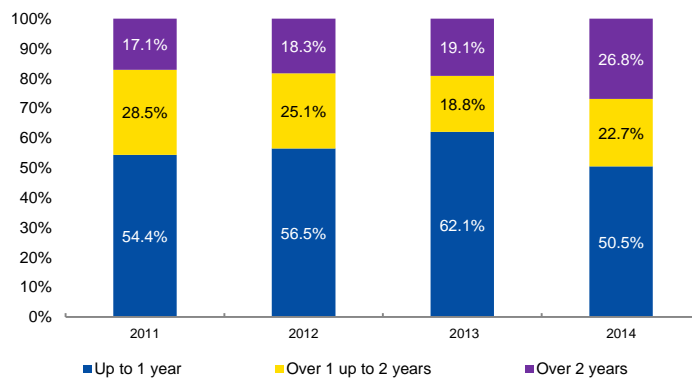
### 3.4.2.1 Interest rate

2014 was characterized by an accelerated decrease in interest rate for both loans and deposits. The average interest rate on loans decreased to 9.2 percent, compared to 11.1 percent in 2013. Regarding deposits, the average interest rate decreased to 1.1 percent in 2014, from 2.4 percent in the previous year (figure 25). Consequently, the interest rate spread decreased to 8.1 percent, from 8.7 percent in 2013.

The significant decrease in the interest rate on loans primarily reflects the decrease in the cost of funding for banks as a result of the decrease in interest rate on deposits. The competition pressure, as a result of which banks eased credit standards, may have influenced as well. Whereas, the decrease of interest rates on deposits reflects the sufficient liquidity of the banking sector, which resulted on lower deposits demand of banks for deposits.

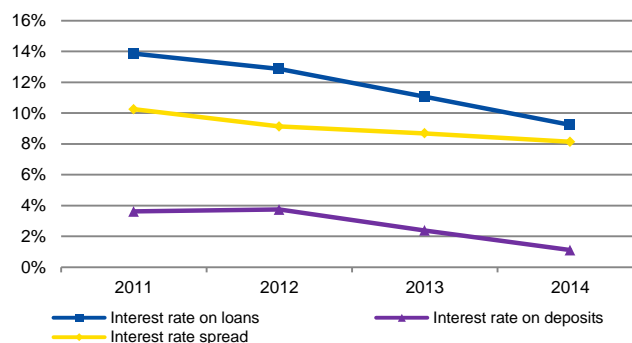
During 2014, the downward trend of interest rates on loans is expressed to both loans to enterprises and loans to households. In 2014, the average interest rate on loans to enterprises decreased to 9.4 percent from 10.9 percent in 2013 (figure

Figure 24. Structure of time deposits



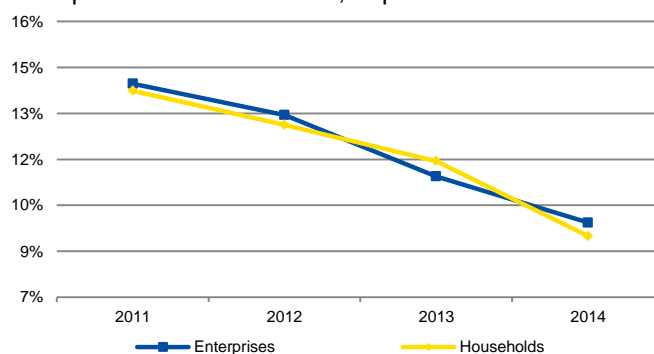
Source: CBK (2015)

Figure 25. Average interest rates, in percent



Source: CBK (2015)

Figure 26. Average interest rate on loans to enterprises and households, in percent



Source: CBK (2015)

26). Within loans to enterprises, investment loans were characterized with lower interest rates of 9.7 percent in 2014 (10.9 percent in 2013), whereas other business loans had higher interest rates of 10.5 percent (12.3 percent in 2013).

In 2014, the average interest rate on loans to households decreased to 9.0 percent, from 11.4 percent in 2013. In the context of interest rates of household loans, the interest rate on consumer loans marked the largest decline to 9.1 percent (11.7 percent in 2013), whereas the interest rate on mortgage loans decreased to 8.2 percent (9.7 percent in 2013). The most significant reduction of interest rates on investment loans to enterprises and consumer loans to households was reflected in a significant increase in new loans to these two categories.

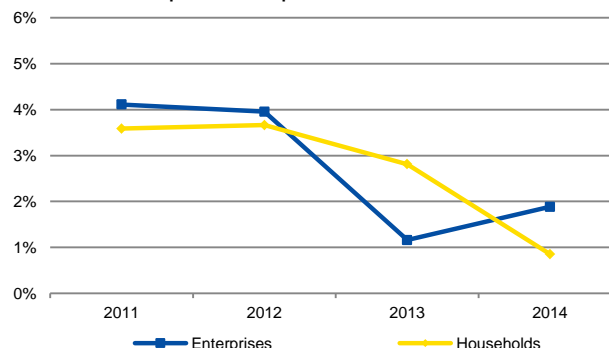
Regarding deposits, the average interest rate on deposits to households decreased to 0.9 percent from 2.8 in 2013 (figure 27), whereas, the average interest rate on deposits to enterprises in 2014 was 1.9 percent, compared to 1.2 percent in 2013.

### 3.4.2.2 Banking system performance

Kosovo's banking sector marked a significant increase in profits during 2014. During this year, the realized net profit amounted to euro 60.1 million, compared to the value of euro 26.0 million in 2013. In 2014, the increase of profit came as a result of better management of expenses, which marked a significant decline compared to the last year, while revenues marked a slight decline.

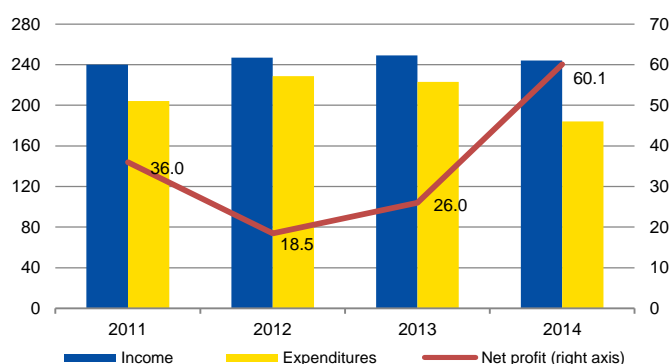
In 2014, banking sector revenues amounted to euro 244.2 million, representing an annual decline of 1.9 percent (figure 28). The reduction of the banking sector revenues is mainly attributed to the decrease of interest income which dominate the total income with 80.2 percent, and non-interest income which represent 19.6 percent of total revenues (figure 29). In 2014, interest income marked an annual decline of 1.2 percent, a decline that is mainly attributed to the decline of interest income on loans, which among others were affected by lower

Figure 27. Average interest rate on enterprise and household deposits, in percent



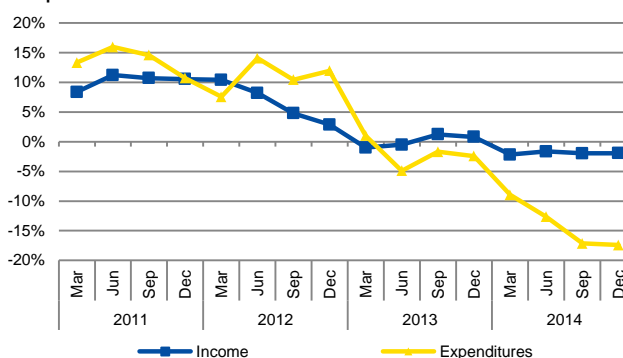
Source: CBK (2015)

Figure 28. Balance of income and expenditures, in millions of euro



Source: CBK (2015)

Figure 29. Annual growth rate of income and expenditures



Source: CBK (2015)

interest rates during this year. Non-interest income was characterized with an annual decline of 3.6 percent. This decline was mainly as a result of lower income from fees and commissions.

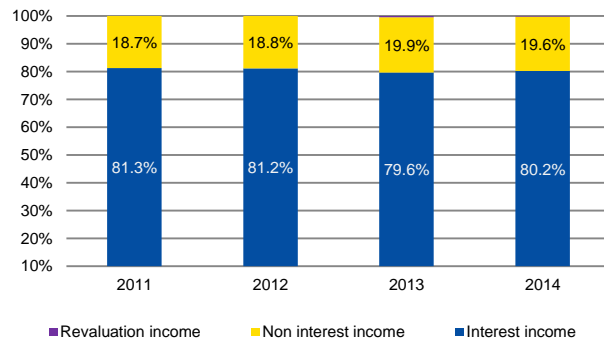
In 2014, total expenses of the banking sector amounted to euro 184.2 million, which is for 17.4 percent lower compared to the previous year. Reduction of total expenses was mainly due to the reduction of non-interest expenses, which marked an annual decrease of 43.0 percent. In the context of non-interest expenses, provision expenses marked the largest decrease, reducing to 55.4 percent compared to the previous year. The lower amount designated to potential loan loss provisions is a result of the decline in the value of total non-performing loans. Also, the reduction of total expenses was influenced by the reduction of interest expenses which marked an annual decline of 31.1 percent. Within interest expenses, expense in interest on deposits marked an annual decrease of 37.3 percent, which mainly reflects the decrease in deposit interest rates.

Whereas, general and administrative expenses, which represent the majority of total expenses (figure 30), were characterized by an annual increase of 1.2 percent, implying that the reduction of expenses of the banking sector is not significantly associated with the improvement of operational efficiency.

The slight decline of revenues, compared to the significant reduction of expenditures, has had an impact on the significant improvement of expenditures to income ratio of the banking sector by decreasing to 75.4 percent in 2014, compared to 89.6 percent in 2013 (figure 31). Also, the profit realized during 2014 has had an impact on the improvement of the Return on Average Assets (ROAA) to 1.9 percent from 0.9 percent in 2013, whereas the Return on Average Equity (ROAE) improved to 20.2 percent, from 9.4 percent in 2013 (figure 31).

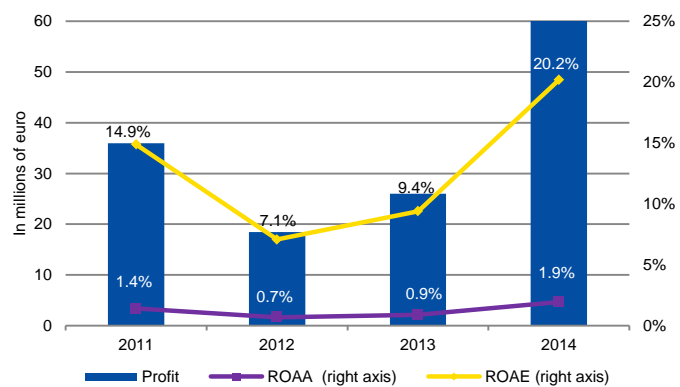
In 2014, the share of non-performing loans to total loans decreased to 8.3 percent, from 8.7 percent as it was in the same period during of the previous year (figure 32). The amount of non-

Figure 30. Structure of income, in percent



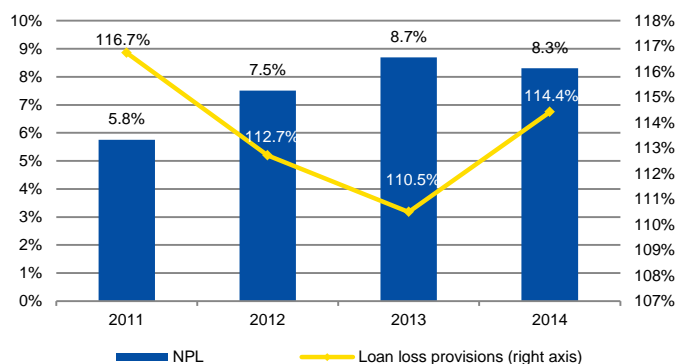
Source: CB(2015)

Figure 31. Profitability indicators



Source: CBK (2015)

Figure 32. NPL and loan loss provisions, in percent



Source: CBK (2015)

performing loans marked an annual decrease of 0.2 percent compared to the growth of 18.6 percent in 2013. Non-performing loans continue to be well covered by loan loss provisions. In 2014, the coverage with provisions was 114.4 percent (110.5 percent in 2013).

The banking sector has also strengthened more the level of capitalization. Capital Adequacy Ratio (CAR) reached 17.8 percent in 2014, from 16.7 percent in 2013 (figure 33). Strengthening the level of capitalization is primarily attributed to the increase of profit of the banking sector in 2014. During 2014, Kosovo's banking sector, as in previous years, continued to have a satisfactory liquidity position. In 2014, loans-to-deposits ratio amounted to 74.2 percent, from 73.7 percent in 2013. Furthermore, the ratio of liquid assets to total short-term liabilities stood at 43.6 percent in 2014.<sup>9</sup>

### 3.4.3 Insurance companies

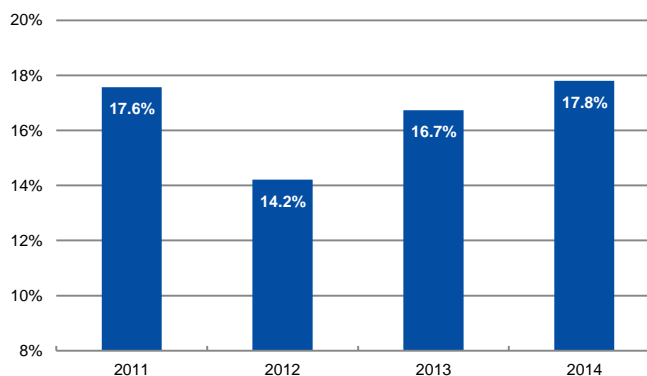
During 2014, the structure of the insurance sector remained similar to the previous years. The insurance sector continues to be dominated by 'non-life' segment, which represents 89.9 percent of the total sector, whereas the remainder of 10.1 percent represents is comprised of "life" insurance segment (figure 34).

In 2014, total assets of the insurance sector marked an annual growth of 5.8 percent, amounting to euro 140.4 million. Within total assets, non-life insurance include euro 126.3 million, while life insurance euro 14.1 million.

During this period, written premiums amounted to euro 82.0 million, which compared to 2013 represents an increase of 3.7 percent. Non-life insurance premiums generated euro 79.6 million, whereas life insurance premiums euro 2.4 million. In 2014, the total value of claims paid amounted to euro 33.4 million, an annual decline of about 17

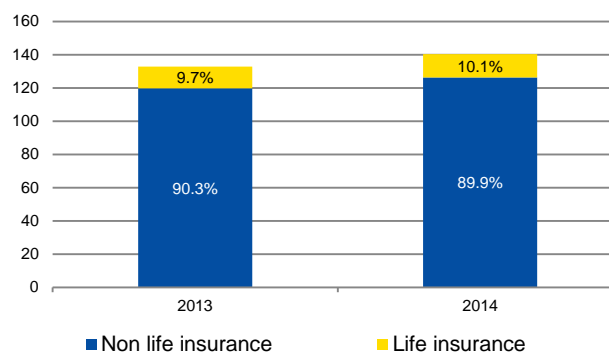
percent, of which euro 19.1 million were paid claims under the third party liability insurance. The reduction of the amount of paid damages by insurance companies resulted in the decline of the ratio of claims paid against written premiums at 39.5 percent, compared to 49.1 percent in

Figure 33. Capital Adequacy Ratio, in percent



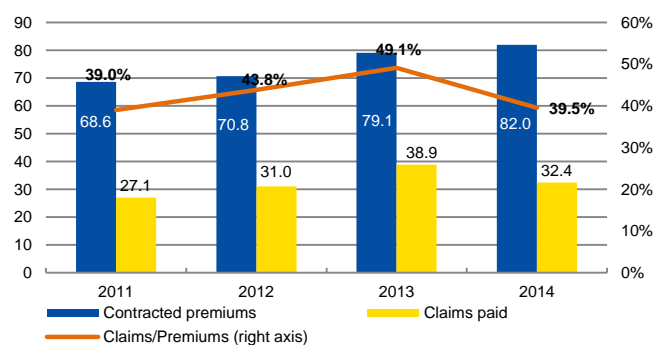
Source: CBK (2015)

Figure 34. Assets of insurance companies, in millions of euro



Source: CBK (2015)

Figure 35. Contracted premiums and claims paid, in millions of euro



Source: CBK (2015)

<sup>9</sup> Relevant CBK regulation requires that the ratio of liquid assets to short-term liabilities shall not be lower than 25 percent.

2013, which shows an improvement of the sector performance compared to the previous year (figure 35).

In 2014, the insurance sector recorded a loss from an amount of euro 318.8 thousand, compared to the losses of euro 754.6 thousand during the previous year. Non-life insurance continues to be characterized by loss compared to life insurance that resulted in a better financial performance. In 2014, non-life insurance had a loss of euro 806.3 thousand, compared to the losses of euro 1.0 million in the previous year. Life insurance was characterized by an increase in profits at euro 487.5 thousand from euro 287.4 thousand profit during the last year.

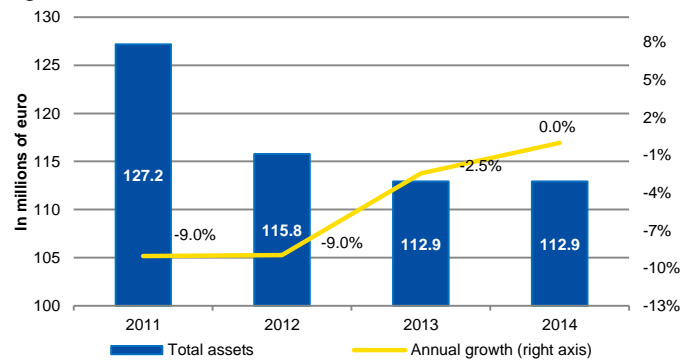
The reduction of losses had an impact on profitability indicators, such as Return on Average Assets (ROAA) and Return on Average Equity (ROAE). ROAA improved to -0.23 percent (-0.26 percent in 2013), whereas ROAE improved to -0.68 percent (-0.74 percent in 2013).

### 3.4.4 Microfinance institutions

Microfinance institutions (MFIs) sector is dominated by institutions established with foreign capital, which own 92.4 percent of the total assets of the sector.

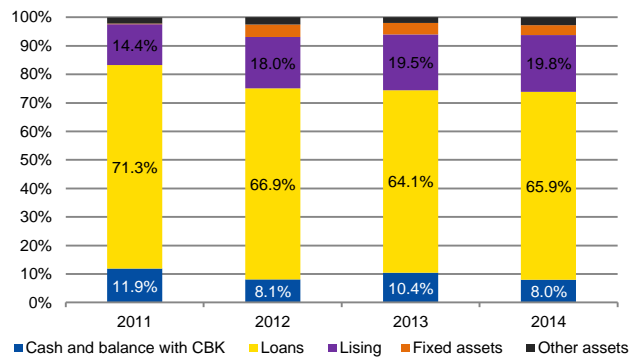
In 2014, 3 largest MFIs in the country comprised 52.8 percent of total assets of the sector (46.4 percent in 2013). In 2014, microfinance sector ended the trend of activity contraction followed during the recent years. In 2014, the value of total assets of microfinance institutions amounted to euro 112.9 million, which represents a similar level to the previous year (figure 36). In 2014, MFIs were characterized by increased loans and leasing activity, which together represent 85.7 percent of total assets of the sector (figure 37). In 2014, the value of total loans amounted to euro 74.4 million, representing an annual increase of 2.9 percent (annual decline of 6.7 percent during the previous year). In 2014, credit growth was as a result of the expansion of credit activity to enterprises, while loans to households were characterized by a slight decline. In 2014, loans to enterprises marked an annual growth of 10.0 percent, whereas loans to households marked a decline of 0.4 percent. The decline of loans to households may have been affected by the

Figure 36. Assets of microfinance institutions, annual growth



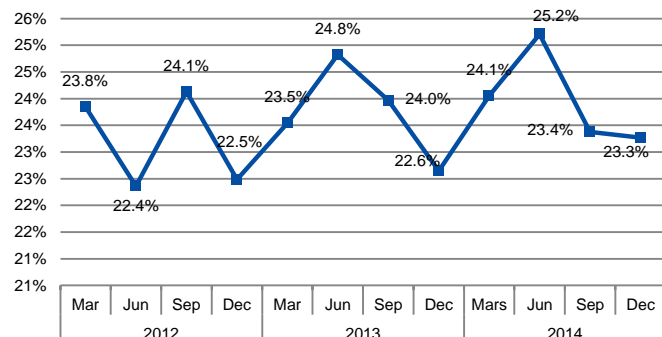
Source: CBK (2015)

Figure 37. Structure of MFI assets



Source: CBK (2015)

Figure 38. Interest rate on MFI loans, in percent



Source: CBK (2015)

competition of the banking sector, considering that loans to households by the banking sector, during the same period, were characterized by an accelerated growth.

According to the economic sectors, during 2014, all categories of lending were characterized by growth. Loans to services, which comprise 46.5 percent of the total structure, were characterized by an annual growth of 10.6 percent in 2014 (annual decline of 14.4 percent in 2013). Loans to the industry sector, which represent the second-largest category regarding the share in the structure, marked an annual growth of 15.3 percent in 2014 compared to an annual decline of 16.7 percent in 2013. Similar movements were marked also in the third category comprised of loans to agriculture, which were characterized by an annual growth of 3.6 percent in 2014 (decline of 22.6 percent in 2013).

In 2014, the value of leasing amounted to euro 22.4 million, marking an annual growth of 1.4 percent (annual growth of 6.0 percent in 2013). In 2014, leasing to households was characterized by an annual growth of 97.6 percent, mainly as a result of mortgage leasing growth at euro 11.0 million from 5.2 million during the previous year. While in 2014, leasing to enterprises marked an annual decline of 34.9 percent, as a result of the decrease of the financial leasing.

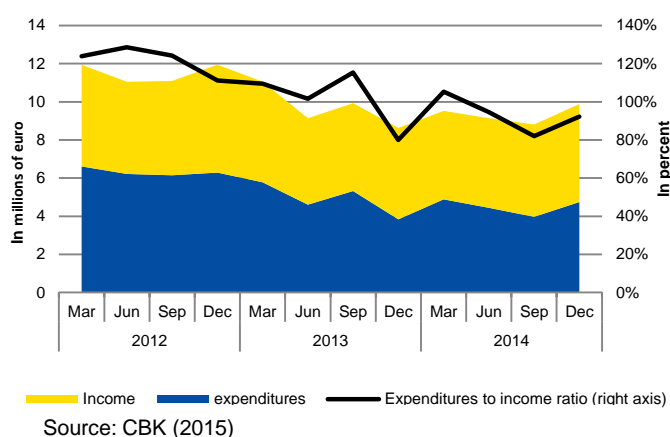
Microfinance institutions continue to be characterized by a relatively low level of non-performing loans and satisfactory coverage level of loan loss provisions for this category of loans. In 2014, the ratio of non-performing loans to total loans was 4.8 percent, which represents a decrease from the same period of the previous year, when this ratio stood at 5.2 percent. Also, the coverage with provisions improved to 113.1 percent in 2014, compared to the level of 107.0 percent in 2013.

The microfinance sector continues to be characterized by high interest rates on loans. In 2014, the average of effective interest rate for loans issued by this sector was 23.3 percent (22.6 percent in 2013). In 2014, the average interest rate on loans to enterprises was 22.6 percent (19.8 percent in 2013), whereas the average interest rate on loans to households was 23.8 percent (23.7 percent in 2013) (figure 38). In the context of loans to enterprises, the average interest rate on loans to agriculture and services in 2014 increased to 25.5 percent and 21.7 percent, respectively (25.0 percent and 20.4 percent, respectively, in 2013). Whereas, the average interest rate on loans to industry sector decreased to 23.8 percent, from 25.3 percent in 2013.

In 2014, the microfinance sector realized euro 19.3 million income, which compared to the previous year represent an increase of 0.6 percent (a decrease of 7.5 percent until 2013). During 2014, the income structure was dominated by interest income, with a share of 83.1 percent, which marked an annual increase of 3.3 percent (annual decline of 9.6 percent in 2013). On the other hand, expenses marked an annual decrease of 7.7 percent, amounting to euro 18.0 million. This decrease was as a result of the reduction of non-interest expenses for 12.5 percent and personnel expenses for 3.9 percent. Efficiency indicator, which measures the expenses to income ratio, at the end of 2014 improved to 93.3 percent compared to 101.7 percent in the previous year.

Microfinance institution sector ended 2014 with a profit of euro 1.3 million, compared to the loss of euro 324.4 thousand in the previous year. Operating with profit was also reflected in the improvement of profitability indicators. In 2014, the Return on Average Assets improved to 1.1

Figure 39. Expenditures to income ratio



Source: CBK (2015)

percent from -0.3 percent in the previous year. Also, the Return on Average Equity (ROAE) improved to 4.3 percent, from -1.1 percent in 2013.

### 3.4.5. Financial auxiliaries

In 2014, the value of financial auxiliaries assets, which is comprised of the exchange bureaus and money transfer agencies (MTA) amounted to euro 9.0 million, representing an annual growth of 18.6 percent. In 2014, income of financial auxiliaries amounted to euro 6.6 million, representing an annual increase of 17.0 percent. The income structure is dominated by the category of income from transfers, with a share of 73.4 percent of total income. On the other hand, expenses amounted to euro 3.4 million, compared to euro 2.6 million in 2013. Consequently, net income of the financial auxiliaries amounted to 3.2 million in 2014, representing an annual growth of 7.6 percent.

### 3.4.6 Pension sector

Pension sector continues to be the sector with the highest growth rate of asset within the financial system of Kosovo. Until 2014, the value of the assets of the pension sector amounted to euro 1.1 billion, marking an annual growth of 19.1 percent. The majority of pension savings in Kosovo continues to be administered by Kosovo Pension Savings Fund (KPSF), which manages 99.5 percent of total assets of the pension sector, whereas the remainder continues to be administered by the Slovenian-Kosovar Pension Fund (SKPF). In 2014, SKPF assets marked an annual growth of 9.2 percent, reaching a value of euro 5.8 million.

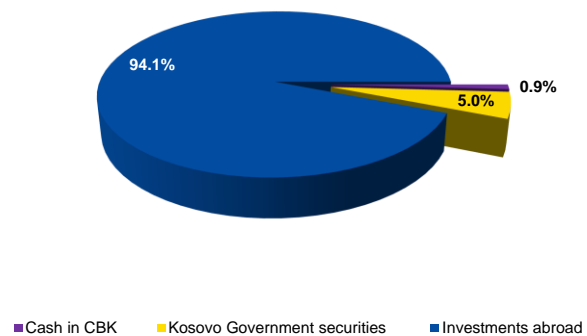
Regarding KPSF, the structure of assets, until 2014, was dominated by investments in the foreign market, with a share of 94.1 percent (figure 40). The remaining part of assets consists of investments in securities of the Government of Kosovo (5.0 percent) and by deposits with the CBK (0.9 percent). Compared to the previous year, KPSF withdrew most of the deposits held in

CBK and invested in investment funds in the external sector. Most of these investments abroad are in the form of shares and treasury bills of foreign governments.

Investments abroad dominate the structure of SKPF assets. Until 2014, a total of 79.6 percent of SKPF assets were invested abroad, whereas the remainder of 20.4 percent represents investments in Kosovo (figure 41).

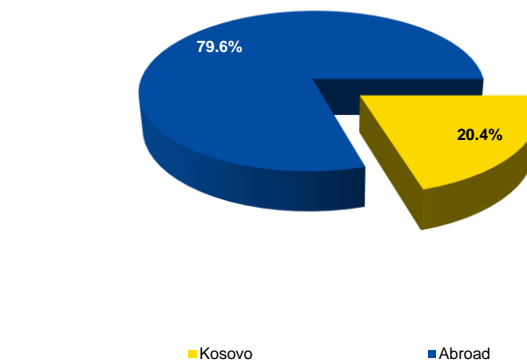
During 2014, pension sector was characterized by positive financial performance. Both funds marked an increase of the share price and a positive return from investments. In 2014, the value

Figure 40. Structure of KPSF assets in 2014, in percent



Source: CBK (2015)

Figure 41. Structure of SKPF assets in 2014, in percent



Source: CB (2015)

of the KPSF share<sup>10</sup> price amounted to euro 1.29, marking an annual increase of 6.5 percent. In 2014, KPSF has realized euro 66.7 million gross returns from investments.

Also, the value of SKPF share price continued with upward trend, amounting to euro 145.16 in 2014, representing an annual growth of 4.8 percent. In 2014, SKPF realized a gross return on investments from an amount of euro 371.9 thousand.

### 3.5. Macroeconomic projections for 2015

During 2015, projections for the recovery of the economic activity at the global level, especially in the euro area, are expected to have implications on the economy of Kosovo. In 2015, the euro area is expected to mark a real growth rate of GDP of 1.5 percent, compared to 0.9 percent in the previous year. The effects of improving the economy in the euro area are transmitted on Kosovo's economy through remittances, foreign direct investments and external demand, which is expected to affect the Kosovo's exports. Besides the transmission of the effects of positive developments in euro area and in the main economic partners, strengthening of the economic activity in Kosovo is expected to come also from the developments in the domestic economy.

CBK projections for 2015 suggest that the Kosovo economy will be characterized by an acceleration of the economic growth, which is expected to reach 3.5 percent. This acceleration of the growth is expected to be generated by internal demands, particularly from investments. Public investments are expected to mark an increase, while the projects of particular importance, such as the concession of ski resort "Brezovica" and continuation of construction works on the Pristina-Skopje highway, are expected to affect the increase of the private investments. Private investments are expected to be supported by lending activity, which is expected to be accelerated due to the decline of interest rates and ease of credit standards for approving loans by banks.

Consumption is also expected to contribute positively to the economic growth. The main factors expected to affect consumption growth are the increase of wages of civil servants (the increase of wages in April 2014 is expected to have an impact also in 2015 because the effect is complete for the whole year), the increase in remittances, as well as consumer loans growth. Net export position is expected to be deteriorated in 2015, thus affecting negatively the economic growth of the country. Indications for an increase of activity in the economic sectors, such as agriculture and manufacturing, are expected to affect the export growth. However, the increase of overall demand is expected to affect the growth of the value of imports of goods, thus affecting the deepening of the trade deficit. The deterioration of the balance of goods is expected to be slightly moderated from the growth of the positive balance in the services account.

Prices in Kosovo continue to be determined mainly by the prices in international markets, especially the prices of food and oil products. In 2014, both these categories of products, which have the major share in the consumer basket of Kosovo, are characterized by decline in prices and are expected to remain stable in 2015, thus inflationary pressures are expected to remain weak as in the previous year.

The credit growth rate for 2015 is expected to increase slightly, mainly as a result of a better macroeconomic conditions on the one hand, good capital position of the banking sector, easing the standards for approving loans by banks, high liquidity position and satisfactory level of loan portfolio on the other hand. Also, based on expectations for accelerated economic growth rate, the demand for loans is expected to be increased during 2015. Regarding deposits, expectations for 2015 are that they will increase with similar pace as in 2014. Households will continue to be the main contributors of deposits growth. The increase of public sector wages (full effect in 2015) is

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<sup>10</sup> Basic value of the share price for KPSF is =1, whereas for SKPF is =100.

expected to contribute to deposits growth, but such growth can be neutralized by the effect that the decline of deposit interest rates may have an impact on depositors' willingness to save.

## 4. Financial institutions supervision

### 4.1. Regulatory framework and licensing process

#### 4.1.1 Regulatory framework

CBK, since its establishment, and with the continuous support of recognized international institutions as World Bank, International Monetary Fund, USAID, the US Treasury, KfW, GIZ, European Central Bank, etc., developed a regulatory framework for regulation and supervision of financial institutions, based on international standards and best practices. CBK, in recent years, begun a gradual process towards alignment with the Basic Principles for the Supervision of Banks issued by the Bank for International Settlements, Basic Principles for the Supervision of Insurance Companies issued by the International Association of Insurance Supervisors and European Directives addressing the regulation of financial institutions, as well as international standards and best practices for financial institutions regulation and supervision. This is a continuous and complex process as it requires the amending and supplementing of existing legal and regulatory framework, and requires an adequate approach in order to study carefully the specific circumstances of Kosovo, for a proper adaptation of these standards, by adjusting to the needs of financial sector in Kosovo. This is due to the fact that these standards have undergone numerous changes in developed countries, mainly in the last decade, thus it is continuously required their review and completion in order to reflect the developments and continuous changes of financial market.

Working groups draft and review continuously the Regulations on financial supervision (banks, microfinance institutions, non-banking financial institutions, insurance and pension funds), with the participation of representatives of relevant departments, such as the Banking Supervision Department, Licensing and Standardization Department, Insurance Supervision Department, Pension, Legal Department, and with the support of other departments of the CBK. During the preparation of Regulations and any legal and regulatory instruments, CBK cooperates closely through meetings and constant communication with regulated entities, mainly through relevant institution associations such as: Kosovo Banking Association, Insurance Association, Microfinance Institutions Association, and in certain cases, through joint meetings with representatives of financial institutions, through which they can present their opinions on relevant issues. This process has constantly helped in clarifying the specific issues addressed by the regulations and their proper adjustment, considering their impact on the financial system stability in Kosovo and the economic development of the country.

#### 4.1.2 New regulatory acts on financial supervision, standardization and regulation

During 2014, CBK developed the below regulations, which were approved by the Central Bank Board to address issues that are important for the supervision of financial institutions, contributing to further strengthening of the overall regulatory framework and harmonization with international standards, as well as for the purpose of implementing the relevant laws on the supervision of financial institutions:

- Regulation on Reports and Information requested by the Kosovo Pension Savings Fund. This Regulation aims at setting conditions, time limits and regulations of reporting of Kosovo Pension Savings Fund to the CBK (approved on 29 May 2014);
- Regulation on Licensing of Insurance Intermediaries (approved on 29 August 2014). This Regulation defines the conditions and criteria for licensing the insurance intermediaries;

- Regulation on Internal Handling Process of complaints (approved on 25 September 2014) - The purpose of this Regulation is to define the minimum requirements on internal handling process of complaints, which shall be established by financial institutions to handle complaints arising from their clients, current and potential customers, in order to establish an equal scope across the financial institutions and ensure fair treatment of customers. Requirements related to internal complaints handling process increase the ability of customers to actively protect their rights, who will further deepen their confidence in the fair functioning of the financial market and positively influence the financial market and the economic growth;
- Regulation on Licensing the Insurance Companies (approved on 30 October 2014). This Regulation determines the terms and conditions, requirements and procedures to be followed for the application and granting of a license for every insurance company and branch of a foreign insurance company, which will be referred to in this regulation as insurance companies, except in the cases when specifically is addressed to the insurance company established as a subsidiary or a branch of a foreign insurance company;
- Regulation on Licensing of Pension Funds Asset Managers (approved on 30 October 2014). This Regulation determines the conditions, requirements, procedures and time limits to be followed for application and granting the license for Pension Funds Asset Managers;
- Regulation on Individual Savings Pension Payment (approved on 30 October 2014). This Regulation aims at determining the conditions for the payment of pensions for participants and beneficiaries of the Kosovo Pension Saving Fund, as well as providers of the supplementary individual pensions. Also, this Regulation determines the conditions for the payment of total amounts and phased payments prior to the functionalization of annuities contracts, as well as payments through annuity contract in Kosovo;
- Regulation on Licensing the Supplementary Employer Pension Funds (approved on 29 December 2014). This Regulation determines the conditions, requirements, procedures and time limits to be followed for application and granting the license for Supplementary Employer Pension Funds;
- Regulation on Licensing the Providers of Supplementary Individual Pensions (approved on 29 December 2014). This Regulation determines the conditions, requirements, procedures and time limits for application and granting the license for Providers of Supplementary Individual Pensions.

#### **4.1.3 Projects continued during 2014, which are related to the development of regulatory framework**

During 2014, CBK continued with some of the projects commenced earlier and prepared a number of regulations that were finalized in the early of 2015, but at the same time CBK continued with long term processes, which are in process also during 2015, in order to meet the legal and regulatory framework.

Within the projects in process and activities for the preparation of legal and regulatory instruments, CBK continued with activities for the finalization of the draft law on general insurance, within the working group established in cooperation with the Ministry of Finance. This draft law was submitted to the Office of the European Commission for assessment regarding the compliance with the EU Directives addressing the insurance field. Draft law on general insurance is now in the final stage and is expected to be approved during 2015.

Also, the draft-law on microfinance institutions and non-banking financial institutions has been prepared, which is considered as a special law after the Constitutional Court's decision regarding

the relevant Articles addressing these institutions. CBK working groups have finalized this draft-law, whereby forwarded for further approval procedures, and is expected to be approved during 2015.

In the ongoing efforts to develop and advance the regulatory framework, CBK continued also during 2014 to supplement and amend regulations on supervision of financial institutions. Some of the regulations amended in 2014, which are still in process or have been finalized at the beginning of 2015, are:

- Regulation on Minimum Security Requirements for banks, which addresses the requirements for minimum equipment and procedures that banks should have for the security of their facilities (this Regulation was approved by the CBK Board on 26 March 2015);
- Regulation on Disbursement of Credit Funds in Cash, was supplemented by working groups and is in the final stage of approval;
- Regulation on Large Exposures is drafted and is in the final stage, the new amendment and supplements approximated this regulation with EU Directive requirements related to addressing the bank's large exposures;
- Regulation on Registering, Supervision and Operations of Non-Bank Financial Institutions, is also amended and supplemented, whereby introduced new requirements for capital, corporate governance, as well as the clarification on requirements for registering of these institutions. Also during this year we continued the work on amending-supplementing this regulation considering that is a voluminous document and sets out various specifics. However this regulation is in its final stage.

Whereas, projects continued during 2014, associated to the development of the regulatory framework are as follows:

#### **4.1.4 Financing housing in Kosovo**

The Financing Housing in Kosovo project is aiming at adopting sound lending rules, covered by real estate, known as mortgage loans.

During this project, all relevant institutions associated to real estate in Kosovo were consulted, such as: Cadastre Agency, Ministry of Environment, Ministry of Finance, Ministry of Justice and other related donor projects, as GIZ, USAID, SIDA, and other relevant partners. Also, during this process were involved banks and other financial institutions, as key stakeholders in lending the financing housing, whereby, they have been constantly consulted also during the process of drafting relevant regulations addressing this issue.

Through this project it has been contributed to the preparation of the Law no. 04/L-134 on Condominium, by joint meetings with representatives of the Ministry of Environment and working groups. Also, as part of this project was the support provided towards the Supervisory Board for Licensing of Real Property Assessors, established by the Ministry of Finance, and which, in cooperation with the Chamber of Commerce, organizes the training and licenses the real estate assessors in the Republic of Kosovo.

As a result of this project, there are two regulations prepared by the Central Bank on addressing and regulating the full process of the lending for financing housing, including specific requirements for the assessment of the real estate by financial institutions in the case of loans covered by mortgage. The regulations stipulate specific requirements for proper notification of borrowers regarding their obligations upon entering into a contractual relationship with banks or other financial lending institutions, for the use of loans for financing housing, as well as requirements for financial institutions regarding the adequate assessment of the borrowing ability of clients. Within the project was completed also the regulation on capital adequacy in

order to weight the estimations of risk mortgage loans, depending on the level of coverage offered by the mortgage and the level of fulfilment of specific criteria laid down for the qualification of loans. Criteria for qualification of loans were set by regulation on mortgage loans, including maximum limits of loans instalment and total debt of borrowers in relation to their monthly income, as well as requirements related to property rights and minimal requirements to be included in loans agreement and the proper mortgage assessment.

Regulation on mortgage lending and Regulation on appraisal of immovable property strengthen the regulatory framework for financing lending and loans covered by immovable properties through which are established clear rules for mortgage loans and mortgage adequate assessment.

Both these regulations, along with supplements to Regulation on Capital Adequacy regarding the adoption of appropriate risk weights of mortgage loans according to new requests, were approved in early 2015. During 2014, a specific database related to mortgage loans in Kosovo was established, through the Statistics Department and Bank Supervision Department. This database will include detailed notes related to mortgage loans, which can be used in the future to assess the suitability of existing policies and the needs for their amendment, depending on their impact on the level of mortgage loan portfolio in Kosovo.

#### **4.1.5 Protection of the consumers for financial services**

During 2014 continued the activity for strengthening and advancing the legal and regulatory framework, as well as institutional framework regarding the protection of the consumers for financial services and raising the level of financial knowledge of consumers in Kosovo.

The project started in June 2013, when the cooperation agreement signed between the Central Bank and the Ministry of Trade and Industry to establish channels of communication and cooperation on strengthening the protection of the consumers for financial services. As a result of this agreement were held many joint meetings, where in March 2014 was organized a joint roundtable meeting for informing the public regarding the recent changes in terms of protection of the consumers for financial services.

As part of the objectives of this project were the preparation of certain regulations and procedures for proper notification of consumers, but also the setting of clear rules for financial institutions in terms of proper information of the consumers about financial services and handling properly their complaints.

The Regulation on Internal Complaints Handling Process from financial institutions is in force since 01 October 2014. This regulation stipulates the deadlines and defines precisely the process and procedures to be followed by consumers and financial institutions in case of addressing and handling the complaints. Also, the CBK internal procedure on the manner of handling the complaints of consumers of financial services, received directly from consumers or the relevant department for consumers' protection under the Ministry of Trade and Industry, has been prepared.

As part of this project, the Regulation on determining the manner of disclosure of financial services to consumers is in process, in order to clarify the rights and obligations in case of using a financial service from the financial institution. Also, it is planned the preparation of a special regulation, during this year, which addresses the clear rules to be applied in case of financial services advertising, so the consumer cannot be misled by choosing financial services without being well informed about the obligations that the borrower undertakes in case of their use.

In order to address the objectives of the project, the standard forms of complaints for consumers were created, and the CBK website has been updated in order to enable the consumers to find the information needed in case of their complaints against financial institutions.

Since this field was given more significant focus also in the developed countries after the recent financial crisis and many regulatory changes have occurred only in the recent years, Kosovo benefited considerably from the expert team of the World Bank and is in the process of creating a solid base for addressing the issue of protecting the consumers for financial services in Kosovo. Also, CBK has undertaken several activities to raise the financial education of consumers through joint seminars and presentations organized for students in Kosovo.

#### **4.1.6 Commitments for facilitating the enforcement of contracts**

During 2014, CBK has supported the Contract Law Enforcement project, by preparing the secondary legislation for the implementation of the Law on Obligational Relationships regarding sections regulating financial services. Considering that Article 1058 of the Law No. 04/L-77 on Obligational Relationships provides that the provisions of prior law shall continue to be applied as appropriate as national regulations until the issue of the relevant regulations, and considering that these issues are related to financial services, mainly banking services, considering that the CBK is the only licensing, regulatory and supervisory authority of banks and other financial institutions in Kosovo, it was decided that regulations addressing the issues set forth in this Article shall be issued by the CBK.

Regulations prepared through this project are:

- Regulation on Vault;
- Regulation on Credit Notes and Bank Guarantee;
- Regulation on Deposits;
- Regulation on Bank Accounts;
- Regulation on Loans Agreement; and
- Regulation on Depositing of Securities.

Also, it is planned to finalize 6 regulations foreseen in this project, within the first half year of 2015. Following the entry into force of these regulations, all legal provisions of the prior Law on Obligational Relationships shall be repealed and the concerned issues will be regulated only by regulations issued by the CBK, based on the Article 1058 of the Law No. 04/L-77 on Obligational Relationships, Law on Central Bank and the Law on Banks.

#### **4.1.7 Supplement of the Regulation on PML /TF and review of the manual for examination**

During 2014, the regulation on preventing money laundering and terrorism financing has been reviewed. The draft of this regulation, with new amendments, for the purpose of adapting the requirements of recent amendments to the Law on prevention of money laundering, is finalized and the comments of banks regarding this draft, which is currently in the process of final review from decision-making bodies, were considered as well. Also, during this period was reviewed and prepared the Manual on Examination of financial institutions regarding the compliance with rules and implementation of the CBK regulations related to the requirements for the prevention of money laundering and terrorism financing.

By recent amendments are adopted new legal requirements and new international standards regarding the prevention of money laundering and terrorism financing, focusing on relevant EU Directives.

#### **4.1.8 Review of the Manual for Licensing the Banks and Other Financial Institutions**

During 2014, bank licensing manual was reviewed in order to adapt with new requirements of the Law on Banks and Regulation on Licensing of Banks and Branches of Foreign Banks. After recent supplements are clarified all steps necessary for submitting the application by applicants interested to operate in Kosovo through the licensing and registration of financial institutions. Now, these requirements are available on the CBK website, through respective guides and brochures prepared specifically to provide a right notification to all stakeholders, and which are published on the relevant link to the official site. Also, the recent changes clearly specify deadlines and obligations for each party, handling properly and review the applications within a short a time, review of all the applications for licensing and registration of financial institutions.

#### **4.1.9 Review of the Manual on Banks Liquidation**

The review of the manual on banks liquidation is in process of finalization, in order to address new legal requirements and establish a clear operational framework for addressing cases where banks may encounter difficulties, for the purpose of establishing adequate procedures for rapid and fair addressing. New changes provide a clear institutional infrastructure within the CBK and the procedures to be followed in case of taking under administration or liquidation of banks will be accurately specified. These specific procedures will facilitate and accelerate the potential activities of the CBK, in cooperation with relevant stakeholders, such as the Deposit Insurance Fund, by clarifying the way of communication among them, and the responsibilities of action for each authority. This will facilitate resolving the possible problems and fair addressing of them in the future, in cases where the CBK intervention is required to improve and solve the problems of the banks.

### **4.2. Licensing**

Licensing criteria set by legislation aims at ensuring a fair and well regulated financial market through a process built on the principle of justice, fairness and equality. Licensing conditions and criteria are of supervisory character and not aimed at imposing barriers to investors, whether internal or external. Entry of foreign investors in Kosovo market, particularly in the financial sector, proves the CBK open policy to foreign investments, without violating the legal requirements.

At the end of 2014, the structure of the financial system is as follows: the number of banks operating in the Republic of Kosovo is 9, of which 3 are branches of foreign banks. In addition to these nine banks, 1 branch of a foreign bank has only a preliminary license, 1 representation office of a foreign bank, 13 microfinance institutions and 47 non-bank financial institutions, divided by activity: 4 with lending/leasing activity; 1 with factoring activity; 6 with the activity of transfer and payments service; and 36 with the currency exchange activity.

At the end of 2014, the following insurers operated in the Republic of Kosovo: 13 insurance companies, of which 10 non-life insurance companies, whereas 3 are life insurance companies. From 13 insurance companies, 9 of them are foreign-owned companies, whereas 4 of them are domestically-owned companies. In addition, 1 insurance company has a preliminary license.

Central Bank of the Republic of Kosovo, based on the Law on Banks, MFIs and NBFIs, is responsible for licensing, registering, supervising and regulation of the banks and financial institutions.

During 2014, CBK issued decisions related to:

- issuing preliminary license for the foreign bank for opening the branch in Prishtina;
- rejection of the banking license application ;
- approval for opening a representative office of the foreign bank;
- approval for registration of four non-bank financial institutions
- rejection of the application for registration of an entity as a non-bank financial institution to conduct the activity of money transfer and foreign exchange, and the rejection of the application for an increase in the activity of a non-bank financial institution;
- approval of the amendments for bank and financial institutions statutes;
- approval of directors and senior managers of banks;
- approval of sale-purchase of shares of financial institutions;
- approval for opening, relocation, closure of branches and sub-branches of banks;
- approval for opening, relocation of offices/agents of MFIs and NBFIs;
- approval of external auditors of banks, MFIs and NBFIs and insurers;
- issuing prior licence for an insurance company;
- approval of chairperson and member of the boards for insurers;
- approval of directors and senior managers of insurance companies;
- approval of external auditors for insurance companies;
- approval of agents/operators of insurance companies, insurance bureau and pension fund;
- approval of actuaries of insurance companies;
- approval of new branches of insurance companies;
- approval of licenses for insurance intermediaries;
- approval of new insurance products;
- approval of dividend distribution;
- approval for relocation of offices etc.

#### **4.2.1 Licensing activity in the financial sector**

During 2014, the issuance of licenses by CBK consisted in issuing a preliminary license for T.C. Ziraat Bankasi A.S. Ankara, Turkey, for the opening of a branch in Prishtina, rejecting the

application of a local company for issuing the banking license, and approval for opening a representative office of Atlas Bank AD, Montenegro, in Prishtina.

Also, registrations of 4 non-bank financial institutions are approved: AGC Faktor to perform factoring activity, Euro Toti, Luke-I and Afrimi S for foreign exchange activity. During this year, the application of a foreign company to perform the activity of money transfer and foreign exchange has been rejected. In view of the expansion of activities, during this year CBK had only one request from Lesna institution for increasing the payment service activity, which was rejected.

During this year, 4 requests of banks and 1 request of the non-bank financial institution for changing the statutes were approved.

During 2014, there were changes in the composition of boards of directors, audit committees, senior managers of banks and financial institutions. Two requests for appointments of directors, senior management of banks and financial institutions were approved, whereas 6 requests were rejected. In case of approval of the directors and senior managers of banks, 3 of them are members of the governing board, 1 independent member of the audit committee, 12 senior managers of banks (3 are chief executive officers, 1 director of the branch and 8 other executive positions).

In case of approval of the directors and senior managers of financial institutions, 6 are members of the board of non-bank financial institutions, 3 are members of the board of microfinance institutions and 2 are senior managers (chief executive officers of NBFIs and MFIs).

During 2014, there were changes in the composition of boards of directors, audit committees, senior managers of banks and financial institutions. According to Law No. 04/L-093 on Banks, Microfinance Institutions and Non-Bank Financial Institutions, and Regulation No. 2001/25 on the Supervision and Regulation of Insurance Companies and Insurance Intermediaries, the CBK is mandated to approve the heads of institutions. Out of 18 members of the boards of directors who applied for approval to the CBK, 12 were approved and 6 were rejected. From the approved members of the boards of directors, 3 are of banks, 6 of NBFIs and 3 of MFIs, whereas regarding those rejected, 4 are proposed members from banks, 1 from NBFIs and 1 from MFIs. During this period, CBK has also approved the appointment of 6 chief executive officers (one of them is a director of a branch of a foreign bank) of financial institutions, where 4 of them were from banks, 1 from MFIs, as well as 1 from NBFIs. Regarding other senior managers were Chief Financial Officer, Chief Operating Officer, Chief Risk Officer of a bank and any person, other than a director, who reports directly to the board of directors. CBK reviewed and approved 8 cases, where all were from banks. In this period, CBK has also approved 1 member of the Audit Committee of a bank.

During 2014, the CBK reviewed a number of requests from banks regarding their branches and sub-branches. In this year, CBK approved the opening of 1 branch and 4 sub-branches, relocation of 10 branches and sub-branches and closure of 25 sub-branches. Banks have closed 26 sub-branches, mainly small units, after assessing their performance and efficiency, as well as due to the reason that banks have recently invested in the expansion of automated services in order to provide consumers the opportunity to perform transactions through: e-banking, ATMs, point of sales.

Whereas regarding the activity of the insurance industry, 1 preliminary licence has been granted for one insurance company ("Scardian"). 128 requests were approved and 9 requests were

rejected. Requests were submitted by board chairperson/members, senior management, up to the level of agents and licensing for approvals of products.

In this context, from the Financial Supervision for the insurance sector, during 2014 were approved: 1 board chairperson, 4 board members, 14 directors, of which 12 are from insurance companies, one of Kosovo Insurance Bureau and 1 from insurance intermediaries. During this year were approved 4 internal auditors, all from insurance companies, and 20 external auditors. Within the approvals of external auditors, 13 belong to insurance companies, 5 insurance intermediaries and the rest to the bureau and pension funds.

Also, 32 agents/operators were approved, of which 29 from insurance companies, 2 from insurance intermediaries and 1 from Kosovo Insurance Bureau; 4 requests for actuary; 1 legal representative, as well as 21 new offices were approved.

During this year, 4 new licenses were issued for insurance intermediaries; 1 request for dividend distribution was approved; 1 request for statute; 3 requests for approval of the change of fees for products; as well as 12 applications for relocation of offices were approved.

Geographical distribution of branches and sub-branches of banks includes almost the whole territory of the country. It continues to be recorded a larger concentration of branches and sub-branches of banks in the region of Prishtina (35%), where the concentration of the population is larger (25%) as well.

Regarding other financial institutions, at the end of 2014 operated 13 microfinance institutions, distributed almost in the entire territory of the Republic of Kosovo.

At the end of 2014, MFIs exercised their activity through 98 branches/sub-branches distributed within the territory of the country. During 2014 was approved the opening of 3 sub-branches, as well as 9 relocations of branches and sub-branches of MFIs.

By the end of 2014, the number of non-bank financial institutions that operated in Kosovo reached 47, of which 4 were with foreign capital and 43 with domestic capital. According to activities, they are divided as follows: 2 institutions perform lending activity, 2 institutions perform leasing activity, 1 institution performs factoring activity, and 6 institutions perform transfer and payment<sup>11</sup> service, as well as 36 institutions perform the currency exchange activity.

In response to the requests of the entities for performing exchange financial activity, the number of exchange bureaus increased continuously, where at the end of 2014, the number of exchange bureaus reached to 36 or 3 more than in the previous year. During 2014, all requests submitted by entities were finalized with granting the registration for exercising the foreign exchange activity. For the period 2004-2014, years 2006, 2007 and 2014 marked the highest increase in the number of exchange bureaus.

Also, approvals were given to the requests of registered exchange bureaus for expanding their activities by opening new bureaus (3 bureaus).

Regarding the geographical distribution of exchange bureaus, they are allocated in the whole country and exercise their activity in almost the entire territory of the country, with the exception of the region of Mitrovica. The biggest concentration of them remains in the region of Gjilan and Peja. During 2014, the extensions of geographic distribution of registered entities of

<sup>11</sup> Four institutions carry out the activity of payments and transfer, 1 institution carries out only the activity of the transfer and 1 institution carries out only the payment activity.

institutions performing exchange activity belong to the region of Gjilan (three new registrations during this year belong to this region).

During 2014, there were changes in the ownership of banks and financial institutions, regarding which institutions have made relevant notifications to the CBK, pursuant to the legal requirements.

#### **4.2.2 Complaints of the users of financial services**

As a licensor, regulator and supervisor of the financial institutions and authorized under the applicable laws, the Central Bank of Kosovo, namely the Financial Supervision, has a key role in protecting the users of financial services in Kosovo.

Within the Financial Supervision operates the division which receives, systemizes and reviews complaints on the compliance of the activities of financial institutions with laws and regulations, as well as standards that orient financial supervision by supervising and monitoring their behaviour in the market. The objective of the Division is to establish bases for adequate disclosure to consumers and protection of consumers of services and products of financial institutions in Kosovo. This division reviews complaints addressed by the policyholders, depositors/borrowers and users of all services and products of financial institutions supervised by the CBK, and provides specific recommendations for supervision and regulation regarding practices identified as unfavourable for consumers, in order to address them in the future actions.

During 2014, the financial supervision activity regarding the handling of complaints of users of financial services includes:

- Continuing the implementation of the project for the field of protecting consumers of financial services, which for 2014 includes:
  - a) Approval of the Regulation on Internal Complaints Handling Process;
  - b) Drafting the internal procedure of handling complaints in CBK, which is expected to be approved during 2015;
  - c) Drafting the Regulation on requests for disclosure, which is expected to be approved during 2015;
  - d) The brochure has been drafted and is expected soon to be published on the CBK official website, which will accurately inform the consumer about the procedure of addressing their complaints to the Central Bank.
- About 353 complaints of the users of financial services (natural and legal persons) were reviewed:
  - a) In 2014, the total number of complaints against banks, MFI, NBFi and pension funds addressed to the CBK was 158, whereas the most common complaints were: categorization in the credit registry (9%), blocking of accounts (20%) and various issues related to loans (33%).
  - b) In 2014, the total number of complaints against insurance companies addressed to the CBK was 195. The most common complaints are related to the failure to compensate on time the material and non-material damage by TPL (59% of total complaints), application

of Bonus Malus (32% of total complaints), and failure to compensate medical expenses from health insurance (14%).

**Table 4. The number of complaints by institutions**

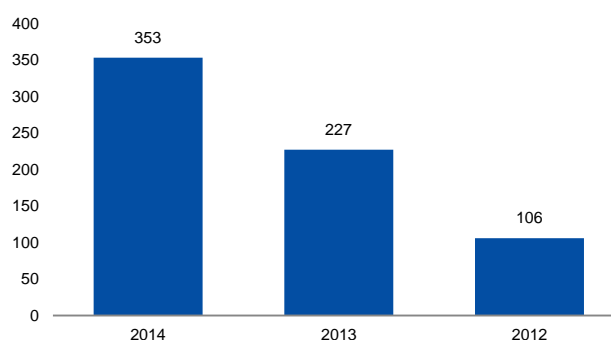
Institutions	Number of complaints	Share
Commercial banks	133	38%
Insurance companies	195	55%
Microfinance institutions	23	7%
Non-bank financial institutions	1	0%
Pension funds	1	0%
Total number of complaints	353	100%

Source: CBK (2015)

Also, it should be emphasized that a large number of complaints were resolved in favour of the complainants, and perhaps this was the reason for the increase of the volume of complaints addressed to the CBK.

The data above show that complaints against insurance companies (55.3% of total complaints) are higher in number compared to commercial banks or other microfinance institutions and non-bank financial institutions. This comes as a result of the Regulation on the Implementation of the Bonus - Malus System, especially the implementation to private persons who have in their possession more than one vehicle, and complaints for failure to compensate the damages, whether material or non-material; more specifically, complaints related to the delays in payment for material damages.

**Figure 42. Number of complaints against financial institutions**



Source: CBK (2015)

Table below presents the number of complaints reviewed by the Division for the complaints of users of financial services through the years:

From the above data, it is observed an increasing trend in the number of complaints. As seen from figure 42, the highest number of complaints was in 2014, which comes as a result of the creation of infrastructure and operationalization of the Division for complaints.

**Table 5. The number of complaints by years**

Industria financiară	Numri i ankesave		
	2014	2013	2012
Bankat komerciale/IMF, IFJB, Fondet pensionale	158	74	36
Kompanitë e sigurimeve	195	153	70
Total	353	227	106

Source: CBK (2015)

At the same time, the increase of the number of complaints has come as a result of awareness of consumers of financial services on their right to submit the complaint.

### 4.3. Banking supervision

#### 4.3.1 On-site examinations of banks

On-site examinations, as an important part of the process for supervising banks, aimed at closely reviewing and evaluating the risk profile of banks.

During 2014, a total of 11 examinations of banks were conducted, of which 3 were complete examinations and 8 focused examinations.

On-site examinations aimed at assessing the overall situation of the banks, focusing on assessment of banking risks, such as credit risk, liquidity, market and operational risk, which were conducted under the risk-based supervision approach.

Also, examinations included the assessment of internal controls, compliance with the applicable legal framework of the CBK, respectively compliance with the banking regulations, banking practices, capital assessment, assessment of policies and procedures, management, profits and examination of the field of information technology. Credit risk continues to be the main risk within the banking sector during the year.

From examinations resulted that banks are sound and stable, and are in compliance with the CBK legal framework.

#### 4.3.2 Risk-based supervision for bank institutions

During 2014, CBK, for the purpose of implementing the supervisory strategy and approximating the supervisory standards and practices of the European Union, developed and finalized new supervisory methodology - risk-based supervision. This methodology aims at identifying critical and potential risks faced by an institution, where through the review focused from the supervision, is assessed the management of these risks by financial institutions and the institution's financial ability to cope with potential negative consequences. For the purpose of implementing this methodology, the manual on risk-based supervision was developed, which at the same time has been tested in two systemic banks in the banking sector in the country. As a result it has been changed the structure of the examination report, based on the types of banking risks, such as: liquidity risk, credit risk, market and operational risk, as well as the implementation of the rating of banks under "CAMELS" system.

#### 4.3.3 Shifting from Basel I to Basel II

Financial supervision has chosen a gradual approach towards approximation with international standards, with special focus on relevant EU directives for the supervision of banks, which regulate the activities of credit institutions and determine the requirements for their capital. This is an ongoing process, considering that after the recent financial crisis, international bank capital standards, known as International Capital Framework (hereinafter: the Basel II standards), have changed in order to review issues that are considered as factors driving financial crisis, as well as considering the development and needs of the banking system in Kosovo.

In this regard, CBK, during 2012 and 2013, adopted a significant number of requirements for banks, in accordance with the Basel II standards, under standardized methods; however, the complete harmonization of the existing regulations for the supervision and regulation of banks with Basel II standards for capital requirements and European Directives, is a long-term project, which with the CBK strategy is planned to be finalized during the period 2015 - 2019.

Key movements towards Basel II standards have been made with amendments to the Regulation on Bank Capital Adequacy during 2013, through which are determined the requirements on capital adequacy of banks. This regulation adopted the standard method regarding risk weighted assets and the calculation of credit risk. Also, this regulation adopted the method of simple and standard indicator for operational risk in order to better address the needs of the banks for capital to monitor these two risks, as two of the four main risks of banks, including liquidity risk and market risk. Through this regulation is required from banks to be covered at all times with the minimum required capital, meeting the minimum requirements of capital adequacy ratio (12%).

The lessons from the 2008 crisis highlighted the need to revise the Basel II standards, which today, in terms of a revised framework, are known as Basel III standards (or Directive IV and Regulation of Capital, known as the "Single Rule Book"). These changes mainly include the review of requirements for capital and capital constituent elements in order to increase the quality and establishment of requirements for the purposes of liquidity risk monitoring and leverage report.

According to Banking Supervision plan for adopting of Basel II Standards and EU directives, it will be continued with the completion of the regulatory framework to adopt necessary requirements drawn by these standards also during the following years, with particular focus on complete adaptation of the first pillar. With these changes is envisaged a complete adaptation of the standardized method for risk-weighted exposures, expanding the number of exposure classes to reflect developments in the banking market in Kosovo, as well as adapting more sophisticated principles and rules for calculating risk-weighted exposures for each exposure class; principles and methods of recognition of mitigating techniques (mitigating factors) of credit risk; as well as the capital requirements for market risk coverage and the requirements of the supervisory authority for the process of internal assessment of capital adequacy, based on risk management strategies, will be adopted.

As another important step of this project is the adaptation of the requirements of the second pillar - Supervisory Review Process, as well as with the entry into force of the new capital requirements, the minimum requirements for the disclosure of information by banks will be reviewed and updated, which impact the increase of the level of transparency for stakeholders and which are recognized as the requirements of Pillar III of Basel II standards, with the aim of increasing market discipline through disclosure requirements and increasing transparency.

In this regard, in September 2014, the CBK launched a specific project for the adaptation and implementation of the regulatory framework known as Basel Capital Framework. During the first quarter, a detailed comparative study of existing legal and regulatory framework in relation to Basel II Standards was conducted in order to identify areas that are not in compliance, and which require the necessary amendments. During the next two years it will be worked with increased intensity to adopt Basel II Standards and to harmonize legal and regulatory framework with specific EU Directives on banks supervision. Given that Kosovo has a banking sector which is not so complex compared to the developed countries in terms of development of financial services and exposure to advanced financial instruments, it is estimated that within a two-years period it will be achieved the full adoption of the relevant requirements applicable to the banking sector in Kosovo, which will influence the further advancement of the regulation and supervision of banks in the Republic of Kosovo.

#### **4.3.4 Vienna initiative**

Vienna Initiative is an initiative of international character, where in addition to the European Union countries, participate the regional countries, such as: Kosovo, Albania, Macedonia, Bosnia

and Herzegovina, and Serbia. The main purpose of this initiative is to advance the level of cooperation in the field of the banking supervision. Moreover, the Western Balkan countries (as specified above) have their own representative, who currently belongs to the Governor of the Bank of Macedonia, who replaced the Governor of the Bank of Albania.

In this context, it is considered of particular importance to have an agreement among the countries of the region, namely, central banks/supervisory authorities of the Western Balkans on the one hand, and the European Central Bank (ECB)/European Banking Authority (EBA) on the other hand. During 2014, several meetings were held for harmonizing a draft, where it is essential the enhanced cooperation with the ECB/EBA regarding distribution in the context of supervisory information. This is due to the fact that regional countries have a very large exposure to the banking sector of the European Union countries. The draft-agreement was submitted to the ECB/EBA and is under review.

#### **4.3.5 Emergency Liquidity Assistance**

Emergency Liquidity Assistance - hereinafter ELA, is related to the creation of protective framework for the banking sector in cases where the banks are solvent but illiquid. This project, launched in 2014, presents a recommendation to the International Monetary Fund in this field. Engagement in this field is extended in two directions, to the development of the methodology and regulation. Regarding regulation, it is already drafted/finalized and will be processed for approval soon. ELA provides the establishment of a scheme that would consist of three sources, such as: Kosovo budget, CBK and commercial banks.

Within the methodology have been envisaged specific aspects in compliance with the responsibilities required from the Law on the Central Bank of the Republic of Kosovo. Also, specific application forms related to ELA have been defined.

#### **4.3.6 Banking Supervision Stress Tests**

During 2014, the Banking Supervision Department has conducted micro stress-test for individual banks. This will help in early identification of risks, reflection of banks in critical condition in case of the economic declines and running (focusing) on-site examinations.

During 2015, Banking Supervision Department plans to hold regular meetings, on quarterly basis, with the representatives of commercial banks regarding the stress-test. Banks are obliged to create their stress tests in compliance to the Regulation for Credit Risk Management and Regulation for Liquidity Risk Management.

The methodology used in stress-tests refers to capital stressing and liquidity of banks using different scenarios related to credit risk, liquidity risk and market risk (the risk of interest rates change and the risk of exchange rate changes). In more details, the sensitivity analysis was performed taking into consideration:

- i. Decline in the quality of loan portfolio;
- ii. Concentration risk (failure of largest borrowers);
- iii. Shocks by economic sectors;
- iv. Changing interest rates;
- v. Risk of systemic withdrawal of deposits;
- vi. The risk of concentration of deposits tested through withdrawal of larger depositors;

Stress-test results indicate that Kosovo's banking sector will remain generally stable even after assumed shocks in the economic environment (reflected in the increase of non-performing loans, the failure of the largest borrowers etc.).

#### **4.4. Supervision of microfinance and non-bank financial institutions**

In view of maintaining the stability of the financial sector, the Banking Supervision Department, namely Division for Supervision of Microfinance and Non-Bank Institutions, which is responsible for the supervision of non-bank and microfinance institutions, during 2014 has consistently performed a risk-based supervision of microfinance institutions, by conducting direct on-site examination, focusing on the adequacy of management capacities for the sector risks, especially credit risk, which has been the benchmark of supervisory activity, compliance of these institutions with CBK legislation and internal institutional policies, as well as the continuation of external monitoring against this sector.

Also, during the examinations at microfinance institutions and non-banking financial institutions, it was also examined the information technology, assessing the risk in information technology, where special focus is paid to general security of Information Technology (IT) systems, as well as creating and fulfilling security measures of IT systems. Based on estimates derived from examinations in the security of these systems, specific recommendations were provided to these institutions.

During 2014, a total of 6 examinations were conducted at the microfinance institutions, of which 5 complete examinations and 1 focused examination. Regarding the non-bank financial institutions, thirty-seven examinations have been carried out, of which one complete examination in a non-bank financial lending institution, 2 complete examinations in two non-banking financial institutions performing the activity of cash transfer and payment service, and 34 nonbank financial institutions performing activities of foreign exchange, which at time of examination were registered to operate in the country.

From these examinations is identified that microfinance institutions and non-bank financial institutions, despite the need for further developments, advanced the infrastructure necessary to their management, such as: policies, procedures and systems for the identification, recognition and monitoring of relevant risks in relation to their complexity. Also, conducted examinations showed that microfinance institutions and non-banking financial institutions are generally in compliance with the CBK legal framework.

Regardless regular examinations, this department has continued to follow the fulfilment of the recommendations and the implementation of orders for relevant microfinance and non-banking institutions.

In addition, supervisory activity focused on raising awareness of non-bank financial institutions, which perform foreign exchange activity and that mainly lacked the human and technical capacity for their adequate governance. With necessary identifications, guidelines and suggestions of the CBK regarding keeping, processing and reporting of the data, as well as other relevant issues in relation to such institutions, it is positively reflected their position conform regulations, namely reporting to the CBK.

Also, CBK in cases of identification of serious irregularities, non-transparency or non-implementation of the respective requirements, has undertaken penalizing and corrective measures against microfinance institutions and non-bank financial institutions. In general, the concerned measures resulted to be remedial for institutions in question and microfinance and non-bank sector in general.

#### 4.5. Prevention of money laundering

During 2014, the Division for Prevention of Money Laundering (PML), for its operation and performance of activities in fulfilling its operational mandate, has a reference point of its activity the Strategic Plan of the Central Bank of the Republic of Kosovo, the annual plan for financial supervision, the annual plan and the strategy and action plan of the Division for Prevention of Money Laundering.

Division for the Prevention of Money Laundering, regarding the strengthening of legislation and operational documents, drafted a new regulation to prevent money laundering and the manual of examination/inspection. This regulation was drafted by the division, taking into account the applicable legislation, international field practices and technical assistance of international experts. This document was distributed for comments to the financial sector and the Financial Intelligence Unit.

The Division also participated actively in inter-institutional working group regarding the drafting of concept document for amending the Law on Preventing and Combating Money Laundering and Terrorist Financing

##### 4.5.1 Supervision of financial institution for PML

The on-site supervision of financial institutions was focused in terms of protecting their systems through the implementation of standards and legislation to prevent and combat money laundering and terrorism financing. Within this reporting period, the main focus of the Division was in carrying out the examination of banks and financial institutions in the field of PML/TF. These activities were envisaged also without the division's strategic plan and the main goal was to obtain on-site information regarding the level of measures that financial institutions have undertaken to prevent money laundering and terrorism financing.

During 2014, a total of 14 examinations were conducted, of which 13 were complete and one focused in examination at financial institutions. From these 14 examinations, 7 of them were carried out in banks, 2 in microfinance institutions and the rest of the examinations were performed in non-bank financial institutions.

The examination focused on main areas, which are considered with high-risk for determining the level of adequacy and compliance with legislation and international<sup>12</sup>best practices for the protection of financial system from the possibility of the entry and use of funds of doubtful origin.

Assessment of the organizational structure of financial institutions and reports of management and function of compliance within financial institutions was one of the primary issues that were subject to assessment in examined cases. Banks drafted policies and procedures that create opportunities for effective measures in PML/TF. Foreign-owned banks have created these policies and procedures with the help of parent banks, which were approved by the governing board. In general, policies and procedures are clear, appropriate and in accordance with applicable legislation and international practices and guides for PML/TF.

Consumer identification is one of the main aspects that requires special treatment with care and special attention is paid also by the international standards, which require the implementation of measures for effective combating against money laundering and terrorism financing. Division for PML of the Central Bank, during on-site examinations, treated the aspect of client identification and determination of the beneficial owner under applicable legislation and best practices. From

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<sup>12</sup>International standards of Financial Action Task Force FATF and European Union Directives 3 and 4 for the "protection of financial systems from the possibility of money laundering or terrorism financing"

the examinations conducted in banks results that the identification of the clients is at a good level.

Examined financial institutions have undertaken measures towards increasing human and technical capacities within the institution, by recruiting special staff for compliance with PML/TF and becoming independent from the internal control function.

Also, financial institutions have undertaken adequate measures to increase the efficiency of monitoring, procedure for identification of clients and opening of the new accounts and determining the beneficial owner.

#### **4.5.2 Internal and external cooperation related to PML**

A special inter-institutional cooperation is observed with the Financial Intelligence Unit towards drafting various bylaws in the field of PML/TF and in terms of exchanging information with interest, in accordance with the bilateral cooperation agreement in force. The division for PML represented CBK in various projects concerning the presentation of the achievements in terms of strengthening the supervision of PML/TF. In this regard, Division for PML reported on a quarterly basis to the National Coordinator for Combating the Economic Crime and the Secretariat of the National Strategy for combating the informal economy, money laundering and terrorism financing, and other financial crimes.

The Division for Prevention of Money Laundering was also an active part in assessment project "Project against Economic Crime," funded by the European Union and the Council of Europe, whereby provided its input continuously, whenever required.

#### **4.6. Insurance supervision**

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

The main objective of the CBK is to protect policyholders and damaged parties, always acting pursuant to CBK's laws and regulations, within which the insurance industry conducts its insurance activity, by regularly compensating damages to its clients.

CBK is engaged in the adoption of best practices, based on the principles of the International Association of Insurance Supervisors, as well as risk-based supervision, thus contributing in increasing the transparency of the operations to the insurance sector, as well as increasing the transparency of the insurer to the public.

##### **4.6.1. General monitoring and analysing the insurance supervision field**

Reporting and Analysis Division (RAD), which operates within the Insurance Supervision Department (ISD), conducts the supervision process through the system for monitoring and analysing of the financial reports and other data reported to the CBK by insurers and insurance intermediaries, reports of external auditors, reports of authorized actuaries, as well as other information needed by special request by the CBK, including data generated by the online system of compulsory motor liability insurance policy and border insurance.

The information received by insurers are processed and analysed by the RAD and the results of these analyses are used as incentives for regulation, supervision and intervention of CBK to the insurer when necessary, with determined legal measures and regulations. Financial analysis results are also used as a basis for planning future general and targeted on-site inspections, performed by MAD.

Thus, in the financial analysis of the insurance sector, as well as individual insurers' performance assessment, are used indicators of IRIS (Insurance Regulatory Information System) system, adjusted to non-life insurers in Kosovo. These financial indicators serve for timely identification of problems that may lead to the deterioration of one or more parameters of insurance companies, and the industry in general.

Financial position of the insurance sector in general has been supervised with a special care, and as a result of this effective supervision by the ISD, it has continuously improved the financial position of the insurance sector in Kosovo, which improvement reflected in better protection of the interests of policyholders and other damaged parties in general.

Special attention is paid to the financial indicators related to capital adequacy, minimum solvency margin, variable capital requirements on behalf of insurance risk and other financial indicators of liquidity and profitability, including analysing of draft-budgets. RAD has also carefully reviewed the level of adequacy of technical provisions, which represent liabilities to insured clients, to assess whether they are adequate and if, at any time, they are covered by liquid assets.

During 2014, the Reporting and Analysis Division (RAD), in addition to common activities, performed the following activities:

On the basis of draft-budgets, ISD prepared comparative analysis regarding the financial performance of insurance companies, potential exposures to risks, as well as other liquidity indicators by preparing regular quarterly reports on early warning (EWT).

RAD reviewed business plans of insurance companies and insurance intermediaries wishing to enter the insurance market in Kosovo. During 2014, RAD examined two business plans of two new applicants for insurers and 2 for intermediaries.

During 2014, ISD reviewed and analysed remediation plans for insurance companies that have shown poor financial performance. During 2014, RAD reviewed and analysed remediation plans for two insurance companies that have not shown good financial performance.

RAD analyzes the requirements of insurance companies regarding the payment of dividends, as well as reviewed the requirements of insurance companies related to real estate investments.

RAD has continuously worked in reviewing and adopting the legal framework. In addition to the development of draft regulations, RAD prepared guides and manuals related to many issues of insurances, such as for DAC, for receivables, etc.

#### **4.6.2 Early Warning Test**

Early Warning Test (EWT) provides RAD with the opportunity to consistently assess the relative levels of risk in different areas of insurers' business risks. Early warning test is prepared using quantitative data, always referring in particular EWT reports, trends and basic financial parameters.

EWT reports are considered to be key indicators of the financial weakness to general insurers. EWT were identified as reports that are able to foresee insolvency with reasonable probability

prior to the failure of the insurers. They provide a very useful contribution in measuring the risk of insurer.

Each test has an accepted normal range, which may not be the same in every country, since it depends upon the number of players and other conditions in the market. There were cases when the insurers were not within the normal range. In these circumstances, the supervisor may use EWT to identify insurers that are exempt, i.e., the insurer with no good results compared to average values or values which more frequently occur, but the final goal must bring all insurers to normal or near range.

In this regard, RAD has been engaged that through these indicators to identify providers who have failed to maintain the indicators in line with average indicators. In cases when an insurer had coefficient below average, ISD undertook actions against these insurers.

#### **4.6.3. On-site supervision of the insurance companies**

In accordance with the CBK objectives, namely ensuring the sustainability of the insurance market and the protection of policyholders, CBK, during 2014, continued its activity by consistently conducting on-site examinations. During this year, a total of 12 examinations were conducted, of which eight were complete examinations, whereas four were focused examinations.

The purpose of complete examinations included assessing the general state of the company, assessing compliance with CBK laws and regulations and assessing the effectiveness of the functioning of internal controls, in order to maintain the company's financial stability and protect policyholders. The monitoring of implementation of recommendations from CBK past examinations, assessment of damages management, as well as the review of other positions of interest were subject to targeted examinations.

On-site examinations of insurance companies have, in some cases, identified non-compliance with the CBK legal framework, such as: lack of active governing role of the companies' governing board, delays in treatment and payment of damages, lack of an effective system of internal control, poor level of internal audit, violation of IFRS standards for several positions in the financial statements, not good and sound practises of company's assets management, weakness and not good practices of transactions with related parties, underestimation of technical reserves and violation of insurance products tariffs, approved by the CBK. Also, based on regular reports of insurers to the CBK were identified cases of non-compliance with legal requirements in relation to the minimum level of capital, solvency and insurance risk.

For all conducted examinations were prepared reports, where were raised and addressed issues identified during the examination, along with the relevant recommendations. Examined institutions report monthly to the CBK for undertaking action to eliminate/improve the findings emerging from the performed examinations.

Also, as a result of findings from conducted examinations and not good financial performance, CBK issued decisions imposing fines and other legal measures provided by the applicable legislation: increasing the funds for completion of regulatory requirements for the minimum required capital, solvency and insurance risk level, monetary fines, remediation plans were required, the renewal of existing insurance policies or the issuance of new insurance policies has been temporarily stopped, and some companies have been closely monitored regarding the financial performance, increasing the frequency of financial reporting to CBK.

## 4.7. Pension supervision

### 4.7.1 On-site examinations of pension funds

In view of maintaining the stability of the financial sector, during 2014 were conducted examinations of pension funds in compliance to the envisaged plan. Pension supervision has been consistent with international practices in the respective field. Based on a risk-based approach, a special attention has been paid to funds administration, investment strategy, effectiveness of internal controls, maintaining adequate liquidity and other risks.

During 2014, complete and focused examinations were conducted on pension funds in order to apply closer supervision of funds. During this year, pension funds continued to apply a more conservative approach of investment strategy. Moreover, last year were conducted a total of 4 examinations on pension funds, of which three were complete examinations and one was a focused examination.

Complete and focused examinations were conducted in accordance with the annual plan of 2014, which aimed at assessing the overall state of the pension funds, assessing the funds governance, policies and procedures, management, investment performance, efficiency of operation of internal controls in compliance with the CBK laws and regulations for the purpose of protecting pension funds saved from the contributors, and maintaining the financial stability fund.

Whereas, focused examinations on pension funds aimed at following the fulfilment of recommendations from CBK previous examinations, as well as in certain cases the examination of the areas that are considered deficient. During focused examination, the administration and monitoring of the equipment of participants with individual accounts statements have been subject to evaluation.

Central Bank of the Republic of Kosovo is a member of the International Organisation of Pension Supervisors (IOPS). Participation in these activities aims at expanding and deepening the cooperation with other relevant organizations and pension supervisory authorities, by exchanging professional experiences and knowledge during the participation in conferences and training sessions organized by IOPS.

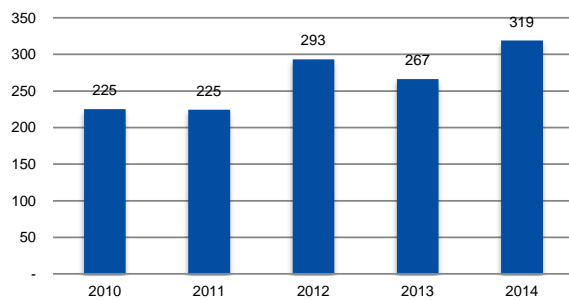
## 5. Services provided to Authorities, Financial Community and Public

### 5.1. Operations and cash management

During 2014, CBK provided a quantitative and qualitative cash supply to the banking sector for the purpose of transactions clearance in cash of economy and citizens. Consequently, the CBK strategic function and purpose to provide an adequate supply of banknotes and coins for the cash transactions in the economy has been successfully met.

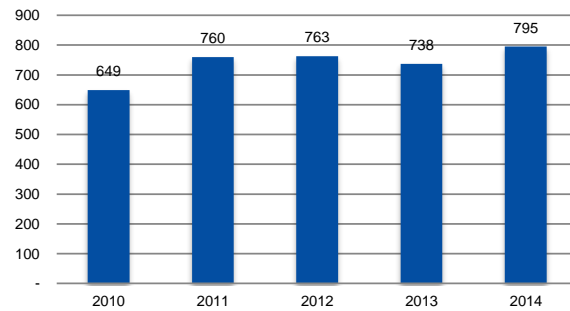
CBK responsibilities related to the operations and management of cash had to do primarily with the euro currency since this is the official currency used in Kosovo.

Figure 43. Cash supply (value), in millions of euro



Source: CBK (2015)

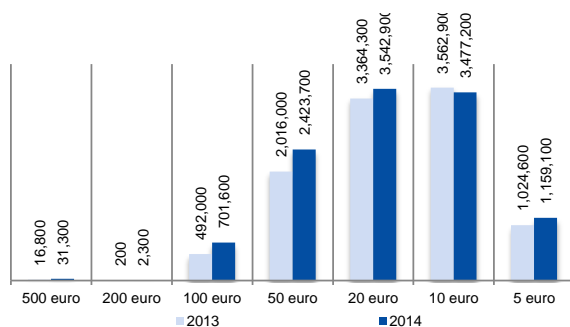
Figure 44. Cash admission (value), in millions of euro



Source: CBK (2015)

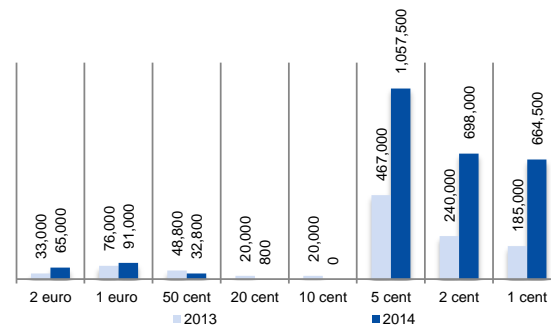
The total value of the cash supply in 2014 marked an increase of 19.7% compared to 2013. The structure of cash supplied by denominations, which primarily is determined by requirements of the banking sector, did not have significant changes in 2014 compared to 2013. To euro banknotes continued to dominate requests for supply with denominations - euro 10, 20 and 50, whereas requests for denomination volumes of euro 5, 100, 200 and 500 remains significantly lower. During 2014, requests for volumes of small denominations in the value of euro 20 and 5 increased slightly compared to the previous year, while the denomination volume in value of euro 10 marked a slight decline.

Figure 45. Supply with euro banknotes by denominations (number of pieces)



Source: CBK (2015)

Figure 46. Supply with euro coins by denominations (number of pieces)



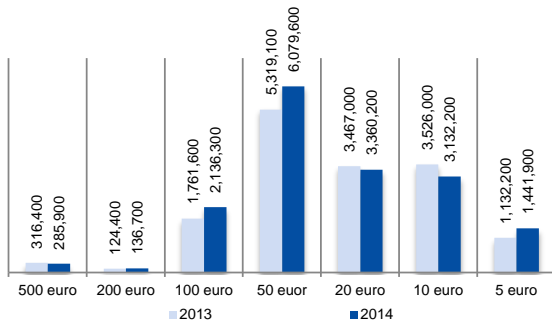
Source: CBK (2015)

As shown in the following figures, in 2014, CBK supplied commercial banks and other institutions with more than 11.3 million euro banknotes (with an amount of over euro 318.9 million) and over 2.6 million pieces of euro coins (with an approximate amount of euro 0.31 million).

In 2014, the supply with euro coins was mainly dominated by coins of low value from euro 1 cent to euro 5 cents. The volumes of requests for supply with small denominations in the value of 5, 2 and 1 cent, during 2014, marked a group increase of 192% representing a significant increase compared to the previous year. Volumes of request for supply with denomination of euro 10 cent up to euro 2 were lower, as in the previous year.

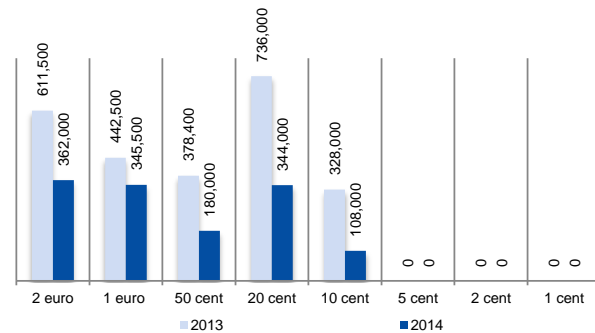
The total value of cash received as deposits marked a significant increase of 7.8% in this year, compared to the previous year. CBK received around 16.6 million pieces euro banknotes (about 69,000 pieces of banknotes per day) and about 1.3 million pieces in euro coins (about 5,600 pieces of coins per day) as cash deposits from commercial banks and other institutions. When expressed in amounts, these deposits reached approximately the amounts of 793.6 million euro banknotes and 1.2 million euro coins. The structure of euro banknotes received during 2014, as seen in the below figure, did not have any major difference from the previous year, while the structure of received currencies during 2014, i.e. denominations of coins of euro 2 and euro 1 marked an increased deposits volume compared to other coins which marked a slight decline.

Figure 47. Euro banknotes received by denominations (number of pieces)



Source: CBK (2015)

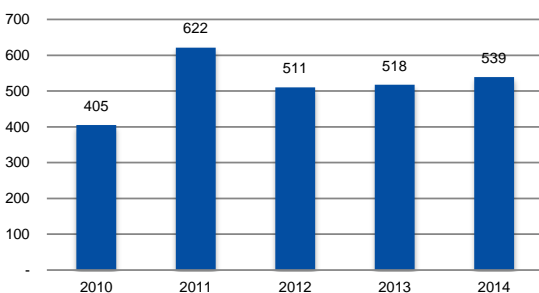
Figure 48. Euro coins received by denominations (number of pieces)



Source: CBK (2015)

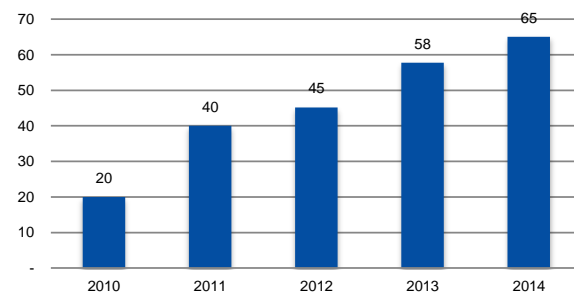
Also during this year, similar to previous years, net<sup>13</sup> deposited cash were in a higher value than the supplied cash. In fact, reaching about euro 476 million, such a change was to a higher extent than in the previous year which was approximately euro 471 million. This increase was mainly as a result of the increase of deposits with euro banknotes from the banking sector.

Figure 49. Export of cash (value), in millions of euro



Source: CBK (2015)

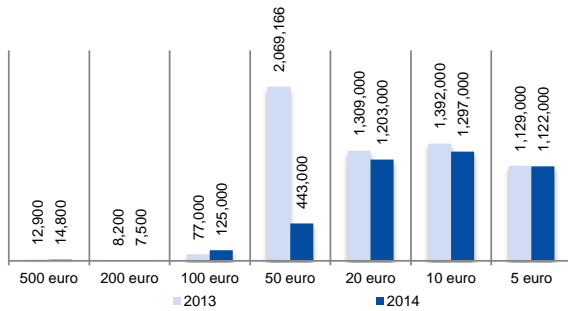
Figure 50. Import of cash (value), in millions of euro



Source: CBK (2015)

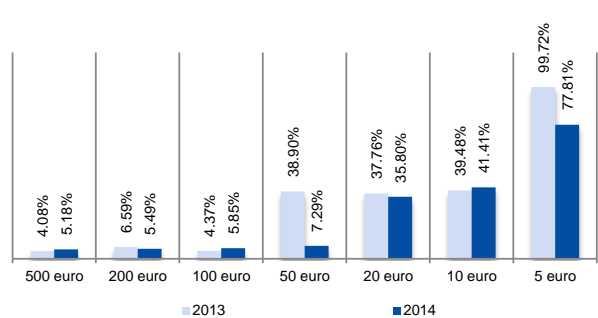
<sup>13</sup> Deposits minus withdrawals.

Figure 51. Number of outdated banknotes withdrawn from circulation (number of pieces)



Source: CBK (2015)

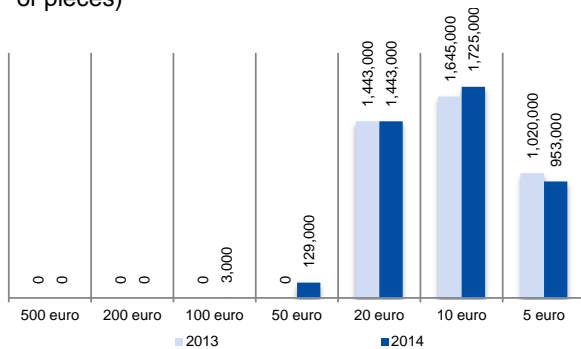
Figure 52. Proportion of banknotes withdrawn from circulation from the total received



Source: CBK (2015)

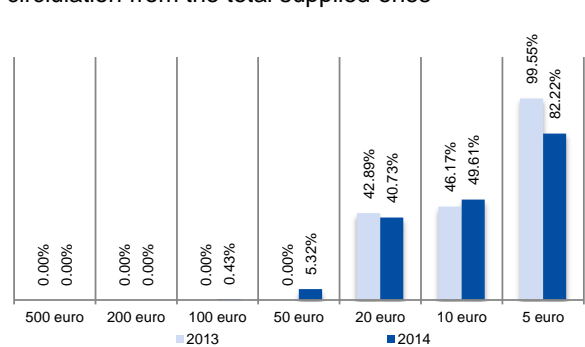
Since CBK keeps only the minimum required level of cash, the surplus were sent in the euro area, which then are used for international payments, and through investments are returned to interest-earning assets. Cash net remittances taken abroad amounted to euro 473.9 million, being higher than a year earlier when they were euro 460.2 million. This increase in net remittances was as a result of increased cash deposits from the banking sector. Trends of cash exports and imports in the recent years are presented in the following two figures.

Figure 53. Supply with new banknotes (number of pieces)



Source: CBK (2015)

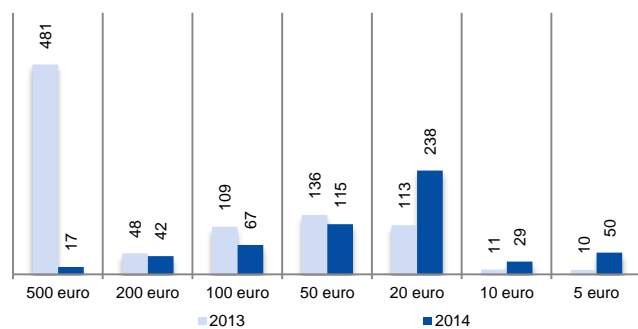
Figure 54. Proportion of new banknotes induced in circulation from the total supplied ones



Source: CBK (2015)

Similar to previous years, cash operations continued to be carried out through modern processing equipment and in accordance with the CBK standard rules and procedures. During 2014, CBK was equipped with the latest sophisticated machinery technology to process, which were tested by the ECB regarding the conformity with the ECB rules. All cash received by the commercial banks and other institutions were processed (nearly 16.6 million euro pieces in banknotes and 1.3 million euro pieces in coins) and were classified according to the level of outdate.

Figure 55. Counterfited euro in Kosovo (number of pieces)



Source: Forensic Agency of Kosovo (2015)

Approximately 4.2 million pieces of euro banknotes (25.4 percent of total euro banknotes deposited by the banking sector) during 2014 were classified as highly outdated and were removed from circulation and were sent to the central banks of the euro area. Such a

considerable volume of euro banknotes highly outdated removed from circulation contributed significantly in improving the quality of cash in circulation in the Republic of Kosovo. Banknotes which were mostly classified as highly outdated and were removed from circulation were those of denominations of euro 20, 10 and 5, due to their higher circulation in the economy.

Quality of cash in circulation was also improved through the supply of banking sector with completely new euro banknotes, which were brought from the euro area. During 2014, CBK supplied the banking sector with more than 4.2 million pieces of new euro banknotes (37.5 % of the total supplied euro banknotes). Around 97% of new banknotes supplied during 2014 were low denomination banknotes (euro 20, 10 and 5), with which were mainly supplied commercial banks for the purpose of equipping their ATMs. Then, also all used supplied euro banknotes were of a high quality standard (appropriate quality for ATMs).

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

## 5.2. Maintenance and transactions

CBK provides banking services for the Government of the Republic of Kosovo, Privatization Agency of Kosovo (PAK) and other institutions such as banks and other financial institutions, public entities, foreign banks, central banks, international financial institutions (International Monetary Fund, World Bank), and international organizations, as specified in Article 9 of the Law no. 03/L-209 of CBK. In 2014, similar with the previous years, these services consisted primarily on maintenance of accounts and payments, excluding any form of lending.

**Table 6. Transaction amount by the main types of payment (in thousands of Euros)**

Type of transactions	2010	2011	2012	2013	2014
<b>Transactions with cash</b>	<b>423658</b>	<b>535189.8569</b>	<b>468754.7505</b>	<b>470786.1071</b>	<b>475751.972</b>
Deposits in cash	648911	760081.605	762595.57	737523.8	794989.238
Cash withdrawal	225253	224891.7481	293840.8195	266737.6929	319237.266
<b>Domestic transfers</b>	<b>392587</b>	<b>462866.6305</b>	<b>335266.7231</b>	<b>581796.7298</b>	<b>839345.0219</b>
Incoming domestic transfers	1568021	1615232.041	1568574.233	1554535.112	1615753.361
Outgoing domestic transfers	1175434	1152365.411	1233307.51	972738.3825	776408.3396
<b>International transfers</b>	<b>-408689</b>	<b>-558777.7251</b>	<b>-366873.1736</b>	<b>-321675.5369</b>	<b>-714099.0529</b>
International incoming transfers	326319	266705.5446	372966.6375	653710.1036	404473.1335
International outgoing transfers	735008	825483.2697	739839.8111	975385.6405	1118572.186

Source: CBK (2015)

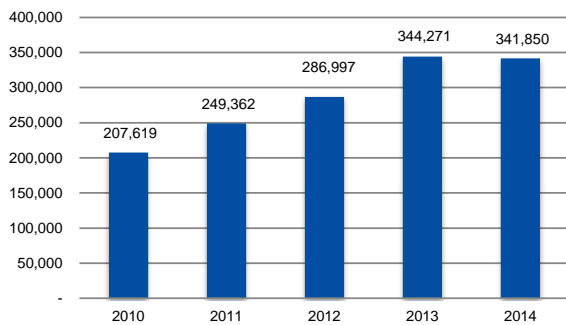
CBK supported the advancement of transaction processes and agreements of the Ministry of Finance and Privatization Agency of Kosovo. Forms of payment and ways of communication are adapted to their requirements. It is worth mentioning the full digitalization of international order transfers of the Ministry of Finance.

<sup>14</sup> <http://bqk-kos.org/?id=31>

At the end of 2013 and beginning of 2014, all planned stages of SWIFT project were concluded and all international payments were realized through SWIFT network, shortening time and increasing processing efficiency.

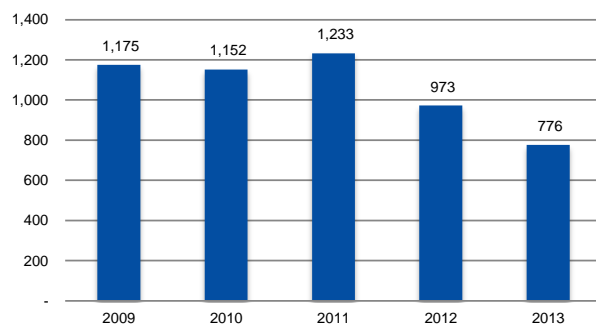
While most of cash operations of the CBK were carried on behalf and on benefits of commercial banks, most of domestic payments of the CBK are conducted on behalf and on the benefit of the Treasury.<sup>15</sup>

Figure 56. Volume of domestic outgoing transactions, number



Source: CBK (2015)

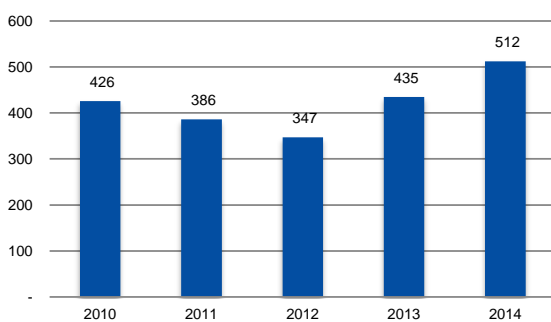
Figure 57. Value of domestic outgoing transactions, in millions of euro



Source: CBK (2015)

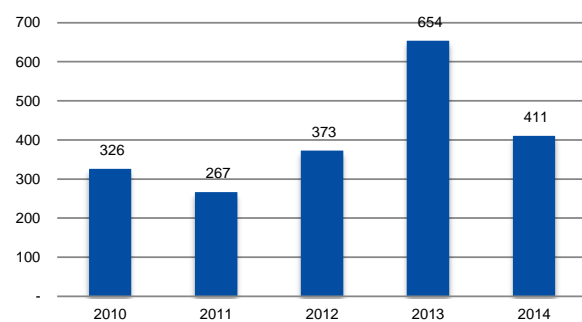
On behalf of its clients, CBK processed about 342 thousand domestic outgoing payment orders (a decrease of 0.7% compared to the previous year) and received to their accounts about 117.2 thousand incoming payment orders (an increase of 11.82% compared to the previous year). Expressed in value, domestic outgoing payment orders amounted to euro 776.4 million (a decrease of 20.18% compared to the previous year) and domestic incoming payment orders amounted over euro 1.61 billion (an increase of 3.94 percent compared to the previous year). The number and the largest amounts of transactions were processed by the CBK with order and for the Treasury.

Figure 58. Volume of international incoming transactions, number



Source: CBK (2015)

Figure 59. Value of international incoming transfers, in millions of euro



Source: CBK (2015)

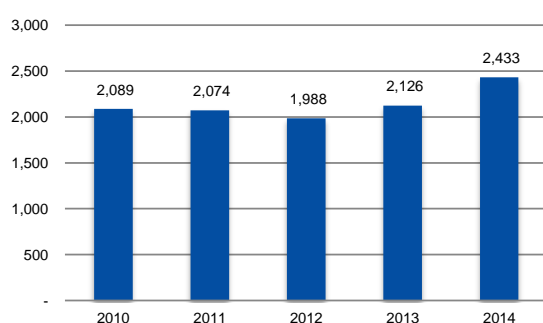
Regarding the outgoing domestic payments, it should be noted that all commercial banks generate them themselves, whereas insurance institutions process the largest number of payments through commercial banks. In fact, all other accountholders of CBK use payment services provided by the CBK in a limited way, since all of them have accounts in commercial banks.

Regarding international transactions, the largest number of such transaction was performed by CBK with the order of the Treasury. On the other hand, considering their value, most of international transactions conducted by the CBK are related to the transfers of commercial

<sup>15</sup>Treasury – Ministry of Finance.

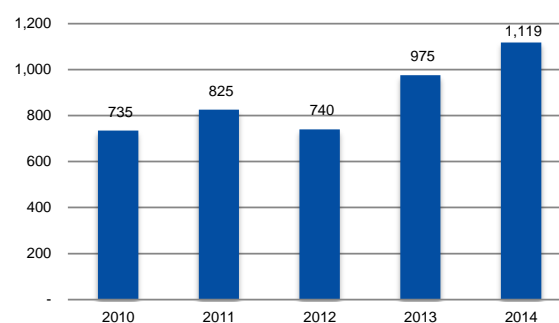
banks funds. Annual data on international transactions for the last five years are presented in the following figures.

Figure 60. Volume of international outgoing transactions, number



Source: CBK (2015)

Figure 61. Value of international outgoing transactions, in millions of euro



Source: CBK (2015)

On 31 December 2014, deposits of the institutions of the Republic of Kosovo amounted to euro 155.5 million, whereas those of the PAK amounted to euro 557.8 million.

Commercial banks and insurance institutions, among other account holders, are the most important regarding the level of deposits held in the CBK. Commercial banks and insurance institutions deposits held at CBK are mainly related to their regulatory requests. They comprised 26 percent of total deposits held at CBK during 2014. On 31 December 2014, commercial banks and insurance companies deposits amounted to euro 321.7 million.

Table 7. Level of deposits by type of accounts (in thousands of Euros)

Type of accounts	2010	2011	2012	2013	2014
<b>I. Current accounts</b>	<b>441,758</b>	<b>677,943</b>	<b>1,146,445</b>	<b>1,266,824</b>	<b>1,173,404</b>
Kosovo Privatisation Agency	65,089	265,310	549,403	530,328	557,801
Government Institutions	48,796	89,326	73,697	12,888	90,481
Commercial banks	203,558	209,700	302,147	327,843	315,932
International institutions (IMF, WB)	76,990	73,393	169,341	156,479	155,885
KPSF + Public institutions (PTK, KEK, etj)	38,131	20,953	27,339	209,655	20,845
DIFK + other	1,667	10,770	19,060	24,349	26,385
Insurance companies	5,780	7,693	4,983	4,955	5,738
International institutions (UNMIK, EULEX etc.)	1,678	729	406	260	268
Supplementary pension funds	68	68	68	68	68
<b>II. Time deposits</b>	<b>597,105</b>	<b>425,453</b>	<b>152,000</b>	<b>133,000</b>	<b>65,000</b>
Kosovo Privatisation Agency	457,105	320,453	0	20,000	0
Government Institutions	140,000	105,000	152,000	113,000	65,000
Commercial banks	0	0	0	0	0
International institutions (IMF, WB)	0	0	0	0	0
KPSF+ Public institutions (PTK, KEK, etc.)	0	0	0	0	0
DIFK + other	0	0	0	0	0
Insurance companies	0	0	0	0	0
International institutions (UNMIK, EULEX etc.)	0	0	0	0	0
Supplementary pension funds	0	0	0	0	0
<b>III. Government securities</b>	<b>84,746.55</b>	<b>0.00</b>	<b>45,995.19</b>	<b>80,950.60</b>	<b>0.00</b>
Government Institutions	84,747	0	45,995	80,951	0
<b>Total</b>	<b>1,123,609</b>	<b>1,103,395</b>	<b>1,344,440</b>	<b>1,480,775</b>	<b>1,238,404</b>

Source: CBK (2015)

**Table 8. Level of deposits of key clients (in thousands of Euros)**

Description	2010	2011	2012	2013	2014
<b>Total</b>	<b>1,123,609</b>	<b>1,103,395</b>	<b>1,344,440</b>	<b>1,480,775</b>	<b>1,238,404</b>
Government institutions	273,543	194,326	271,692	206,838	155,481
Kosovo Privatisation Agency	522,193	585,763	549,403	550,328	557,801
Commercial banks	203,558	209,700	302,147	327,843	315,932
Other	124,315	113,607	221,198	395,765	209,190

Source: CBK (2015)

### 5.3. Payment system

One of the primary functions of the CBK is the functioning of an efficient, safe and sustainable payment system in the country as a key pillar of the financial infrastructure and the economy of a country.

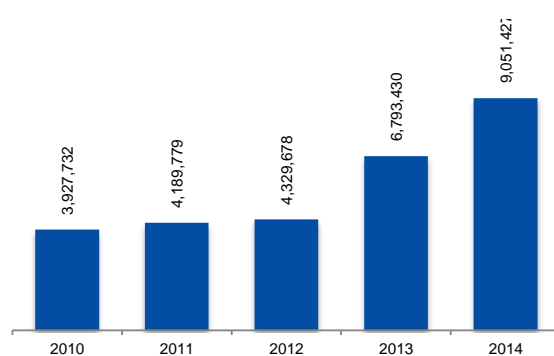
During 2014, Interbank Payments System was characterized by sustainability, security and interoperable efficiency, ensuring timely clearing and settlement in compliance with the relevant standards and procedures. Also, Registry of the Bank Account Holders has functioned well and it has been marked an increase in Kosovo Judicial Council access in users' accounts.

One of the important activities in the field of payment systems was the review and harmonization of respective regulation, reinforcing supervisory competencies of payment systems and market infrastructure in the banking industry.

#### 5.3.1 Electronic Interbank Clearing System Operation

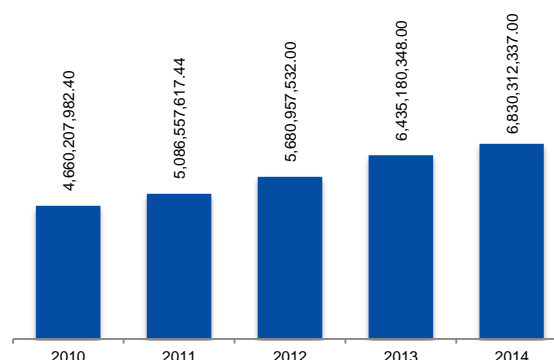
Electronic Interbank Clearing System (EICS) operates as a system which enables the interbank processing of a number of payments' instruments.

Figure 62. IECS transactions number



Source: CBK (2015)

Figure 63. IECS transactions value



Source: CBK (2015)

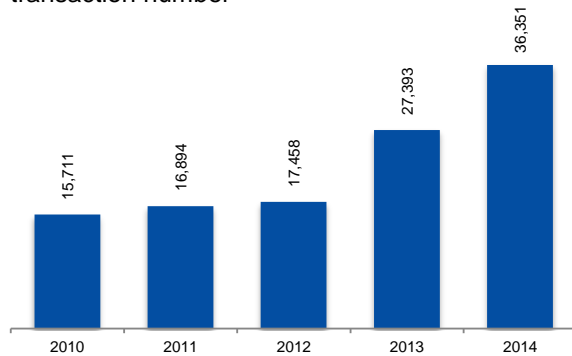
During 2014, the participation of "Isbank" in EICS has been fully operationalized, and has been enabled the process of electronic reporting to the Department of Property Tax through the Department of Treasury.

Statistical indicators of EICS activity reflected an increase in the volume and the value of transactions, as presented below:

The number and the value of transactions in EICS continues to be increased. About 9.1 million transactions have been processed with a total value of around euro 6.8 billion. Continued increase in volume and value of interbank transactions of EICS reflects the relative increase of non-cash payments and increase of the confidence to the banking system.

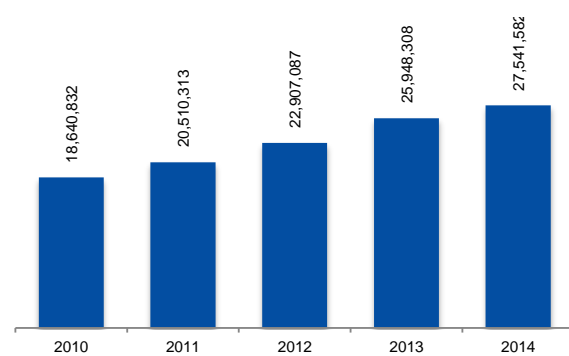
Compared to EICS transactions in the previous year, the volume of transactions increased for 33.2% and the value of transactions increased for 6.14 %.

Figure 64. Daily average of IECS transaction number



Source: CBK (2015)

Figure 65. Daily average of IECS transaction value

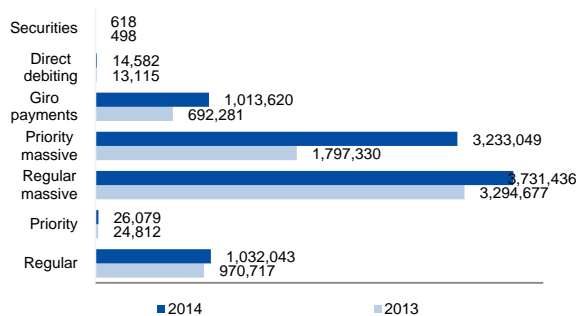


Source: CBK (2015)

Among the factors that contributed to the increase of EICS transactions was the processing of the public administration employees salaries and payments for social schemes categories from the Ministry of Labour and Social Welfare,<sup>16</sup> and Kos-Giro payments for companies of the public services. The securities transactions have mainly influenced the increase of the value.

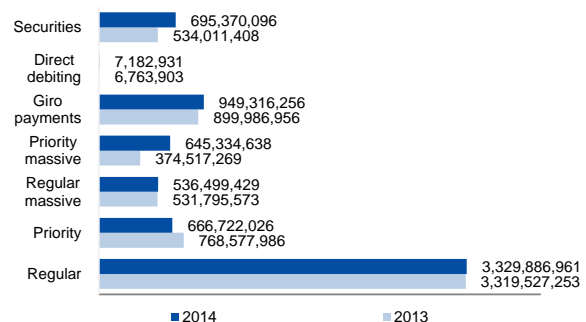
Within EICS are processed some specific categories of payments, such as: regular payments (individual and massive), priority payments (individual and massive), Kos-Giro, Direct Debit and settlement of securities. Levels of increase in both volumes and values of these categories of payments for 2013 and 2014 are presented in the following figures.

Figure 66. Annual transaction volume of IECS, by their type



Source: CBK (2015)

Figure 67. Annual transaction value of IECS, by their types



Source: CBK (2015)

Regular payments (individual and massive) constitute around 52.63 percent of the volume and around 56.61 percent of the value of the transactions of EICS.

Kos-Giro transactions represent a specific type of regular transactions which are also processed through clearing sessions and are settled on net basis. Kos-Giro transactions are intended for the collection of standardized and automated large billing entities. During the 2014, Kos-Giro number of payments increased for 46.42%, while their value increased by approximately 5.48%.

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

<sup>16</sup> During 2014, in EICS system were realized payments of all public sector salaries and six pension schemes of MLSW, while compared to 2013, from April started the payment of salaries and since July 2013 payment of pensions in EICS

EICS transactions. In 2014, in terms of volume, they represented less than 1% of transactions, while in terms of value they represented about 9.76% of the transactions. This type is still used mainly for emergency payments and those with larger values.

Direct Debit as an instrument and new payment scheme in Kosovo is being used to a small extent compared to other payment instruments. Thus, during 2014, this type of transactions, in total, represented less than 1% of the volume and the value of EICS transactions.

The total value of transactions settled in EICS was euro 6,830,312,337, where three first institutions with larger value of initiated transfers comprise 63.69% of the total value, while all other institutions comprise 36.31%. Regarding the number of initiated transfers, by their total number of 9,052,162, three first institutions with the largest number of initiated transfers comprise 59.74% of the total number, while all other institutions comprise 40.26%. A detailed overview of concentration indicators of the participation of more active institutions in EICS during 2014 against the total activity in the system is presented in table 9.

**Table 9. Indicators of concentration for received/entry transactions in EICS**

EICS system	Volume	Value
Three banks	63.25%	69.13%
Six other banks	36.75%	30.87%
Total	9,052,162	6,832,448,403

Source: CBK (2015)

Regarding transfers received, three institutions with a higher value of transfers received comprise 69.13% of the total amount, while all the other institutions comprise 30.87 percent. On the other hand, out of total numbers of received transfers, the first three institutions comprise 63.25% of total number, while all the other institutions comprise 36.75%.

**Table 10. Indicators of concentration for received/incoming transactions in EICS**

EICS system	Volume	Value
Three banks	59.74%	63.69%
Six other banks	40.26%	36.31%
Total	9,052,162	6,832,448,403

Source: CBK (2015)

### 5.3.2 Payment System Supervision, Analysis and Developments

Law on Payment System in Kosovo authorizes CBK to supervise the payment systems in order to ensure efficiency and reliability of the system and its compliance with the legal provisions, maintaining the public confidence in the payment system and instruments and promotion of free competition in the payment services market.

Within the payments system supervision, several activities have been undertaken and the relevant function has been increased and developed in line with international principles and standards. Analytical indicators for payment instruments in Kosovo<sup>17</sup> have been published regularly.

<sup>17</sup>Principles for Financial Market Infrastructure, BIS, April 2012 (<http://www.bis.org/cpmi/publ/d101a.pdf>);

Also, during this year regular inspections at banks have been conducted in order to monitor the processing of payments under the procedures established by legal provisions.

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

- Analysis on the use of payments instruments in Kosovo (on a quarterly basis);
- Analysis of Kos-Giro payments scheme developments and the Direct Debit;
- Analysis for the reduction of transactions in cash;
- Comparative reports between Kosovo and countries in the region on the development of payment systems infrastructure.

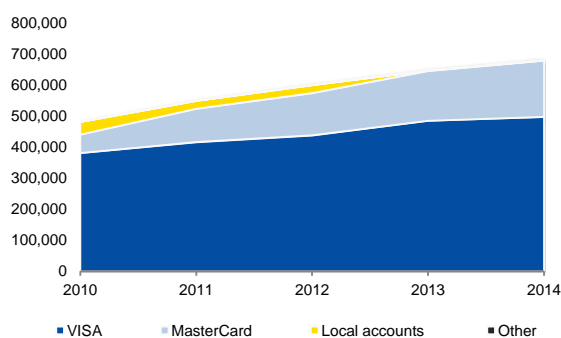
Within the advancement of the legal basis, the following regulations and instructions have been reviewed and adopted:

- a) Regulation on Bank Account Standard Numbering System,
- b) Regulation on Payment Instruments Statistics,
- c) Regulation on International Payments,
- d) Instruction on the Direct Debit Scheme Operation, and
- e) Instruction on the Kos-Giro Payment Scheme Operation.

### 5.3.3 Payments instruments and banking infrastructure for payment services

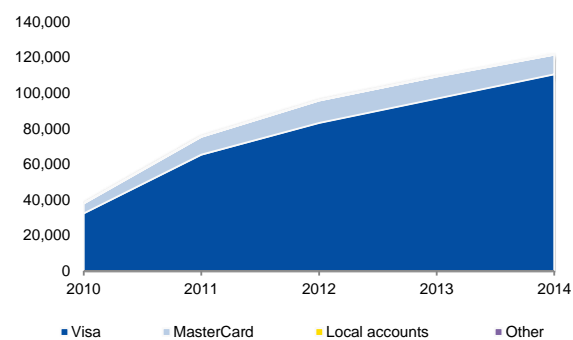
Regarding payments instruments and bank infrastructure of the payments services, it is worth mentioning that it is observed a sustainable development, inclined with growth and expansion both in the application of innovative technologies as well as in the use of electronic instruments.

Figure 68. Number of debit accounts, by type



Source: CBK (2015)

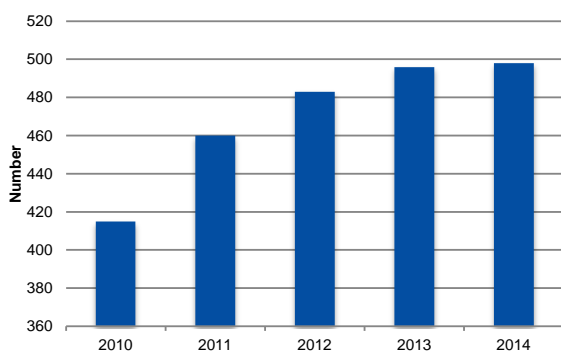
Figure 69. Number of credit accounts, by type



Source: CBK (2015)

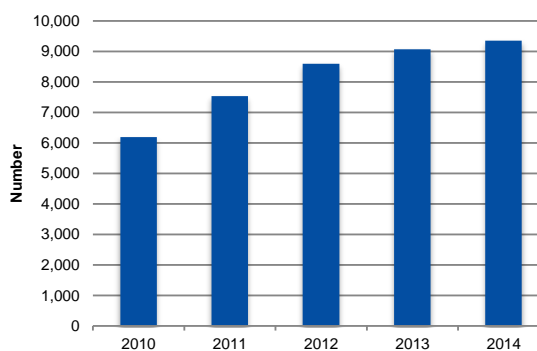
Based on the methodology for reporting of payments instruments, commercial banks have continued regular reporting of statistics on payments instruments to the Payments System Department at the CBK.

Figure 70. Number of ATM



Source: CBK (2015)

Figure 71. Number of POS



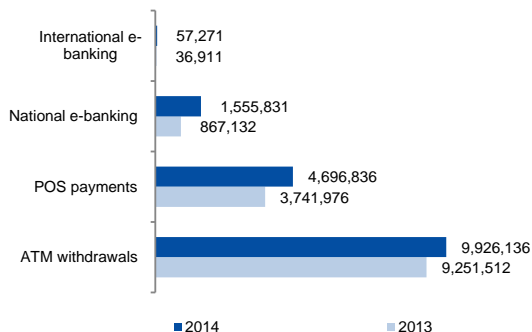
Source: CBK (2015)

A broad overview on development of the national payments system has been generated from the data collected, processed and analyzed during 2014.

The number of cards with the payment function has constantly increased. The network of bank terminals in Kosovo is also increasing. In December of 2014, 678,090 debit cards and around 121,652 credit cards, as well as 13,284 prepaid cards have been reported. These cards could be used in 498 ATM (Automated Teller Machine) terminals and in 9,349 POS (Point of Sales) terminals located throughout Kosovo.

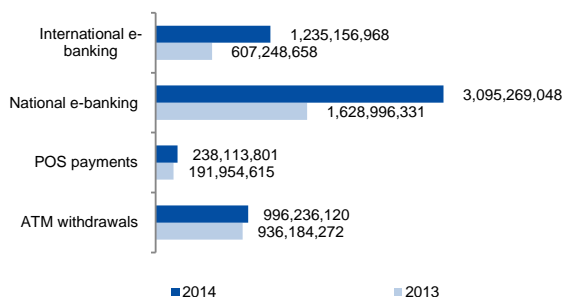
In comparison to the previous year, the number of ATM terminals has increased by 0.4% and the number of POS terminals has increased by 3.1%.

Figure 72. Annual transaction volume of electronic payment instruments



Source: CBK (2015)

Figure 73. Annual transaction value of electronic instruments of payment



Source: CBK (2015)

The year 2014 was characterized by a growing tendency to use electronic payment instruments. The number of e-banking payments in the country increased by 49.5%, while their value increased by 58%. The number of payments via POS terminals increased by 25.5%, while their value increased by 24.04%. Also, withdrawals at ATM terminals were characterized with increase. The number of ATM withdrawals during 2014 is increased by 7.29%, while the value of withdrawals is increased by 6.41%.

From the bank reports, it results that the total number of clients' bank accounts by the end of 2014, was around 1.92 million, representing an increase of 3.35% compared to the end of 2013. Around 98.37% of them are resident accounts, whereas around 1.63% percent non-resident accounts.

Out of the total accounts by the end of 2014, around 157.7 thousand accounts had "online" access to make payments or check account balance, recording an increase of 20.1% compared to 2013.

**Table 11. Number of accounts**

Account description	Clients' accounts in total			Accessible through internet		
	2012	2013	2014	2012	2013	2014
Clients' accounts (1+2)	1,824,266	1,855,383	1,917,513	97,089	131,365	157,761
1-Residents' accounts (a+b)(%)	98.40%	98.62%	98.37%	97.00%	97.10%	97.22%
a-Individual (%)	93.20%	93.25%	93.18%	78.70%	80.11%	79.66%
b-Company (%)	6.80%	6.75%	6.82%	21.30%	19.89%	20.34%
2-Nonresidents' accounts (c+d) (%)	1.60%	1.38%	1.63%	3.00%	2.90%	2.78%
c-Individual (%)	96.50%	96.35%	96.60%	94.90%	92.50%	91.99%
d-Company (%)	3.50%	3.95%	3.40%	5.10%	7.50%	8.01%

Source: CBK (2015), Bank reporting according to the "Payments Instruments Reporting Methodology"

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

Regarding the comparison of Kosovo to regional countries, it is noted that the rapid trend of development in recent years has impacted Kosovo in improving its position compared to neighbouring countries.

**Table 12. Comparative table of payment instruments and terminals<sup>18</sup>**

Description	Inhabitants	ATM per millions of inhabitants	POS per millions of inhabitants	Credit accounts per millions of inhabitants	Debit accounts per millions of inhabitants	E-Banking per millions of inhabitants
Kosovo	1.82	273	4,984	60,073	354,422	72,179
Albania	2.89	284	1,961	22,295	256,446	39,422
Czech Republic	10.52	418	9,099	153,011	834,348	-
Turkey	75.63	555	30,328	751,490	1,324,408	-
Slovenia	2.06	862	17,279	54,650	1,228,244	-
Bulgaria	7.28	803	9,719	110,207	952,494	-
Hungary	9.91	487	9,162	136,330	766,442	-
Bosnia	3.84	356	5,313	54,442	406,843	31,907
montenegro	0.62	539	17,921	79,498	560,600	77,766
Croatia	4.26	968	21,648	84,538	1,596,006	-
Macedonia	2.06	451	18,042	152,119	577,159	227,232

Source: CBK (2015) and central banks or supervisory authorities of the respective countries

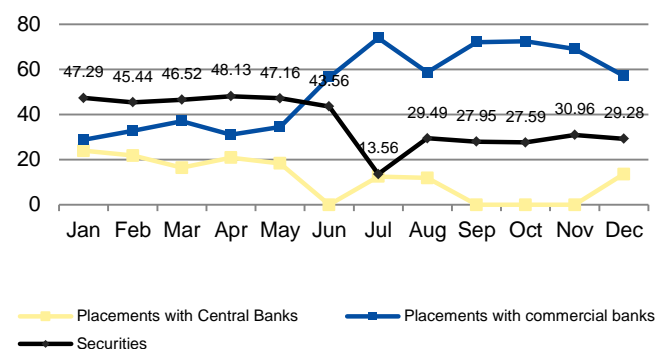
#### 5.4. Asset management

According to the Investment Policy of the CBK Executive Board, main objectives established during the asset management are: security, liquidity and return on investments.

During 2014, all assets were invested in financial instruments which are considered as a category of safe and liquid instruments and superior credit rating.

Categories of financial instruments where assets were invested are:

- bank time deposits with maturity up to one year, namely euro time deposits in commercial and central banks of the euro area countries;

**Figure 74. Spread of ratio of CBK portfolio investments**

Source: CBK (2015)

<sup>18</sup>The data in the table are from 2013 since most of the countries in the region have not published yet the data for 2014.

- Treasury bills of the euro area countries, with maturity up to one year, and;
- Government bonds of the euro area countries, with maturity up to three years.

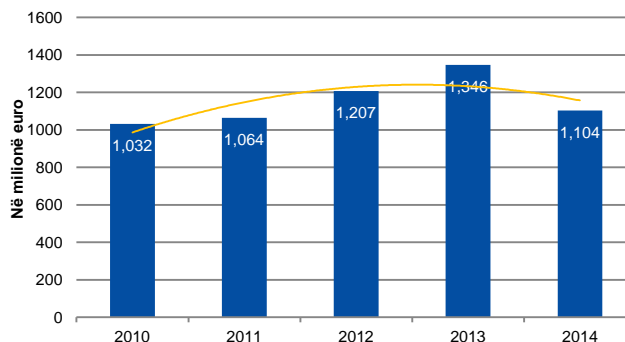
According to the categories of assets described above, during 2014 CBK has maintained an adequate distribution in relation to the state of the euro area market, despite the difficulties in the financial market as a result of the intervention of the European Central Bank (ECB) through monetary policy from June 2014, where deposit rates were set at negative levels. CBK managed to achieve positive investment returns, while respecting the primary objectives of Investment Policy.

Figure 74 represents the ratio of distribution of assets in CBK portfolio, according to the type of the instrument. The trend of the distribution of portfolio is relatively constant in the first half of the year, except June which was characterized by high instability of the rates in the interbank money market as a result of the abovementioned ECB's actions. Whereas, the second part of the year was characterized by equal share of Treasury bills and government bonds over months. In this report we have an exception in December, where it is presented a decrease of investments in securities. This lower share in investments of securities during this month is as a result to the unfavourable conditions of the market which did not provide positive return rates for treasury bills and bonds issued with maturity of up to three years, according to CBK Investment Policy.

Regarding deposits, it can be seen that in the first half of the year we have higher share of deposits with the central bank and commercial banks which marked an increase in shares, ending the year with a share of 57% of total assets invested in portfolio.

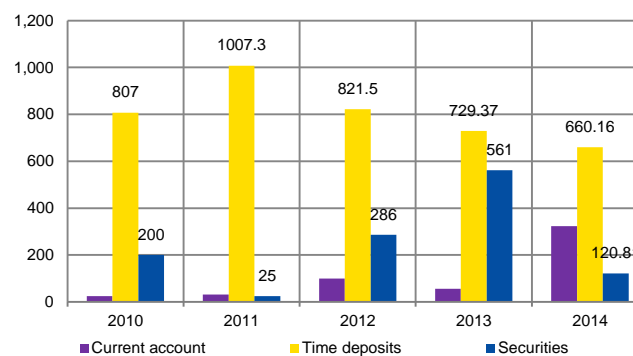
During 2014, the amount of assets under CBK management is reduced to 18% compared to the previous year.

Figure 75. Total amount of assets in portfolio investments, in millions of euro every end of the year



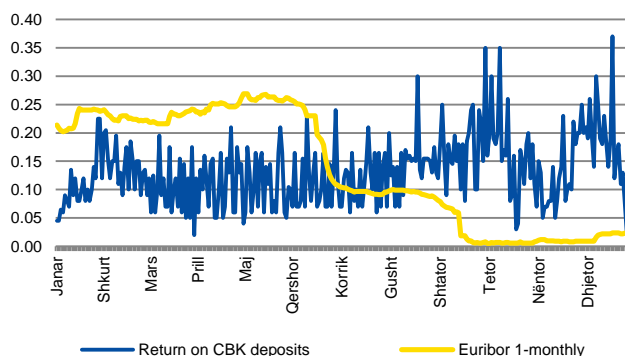
Source: CBK(2015)

Figure 76. Spread of portfolio investments, end of the year



Source: CBK (2015)

Figure 77. Return rate in deposits invested by the CBK and EURIBOR 1-month rate



Source: CBK(2015)

Figure 76 shows the investment portfolio by categories of financial instruments for 2014 compared to previous years, where the trend of larger distribution of assets placed in different investment categories.

### 5.4.1. Portfolio performance for 2014

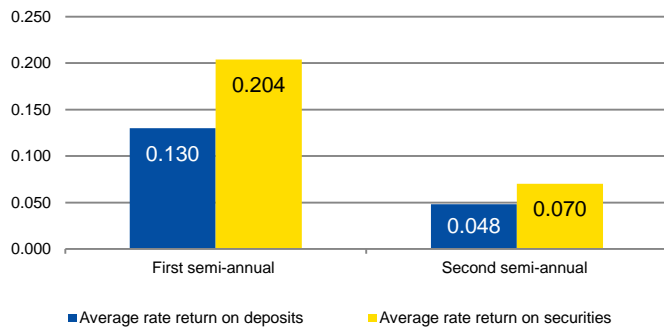
The year 2014 was characterized with continuation of financial crisis in the euro area. Oil price crisis has aggravated even more the disinflationary trend of prices in Euro-system, forcing the European Central Bank (ECB) to reduce main financing rates twice, in order to shift the inflation towards the desired level of about 2%. On 11 June, for the first time in its history, the ECB has set a negative interest rate on deposits as an instrument of monetary policy adjustment. While, on September 10, negative rates on deposits deepened further from -0.10% to -0.20% and the main refinancing rate in 0.05%. This directly impacted the reduction of interest rates in the euro area interbank market and increase of prices in euro-denominated bonds.

Figure 77 presents the fluctuation in return rates from investments in the CBK portfolio in comparison to the Euro interbank market rate, namely 1-month EURIBOR rate (Average Interbank lending rate for euro currency) which is considered a benchmark rate for time deposits of the CBK in central and commercial banks of euro area countries. The benchmark is determined against the data from average time horizon of investment portfolio (33 days).

Figure 78 presents the most favourable return on investment realized in investments in securities compared to bank deposits, a return which is noted for two six months periods of 2014. In the second half, the rates of return of the portfolio are directly affected by the intervention of the ECB on 11 June 2014, on which occasion main interest rates were significantly decreased.

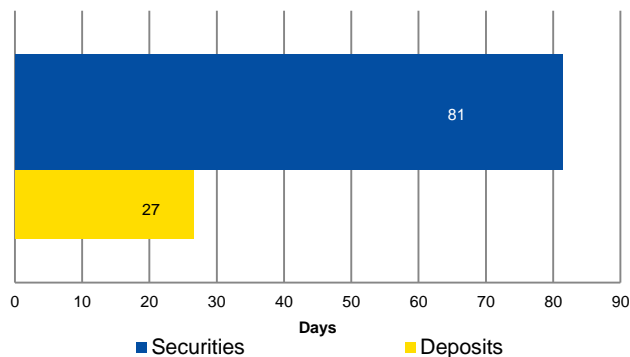
Investments in securities, as shown in figure 79, are placed in longer periods compared to investments in bank deposits. Despite this fact, the average days to maturity for securities remains low, less than three months. This means that special attention has been paid to the liquidity which is a primary objective of the CBK Investment Policy.

Figure 78. Rate of investing returns in portfolio and the risk for two semi annual periods of 2012



Source: CBK(2015)

Figure 79. Time horizon average expressed by days up to maturity for two placements categories



Source: CBK(2015)

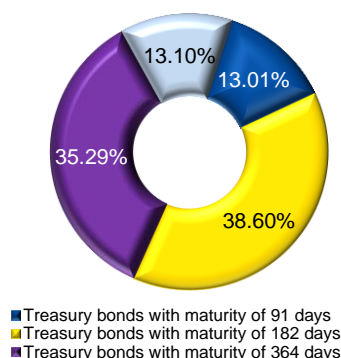
### 5.4.2 Risk management

Assets are invested in securities issued by most credible euro area countries and in banking institutions with superior credit rating according to the ratings of International Credit Rating Agencies such as Standard & Poor's and Moody's.

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

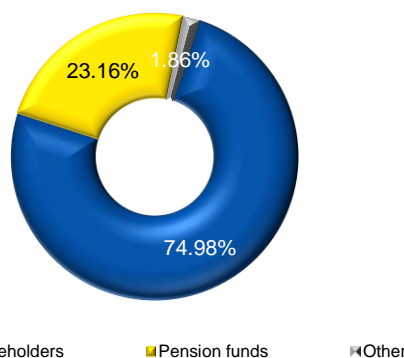
- **Credit risk** - Investment portfolio is distributed in order to keep the credit risk at a low level. All investments are conducted in relation to the criteria of short-term credit ranking, as defined in the Investment Policy P-2 / A-2 (Moody's/S&P) and through the distribution of investments, defined by the limits expressed in percentages for states and banking institutions.
- **Interest rate risk** - is measured by comparing the return rate from investments in the CBK portfolio with 1-month EURIBOR rate (Average rate of interbank lending for Euro currency) as comparative rate. Standard deviation in the interest rates for 2014 is 0.07% which means that the average interest rate may vary by +/- 0.07%, which is considered as minimal risk.
- **Liquidity risk** - Investments were mainly conducted in compliance with time horizon determined in Investment Policy. Instruments in which were invested are mainly short-term instruments, such as bank deposits, treasury bills and state bonds.
- **Operational risk** - this risk exists in all activities and to minimize operational risk, investments are carried out accurately by being subject to the effective control of any transaction.

Figure 80. Structure of securities by maturity



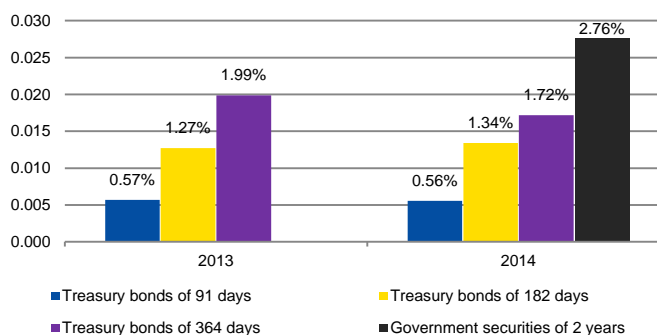
Source: CBK (2015)

Figure 81. Structure of auction participants



Source: CBK (2015)

Figure 82. Annual average rate of returns by maturity for 2013 and 2014



Source: CBK (2015)

### 5.4.3 Government Securities

Pursuant to the Law No. 03/L-175, on Public Debts, Article 2, paragraph 1.1 and 1.2, the Central Bank of the Republic of Kosovo acts as a fiscal agent for the Ministry of Finance.

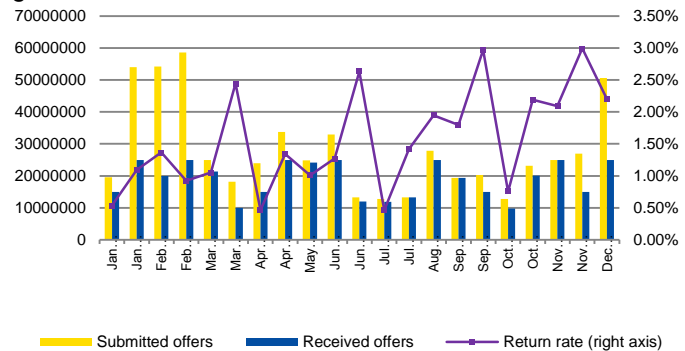
In accordance with the Government Securities’ Issuance Calendar for 2014, CBK has conducted 21 auctions through electronic platform 4 auctions for Treasury Bills with 91 days of maturity, 7 auctions for Treasury Bills with 182 days of maturity, 6 auctions were held for Treasury Bills with 364 days maturity and 4 auctions for government treasury bills with a maturity of two years.

The maturity structure of Government Securities expressed in percentage is presented in figure 80.

In the Government Securities market participated all Primary Dealers, the Kosovo Pensions Saving Fund as Primary dealer and other participants through the Primary Dealers System and their participation expressed in percentage is shown in figure 81.

The year 2014 is characterized with the issuances for the first time of the government bonds with a maturity of 2 years. Compared to the previous year, the average annual rate of return on 91 – day treasury bonds has decreased from 0.57% to 0.56% in 2014. The treasury bonds with maturity of 182 days increased from 1.27% to 1,34%. Treasury bills with a maturity of 364 days marked a decrease from 1.99 to 1.72 %. The average annual return rate for all government bonds was 2,76% in 2014. The average annual return rate for treasury bills of all maturities in 2014 was higher reaching 1.29% compared to 1.01% in 2013 (figure 82).

Figure 83. Auctions of treasury bonds and government securities for 2014



Source: CBK (2015)

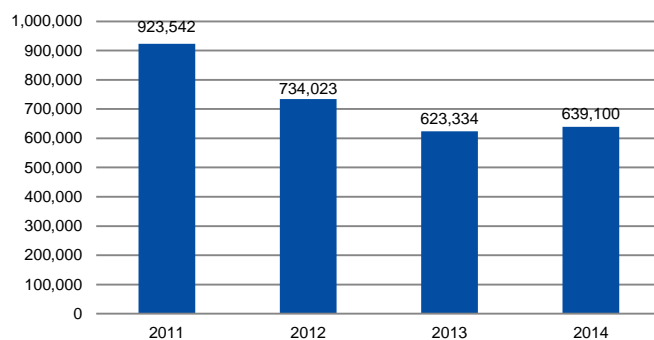
Figure 83 presents all auctions held, indicating an increased interest for treasury bills with one year maturity and for government bonds with two years of maturity. During 2014, it was established the development of Secondary Market of Kosovo Government Securities.

**5.5. Credit Registry of Kosovo**

The Credit Registry represents an important pillar of financial infrastructure in the credit reporting segment.

Since January 2006, CBK has under its management the Credit Registry System, which functions as an internet-based application, which can directly be

Figure 84. Number of surveys in CRK



Source: CBK (2015)

accessed in real-time, with the aim to collect and share information on credit state of natural and legal persons. The main aim is to have an impact for improving and upgrading assessment process of creditors and supporting the supervisory functions of the Central Bank, through dissemination of background and current information on credit state.

From an overall economic perspective, the and costs and contributes to overall financial stability by assisting lenders to make accurate and objective decisions within a shorter time.

Pursuant to the Regulation on Credit Registry, all the financial institutions designated by the Central Bank as providers of loans, including all licensed banks and microfinance institutions as well as those non-banking institutions and insurance companies licensed to engage in special lending activities are system members of CRK.

Currently, there are over 1200 active users from lending institutions. During 2014, CRK registered 314 new users based on the requests submitted by lending institutions.

The lending institutions access the CRK system in order to search the creditor applicants' liabilities and credit background. According to statistics deriving from the CRK, the number of searches during 2014 was 639, 100.

An overview for this activity on annual basis, for years 2011, 2012, 2013 and 2014 is shown in figure 84.

Pursuant to the terms of respective instructions issued by the CBK, all lending institution are required to report on all loans applications and loans approved to their clients.

During 2014, lending institutions reported 187,985 new loans in the credit registry system.

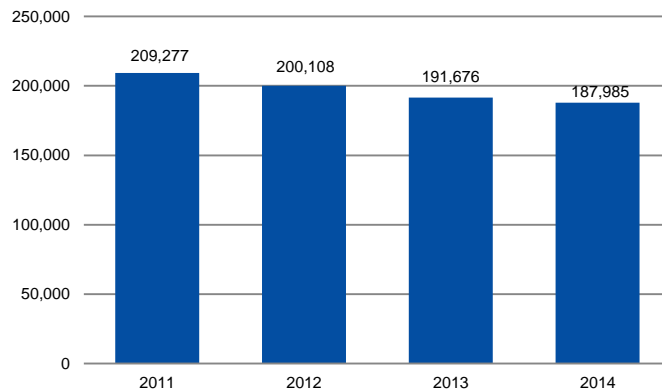
The report on number of new loans for years 2011, 2012, 2013 and 2014 is presented in figure 85.

In figures 86, 87, and 88 are presented credit exposures based on classifications reported in CRK system for 2011, 2012 2013 and 2014.

In the Credit Registry of Kosova (CRK) as a data subject is presented any natural and legal person who undertakes a credit obligation. Credit obligation shall mean any loan, credit card, guarantee, leasing or any other credit product.

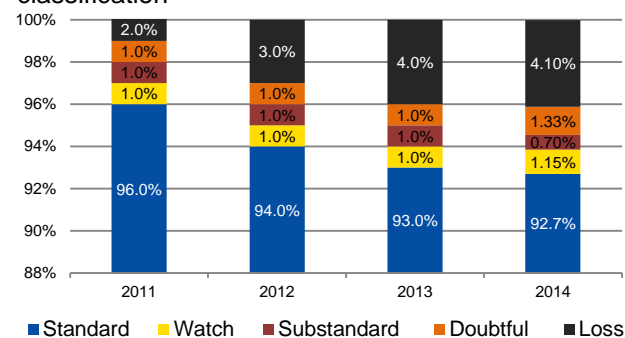
Credit Registry facilitates lending in terms of volume

Figure 85. Number of new loans



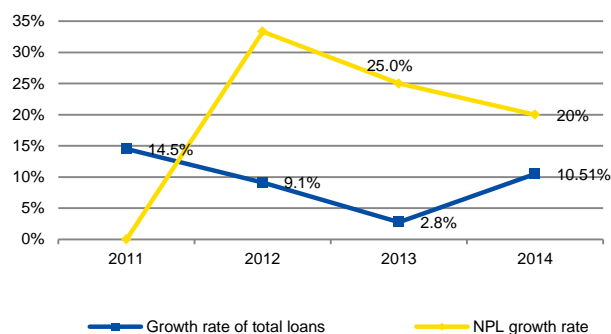
Source: CBK (2015)

Figure 86. Structure of loans by standard classification



Source: CBK (2015)

Figure 87. Annual growth rate of total loans and NPL



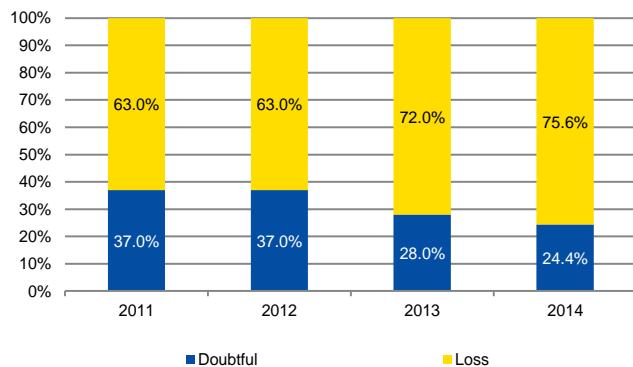
Source: CBK (2015)

In addition to the role as borrower, data subject may appear as a co-debtor, guarantor or even as shareholder and director of a legal entity to whom the credit obligation is issued.

The following figure presents the number of requests for individual report of creditors (natural/legal) for years 2011, 2012, 2013 and 2014.

The Credit Registry contributed directly to data collection by World Bank (WB) for the purpose of compiling the Doing Business 2015 report.

Figure 88. NPL structure, in percent



Source: CBK (2015)

Table 13. Ranking of the regional countries based on “Getting Credit” report

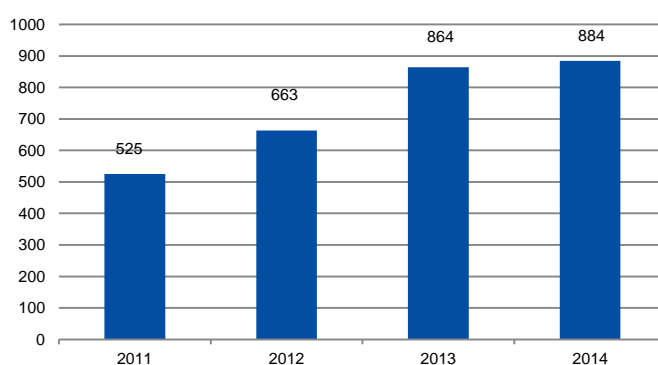
Country	Ranking
Montenegro	4
Kosovo	23
Albania	36
Macedonia	36
Bosnia and Herzegovina	36
Serbia	52
Croatia	61
Slovenia	116

Source: CBK (2015)

According to the ‘Doing Business’ report, published by the World Bank, the area which belongs to the CRK, “getting credit”, is evaluated to be in the 23<sup>rd</sup> position, in 2014. Compared to the previous year, in 2014 this indicator marked an improvement by 5 positions.

With this assessment, the “getting credit” indicator is still evaluated to be as more positive than any other in the DB report for the Republic of Kosovo, in 2015. Whereas, compared to other countries in the region, the “getting credit” indicator for Kosovo is ranked in the 2<sup>nd</sup> position after Montenegro.

Figure 89. Number of requests for credit reports



Source:CBK (2015)

## 5.6. Activity in the Economic Analysis and Financial Stability Area

During 2014, CBK has continued to compile periodic publications, including Financial Stability Report, Macroeconomic Development Report, Quarterly Economic Assessment, and Monthly Financial System Information Report.

Financial Stability Report continues to be one of the most important publications, which reflects stability of the financial system by analysing general economic developments along with other activity developments, performance and stability of all components of financial system in country. The Financial Stability Report, which in the past was published once a year, since 2014 is being published twice a year.

The increase in frequency of publication applies also to Macroeconomic Development Report, which introduces a comprehensive overview about macroeconomic developments in the country. Since 2014, this report is published twice a year. During 2014, this report is enriched with the macroeconomic projections as well, a part, which reflects the achieved success in building a model for the macroeconomic forecasts. In order to ensure a more rapid access to the information about economic developments in the country, CBK continued to publish the Quarterly Economic Assessment in regular basis. Moreover, the publication of Monthly Financial Sector Information Report has started in 2014 which presents a summary of key indicators for all components of Kosovo Financial Sector, and which is published in monthly basis.

The CBK continued to conduct Bank Lending Survey with commercial banks, whereby collected important information for factors affecting the lending activity of banks in Kosovo as well as expectations for future lending activity. Information obtained from this questionnaire, which is conducted twice a year, apart from assisting in better understanding of the banking sector development, it serves as a significant input for forecasting economic growth and other macroeconomic aggregates.

During this year, for the first time also the Over-indebtedness Report is being prepared and it is expected to be published very soon. This report, which is based on Credit Registry data and other additional data required by the banks, reflects in detail the factors affecting the quality of loans and evaluates the borrowers indebtedness level. This report will provide the CBK with important information source in assessment process of financial stability as well as the banks in their policy drafting process. In addition to analysis, this report will provide a range of recommendations aimed at addressing the identified weaknesses by the report.

Important progress is marked also towards formulation of macro prudential policy within the project with the ECB whereby we managed to set up main outlines of this policy. Another important activity is conducted towards drafting of the Regulation on Emergency Liquidity Assistance and methodology for assessing funds sufficiency in this scheme.

## 5.7. Activities in Statistics Area

Statistical function of the CBK is advanced through implementation of new international methodology for external sector statistics, further harmonization of statistics according to *acquis communautaire*, increase of the coverage with new information from reporting institutions, expansion of published statistics range, dissemination of more statistics in the International Monetary Fund (IMF), World Bank (WB), Eurostat and further advancement of data processing system.

In terms of methodology, the statistics of Balance of Payments (BP) and International Investment Position (IIP) were published in September 2014 according to the new methodology, recommended in the new manual "Manual on Balance of Payments and International Investment Position" (BPM6), the sixth edition of IMF. The implementation of BPM6 is done simultaneously with the EU countries. The CBK initially published information and explanations necessary in relation to transition from BPM5 to BPM6 version. Three new submenus were created under the menu "Statistics" for the purpose of information about the changes occurred due to the

implementation of the new statistical methodology. Also, the data from the previous years were converted in compliance with BPM6 format.

Significant progress is made in harmonizing the methodology of external sector statistics (ESS) with the requirements of Eurostat (*acquis communautaire*). Unlike reporting requirements, recommended by IMF, the Eurostat requires larger subdivision according to the financial instruments and countries/regions. In May 2014, a Eurostat mission visited CBK to review the CBK level of compliance with *acquis communautaire* required criteria on production of external sector statistics, focusing on international trade statistics in services. The mission has highly appreciated the progress made by the CBK in this field. In addition, the mission assisted CBK in the preparation of a plan for further advancement of ESS in its effort to full harmonization with statistics of the EU countries. In this context, CBK implemented certain tasks set out in this plan, including the drafting of “Methodology for compiling statistics of BP and IIP”, encoding data in the current databases thus to enable generation of data for reporting to Eurostat, etc. At the same time, CBK designed a pilot project aiming to harmonize statistics in international services according to *vademecum* and requested financial support within the programme “IPA 2012 Multi-Beneficiary Programme on Statistical Cooperation”. Request is approved in principle by GOPA and is expected to be signed early next year. The implementation of this project will assist CBK for rapid harmonization of statistics according to the European standards and share of data with Eurostat. The high priority of the CBK in 2015 is to commence the regular reporting to Eurostat and European Central Bank according to the standards applied by the EU countries.

In its effort to improve the quality of statistics, the CBK has extended the list of coverage by including new non-financial corporations into the reporting process. The corporations with foreign ownership were mainly invited to this reporting process, whose data are needed for compilation of statistics of foreign direct investments in Kosovo and external debt. Significant improvement is made also in reducing the publication time from (t+35 days) to (t+30 days) and an increase of periodicity from quarterly to monthly basis reporting. During 2014, the statistics of balance of payments were compiled on experimental basis in monthly frequency. Publication on monthly basis will start from March 2015, with the data from 2014 and January 2015. At the same time, the publication deadline will be improved and reduced from t+90 to t+60.

Based on the increase of the demand for new information, BCK has expanded its range of statistics products by producing more information on interest rate, foreign direct investments, trade balance and external debt statistics. New statistics are compiled for: interest rates on loans and deposits by maturity, financial institutions, economic sectors; import of goods, consumer goods by classification, intermediate goods and capital goods; statistics for external debt that provide additional information by lenders’ sectors. These statistics are in full compliance with international statistics standards, and during the next year the publication range will be expanded.

During 2014, CBK made a significant progress in the data processing system. The new system provides a more sophisticated opportunity for publishing information in a more rapid and more detailed manner. CBK is in the process of developing new software, which will be used by DS and other departments of the CBK for more efficient processing and analyzing of statistical series. The new software will enable importing, processing, storing and publishing the statistics efficiently. Since the software will be used by more departments, the need to control data consistency will increase.

Cooperation with the IMF, Eurostat and national institutions continued. Regular, periodical data are sent to IMF for publication purposes. Within the cooperation with Eurostat and European Central Bank (ECB), CBK participated in regular meetings of the Committee on Monetary, Financial Statistics and Balance of Payments Statistics, organized by Eurostat and ECB.

Furthermore, BCK cooperated with central banks of the region, other international organizations and other relevant institutions in the field of statistics. In cooperation with local institutions, CBK is a member of the Statistical Council of Kosovo, which is a collegial body to provide advice on the preparation and implementation of the official statistics program as well as for overall development of statistical system of Republic of Kosovo. CBK is country coordinator for General Data Dissemination System – GDDS of IMF. Kosovo's main indicators data are published by provided schedules (monthly, quarterly, and annually) within the CBK site.

## 6. Internal Developments

### 6.1. Internal Audit

Considering the evaluative development dynamics in auditing field and the need for further development, the Internal Audit (IA) is approaching the new process of change. The whole to date process is reviewed with the aiming at upgrading the service quality of IA functions.

The efforts to further improve reporting methodology with the purpose to increase efficiency continued. The main focus was on pursuing practices and methodologies that IA Functions have in institutions of other countries in order to develop an easy qualitative and timely reporting process.

During this year the Legal Framework of IA is reviewed and completed. Within this, the Statute of IA and the Code of Ethics for internal auditors are prepared and approved by the Board of the CBK. The strategic objectives of IA are defined, which afterwards were integrated in the comprehensive strategy of the CBK. The Guide for Ensuring and Improving Audit Quality is prepared.

The Annual Audit Plan was preceded by the preparation of the Audit Universe for three years period 2014-2016. The Universe presents the inclusion of all audit activities, Departments/Divisions and fields subject to auditing within three years. The plan comprises the processes which could expose higher risk and priority, in particular those associated to maintenance of the CBK assets and reputation;

Audits conducted throughout this year covered the functioning of internal audits, financial management and administrative processes, and safety of Information Technology backup systems.

In addition to planned audits, IA performed ad hoc audits as requested by the Senior Management. In the process of follow up of Investment Portfolio in CBK Corresponding Banks, IA prepared 47 special reports on weekly basis.

Four independent audits of Government accounts reconciliation were conducted, as well as quarterly reports were drafted and forwarded to the International Monetary Fund.

In order for processes to be audited in more efficient and effective way, the use of software tools were enhanced.

During 2014, the IA Function was subject to two external assessment processes, one from the World Bank (unofficial report) as a result of Management Requirements to meet international standards and audit practices, and the other from the European Central Bank within the needs analysis projects to meet prerequisites for membership in European Central Bank System.

Within activities to establish quality assurance and improvement program, the Head of IA published the Manual on Audit Quality Assurance and Improvement, applied for all internal auditors since January 2015.

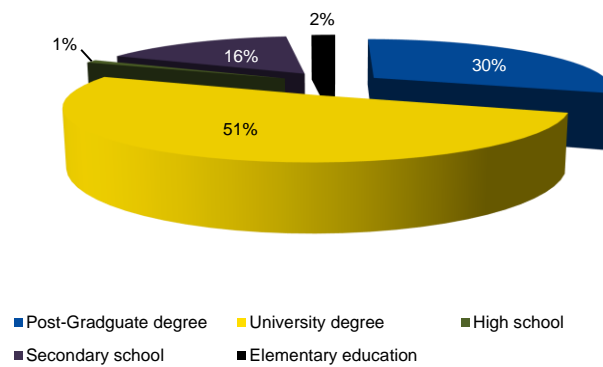
During 2014, the IA staff continued with the implementation of standards for continuing professional developments. The participation to some important events such as: official visits, forums, conferences, and various seminars, contributed to this field.

## 6.2. Human resources

At the end of 2014, total number of employees in CBK was 200. From the total number of employees, 96 or 48% are women and 104 or 52% are men.

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

Figure 90. Structure by education



Source: CBK (2015)

## 6.3. Legal Activity

In compliance with the applicable legal framework, the legal activity of the Central Bank of the Republic of Kosovo in 2014, was focused in implementation of applicable legal framework by adopting amendments to existing regulations and by issuing a range of new regulations, in accordance with the laws in force, the EU legislation and in compliance with the new financial sector development dynamics.

With the aim of advancing the legal framework in force, the decision-making bodies of the CBK approved a number of sublegal acts during this year, which prior to proceedings for adoption, were reviewed and confirmed in legal terms.

In accordance with the legal authorisation and objectives, the Central Bank of the Republic of Kosovo will continually focus on advancement of the legal and regulatory framework in harmony with the applicable legislation, the EU legislation, best international standards and practices, towards further developments of the financial system.

## 6.4. Information Technology

During 2014, the CBK has completed the establishment of modern centre for continuation of the work, thus increasing the reliability of information systems with real-time synchronization between the two centres, the main centre and the one for continuity. This project implies the configuration of all hardware systems according to the latest standards for technology and continuity of work. Also, during the year, the Department of Information Technology has reviewed and completed a number of internal regulatory acts in the field of information technology.

## 6.5. Risk Management Function

In accordance with the legal objectives, tasks and strategic guidance for advancing internal functions, CBK has established the function of Risk Management.

This function is profiled to identify categories of risks to which CBK is exposed, to develop risk management framework, policies, procedures, guidelines, indicators and methodologies for the identification, measurement, assessment, treatment and monitoring of the risks. Risk management is defined as a function of the forecast of unfavourable events and uncertainties

that threaten assets, income, reputation and continuity of the work. The range of risk management activities is designed to ensure compliance with the legal framework, increasing the efficiency of operations and facilitating the achievement of the objectives set by law.

Commitment for the reporting period within the Risk Management function is articulated mainly towards raising awareness of organizational units, by explaining that this feature is not isolated activity, separate from the main activities and institutional processes, but is an integral part of all organizational processes, from strategic planning to operational plans and activities. This phase is characterized with the promotion of an integral approach in order for each of the department and organizational unit to be positioned as an integral part of the activities of internal control and risk management.

In this commitment chronology, was reviewed the applicable legal framework adequacy to practices and methodologies applied in the Risk Management. Existing policies and procedures were assessed along with the adequacy of internal controls, the control environment, control activities, the process of risk assessment and management information system.

After reviewing the adequacy of the existing practices, the development of the Risk Management function is addressed in the strategic plan of the CBK envisaging completion of all necessary regulatory framework and methodology, as a reflection of the CBK commitment to mainly focus its activities on the effective risk management towards achieving its objectives. At the operational level the Policy for Risk Management is drafted and awaiting approval, which defines the necessary principles and guidelines for Risk Management. This policy lays the foundations for further development and improvement of the regulatory framework and serves as a general platform in the field of risk management within the principles of which the practices of all organizational units in the field of Risk Management should converge.

The perspective of Risk Management function is oriented towards building a similar cooperation platform and coordination of control activities with Internal Audit as well as creating mutual communication between organisational units and Risk Management functions.

## 7. Regional and International Cooperation

### 7.1. International Agreements, Promotion and Representation

The Central Bank of Kosovo continued its close cooperation with many important international institutions including the International Monetary Fund, World Bank, European Bank for Reconstruction and Development, European Central Bank, counterpart banks of the regions and other relevant institutions with which the CBK already had cooperation agreements.

During 2014, The Central Bank was represented in the events that took place in the international area, including annual meetings in spring and autumn sessions of the International Monetary Fund and the World Bank,

In relation to the most important activities and events during 2014, it is worth mentioning the participation of the CBK in the ECB Program of Technical Cooperation with central banks of Western Balkans region, aiming at preparing the central banks of the region for inclusion into European System of the Central Banks. The Governor of the CBK is a member of the Steering Committee of this program and participated in three meetings held in Tirana on 17 April 2014, Frankfurt on 29 June 2014 and Pristina on 27 March 2015. The Governor of the CBK chaired two last meetings where in the meeting held in Frankfurt he met with senior members of personnel and Executive Board of the ECB.

CBK signed a cooperation agreement with the Central Bank of Montenegro. The content of this agreement is related to bilateral issues regarding information sharing, licensing and banking supervision, strengthening the fight against money laundering and financing of terrorism, crisis management and other technical arrangements. This is the first cooperation agreement between the Central Bank of the Republic of Kosovo and the Central Bank of Montenegro. This agreement was reached during the Summit of the Ministers of Finance and Governors of the Central Banks of the countries in the region, which was held in Montenegro from 12 to 14 June 2014. The theme of the Summit was "The Financial Future of the Region".

An important event in the field of foreign relations is the beginning of the financial education program marking International Money Week, where the CBK joined institutions around the globe to mark this important event. Within this event, CBK has awarded prizes for the best works of students who have exhibited their creations on the theme "How to Save Money". In 2014, the CBK continued with awards for students' best works presented in the open contest "New Economists".

During 2014, in collaboration with the University of Ljubljana, Faculty of Economics, a joint international conference was organized on the topic "Economic Perspective in the Southeast European in post-crisis period". The conference focused on current trends and medium term economic perspectives of the Southeast European countries, focusing on barriers to their economic growth and modifications needed in the model of economic development in post-crisis period.

At the end of 2014, upon the 15th anniversary of its establishment, CBK organized a solemn conference, which was attended by representatives of higher local institutions and leaders of the country's financial institutions. The conference was honoured by participation of representatives of foreign governments and international institutions accredited in the Republic of Kosovo. At this jubilee Conference, the Governor presented the key developments of the CBK during the 15-year period and informed participants about the situation and recent trends in the financial system in Kosovo, emphasizing sustainability and the positive performance recorded in the recent years. Also, the CBK efforts to adopt best international standards and practices in view of the overall institutional advancement and future accession to the ECBS were emphasized.

## 7.2. Technical Assistance

During 2014, CBK continued to benefit from technical assistance provided by international financial institutions and various donors with both existing projects as well as new initiatives, mainly provided by the U.S. Treasury, International Monetary Fund, World Bank, German Development Fund and European Central Bank. With their expertise, these institutions supported the CBK's internal capacity building in the supervision of financial institutions, in advancing the legal framework for efficient supervision of financial institutions, institutionalization of internal practices and human capacity building for proper implementation of the legal framework. The support to these institutions is implemented through special projects as it reflected in different functions of the CBK.

The CBK is supported by the U.S. Treasury in overall development policies and special projects. During 2014, the support of the U.S. Treasury impacted in development of Funding Housing in Kosovo Project, which aimed at adopting the sound regulation of loans covered by real estate, known as mortgage loans. Banking supervision and insurance supervision benefited from the expertise of the U.S. Treasury Advisors who assisted in the internal capacity building and efficient supervision of financial system. It is worth mentioning the continuous support for advancing of the legal and operational framework in the field of prevention of money laundering, where CBK is mandated by the law to carry out this role.

CBK was supported by the USAID "Contract Law Enforcement" project team on preparation of the secondary legislation for the implementation of the Law on Contracts and Torts regarding parts that regulate financial services.

The International Monetary Fund continued to support the CBK in the field of banking supervision, namely the preparation of an adequate framework for the implementation of risk-based banking supervision. Also, the IMF supported the function of financial stability and economic analysis by enriching the economic projections and designing the macroeconomic projections model.

World Bank continued its support through experts team committed to the empowerment and advancement of the legal and regulatory framework and institutional framework for the protection of financial services consumers and to raise the level of financial knowledge of consumers in Kosovo. Also the Financial Sector Strengthening Project and Market Infrastructure funded by the loan arrangement between the Government of the Republic of Kosovo and the International Development Agency (IDA), which is part of the World Bank, continues to be implemented with the planned dynamics. This project has a special focus in: (i) financing the costs associated with implementation of the Bank's Strategy for Development of the National Payment System and the establishment of the Real Time Equalization Payments System based on Strategy of the National Payment System, (ii) Construction of the Centre for Business succession for CBK in order to ensure work continuity when cases of disasters occur (uncontrollable factors) for the purpose of recovery of information technology operations that provides updated data from all critical systems of the CBK, and (iii) Provision of initial capital funding for Deposit Insurance Fund of Kosovo (DIFK).

It is worth mentioning the support received within the one-year technical cooperation program of the European Central Bank (ECB) designed for the CBK, the Bank of Albania and the Bank of the Republic of Macedonia, in partnership with the national central banks of the European System of the Central Banks (ESCB). The purpose of this program was to analyze the aspects of the specific functions of the central banks of our region that should be strengthened in line with modern principles and practices, focusing on the advancement of compatibility with such functions of central banks of EU member states. In the framework of technical cooperation, seven

special functions of the CBK have undergone advancement needs analysis, financial stability, banking supervision, payment systems, European integration, information technology, administration, and internal audit. For all these functions legal requirements, organizational and resources were identified in order to achieve compliance with the standard institutional and operational framework of the ESCB and the ECB. Apart from the ECB, other experts from the central banks of Austria, Italy, Slovenia and Portugal were involved.

As a long-term objective of Kosovo to obtain the membership in European Union and one of the main strategic aims, in this regard CBK advanced the framework of Basel supported by the German Institution for International Cooperation – GIZ.

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

## 8. Financial Statements of CBK





**Central Bank of the Republic of Kosovo**  
**Independent Auditor's Report and Financial Statements**  
**as at and for the year ended on 31 December 2014**

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## INDEPENDENT AUDITOR'S REPORT

### To the Management of Central Bank of Republic of Kosovo

We have audited the accompanying financial statements of Central Bank of Republic of Kosovo ("CBK"), which comprise the statement of financial position as at December 31, 2014, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility*

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

#### *Auditor's Responsibility*

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

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

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

#### *Opinion*

In our opinion, the attached financial statements present fairly, in all material respects, the financial position of Central Bank of Republic of Kosovo as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### *Other matters*

Bank's financial statements as at and for the year ended December 31, 2013, were audited by another auditor who expressed an unqualified opinion on these financial statements on May 7, 2014.

*Deloitte Kosova K.p.l.*

Prishtina, Kosovo  
April 27, 2015


# Central Bank of the Republic of Kosovo


## Statement of financial position

As at 31 December 2014

<i>In thousands of EUR</i>	Note	2014	2013
<b>Assets</b>			
Cash on hand	7	29,178	27,384
Current accounts with non-resident banks	8	323,401	61,083
Securities (treasury bills and government bonds)	9	120,789	560,828
Deposits accounts with non-resident banks	10	660,123	729,473
IMF related assets	11	234,786	231,459
Property and equipment	12	1,956	1,907
Intangible assets	13	1,251	1,311
Other assets	14	886	976
<b>Total assets</b>		<b>1,372,370</b>	<b>1,614,421</b>
<b>Liabilities</b>			
Due to domestic commercial banks	15	315,932	333,173
Due to IMF related accounts	16	238,713	234,011
Due to governmental institutions	17	713,567	757,446
Due to public and commercial institutions	18	50,608	236,597
Due to borrowing/s	19	34	-
Other domestic liabilities	20	3,181	3,244
<b>Total liabilities</b>		<b>1,322,035</b>	<b>1,564,471</b>
<b>Capital and reserves</b>			
Authorized capital	21	30,000	30,000
Reserve fund	21a	19,561	19,462
Revaluation reserve		389	301
Net result (retained earnings)		385	187
<b>Total capital and reserves</b>		<b>50,335</b>	<b>49,950</b>
<b>Total liabilities, capital and reserves</b>		<b>1,372,370</b>	<b>1,614,421</b>

These financial statements set out on pages 4 to 41 were approved by the CBK management on 27 April 2015 and signed on its behalf by:

  
Bedri Hamza  
Governor

  
Faqon Ahmetaj  
Director of Financial Planning and  
Reporting

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

# Central Bank of the Republic of Kosovo

## Statement of comprehensive income

As at 31 December 2014

<i>In thousands of EUR</i>	Note	2014	2013
<b>Interest income</b>			
Interest income		1,504	990
Interest expenses		(246)	(181)
<b>Net interest income</b>	22	<b>1,258</b>	<b>809</b>
<b>Fees and commissions income</b>			
Fees and commissions income		1,640	1,563
Fees and commissions expenses		(318)	(306)
<b>Net fees and commissions income</b>	23	<b>1,322</b>	<b>1,257</b>
<b>Regulatory activity income and other operating revenues</b>			
Regulatory activity income	24	3,310	2,357
Grant income	25	77	78
Other operating income	26	18	10
Foreign exchange profit / (loss)	29	(225)	87
<b>Operating revenues</b>		<b>5,760</b>	<b>4,598</b>
<b>Administrative expenses (operating)</b>			
Staff expenses	27	(3,571)	(2,877)
Depreciation and amortization	12,13	(485)	(478)
General and administrative expenses	28	(1,319)	(1,056)
<b>Administrative (operating) expenses</b>		<b>(5,375)</b>	<b>(4,411)</b>
<b>Profit for the year</b>		<b>385</b>	<b>187</b>
Other comprehensive income			
<b>Total comprehensive income for the year</b>		<b>385</b>	<b>187</b>

Notes from 1 to 33 are an integral part of these financial statements

# Central Bank of the Republic of Kosovo

## Statement of changes in equity

For the year ended on 31 December 2014

	Capital	Reserve fund	Revaluation reserves	Retained earnings (Net result/s)	Total
<i>In thousands of EUR</i>					
<b>Balance at 1 January 2013</b>	<b>30,000</b>	<b>19,166</b>	<b>269</b>	<b>328</b>	<b>49,763</b>
Transfer to reserve fund	-	296	32	(328)	-
<b>Total transactions required by law</b>	<b>-</b>	<b>296</b>	<b>32</b>	<b>(328)</b>	<b>-</b>
Profit for the year	-	-	-	187	187
Other comprehensive incomes	-	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>187</b>	<b>187</b>
<b>Balance at 31 December 2013</b>	<b>30,000</b>	<b>19,462</b>	<b>301</b>	<b>187</b>	<b>49,950</b>
<b>Balance at 1 January 2014</b>	<b>30,000</b>	<b>19,462</b>	<b>301</b>	<b>187</b>	<b>49,950</b>
Transfer to reserve fund	-	99	88	(187)	-
<b>Total transactions required by law</b>	<b>-</b>	<b>99</b>	<b>88</b>	<b>(187)</b>	<b>-</b>
Profit for the year	-	-	-	385	385
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>385</b>	<b>385</b>
<b>Balance at 31 December 2014</b>	<b>30,000</b>	<b>19,561</b>	<b>389</b>	<b>385</b>	<b>50,335</b>

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

# Central Bank of the Republic of Kosovo

## Statement of cash flow

For the year ended at 31 December 2014

<i>In thousands of EUR</i>	Note	2014	2013
<b>Cash flows from operating activities</b>			
Profit for the year		385	187
<i>Adjustments for:</i>			
Depreciation	12	279	272
Authorization	13	206	206
Grant income	25	(77)	(78)
Profit from sale of equipment		(18)	(10)
Interest income	22	(1,504)	(990)
Interest expenses	22	246	181
		<b>(483)</b>	<b>(232)</b>
Changes in treasury bills		250,048	(124,860)
Changes in deposit accounts with non-resident banks		(74,139)	104,661
Changes in IMF related assets		(3,348)	13,938
Changes in other assets		91	(514)
Changes in due to domestic commercial bank		(17,242)	31,026
Changes in due to IMF related accounts		4,720	(12,874)
Changes in due to government institutions		(43,876)	(64,075)
Changes in due to public and commercial institutions		(185,989)	187,575
Changes in borrowing/s		34	-
Changes in other domestic liabilities		3	22
		<b>(70,181)</b>	<b>134,667</b>
Interest received		1,597	971
Interest paid		(263)	(178)
<b>Net cash generated from/(used in) operational activities</b>		<b>(68,847)</b>	<b>135,460</b>
<b>Cash flows from investing activities</b>			
Revenues from the sale of equipment		18	10
Purchase of equipment	12	(351)	(729)
Purchase of intangible assets	13	(123)	(92)
<b>Net cash used in investing activities</b>		<b>(456)</b>	<b>(811)</b>
<b>Cash flow from investing activities</b>			
Grant income		10	11
<b>Net cash generated from financing activities</b>		<b>10</b>	<b>11</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(69,293)</b>	<b>134,660</b>
Effect of exchange rate		-	-
Cash and cash equivalents on 1 January		831,879	697,219
<b>Cash and cash equivalents on 31 December</b>	30	<b>762,586</b>	<b>831,879</b>

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

# Central Bank of the Republic of Kosovo

Notes on Financial Statements for the year ended on 31 December 2014

(in thousands of EUR, unless otherwise stated)

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## 1. Reporting entity

The Central Bank of the Republic of Kosovo (hereinafter "CBK" or "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 on "Central Bank of the Republic of Kosovo," hereinafter referred to as ("the CBK Law"). According to this law, the primary objectives of CBK are to:

- foster and maintain a stable financial system, including a safe, sound and efficient payment system.
- contribute in achieving and maintaining internal 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, favouring an efficient allocation of resources.

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

Garibaldi Street no. 33

Prishtina, Kosovo.

## Central Bank Board, Executive Board and Governor

The CBK decision-making bodies are the Central Bank Board, the Executive Board, and the Governor. According to Article 79, paragraph 2 of the CBK Law, the Central Bank Board is composed of the Governor, the General Director of Treasury and three non-executive members and is responsible for the supervision of the implementation of the policies, and the supervision of the CBK administration and the operations.

On 31 December 2014, Central Bank Board was composed of following members:

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

The Executive Board shall be comprised of Governor, who shall be the Chairperson and three Deputy Governors, and is responsible for the implementation of the CBK's policies and operations.

## 2. Basis of preparation

### a) Statement of compliance

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

### b) Bases of measurement

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

# Central Bank of the Republic of Kosovo

Notes on Financial Statements for the year ended on 31 December 2014

(in thousands of EUR, unless otherwise stated)

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## 2. Basis of preparation (continued)

### c) Functional and presentation currency

These financial statements are presented in EUR, which is CBK's functional currency. Unless otherwise noted, financial information presented in Euro has been approximated 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. Factual results may differ from the estimated ones.

Estimates and 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 related to significant areas of estimation of uncertainty and critical decisions 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 estimated in 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 re-estimated to the functional currency at the exchange rate at that date. The foreign currency profit 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, estimated at the exchange rate at the end of the period. Nonmonetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-estimated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising from revaluation are recognised in profit or loss.

### b) Interest

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

The calculation of the effective interest rate includes all paid commissions and points 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 expenses presented in the profit or loss include interest on financial assets and liabilities at amortised cost, on the effective interest rate basis.

# Central Bank of the Republic of Kosovo

Notes on Financial Statements for the year ended on 31 December 2014

*(in thousands of EUR, unless otherwise stated)*

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## 3. Significant accounting policies (continued)

### c) Fees and commissions

Fees and commission income and expenses that are an integral part of 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 are mainly related to transaction and service fees, which are expensed as the services are received.

### d) Employees benefits

CBK makes compulsory social insurance 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 as expense to income as incurred.

### e) Taxation and profit allocation

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

# Banka Qendrore e Republikës së Kosovës

Shënimet mbi Pasqyrat Financiare për vitin e mbyllur më 31 dhjetor 2014

(në mijë Euro, nëse nuk është theksuar ndryshe)

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## 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 liabilities, held-to-maturity financial assets and available-for-sale financial assets. This classification depends on the purpose for which the investments were provided.

Management determines the classification of its investments under initial recognition and re-evaluates this at every reporting date.

#### Financial actives at fair value through profit or loss

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

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Bank intends to sell in the short term or that it has designated as at fair value through profit or loss or available for sale. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, minus provision for impairment. Provisions for impairment of loans and receivables are 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, minus 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-trade financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or 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 on Financial Statements for the year ended on 31 December 2014

(in thousands of EUR, unless otherwise stated)

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### 3. Significant accounting policies (continued)

#### f) Financial assets and liabilities (continued)

##### ii. *De-recognition*

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 all the risks and rewards of ownership of the financial asset are substantially transferred. Any interest in transferred financial assets that is created or retained by CBK is recognized as a separate asset or liability. On de-recognition 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) received value (including any new asset obtained less any new assumed liability) and (ii) any cumulative profit 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 expired.

##### iii. *Offsetting*

Financial assets and liabilities are set off and the net amount is presented in the statement of financial balance 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 profits and losses arising from a group of similar transactions.

##### iv. *Amortised 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 payments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction of impairment.

##### v. *Fair value measurement*

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

When available, CBK measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is considered 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 an evaluation technique. Evaluation techniques include using recent 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 pricing models. The chosen evaluation technique makes maximum use of market data, relies as little as possible on estimates specific to CBK, includes all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Data on evaluation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. CBK calibrates evaluation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

# Central Bank of the Republic of Kosovo

Notes on Financial Statements for the year ended on 31 December 2014

(in thousands of EUR, unless otherwise stated)

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## 3. Significant accounting policies (continued)

### f) Financial assets and liabilities (continued)

#### 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 reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a deposit or advance by CBK, on terms and conditions that CBK would not otherwise consider, which are indications that a borrower or issuer of securities 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 financial assets carried at amortised cost are measured as the difference between the carrying amount of 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 income or loss.

#### g) Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents include cash balance on hand, demand deposits with banks and highly liquid financial assets with original maturity of less than three months, which are subject to an 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 investments.

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 securities 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 that are available for sale, and prevent CBK from classifying investment securities as held-to-maturity for the current and the following two financial years.

# Banka Qendrore e Republikës së Kosovës

Shënimet mbi Pasqyrat Financiare për vitin e mbyllur më 31 dhjetor 2014

(në mijë Euro, nëse nuk është theksuar ndryshe)

## 3. Significant accounting policies (continued)

### i) Property and equipment

#### i. Recognition and measurement

Items of property and equipment are presented at cost minus accumulated depreciation and accumulated loss from the change in value.

Cost includes expenses that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct workforce, 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 equipments and restoring the site on which they are located.

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

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

#### ii. Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits from the use of that asset will flow to CBK and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment (long-term material assets) are recognised in profit and loss as incurred.

#### iii. Depreciation

Depreciation is recognised in profit or loss statement with the linear method over the estimated useful life of each part of an item of property and equipment.

Assessment of useful life for the current and comparative periods is as follows:

	2014	2013
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 life and residual values are reassessed at the reporting date.

### j) Intangible assets

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

Subsequent expense on software is capitalised only when it increases the future economic benefit from this asset. All other expenses are recognised as incurred.

Amortisation expense is recognised in profit or loss statement, based on linear method of amortization over the estimated economic useful life of the software, from the date that it is available for use. The useful life of any software is based on assessment of the use of that software without any need for large upgrade, currently from 3 to 10 years.

# Central Bank of the Republic of Kosovo

Notes on Financial Statements for the year ended on 31 December 2014

(in thousands of EUR, unless otherwise stated)

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## 3. Significant accounting policies (continued)

### k) Impairment of non-financial assets

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

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are independent from other assets and groups. Impairment losses are recognized in income statement. Losses from impairment 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, minus sale costs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

### l) Financial liabilities

CBK's sources of funding are deposits 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 income

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 to 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 financed for a short term by international organisations. Financing 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 certain persons, the extent of the payments are not known nor included in these financial statements.

### o) Provisions

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

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.

# Banka Qendrore e Republikës së Kosovës

## Shënimet mbi Pasqyrat Financiare për vitin e mbyllur më 31 dhjetor 2014

(në mijë Euro, nëse nuk është theksuar ndryshe)

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### 3. Significant accounting policies (continued)

#### p) Changes in accounting policies and disclosures

##### (i) Standards and effective interpretation for the current period

Standards below, amendments in existing standards and interpretations issued by the Board of International Accounting Standards, are effective for the current period:

- **Amendments in IAS 32 "Financial Instruments: Presentation"** – Compensation of Financial Assets and Liabilities (effective for annual periods starting on or after 1 January 2014),
- **Amendments in IAS 36 "Impairment of assets"** – Disclosures of recoverable amount for non-financial assets (effective for annual periods starting on or after 1 January 2014),
- **Amendments in IAS 39 "Financial instruments: Recognition and Measurement"** - Changes of derivatives and continuation of hedge accounting (effective for annual periods starting on or after 1 January 2014),
- **IFRIC 21 "Levies"** (effective for annual periods starting on or after 1 January 2014).

The approval of these amendments in existing standards and interpretations has not made a change in accounting policies of the bank.

# Central Bank of the Republic of Kosovo

Notes on Financial Statements for the year ended on 31 December 2014

(in thousands of EUR, unless otherwise stated)

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## 3. Significant accounting policies (continued)

### p) Changes in accounting policies and disclosures (continued)

#### ii) Concluded standards and interpretations that are not yet effective

At the date of authorization of these financial statements, standards, amendments to existing standards and interpretations were being concluded, but not yet effective:

- **IFRS 9 "Financial instruments "** (effective for annual periods starting on or after 1 January 2018),
- **IFRS 14 "Regulatory Deferral Accounts "** (effective for annual periods starting on or after 1 January 2016),
- **IFRS 15 "Revenues from Contracts with Costumers "** (effective for annual periods starting on or after 1 January 2017),
- **Amendments to ISRF 11 "Joint Arrangements" – Accounting for Acquisition of Interests in Joint Operations** (effective for annual periods starting on or after 1 January 2016),
- **Amendments to IAS 16 "Property, plants and equipments " and IAS 38 "Intangible assets" – Clarification of Acceptable Methods of Depreciation and Amortisation** (effective for annual periods starting on or after 1 January 2016),
- **Amendments to IAS 16 "Property, plants and equipments" and IAS 41 "Agriculture"- Agriculture: Bearer plants** (effective for annual periods starting on or after 1 January 2016),
- **Amendments to IAS 19 "Employee benefits" – Defined benefit plans: Employee Contributions** (effective for annual periods starting on or after 1 July 2014),
- **Amendments to IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements** (effective for annual periods starting on or after 1 January 2016),
- **Amendments to various standards "Improvements to IFRS (2010-2012 cycle)"** resulting from the Annual Improvement Project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38), mainly to avoid incompliance and improve the text (amendments should be applied for annual periods starting on or after 1 July 2014),
- **Amendments to various standards "Improvements to IFRS (2011-2013 cycle)"** resulting from the Annual Improvement Project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) mainly to avoid incompliance and improve the text (amendments should be applied for annual periods starting on or after 1 July 2014).

The company decided not to approve these standards, reviews and interpretations before their dates of entry into force. The company foresees that the approval of these standards, reviews and interpretations will have a material impact on financial statements in the period of initial implementation.

# Central Bank of the Republic of Kosovo

Notes on Financial Statements for the year ended on 31 December 2014

(in thousands of EUR, unless otherwise stated)

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## 4. Financial risk management

### a) Introduction and overview

CBK has been exposed to following risks from the use of financial instruments:

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

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

#### *Risk management structure*

The Central Bank Board is responsible for the establishment and oversight of CBK's risk management. CBK management reports regularly through CBK's Executive Board to the Central Bank Board on risk management practices. The Executive Board and Investment Committee are obliged to develop and monitor CBK risk management policies. These policies are implemented by the respective organisational units.

CBK's risk management policies are established to identify and analyze risks that CBK face, and to set appropriate risk controls and limits, to monitor risks and adherence to limits set. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services provided. CBK, through its training and standards and management 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 the compliance with risk management policies and procedures, and for reviewing the adequacy of the risk management structure in relation to the risks faced by CBK. CBK's Audit Committee is assisted in these functions by the Internal Audit Department. Internal audit undertakes both regular and ad-hoc audits of risk management controls and procedures, the results of which are reported through the Chief of Internal Audit to the Audit Committee.

### b) Credit risk

Credit risk is the risk of financial loss to CBK if a contracting party of 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 accounts) in other banks.

#### *Management of credit risk*

##### *i. Investment and exposure to other banks*

CBK limits its exposure to credit risk by investing only in 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. Considering the high credit ratings, management does not expect any of contracting party to fail to meet its obligations.

# Central Bank of the Republic of Kosovo

Notes on Financial Statements for the year ended on 31 December 2014

(in thousands of EUR, unless otherwise stated)

## 4. Financial risk management / Management of credit risk (continued)

### ii. Exposure to credit risk

The maximum exposure to credit risk is on 31 December 2014 and 31 December 2013, and is presented by the carrying amount of its current accounts with non-resident banks, treasury bills and deposits with non-resident banks. For details on the exposures please see notes 8, 9 and 10.

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

### c) Liquidity risk

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

#### Management of liquidity risk

CBK's attitude in 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 unfavourable conditions, without incurring unacceptable losses or risking damage to CBK's reputation.

Policies to monitor and address liquidity risk are set by the Bank Executive Board. CBK manages its liquidity risk by investing in short term deposits with non-resident banks and holding adequate quantity of cash in its vaults. Liquidity management policies are set to ensure that even under adverse conditions, CBK is able to meet its obligations. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by CBK management. Monthly reports covering the liquidity position of CBK are regularly submitted to the Investment Committee members by the Asset Management Department.

#### Exposure to liquidity risk

#### Residual contractual maturity of financial liabilities, excluding future interest payments

31 December 2014	Note	Carrying amount	Less than a 1 month	1-3 months	3 months to 1 year	1 year to 5 years
<i>Non-derivative liabilities</i>						
Due to domestic commercial banks	15	315,932	315,932	-	-	-
Due to IMF related accounts	16	238,713	136,982	2,798	5,596	93,337
Due to governmental institutions	17	713,567	683,561	30,006	-	-
Due to public and commercial institutions	18	50,608	50,608	-	-	-
From borrowing/s	19	34	34	-	-	-
Other domestic liabilities	20	2,428	2428	-	-	-
		<b>1,321,282</b>	<b>1,189,545</b>	<b>32,804</b>	<b>5,596</b>	<b>93,337</b>
<b>31 December 2013</b>						
<i>Non-derivative liabilities</i>						
Due to domestic commercial banks	15	333,173	333,173	-	-	-
Due to IMF related accounts	16	234,011	128,278	2,620	7,860	95,253
Due to governmental institutions	17	757,446	687,431	70,015	-	-
Due to public and commercial institutions	18	236,597	236,597	-	-	-
From borrowing/s	19	-	-	-	-	-
Other domestic liabilities	20	2,428	2428	-	-	-
		<b>1,563,655</b>	<b>1,387,907</b>	<b>72,635</b>	<b>7,860</b>	<b>95,253</b>

# Banka Qendrore e Republikës së Kosovës

Shënimet mbi Pasqyrat Financiare për vitin e mbyllur më 31 dhjetor 2014

(në mijë Euro, nëse nuk është theksuar ndryshe)

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## 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 and liabilities for which there is an active and liquid market.

### d) Market risk

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

#### *Management of market risk*

CBK's operations are subject to the risk of interest rate fluctuations to the extent that interest-bearing assets and liabilities mature or re-price at different times or in various amounts. Floating rate assets and liabilities are exposed to basic risk, which is the difference in re-pricing characteristics of the various floating rate indices.

Risk management activities are aimed at optimising net interest income, based on market interest rate levels consistent to 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 the risk of loss from the fluctuation of future cash flows or fair values of financial instruments assets, due to a change in market norms. Interest rate risk is managed mainly through monitoring interest rate differences and by having pre-approved limits for re-pricing intervals. The Investment Committee is the authority monitoring the 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 on Financial Statements for the year ended on 31 December 2014

(in thousands of EUR, unless otherwise stated)

## 4. Financial risk management (continued)

### (d) Market risks (continued)

#### Exposure to interest rate risk - non-trading portfolios

	Note	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years
<b>31 December 2014</b>						
Current accounts with non-resident banks	8	323,401	323,401	-	-	-
Securities (Bonds and Treasury bills)	9	120,789	-	-	69,997	50,792
Deposits with non-resident banks	10	660,123	410,020	240,101	10,002	-
Assets to IMF related accounts	11	164,193	62,462	-	-	101,731
<b>Total</b>		<b>1,268,506</b>	<b>795,883</b>	<b>240,101</b>	<b>79,999</b>	<b>152,523</b>
Due to domestic banks	15	(315,932)	(315,932)	-	-	-
Due to IMF related accounts	16	(167,803)	(66,072)	-	-	(101,731)
Due to governmental institutions	17	(713,567)	(648,550)	(65,017)	-	-
Due to commercial and public entities	18	(50,608)	(50,608)	-	-	-
From borrowing/s	19	(34)	(34)	-	-	-
Other domestic liabilities	20	(2,428)	(2,428)	-	-	-
<b>Total</b>		<b>(1,250,372)</b>	<b>(1,083,624)</b>	<b>(65,017)</b>	<b>-</b>	<b>(101,731)</b>
<b>Change</b>		<b>18,134</b>	<b>(287,741)</b>	<b>175,084</b>	<b>79,999</b>	<b>50,792</b>
<b>31 December 2013</b>						
	Note	Carried amount	Less than 3 months	3-6 months	6-12 months	1-5 years
Current accounts with non-resident banks	8	61,083	61,083	-	-	-
Securities (Treasury bills)	9	560,828	229,963	330,865	-	-
Deposits with non-resident banks	10	729,473	553,493	145,953	30,027	-
Assets with IMF related accounts	11	181,438	75,705	-	-	105,733
<b>Total</b>		<b>1,532,822</b>	<b>920,244</b>	<b>476,818</b>	<b>30,027</b>	<b>105,733</b>
Due to domestic banks	15	(333,173)	(333,173)	-	-	-
Due to IMF related accounts	16	(183,705)	(77,972)	-	-	(105,733)
Due to governmental institutions	17	(757,446)	(737,439)	(20,007)	-	-
Due to commercial and public entities	18	(236,597)	(236,597)	-	-	-
From borrowing /s	19	-	-	-	-	-
Other domestic liabilities	20	(2,428)	(2,428)	-	-	-
<b>Total</b>		<b>(1,513,349)</b>	<b>(1,387,609)</b>	<b>(20,007)</b>	<b>-</b>	<b>(105,733)</b>
<b>Change</b>		<b>19,473</b>	<b>(467,365)</b>	<b>456,811</b>	<b>30,027</b>	<b>-</b>

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

# Central Bank of the Republic of Kosovo

Notes on Financial Statements for the year ended on 31 December 2014

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## 4. Financial risk management (continued)

### (d) Market risks (continued)

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

Management of interest rate risk against interest rate change limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and nonstandard interest rate scenarios. Standard scenarios that are estimated 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:

2014

	100 bp Increase	100 bp Decrease
Estimated profit (loss) effect	181	(181)

2013

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

### Exposure to other market risks/currency risks of 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:

2014

	100 bp Increase	100 bp Decrease
Estimated profit (loss) effect	36	(36)

2013

	100 bp Increase	100 bp Decrease
Estimated profit (loss) effect	23	(23)

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## 4. Financial risk management (continued)

### (d) Market risks (continued)

31 December 2014	EUR	SDR (EUR equivalent)	Total
<b>Assets</b>			
Cash on hand	29,178	-	29,178
Current accounts with non-resident banks	323,401	-	323,401
Treasury bills	120,789	-	120,789
Deposits with non-resident banks	660,123	-	660,123
Assets to IMF related accounts	101,731	133,055	234,786
Other assets	886	-	886
<b>Total</b>	<b>1,236,108</b>	<b>133,055</b>	<b>1,369,163</b>
<b>Liabilities</b>			
Due to domestic banks	315,932	-	315,932
Due to IMF related accounts	155,240	83,660	238,900
Due to governmental institutions	713,567	-	713,567
Due to commercial and public entities	50,608	-	50,608
From borrowing/s	34	-	34
Other domestic liabilities	3,181	-	3,181
<b>Total</b>	<b>1,238,563</b>	<b>83,660</b>	<b>1,322,222</b>
<b>Net foreign currency position</b>		<b>49,395</b>	<b>46,941</b>
<hr/>			
31 December 2013	EUR	SDR (EUR equivalent)	Total
<b>Assets</b>			
Cash on hand	27,384	-	27,384
Current accounts with non-resident banks	61,083	-	61,083
Treasury bills	560,828	-	560,828
Deposits with non-resident banks	729,473	-	729,473
Assets to IMF related accounts	105,733	125,726	231,459
Other assets	976	-	976
<b>Total</b>	<b>1,485,477</b>	<b>125,726</b>	<b>1,611,203</b>
<b>Liabilities</b>			
Due to domestic banks	333,173	-	333,173
Due to IMF related accounts	155,623	78,388	234,011
Due to governmental institutions	757,446	-	757,446
Due to commercial and public entities	236,597	-	236,597
From borrowing/s	-	-	-
Other domestic liabilities	3,244	-	3,244
<b>Total</b>	<b>1,486,083</b>	<b>78,388</b>	<b>1,564,471</b>
<b>Net foreign currency position</b>		<b>47,388</b>	<b>46,732</b>

# Central Bank of the Republic of Kosovo

Notes on Financial Statements for the year ended on 31 December 2014

(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 with which CBK deals are predominantly Special Drawing Rights ("SDRs"). The exchange rates used for translation at 31 December 2014 and 2013 were as follows:

	2014	2013
	EUR	EUR
1 SDR	1.1933	1.1173

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

### (e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with CBK's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate 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, as well as to balance the avoidance of financial losses and damage to CBK's reputation with overall effective costs.

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

- requirements for appropriate segregation of duties and responsibilities, including the independent authorisation of transactions;
- requirements for evaluating and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks and the adequacy of controls and procedures to manage 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;
- risk mitigation, including insurance, where this is effective.

Compliance with CBK standards is supported by a programme of periodic controls undertaken by Internal Audit. Findings of Internal Audit controls are discussed with management of the organizational unit to which they relate, and conclusions are submitted to the Audit Committee and CBK management.

# Banka Qendrore e Republikës së Kosovës

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*(në mijë Euro, nëse nuk është theksuar ndryshe)*

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### 4. Financial risk management (continued)

#### (f) Capital management

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

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

Profits available for distributions shall be determined:

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

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

Net income will firstly be distributed to the general reserve fund until the aggregate amount of initial capital and general reserves equals five percent (5%) of the Central Bank's monetary liabilities.

The 50% of net balance of realized income remaining after fulfilling the 5% criterion mentioned above is required to be transferred to the Ministry of Finance. The remaining 50% of the realized income is required to be allocated to the general reserve account of CBK.

#### (g) Asset management

Pursuant to the Law No. 03/L-209 and Law No. 03/L-048, CBK is assigned the responsibility for making and managing authorized investments on behalf of the Ministry of Finance.

# Central Bank of the Republic of Kosovo

## Notes on Financial Statements for the year ended on 31 December 2014

*(in thousands of EUR, unless otherwise stated)*

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### **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 reviewed and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under certain circumstances.

These explanatory notes support comments on financial risk management (see note 4).

### **Key sources of estimation uncertainty**

#### **Allowances for credit losses**

Assets registered at amortised cost are evaluated for impairment on a basis described in accounting policy 3(f) (vi). The specific 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 party'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 the opportunity for assets and liabilities to be designated on inception into different accounting categories in certain circumstances.

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

# Central Bank of the Republic of Kosovo

## Notes to the financial statement for the year ended on 31 December 2014

(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	Others at amortised cost	Total carrying amount	Fair value
<b>31 December 2014</b>						
Cash on hand	7	29,178	-	-	29,178	29,178
Current accounts with non-resident banks	8	323,401	-	-	323,401	323,401
Treasury bills	9	-	120,789	-	120,789	120,789
Deposits with non-resident banks	10	-	660,123	-	660,123	660,123
Assets with IMF	11	234,786	-	-	234,786	234,786
		<b>587,365</b>	<b>780,912</b>	<b>-</b>	<b>1,368,277</b>	<b>1,368,277</b>
Due to domestic banks	15	-	-	315,932	315,932	315,932
Due to IMF related accounts	16	-	-	238,713	238,713	238,713
Due to governmental institutions	17	-	-	713,567	713,567	713,567
Due to commercial and public entities	18	-	-	50,608	50,608	50,608
From borrowing/s	19	-	-	34	34	34
Other domestic liabilities	20	-	-	2,428	2,428	2,428
		<b>-</b>	<b>-</b>	<b>1,321,282</b>	<b>1,321,282</b>	<b>1,321,282</b>
<b>31 December 2013</b>						
Cash on hand	7	27,384	-	-	27,384	27,384
Current accounts with non-resident banks	8	61,083	-	-	61,083	61,083
Treasury bills	9	-	560,828	-	560,828	560,828
Deposits with non-resident banks	10	-	729,473	-	729,473	729,473
Assets related with IMF	11	231,459	-	-	231,459	231,459
		<b>319,926</b>	<b>1,290,301</b>	<b>-</b>	<b>1,610,227</b>	<b>1,610,227</b>
Due to domestic banks	15	-	-	333,173	333,173	333,173
Due to IMF related accounts	16	-	-	234,011	234,011	234,011
Due to governmental institutions	17	-	-	757,446	757,446	757,446
Due to commercial and public entities	18	-	-	236,597	236,597	236,597
From borrowing/s	19	-	-	-	-	-
Other domestic liabilities	20	-	-	2,428	2,428	2,428
		<b>-</b>	<b>-</b>	<b>1,563,655</b>	<b>1,563,655</b>	<b>1,563,655</b>

# Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended on 31 December 2014

(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 are held at the following banks:

	2014	2013
Deutsche Bundesbank	-	39,337
Raiffeisen Zentralbank	145,497	5,358
SvenskaHandelsbanken	10,004	-
DeutscheBank	104,900	16,388
PohjolaBankPlc	63,000	-
<b>Total</b>	<b>323,401</b>	<b>61,083</b>

All current accounts of the above banks have credit ratings of A-2/P-2, as per 2014 ratings conducted on 31 December 2014 by Standard &Poors/Moody's.

## 9. Securities (Treasury bills and Governmental bonds)

Both categories falling within the group are debt securities issued by governments of European Union countries. Treasury bills below have maturities up to one year. While those government bonds to two years and a half. All are in EUR, and had have effective interest rates ranging from 0.009% to 0.370% in 2014 (whereas in 2013: 0.0051% to 2.131%). Securities are held to maturity.

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

### By states:

	2014	2013
France	-	244,953
Netherland	50,792	215,901
Belgium	69,997	99,974
<b>Total</b>	<b>120,789</b>	<b>560,828</b>

### By type:

	2014	2013
Treasury bills	69,997	560,828
Governmental bonds	50,792	-
<b>Total</b>	<b>120,789</b>	<b>560,828</b>

Credit rating for these financial instruments, which CBK had invested for the period ending on 31 December 2014, was for A-1+u and P-1, according to the evaluation of Standard &Poor's /Moody's. Reducing along with 2013 stems partly that total portfolio decreased (see note 15, 17 and 18) and from the interest rate decline in the financial markets for securities (for those categories that the investment policies of the CBK allows to invest it's profolio), which has led to increased current account position along the end of 2013 (see note 8).

# Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended on 31 December 2014

(in thousands of EUR, unless otherwise stated)

## 10. Deposits with non-resident banks

Deposits with non resident banks are composed of:

	2014	2013
<b>Time deposits</b>		
RaiffeisenZentralbank	20,000	109,400
SvenskaHandelsbanken	80,062	150,943
ING Bank	50,000	-
DeutscheBundesbank	-	130,000
Rabobank	110,007	30,007
DanskeBank	100,000	30,000
Swedbank	50,000	120,006
Banque Centrale duLuxembourg	150,000	159,016
PohjolaBankPlc	100,000	-
	<b>660,069</b>	<b>729,372</b>
<b>Interest accrued on time deposits</b>		
RaiffeisenZentralbank	1	1
SvenskaHandelsbanken	8	18
ING Bank	1	-
DeutscheBundesbank	-	3
Rabobank	6	20
DanskeBank	18	23
Swedbank	12	13
Banque Centrale duLuxembourg	1	23
PohjolaBankPlc	7	-
	<b>54</b>	<b>101</b>
<b>Total</b>	<b>660,123</b>	<b>729,473</b>

Deposits placed with non-resident banks are denominated in EUR and earn interest at effective interest rates ranging from 0.005% to 0.0370% (2013: 0.005% to 0.300%) and have original maturities 1 to 273 days (2013: from 1 to 273 days). All deposits have minimum credit rating A-2/P-2, according to December 2014 rating from Standard & Poors/Moody's.

If we compare with the end of 2013 we see here a reduction of year end 2014 position along 2013 stems mainly from what we said in the note 9 regarding the reduction of the portfolio and the decline of interest rates in the financial markets in the last quarter of 2014.

# Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended on 31 December 2014

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## 11. Assets related with IMF

	2014	2013
IMF quota	70,406	65,922
SDR holdings	62,462	59,597
Accrued interest	187	207
<b>IMF</b>	<b>133,055</b>	<b>125,726</b>
<b>Government</b>		
Request from Government for the use of IMF funds (SBA)	101,731	105,733
<b>Total</b>	<b>234,786</b>	<b>231,459</b>

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

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

SDR Holdings represents assets approved by the IMF Board of Governors according to allocations of SDR to IMF's member countries (decisions made on 28 August 2009 and 9 September 2009). SDR holding assets bear annual average interest rates in 2014, which range from 0.05% to 0.12% (2013: 0.06% to 0.13%).

The request from the Government for using IMF funds represents an amount due from the Government according to IMF and Kosovo Stand-by Arrangement signed in June 2010, through which the Government of Kosovo obtained from IMF a Stand-By Arrangement in the amount of SDR 97 million (EUR: 113 million), while the position at 31 December 2014 is SDR 85.2 million (EUR: 101.7 million). The interest rate of this arrangement is linked to IMF's market-related interest rate, known as basic rate of charge, which is itself linked to the SDRs interest rate. The interest rate for the period 2014 fluctuated in quarterly basis per year in average as 1.05% - 1.12% p.a., (on 2013 fluctuated from 1.06% to 1.16%).

Balance drawn from IMF until 31 December 2010, and three other tranches during the 2012, in total amount around SDR 97 million (EUR 113 million) by the Government of Kosovo, according to 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 and April 2012 "on the Procedure for Request, Acceptance, Service and Repurchase of the Funds from the IMF in terms of the Stand -By Arrangement". Based on this arrangement, CBK withdraws the SDRs from IMF, on behalf of the Government, and credits them to the Government's account.

# Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended on 31 December 2014

(in thousands of EUR, unless otherwise stated)

## 12. Property and equipment

Property and equipment is composed as follows:

	Leaseholds improvements	Equipment	Computer	Vehicles	Assets in process of capitalization	Total
<b>Cost</b>						
<b>At 1 January 2013</b>	1,550	1,359	858	242	-	4,009
Acquisitions	495	144	35	-	55	729
Transfer from/to	-	-	-	-	-	-
Disposals	-	(19)	(12)	-	-	(31)
<b>At 31 December 2013</b>	<b>2,045</b>	<b>1,484</b>	<b>881</b>	<b>242</b>	<b>55</b>	<b>4,707</b>
<b>At 1 January 2014</b>	2,045	1,484	881	242	55	4,707
Acquisitions	2	174	145	-	30	351
Transfer from/to	10	22	-	-	(32)	-
Transfer from/to (correction)	-	-	-	-	(23)	(23)
Disposals	-	-	-	(67)	-	(67)
<b>At 31 December 2014</b>	<b>2,057</b>	<b>1,680</b>	<b>1,026</b>	<b>175</b>	<b>30</b>	<b>4,968</b>
<b>Depreciation</b>						
<b>At 1 January 2013</b>	391	1,240	751	177	-	2,559
Depreciation for the year	80	75	73	44	-	272
Disposals	-	(19)	(12)	-	-	(31)
<b>At 31 December 2013</b>	<b>471</b>	<b>1,296</b>	<b>812</b>	<b>221</b>	<b>-</b>	<b>2,800</b>
<b>At 1 January 2014</b>	471	1,296	812	221	-	2,800
Depreciation for the year	103	78	77	21	-	279
Transfer from/to (correction)	-	10	(10)	-	-	-
Disposals	-	-	-	(67)	-	(67)
<b>At 31 December 2014</b>	<b>574</b>	<b>1,384</b>	<b>879</b>	<b>175</b>	<b>-</b>	<b>3,012</b>
<b>Carrying amounts</b>						
<b>At 1 January 2013</b>	1,159	119	107	65	-	1,450
<b>At 31 December 2013</b>	1,574	188	69	21	55	1,907
<b>At 31 December 2014</b>	<b>1,483</b>	<b>296</b>	<b>147</b>	<b>-</b>	<b>30</b>	<b>1,956</b>

There are no assets pledged as collateral until 31 December 2014 (31 December 2013: nil).

# Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended on 31 December 2014

(in thousands of EUR, unless otherwise stated)

## 13. Intangible assets

Intangible assets are composed as follows:

	Software under development	Software	Total
<b>Cost</b>			
<b>Balance at 1 January 2013</b>	25	2,657	2,682
Acquisitions	88	4	92
Transfers (from)/to	-	-	-
Disposals	-	(649)	(649)
<b>Balance at 31 December 2013</b>	<b>113</b>	<b>2,012</b>	<b>2,125</b>
<b>Balance 1 January 2014</b>	113	2,012	2,125
Acquisitions	34	89	123
Transfers (from)/to	(88)	88	-
Transfers (from)/to (correction)	-	23	23
Disposals	-	-	-
<b>Balance at 31 December 2014</b>	<b>59</b>	<b>2,212</b>	<b>2,271</b>
<b>Amortization</b>			
<b>Balance at 1 January 2013</b>	-	1,257	1,257
Amortization for the year	-	206	206
Disposals	-	(649)	(649)
<b>Balance at 31 December 2013</b>	<b>-</b>	<b>814</b>	<b>814</b>
<b>Balance at 1 January 2014</b>	-	814	814
Amortization for the year	-	206	206
Disposals	-	-	-
<b>Balance at 31 December 2014</b>	<b>-</b>	<b>1,020</b>	<b>1,020</b>
<b>Carrying amounts</b>			
<b>Balance at 1 January 2013</b>	<b>25</b>	<b>1,400</b>	<b>1,425</b>
<b>Balance at 31 December 2013</b>	<b>113</b>	<b>1,198</b>	<b>1,311</b>
<b>Balance at 31 December 2014</b>	<b>59</b>	<b>1,192</b>	<b>1,251</b>

## 14. Other assets

Other assets are composed as follows:

	2014	2013
Accrued fee income	771	898
Accounts receivable and prepayments	115	78
<b>Total</b>	<b>886</b>	<b>976</b>

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

# Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended on 31 December 2014

(in thousands of EUR, unless otherwise stated)

## 15. Due to commercial domestic banks

Under CBK Regulation XVII on Banking Supervision, 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 CBK accounts.

<b>Due to domestic banks</b>	<b>2014</b>	<b>2013</b>
ProCreditBank Kosovo	29,511	29,599
RaiffeisenBank Kosovo	30,023	25,065
NLB Prishtina	16,984	16,229
Banka Ekonomike	5,910	5,443
Banka për Biznes	3,989	3,838
Banka Kombëtare Tregtare (Branch in Prishtina)	8,740	8,363
Banka Ekonomike Turke (TEB)	14,401	14,667
Komercijalna Banka – Branch in Mitrovica	2,407	2,091
TurkiyeisBankasia.s.	1,449	5
Banka Kreditore e Prishtinës	-	-
<b>Total required reserve</b>	<b>113,414</b>	<b>105,300</b>
<b>Additional amount above required reserve</b>		
ProCreditBank Kosovo	82,301	23,560
RaiffeisenBank Kosovo	16,110	10,977
NLB Prishtina	25,840	64,153
Banka Ekonomike e Prishtinës	5,005	32,651
Banka për Biznes	16,902	13,135
Banka Kombëtare Tregtare (Branch in Prishtina)	15,098	27,811
Banka Ekonomike Turke (TEB)	32,285	46,842
Komercijalna Banka – Branch in Mitrovica	2,350	2,098
TurkiyeisBankasia.s.	6,607	6,641
Banka Kreditore e Prishtinës	20	5
<b>Total additions on current accounts</b>	<b>202,518</b>	<b>227,873</b>
<b>Total amount on current accounts</b>	<b>315,932</b>	<b>333,173</b>

# Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended on 31 December 2014

(in thousands of EUR, unless otherwise stated)

## 16. Due to IMF related accounts

	2014	2013
IMF account no. 1	176	164
IMF account no. 2	6	6
IMF Security account	155,058	155,663
IMF SDR allocation	66,072	61,863
Accrued interest	187	207
<b>Total due to IMF</b>	<b>221,499</b>	<b>217,903</b>
<b>Due to government</b>		
IMF- Part of quota paid by government	17,214	16,108
<b>Total due to government</b>	<b>17,214</b>	<b>16,108</b>
<b>Total</b>	<b>238,713</b>	<b>234,011</b>

The above amounts are related to the admission of Kosovo to IMF in June 2009.

Accounts no. 1 and no. 2 are IMF accounts in CBK, opened according to IMF's rules and regulations.

IMF Security Account represents a promissory note to be paid by the Government of Kosovo 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.

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

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

SDR allocations and paid portion of quota are interests that include annual approximate interest rates, ranging from 0.05% - 0.12% for 2014 (2013: 0.06% - 0.12%).

# Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended on 31 December 2014

(in thousands of EUR, unless otherwise stated)

## 17. Due to governmental institutions

Due to governmental institutions includes current accounts from the following:

<b>Current accounts</b>	<b>2014</b>	<b>2013</b>
Treasury- Ministry of Finance	90,481	12,888
Privatization Agency of Kosovo	557,801	530,328
Interim administration institutions	268	260
<b>Total current accounts</b>	<b>648,550</b>	<b>543,476</b>
<b>Time deposits</b>		
Treasury – Ministry of Finance	65,017	113,008
Privatization Agency of Kosovo	-	20,007
<b>Total time deposits</b>	<b>65,017</b>	<b>133,015</b>
<b>Securities</b>		
Treasury – Ministry of Finance	-	80,955
<b>Total securities</b>	<b>-</b>	<b>80,955</b>
<b>Total</b>	<b>713,567</b>	<b>757,446</b>

The annual effective interest rate for current accounts for the year ended on 31 December 2014 is zero (for the year ended on 31 December 2013: zero). Regarding time deposits, effective interest rates for 2014 range from 0.010% - 0.370% (2013: 0.005% - 0.22 %).

## 18. Due to public and commercial institutions

	<b>2014</b>	<b>2013</b>
<b>Current accounts</b>		
Insurance companies	4,982	4,199
Other public institutions	45,556	232,328
Licensed pension funds	68	68
Other	2	2
<b>Total</b>	<b>50,608</b>	<b>236,597</b>

Effective interest rate for current accounts on 31 December 2014 and 2013 is zero. The change within the group arises from the withdrawal of assets held in current account for one of public institutions accounts, based on its operating purposes with its own account in CBK.

## 19. Due to borrowing/s

	<b>2014</b>	<b>2013</b>
Borrowing/s	34	-
<b>Total</b>	<b>34</b>	<b>-</b>

Used part of the borrowing from World Bank.

# Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended on 31 December 2014

(in thousands of EUR, unless otherwise stated)

## 20. Other domestic liabilities

	2014	2013
Safe custody accounts	2,428	2,428
Deferred grants income	456	523
Other deferred income	6	12
Reserves fund	146	-
Sundry creditors	145	281
	<b>3,181</b>	<b>3,244</b>

The change comes only from the normal flow of activities within the group, in relation to dates when the balances are disclosed.

Safe custody balance is composed of the following types of accounts and amounts.

The amount of EUR 1,134 represents rents amounts collected by the CBK until 5 January 2004 on behalf of the Government of Kosovo for the offices of the former National Bank of Kosovo, which were rented out to various entities/individuals. This amount includes also the interest earned on these rent payments until 31 December 2014.

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

As of 31 December 2014, in the safe custody accounts are also included EUR 756 thousands, which are related to current amount of the Insurance Company Kosova, which was liquidated on April 2010.

Movement in revenues from grants are as follows:

	Ministry of Finance (ICU Portfolio)	World Bank	Total
Deferred grant revenues at 1 January 2013	555	35	590
Grants received during the year	11	-	11
Grant income for the year	(71)	(7)	(78)
<b>Deferred grant revenue on 31 December 2013</b>	<b>495</b>	<b>28</b>	<b>523</b>
Deferred grants revenues at 1 January 2014	495	28	523
Grants received during the year	10	-	10
Grants recognised as revenues for the year	(70)	(7)	(77)
<b>Grants deferred revenues at 31 December 2014</b>	<b>435</b>	<b>21</b>	<b>456</b>

# Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended on 31 December 2014

(in thousands of EUR, unless otherwise stated)

## 21. Authorized capital

CBK authorized capital on 31 December 2014 and 2013 is EUR 30,000 pursuant to the Law no. 03/L-209, approved on 22 July 2010.

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

## 21a. Reserve fund and revaluation reserve

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

## 22. Net interest income

Net interest income is composed of:

	2014	2013
<b>Interest income</b>		
From deposit accounts	812	548
From treasury bills	636	391
From current accounts	56	51
	<b>1,504</b>	<b>990</b>
<b>Interest expenses</b>		
On current accounts from non-banking entities	54	50
In current accounts of banks	-	1
In time deposits	192	130
	<b>246</b>	<b>181</b>
<b>Net interest income</b>	<b>1,258</b>	<b>809</b>

## 23. Net fees and commissions income

Net fees and commission income are composed of:

	2014	2013
<b>Fees income</b>		
From cash deposits	459	459
From foreign incoming transfers	40	45
From foreign outgoing transfers	290	191
From inter-bank clearing system	477	433
From credit registry system	121	119
From the management of treasury funds	224	284
Other fees	29	32
	<b>1,640</b>	<b>1,563</b>
<b>Fee expenses</b>		
For cash transportation	273	253
For correspondent bank transactions	45	53
Penalties charges	-	-
	<b>318</b>	<b>306</b>
<b>Net fees and commissions income</b>	<b>1,322</b>	<b>1,257</b>

# Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended on 31 December 2014

(in thousands of EUR, unless otherwise stated)

## 23. Net fees and commissions income (continued)

Income from management of treasury fund results (note 23) from asset management services provided to the Treasury of the Ministry of Finance by CBK. These services are in accordance with the CBK law.

## 24. Income from regulatory activity

Other operating income mainly comprises 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:

	2014	2013
Fees charged to commercial banks	1,957	1,136
Fees charged to insurance companies	1,144	1,095
Fees from non-banking financial institutions	196	105
Pension renewal fees	13	21
<b>Total</b>	<b>3,310</b>	<b>2,357</b>

## 25. Grants incomes

Grants incomes are composed of:

	2014	2013
Treasury – Ministry of Finance (ICU portfolio)	70	71
World bank	7	7
<b>Total</b>	<b>77</b>	<b>78</b>

## 26. Other operating income

Other income:

	2014	2013
Other income	18	10
<b>Total</b>	<b>18</b>	<b>10</b>

Within other revenues are mainly sales of some assets that have been out of use or for the purpose of replacing them with new ones that are more economical and functional.

# Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended on 31 December 2014

(in thousands of EUR, unless otherwise stated)

## 27. Personnel expenses

Personnel expenses are composed of:

	2014	2013
Wages	2,779	2,131
Pension contributions	439	343
Health insurance costs	178	168
Personnel trainings	43	74
Central Bank Boards expenses	107	136
Other	25	25
<b>Total</b>	<b>3,571</b>	<b>2,877</b>

Number of employees working in CBK on 31 December 2014 was 201 (31 December 2013: 193). From the above disclosure it was noted that personnel costs are increased in 2014 compared to 2013, and this is indicated by the increased number of personnel and partly by harmonization with the organizational structure of ranks and salaries of staff in January 2014. This harmonization does not include the Governor, Deputy Governors or members of the board of CBK.

## 28. General and administrative expenses

General and administrative expenses are composed of:

	2014	2013
Insurance expenses	185	172
Repairs and maintenance	44	63
Software maintenance	240	225
Communication expense (telephone, telex and internet)	51	62
Utilities	97	99
Audit and consulting expense	18	19
Security and guard services	44	44
Travel and transportation	107	117
Vehicle operating expenses	33	29
Stores and stationery	21	27
Representation expenses	75	55
Computer and other consumables expense	10	18
Consumable expenses for equipment	40	30
Publishing and literature expenses	38	33
Professional technical assistance and other external services	121	5
Membership to professional associations *	29	26
Provisions expenses **	145	-
Other	21	32
<b>Total</b>	<b>1,319</b>	<b>1,056</b>

\* Memberships to professional associations are mainly memberships to associations, at the international level, of regulators of insurance supervision, pension supervision, credit register, for internal audit and financial reporting standards.

\*\* Provisions allocated for opened judicial disputes on 31 December 2014.

# Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended on 31 December 2014

(in thousands of EUR, unless otherwise stated)

## 29. Foreign exchange net income profit/ (loss)

Net loss from the foreign exchange is EUR 225 thousands for the year ended on 31 December 2014, (whereas 2013: profit 88 thousands) represent unrealized profits/losses in relation to foreign exchanges differences resulting upon translation of SDR assets and liabilities on the CBK books.

## 30. Cash and cash equivalents

Cash and cash equivalents are composed of:

	Note	2014	2013
Cash on hand	7	29,178	27,384
Current accounts with non-resident banks	8	323,401	61,083
Treasury bills with maturity up to three months	9	-	189,963
Deposits with non-resident banks with maturity up to three months	10	410,007	553,449
<b>Total</b>		<b>762,586</b>	<b>831,879</b>

Cash and cash equivalents are held for the purpose of fulfilling liquidity liabilities, mainly short-term. An investment is qualified as a cash equivalent when it has a short-term maturity, less than three months from the date of acquisition.

## 31. Commitments and contingencies

### Legal

CBK has several opened judicial proceedings against her at the reporting date of these financial statements. The opinion of management is that the ultimate outcome of these claims will not have a significant effect on the CBK financial statements and for the year ended on 31 December 2014. However, wishing to be more responsive, for some of them we have evaluated the allocation of a reserve fund, disclosed as item to other liabilities.

### Credit related commitments

On 31 December 2014, CBK had commitments to place deposits in total amount of EUR 149 million (31 December 2013, CBK had commitments to place deposits in the total amount of EUR 50 million).

# Central Bank of the Republic of Kosovo

Notes to the financial statement for the year ended on 31 December 2014

(in thousands of EUR, unless otherwise stated)

## 31. Commitments and contingencies (continued)

### Credit related commitments (continued)

#### *Other commitments*

Other commitments are composed of:

	2014	2013
Service contracts	17	47
Equipment contracts	145	27
<b>Total</b>	<b>162</b>	<b>74</b>

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

In June 2009 the Government of Kosovo issued promissory notes to make payments concerning membership to the World Bank above mentioned agencies, upon their requests and payment instructions. Total amount of these promissory notes in 31 December 2014 was 645 thousands and in 2013, EUR 654 thousands.

## 32. Related party transactions

Related parties include key management and Central bank Board. Their compensations are presented below:

	2014	2013
Compensations for the members of Central Bank Board	81	116
Compensations for Audit Committee	7	8
Compensations to Key Management Personnel	216	170
<b>Total</b>	<b>304</b>	<b>294</b>

## 33. Subsequent events

There are no important subsequent events after the reporting date that would require either adjustments or additional explanatory notes in these financial statements.



## 9. Statistical Appendix



## 1.1. Financial Corporation Statement – Net Foreign Assets and Internal Requirements

(In million of Euros: End of the Period)

Description	Net foreign assets							Domestic claims									
	Claims on non residents	of which:					Less: liabilities to nonresidents	Net claims on central government				Claims on other sectors	of which:				
		Monetary gold and SDR holdings	Deposits	Securities other than shares	IMF Quota	Shares and other equities		Claims on central government	Less: Liabilities to central government		Loans		of which:				
									Deposits				Other non financial corporations	Households			
2004	722.8	772.0	---	384.0	236.7	---	83.3	49.2	202.5	-216.8	---	216.8	216.8	419.3	413.5	329.8	83.7
2005	827.3	890.9	---	422.6	242.4	---	145.3	63.6	348.9	-225.7	---	225.7	225.7	574.6	565.6	439.6	126.0
2006	1,173.6	1,245.7	---	660.0	341.3	---	170.8	72.1	231.7	-475.0	---	475.0	475.0	706.6	694.3	548.2	146.1
2007	1,622.4	1,704.6	---	955.0	408.9	---	175.4	82.3	124.5	-853.3	---	853.3	853.3	977.8	965.9	765.1	200.6
2008	1,593.1	1,726.7	---	795.1	661.6	---	128.2	133.6	419.6	-871.8	---	871.8	871.8	1,291.5	1,276.8	995.7	281.0
2009	1,700.5	2,036.2	60.3	910.1	724.5	64.3	144.3	335.7	571.5	-846.3	---	846.3	846.3	1,417.8	1,396.1	1,052.3	343.5
2010	1,957.5	2,387.7	64.0	1,257.8	525.2	68.5	269.3	430.2	766.8	-824.8	---	824.8	824.8	1,591.6	1,568.3	1,127.7	434.2
2011	2,067.8	2,446.0	65.1	1,359.4	230.0	70.1	533.1	378.2	987.5	-798.4	---	798.4	798.4	1,785.8	1,785.8	1,242.1	514.6
2012	2,337.1	2,773.4	63.3	1,260.7	486.0	68.8	666.5	436.3	1,079.9	-764.7	73.8	838.5	838.5	1,847.2	1,819.4	1,271.3	546.3
2013	2,558.5	3,014.1	59.6	1,143.6	818.7	65.9	651.2	456.6	1,263.4	-620.8	153.2	774.0	774.0	1,883.4	1,859.9	1,291.1	567.7
2014	2,648.4	3,113.3	62.5	1,414.7	315.7	70.4	1,024.4	464.9	1,507.4	-488.5	247.4	735.9	735.9	1,995.8	1,971.5	1,331.8	639.0

## 1.2. Financial corporation statement – liabilities

(In million of Euros: End of the Period)

Description	Deposits								Loans	Insurance technical reserves			Shares and other equity	Other items (net)	
	Transferable deposits	of which:				Other deposits	of which:			Net equity of households in pension	Pre payment of premiums and reserves				
		Public non financial corporations	Other non financial corporations	Households			Public nonfinancial corporations	Other nonfinancial corporations				Households			
2004	670.7	273.7	34.6	81.3	145.5	273.7	149.3	24.4	222.5	2.3	106.5	88.7	17.9	145.1	0.7
2005	830.6	315.0	67.6	76.8	155.5	515.6	181.3	33.7	298.9	3.0	174.5	152.4	22.1	165.8	2.2
2006	886.4	300.5	34.8	96.4	156.2	586.0	193.3	27.6	359.5	3.4	251.4	223.9	27.5	209.3	54.7
2007	1,110.9	386.1	49.6	133.5	187.5	724.8	188.4	43.8	489.3	...	316.1	286.2	29.9	273.8	46.0
2008	1,351.9	390.9	15.4	176.0	186.2	961.0	250.1	51.4	656.7	...	288.6	256.3	32.3	311.1	61.1
2009	1,444.3	483.2	50.1	184.0	237.7	961.0	73.9	82.9	801.9	...	422.3	380.8	41.5	326.1	79.3
2010	1,744.2	621.2	83.8	218.6	303.5	1,123.1	42.8	83.4	995.9	...	540.5	493.7	46.8	361.0	78.6
2011	1,933.6	658.4	68.1	208.1	360.9	1,275.1	60.8	79.7	1,129.6	...	647.8	593.3	54.5	389.7	75.0
2012	2,076.6	700.2	13.8	257.5	407.2	1,376.5	61.8	78.2	1,232.9	...	814.9	745.1	69.8	399.2	111.5
2013	2,275.3	848.0	16.4	299.6	506.6	1,427.3	55.7	98.2	1,268.4	...	990.3	919.0	71.3	403.9	152.4
2014	2,354.4	1,134.6	21.1	338.4	743.5	1,219.8	51.6	58.0	1,104.8	...	1,173.8	1,094.1	79.7	453.2	174.3

## 2.1. Other depository corporations – Net Foreign assets and Internal Requirements

(In million of Euros: End of the Period)

Description	Net foreign assets								Domestic claims										
	Claims on non residents							Less: Liabilities to non residents	Net claims on central government			Claims on other sectors							
	Currency	Deposits	Securities other than shares	IMF Quota	Loans	Other	Claims on central gov.		Less: Liabilities to central gov.	Loans	Public financial corporations	Other non financial corporations	Households						
2001	583.3	604.8	239.2	358.1	7.5	—	—	—	21.5	-44.2	-70.3	—	70.3	26.1	25.9	...	25.9	—	
2002	649.5	674.1	53.1	621.0	...	—	—	—	24.6	-171.8	-258.6	—	258.6	86.8	86.5	...	80.8	5.7	
2003	695.8	727.0	73.2	533.6	119.6	—	—	—	0.6	31.2	-12.6	-346.4	—	346.4	233.8	232.8	...	193.5	39.0
2004	648.7	687.9	55.3	384.0	236.7	—	—	11.7	0.2	39.2	156.9	-216.8	—	216.8	373.8	373.7	...	289.9	83.7
2005	695.1	744.5	74.6	422.6	242.4	—	—	4.7	0.2	49.3	289.0	-225.7	—	225.7	514.6	513.9	...	387.9	126.0
2006	975.4	1035.6	63.4	660.0	303.1	—	—	7.7	1.5	60.2	162.2	-475.0	—	475.0	637.1	636.6	...	490.5	146.1
2007	1,377.5	1,426.1	145.3	955.0	308.2	—	—	12.1	5.5	48.6	39.1	-853.3	—	853.3	892.4	892.1	0.2	691.3	200.6
2008	1,436.1	1,512.0	121.1	794.9	581.8	—	—	13.5	0.7	75.9	311.9	-871.8	—	871.8	1,183.8	1,183.4	0.1	901.7	281.0
2009	1,531.9	1,782.4	111.4	910.0	626.7	64.3	—	9.7	0.1	250.6	442.9	-846.3	—	846.3	1,289.3	1,289.0	0.3	942.9	343.5
2010	1,616.2	1,957.1	164.3	1,257.8	372.7	68.5	29.0	1.0	340.9	632.8	-824.8	—	824.8	1,457.5	1,457.1	6.3	1,006.6	434.2	
2011	1,603.8	1,900.3	124.9	1,359.3	227.0	70.1	52.1	1.8	296.6	867.7	-798.4	—	798.4	1,666.1	1,665.6	1.5	1,130.6	514.6	
2012	1,729.7	2,102.8	141.4	1,260.7	482.7	68.8	81.5	4.4	373.1	962.9	-778.7	59.8	838.5	1,741.6	1,740.9	1.4	1,172.9	546.3	
2013	1,965.4	2,358.3	157.9	1,143.5	815.3	65.9	112.0	4.1	392.9	1,113.3	-673.9	100.1	774.0	1,787.2	1,786.0	0.2	1,196.7	567.7	
2014	1,680.3	2,083.9	167.5	1,414.6	311.6	70.4	61.4	3.0	403.1	1,390.4	-492.6	243.3	735.9	1,883.1	1,881.9	0.6	1,235.0	639.0	

## 2.2. Other depository corporations – assets

(In million of Euros: End of the Period)

Description	Broad money liabilities	Deposits included in broad money*										Deposits excluded from broad money	Shares and other equity	Other items net	
		Transferable deposits	Other deposits				Other financial corporations	Public non financial corporations	Other non financial corporations	Households					
			Other financial corporations	Public non financial corporations	Other non financial corporations	Households									
2001	486.8	486.8	361.5	.	7.0	135.3	219.2	125.2	.	.	31.3	93.9	12.9	25.2	14.3
2002	413.6	413.6	285.3	.	3.5	160.1	121.7	128.3	.	.	23.9	104.4	25.1	43.8	-4.8
2003	499.3	499.3	278.7	.	5.3	139.0	134.4	220.6	.	.	87.1	133.5	29.2	61.1	-6.4
2004	719.5	719.5	303.5	29.8	34.6	81.3	145.5	416.0	19.1	149.3	24.4	222.5	—	87.1	-1.0
2005	865.4	865.4	345.6	30.5	67.6	76.8	155.5	519.9	24.3	181.3	33.1	279.6	19.9	94.4	4.3
2006	912.8	912.8	336.4	35.9	34.8	96.4	156.2	576.3	30.5	193.3	24.6	322.4	40.6	128.8	55.4
2007	1,126.6	1,126.6	413.7	27.7	49.6	133.5	187.5	712.8	40.3	188.4	41.8	439.0	53.7	186.5	49.8
2008	1,393.0	1,393.0	454.6	63.7	15.4	176.0	186.2	938.3	47.6	250.1	44.2	593.8	74.9	233.8	46.4
2009	1,548.5	1,548.5	621.4	138.2	50.1	184.0	237.7	927.0	60.7	73.9	71.7	718.5	98.1	249.2	79.1
2010	1,747.9	1,747.9	674.3	53.1	83.8	218.6	303.5	1,073.6	85.2	30.2	73.5	883.7	138.2	278.5	84.4
2011	1,902.2	1,902.2	705.3	37.8	77.2	208.1	360.9	1,196.9	91.0	49.2	71.7	979.9	175.8	302.9	90.6
2012	2,036.8	2,036.8	759.5	41.9	31.2	257.5	407.2	1,277.3	100.4	49.8	70.5	1,053.1	206.2	321.1	128.5
2013	2,388.5	2,388.5	1,096.3	226.5	39.1	299.6	506.6	1,292.1	62.2	43.7	92.3	1,088.9	209.7	329.0	151.5
2014	2,287.4	2,287.4	1,194.2	60.1	21.1	338.4	743.0	1,092.7	67.2	39.4	50.2	930.6	208.7	374.1	150.4

**Table 3.1. CBK survey - Net Foreign Assets and Internal Requirements**

(In million of Euros: End of the Period)

Description	Net foreign assets										Net claims on central government	Claims on other sectors	Liabilities to ODC
	Claims on non residents					of which:							
	Monetary gold and SDR	Currency	Deposits	Securities other than shares	IMF Quota	Less: liabilities to non residents	of which:		SDR allocations	IMF Account			
2001	293.7	296.2	—	150.8	145.4	—	—	2.6	—	—	-70.3	0.2	173.9
2002	345.4	345.8	—	17.5	328.3	—	—	0.4	—	—	-258.6	0.3	46.2
2003	454.3	454.6	—	26.6	427.4	—	—	0.3	—	—	-346.4	1.0	59.6
2004	344.7	349.9	—	12.1	213.2	124.4	—	5.2	—	—	-216.8	0.1	72.9
2005	394.4	397.5	—	24.5	213.4	159.5	—	3.1	—	—	-225.7	0.8	82.5
2006	641.1	641.2	—	11.1	424.9	203.6	—	0.1	—	—	-472.9	0.5	94.5
2007	1,057.6	1,057.6	—	63.8	759.0	229.3	—	...	—	—	-849.4	0.3	113.6
2008	1,110.7	1,110.7	—	39.7	529.0	541.3	—	...	—	—	-870.5	0.3	137.2
2009	1,088.3	1,198.5	60.3	2.18	522.3	529.7	64.3	110.2	60.3	49.1	-681.5	0.2	233.2
2010	1,108.0	1,246.9	64.0	60.2	854.4	199.2	68.5	138.9	64.2	73.0	-813.1	0.5	203.6
2011	1,094.5	1,234.6	65.1	13.5	1,059.3	25.0	70.1	135.8	65.7	69.4	-797.2	0.5	209.7
2012	1,238.8	1,469.1	63.3	16.8	1,034.1	286.0	68.8	230.3	64.6	165.3	-837.9	0.7	302.1
2013	1,392.1	1,610.0	59.6	27.4	896.2	560.8	65.9	218.0	61.9	155.8	-773.3	1.2	333.2
2014	1,146.5	1,368.1	62.5	29.2	1,085.2	120.5	70.4	221.6	66.1	155.2	-730.5	1.2	315.9

**Table 3.2. CBK Statements - Liabilities**

(In million of Euros: End of the Period)

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	Korp. tjera jofinanciare	Other financial corporations										
2001	8.4	8.4	—	—	7.0	1.4	—	—	12.9	10.6	2.4	4.7	2.6	1.1	23.6	
2002	3.9	3.9	—	—	3.5	0.4	—	—	25.1	24.6	0.5	10.6	2.6	3.6	1.3	
2003	5.3	5.3	—	—	5.3	...	—	—	27.4	25.7	1.7	16.1	2.6	4.5	0.5	
2004	37.7	32.6	20.7	1.9	9.9	...	5.1	5.1	—	—	—	18.0	10.0	3.0	-0.6	
2005	66.6	62.5	23.3	1.6	37.6	...	4.1	4.1	—	—	—	20.4	10.0	3.0	...	
2006	49.9	41.9	31.0	0.4	10.5	...	8.0	8.0	—	—	—	25.5	10.0	6.4	-1.2	
2007	57.2	46.7	22.4	3.2	21.1	...	10.6	10.6	—	—	—	33.8	20.0	9.2	3.9	
2008	63.9	56.7	49.9	5.3	1.5	...	7.2	7.2	—	—	—	41.4	30.0	7.5	-2.0	
2009	130.8	130.8	129.7	...	1.1	...	...	...	—	—	—	44.9	30.0	3.7	-2.0	
2010	45.6	45.6	43.9	...	0.0	...	...	...	—	—	—	47.9	30.0	3.0	-1.8	
2011	39.5	39.5	36.8	...	0.2	...	...	...	—	—	—	54.3	30.0	5.8	-1.3	
2012	51.5	51.5	49.8	...	0.0	...	...	...	—	—	—	50.4	30.0	1.8	-2.4	
2013	239.0	239.0	236.6	...	0.0	...	...	...	—	—	—	50.5	30.0	0.2	-2.7	
2014	53.0	53.0	39.7	...	10.9	...	...	...	—	—	—	51.0	30.0	0.6	-2.8	

**Table 4.1. ODC Statement – Net Foreign Assets and Internal Requirements**

( In million of Euros: End of the Period)

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								
2001	289.7	308.6	88.3	212.8	7.5	18.9	13.9	5.0	176.8	—	25.9	25.9	—	25.9	—
2002	304.1	328.3	35.6	292.7	...	24.2	17.5	6.7	45.7	—	86.5	86.5	—	80.8	5.7
2003	241.5	272.4	46.6	106.2	119.6	31.0	20.0	10.9	59.6	—	232.8	232.8	0.2	193.5	39.0
2004	304.0	338.0	43.2	170.8	112.3	34.0	12.7	21.3	73.2	—	373.7	373.7	—	289.9	83.7
2005	300.7	346.9	50.1	209.2	82.9	46.2	18.4	27.9	81.6	—	513.9	513.9	—	387.9	126.0
2006	334.4	394.5	52.3	235.1	99.4	60.1	21.4	38.7	88.8	-2.1	636.6	636.6	—	490.5	146.1
2007	319.9	368.5	81.5	196.0	78.9	48.6	17.9	30.7	107.5	-3.9	892.1	892.1	0.2	691.3	200.6
2008	325.4	401.3	81.4	265.9	40.5	75.9	42.0	33.7	136.8	-1.3	1,183.4	1,183.4	0.1	901.7	281.0
2009	444.0	583.9	89.6	387.7	97.0	140.0	65.5	74.5	233.1	-164.9	1,289.0	1,289.0	0.3	942.9	343.5
2010	507.6	709.8	103.5	403.5	173.4	202.2	85.5	116.7	203.4	-11.6	1,457.1	1,457.1	6.3	1,006.6	434.3
2011	509.2	665.7	111.5	300.0	202.0	156.5	64.8	90.5	220.0	-1.2	1,665.6	1,665.6	1.5	1,130.6	516.1
2012	490.9	633.7	124.6	226.6	196.7	142.8	87.6	50.3	301.1	59.2	1,740.9	1,740.9	1.4	1,172.9	546.7
2013	573.4	748.3	130.6	247.3	254.4	174.9	90.4	82.4	331.8	99.4	1,786.0	1,786.0	0.2	1,196.7	568.6
2014	534.3	715.8	131.2	329.4	191.1	181.5	90.6	87.8	315.9	187.3	1,881.9	1,881.9	0.6	1,235.0	639.1

**Table 4.2. ODC Statement - Liabilities**

( In million of Euros: End of the Period)

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.	Other nonfinancial corp.	Households		Other financial corporations	Public nonfinancial corp.	Other nonfinancial corp.	Households						
2001	478.4	353.1	.	.	133.9	219.2	125.2	.	.	31.3	93.9	.	.	.	20.4	-6.4
2002	409.7	281.4	.	.	159.7	121.7	128.3	.	.	23.9	104.4	.	.	.	33.2	-6.6
2003	494.0	273.4	.	.	139.0	134.4	220.6	.	.	87.1	133.5	1.8	1.8	.	45.0	-7.0
2004	681.9	270.9	9.0	24.7	81.3	145.5	410.9	14.0	149.3	24.4	222.5	0.0	0.0	0.0	69.1	-0.1
2005	798.8	283.0	7.2	30.0	76.8	155.5	515.8	20.2	181.3	33.1	279.6	19.9	0.7	19.3	74.0	3.4
2006	862.9	294.5	4.9	24.3	96.4	156.2	568.4	22.5	193.3	24.6	322.4	40.6	3.0	37.1	103.3	50.9
2007	1,069.3	367.1	5.3	28.5	133.5	187.5	702.3	29.8	188.4	41.8	439.0	53.7	2.0	50.3	152.7	39.8
2008	1,329.0	397.9	13.8	13.8	176.0	186.2	931.1	40.4	250.1	44.2	593.8	74.9	7.3	63.0	192.3	48.1
2009	1,417.8	490.6	8.5	48.9	184.0	237.7	927.2	60.8	73.9	71.7	718.5	97.9	11.2	83.5	204.2	81.0
2010	1,702.2	628.6	9.2	83.8	218.6	303.5	1,073.6	85.2	30.2	73.5	883.7	138.2	9.9	112.2	230.4	85.7
2011	1,862.8	665.9	10.1	67.9	208.1	360.9	1,196.9	91.0	49.2	71.7	979.9	175.8	8.0	149.7	252.8	102.2
2012	1,985.3	708.0	9.6	13.8	257.5	407.2	1,277.3	100.4	49.8	70.5	1,053.1	206.2	7.8	179.8	270.7	129.8
2013	2,149.4	857.3	11.8	16.4	299.6	506.6	1,292.1	62.2	43.7	92.3	1,088.9	209.7	5.9	179.4	278.5	152.8
2014	2,234.4	1,141.7	20.4	10.2	338.4	743.5	1,092.7	67.2	39.4	50.2	930.6	208.7	7.8	174.2	323.1	153.2

**Table 5.1. Statement of OFC – Net Foreign Assets**

(In million of Euros: End of the Period)

Description	Net foreign assets						Claims on depository corporations						Net claims on central government	Claims on other sectors		
	of which:			Less:		CBK	Other depository corporations			Transferable deposit	Other deposits	Transferable deposit		Other deposits	Loans	
	Claims on non-residents	Securities other than shares	Shares and other equity	liabilities to non-residents	Loans		Transferable deposit	Other deposits								
2004	74.1	84.2	—	83.3	10.1	10.1	48.9	25.8	20.7	5.1	23.0	9.0	14.0	—	45.6	39.9
2005	132.1	146.4	—	145.3	14.3	14.3	54.8	27.4	23.3	4.1	27.4	7.2	20.2	—	60.0	51.7
2006	198.1	210.0	38.3	170.8	11.9	11.9	66.9	39.0	31.0	8.0	28.0	4.9	23.0	—	69.5	57.7
2007	244.9	278.5	100.7	175.4	33.6	33.6	72.8	32.9	22.4	10.6	39.8	6.2	33.6	—	85.4	73.8
2008	157.0	214.7	79.8	128.2	57.7	57.7	113.0	57.1	49.9	7.2	55.9	7.9	48.0	—	108.3	94.0
2009	168.6	253.8	97.9	144.3	85.1	85.1	200.0	129.7	129.7	—	70.3	7.4	62.9	—	130.8	109.4
2010	341.3	430.5	152.5	269.3	89.2	89.2	142.8	43.9	43.9	—	98.8	8.2	90.6	—	139.7	116.9
2011	464.0	545.7	3.2	533.1	81.7	81.7	138.1	27.7	27.7	—	110.4	7.3	103.1	—	128.1	102.5
2012	607.6	670.8	3.3	666.5	63.2	63.2	154.0	32.4	32.4	—	121.6	9.7	111.9	13.9	125.5	98.3
2013	593.0	655.8	3.5	651.2	62.7	62.7	133.0	213.9	213.9	—	99.1	14.6	84.5	53.1	117.5	94.4
2014	967.6	1029.4	4.0	1024.4	61.8	61.8	119.5	15.0	15.0	—	104.5	14.3	90.1	54.7	119.9	96.8

**Table 5.2. Statement of OFC – Liabilities, excluding the external and fiscal factor**

(In million of Euros: End of the Period)

Description	Loans	Insurance technical reserves				Shares and other equity				Other items				
		Net equity of households in 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	2.3	106.5	—	88.7	17.9	58.0	42.6	8.6	5.0	1.7	1.7	9.3	7.6	—
2005	3.0	174.5	—	152.4	22.1	71.4	47.7	12.9	6.7	4.0	-2.1	4.4	6.5	—
2006	3.4	251.4	—	223.9	27.5	80.5	55.2	15.8	7.9	1.6	-0.7	7.4	8.2	—
2007	—	316.1	—	286.2	29.9	87.4	62.1	20.1	1.7	3.5	-0.4	9.6	10.0	—
2008	1.0	288.6	—	256.3	32.3	77.4	54.0	12.7	7.4	3.4	11.3	24.2	12.9	—
2009	2.9	422.3	—	380.8	41.5	77.0	53.4	19.4	7.2	-3.1	-2.7	13.1	15.8	—
2010	2.9	540.5	—	493.7	46.8	82.5	59.7	13.6	7.2	2.0	-2.1	20.9	23.1	—
2011	3.3	647.8	—	593.3	54.5	85.4	60.4	13.3	10.8	0.9	-6.3	16.1	22.4	—
2012	7.2	814.9	—	745.1	69.8	78.1	63.5	9.8	10.7	-6.4	0.7	29.0	28.4	—
2013	6.8	990.3	—	919.0	71.3	75.6	64.2	1.3	11.1	-1.0	3.9	29.8	25.9	—
2014	3.2	1,173.8	—	1,094.1	79.7	79.1	64.3	-0.5	14.4	0.9	5.6	30.4	24.8	—

**Table 6.1. Euro Deposits in ODC– by original maturity, main sectors**

(In million of Euros: End of the Period)

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					
2001	492.3	---	---	---	---	---	---	---	165.2	---	165.2	313.1	313.1	---	13.9
2002	427.2	---	---	---	---	---	---	---	183.6	---	183.6	226.1	226.1	---	17.5
2003	515.8	---	18	1.8	---	---	---	---	226.1	---	226.1	267.9	267.9	---	20.0
2004	674.9	1.3	25.6	3.7	3.5	15.5	---	2.9	275.3	173.5	101.8	360.3	350.7	9.6	12.3
2005	815.3	2.9	35.4	8.1	5.8	18.8	---	2.8	319.0	211.3	107.7	440.7	428.7	12.0	17.3
2006	890.4	7.0	28.1	0.1	2.4	24.7	0.4	0.5	337.8	217.4	120.5	499.2	486.1	13.1	18.2
2007	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	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	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	1830.8	11.7	105.0	7.3	7.9	47.6	41.6	0.6	414.9	122.3	292.5	1220.1	1206.1	14.0	79.1
2011	1982.4	2.7	117.5	9.9	6.8	57.2	43.1	0.5	406.6	128.5	278.1	1395.6	1373.4	22.2	60.0
2012	2,162.8	0.7	120.0	3.8	6.2	64.3	45.3	0.4	401.7	75.6	326.1	1558.6	1535.4	23.2	81.7
2013	2,314.1	1.8	88.2	2.5	7.4	72.3	5.7	0.3	455.6	72.1	383.5	1685.1	1,658.7	26.4	83.4
2014	2,426.3	8.8	104.6	2.8	5.1	79.3	17.1	0.3	449.7	61.8	387.9	1,781.1	1,750.6	30.6	82.1

**Table 6.2. Non-euro Deposits in ODC– by original maturity, main sectors**

(In million of Euros: End of the Period)

Description	Total deposits in non euro																
	Financial corporations						Non financial corporations			Other domestic sectors				Nonresidents			
	CBK	Other depository corporations	Other financial intermediaries	Insurance companies	Pension funds	Financial auxiliaries	Public nonfinancial corporations	Other nonfinancial corporations	Households			NPISH					
												Transferable deposits	Saving accounts	Other deposits			
2005	29.4	---	---	---	---	---	---	2.8	---	2.8	26.0	25.7	10.8	---	14.9	0.3	0.5
2006	34.3	---	---	---	---	---	---	3.7	0.3	3.5	29.8	29.6	12.4	---	17.2	0.2	0.5
2007	53.3	0.5	---	---	0.1	0.4	---	8.1	1.5	6.6	44.3	44.2	16.2	---	28.0	0.1	0.4
2008	81.9	0.9	---	---	---	0.9	---	11.6	0.1	11.5	68.4	68.2	22.9	---	45.2	0.3	1.0
2009	112.1	2.1	---	1.2	---	0.9	---	18.3	1.3	17.0	91.1	90.9	29.7	---	61.1	0.2	0.7
2010	113.8	3.1	---	2.9	---	---	---	13.7	4.3	9.4	93.8	93.3	33.1	25.9	34.3	0.5	3.1
2011	131.5	0.3	---	0.3	---	---	---	9.8	0.1	9.7	117.5	117.0	46.5	31.7	38.9	0.4	3.8
2012	120.9	1.6	---	1.2	0.2	---	---	9.6	---	9.6	104.9	104.7	45.7	27.0	32.0	0.2	4.8
2013	136.9	0.7	---	---	0.4	---	---	14.3	---	14.3	116.7	116.2	59.6	29.6	27.0	0.5	5.2
2014	113.1	0.3	---	0.3	---	---	---	8.5	---	8.5	97.8	97.3	63.2	21.5	12.6	0.6	6.5

Table 6.3. ODC Loans – by original maturity

(In million Euros: End of Period)

Description	Total loans															Non-residents	Kreditě ně jo euro	
	Financial corporati ons	of which:			Nonfin cial corporati ons	of which:						Other domestic sectors	of which:					
		Other financial intermediari es	Insurance companies	Public nonfinanc ial corporati ons		Other nonfinanc ial corporati ons	Up to 1 year	Over 1 year and up to 2 years	Over 2 year and up to 5 years	Househol ds	Up to 1 year		Over 1 year and up to 2 years	Over 2 year and up to 5 years				
2001	25.9	---	---	---	25.9	---	25.9	24.6	13	---	---	---	---	---	---	---	---	---
2002	86.5	---	---	---	80.8	---	80.8	67.3	13.5	---	5.7	5.7	1.4	4.3	---	---	---	---
2003	232.8	---	---	---	193.7	0.2	193.5	124.7	68.7	0.2	39.0	39.0	11.4	16.0	11.6	---	---	---
2004	373.7	---	---	---	289.9	---	289.9	111.5	111.3	67.2	SW	83.7	15.9	15.2	52.6	---	---	---
2005	513.9	---	---	---	387.9	---	387.9	117.9	125.2	144.7	126.0	126.0	19.5	21.0	85.4	---	---	---
2006	636.6	---	---	---	490.5	---	490.5	128.7	127.7	234.1	146.1	146.1	19.7	24.7	101.7	---	---	---
2007	892.1	---	---	---	691.5	0.2	691.3	174.0	122.6	394.6	200.6	200.6	24.0	29.6	147.1	---	---	---
2008	1,183.4	0.6	---	0.6	901.8	0.1	901.7	191.0	132.3	578.4	281.0	281.0	20.9	30.9	229.2	---	---	---
2009	1,289.0	2.3	12	1.1	943.2	0.3	942.9	215.7	113.0	614.2	343.5	343.5	27.0	32.1	284.5	---	---	---
2010	1,458.7	9.9	6.8	3.0	1,010.3	6.3	1,004.1	255.2	64.3	429.5	434.3	434.2	26.5	30.7	201.9	16	2.5	---
2011	1,698.1	17.3	15.6	1.7	1,128.6	1.5	1,127.0	298.8	83.4	479.1	512.4	510.9	44.0	38.1	218.6	32.4	7.3	---
2012	1,763.4	19.8	16.3	3.5	1,171.2	1.4	1,169.8	313.4	91.7	494.8	543.0	542.6	52.2	37.3	218.8	22.5	6.9	---
2013	1,805.8	20.4	17.3	3.1	1,194.7	0.2	1,194.5	378.0	97.4	471.5	564.7	563.9	65.4	41.1	212.4	19.9	6.1	---
2014	1,882.3	7.1	5.8	1.3	1,233.4	0.6	1,232.7	367.0	93.6	772.1	635.4	635.3	69.6	42.6	523.1	0.5	6.0	---

Table 6.4. ODC Loans, by industries

(In million Euros: End of Period)

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	Up to 1 year	Over 1 year	
2001	25.9	---	---	---	3.8	3.8	0.0	22.2	22.2	0.0
2002	86.5	1.5	1.5	---	13.6	13.6	0.0	71.4	71.4	0.0
2003	232.8	4.7	3.9	0.8	22.2	12.6	9.7	205.8	119.7	86.1
2004	289.9	7.9	3.9	4.1	47.8	22.5	25.3	234.2	89.5	144.8
2005	387.9	12.5	4.1	8.4	74.2	24.5	49.7	301.1	92.4	208.8
2006	490.5	16.4	3.4	13.0	97.7	28.0	69.7	376.4	120.6	255.8
2007	691.5	29.0	4.1	24.9	144.5	32.8	111.7	518.0	149.5	368.5
2008	902.4	37.4	4.1	33.3	160.2	28.9	131.2	704.8	126.4	578.4
2009	945.5	38.2	3.8	34.4	236.7	54.8	181.9	670.5	113.2	557.3
2010	1,027.0	38.3	0.4	37.9	268.5	77.4	191.1	720.2	193.1	527.1
2011	1,149.5	40.5	2.7	37.8	284.7	82.3	202.4	824.4	220.5	603.8
2012	1,194.2	43.6	3.0	40.6	290.4	74.1	216.2	860.2	232.3	627.9
2013	1,217.4	45.8	3.3	42.5	291.4	95.8	195.6	880.2	286.2	594.0
2014	1,242.8	49.4	4.0	45.5	290.0	85.8	204.2	903.4	281.8	621.5

Table 6.5. ODC effective interest rates

(Annual average interest rates on deposits, in percentage)

Description	Interest rate on deposits	Nonfinancial corporations							Households							
		Transferable deposits	Other deposits						Saving deposits	Transferable deposits	Other deposits					Saving deposits
			Less than 250.000 euro			Equal or more than 250.000 euro					Up to 1 month	Over 1 month up to 3 months	Over 6 months up to 1 year	Over 1 year up to 2 years	Over 2 years	
			Up to 1 month	Over 1 month up to 3 months	Over 6 months up to 1 year	Up to 1 month	Over 1 month up to 3 months	Over 6 months up to 1 year								
2004	2.8	0.1	1.7	2.3	2.9	3.3	*	*	16	...	16	2.1	2.8	3.8	4.0	1.7
2005	2.9	0.1	1.8	2.2	2.9	2.7	2.5	*	17	...	1.7	2.2	3.0	3.9	4.1	1.7
2006	3.0	0.4	1.9	2.4	3.7	3.0	3.0	*	16	...	1.9	2.3	3.2	4.2	4.4	1.7
2007	3.3	0.4	2.2	2.7	3.6	3.8	3.9	*	19	...	2.1	2.5	3.3	4.2	4.6	2.0
2008	4.2	0.5	2.8	3.5	4.4	4.0	4.8	*	2.7	0.1	2.9	3.4	4.2	4.7	5.1	2.4
2009	4.3	0.8	3.1	3.7	5.0	3.9	4.5	*	2.9	0.2	3.2	3.5	4.4	4.8	5.4	2.6
2010	3.7	1.1	2.8	3.1	5.0	3.1	3.5	5.4	2.4	0.3	2.8	2.9	4.4	4.6	5.3	2.3
2011	3.5	1.0	2.2	3.0	4.7	2.4	3.7	5.2	2.2	0.4	2.5	2.6	4.2	4.5	5.1	2.0
2012	3.6	0.9	2.2	2.8	4.7	1.8	3.9	4.7	2.1	0.5	2.4	2.5	4.2	4.5	5.2	2.0
2013	3.4	0.7	1.1	2.0	3.1	1.7	3.5	4.3	2.0	0.6	2.1	2.3	3.7	4.3	4.8	1.6
2014	1.1	0.2	0.6	0.6	1.1	0.1	*	0.9	0.6	0.1	0.5	0.6	1.0	1.4	1.9	0.7

Table 6.6. ODC effective interest rates – Rates on Loans

(Annual average interest rates on loans, in percentage)

Description	Interest rate on loans	Nonfinancial corporations							Households					
		Investment business loans			Other business loans		Overdrafts (outstanding amounts)	Credit lines (outstanding amounts)	Cash cover loans	Overdrafts (outstanding amounts)	Cash cover loans	Consumer loans	Mortgage loans	
		Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Up to 1 year	Over 1 year and up to 5 years							Over 1 year and up to 5 years	Over 5 years
2004	15.0	15.4	14.9	14.9	15.0	15.0	15.3	12.8	*	*	*	12.8	*	*
2005	14.9	16.3	14.3	14.3	14.7	15.2	15.3	12.4	*	*	*	12.4	*	*
2006	14.7	16.4	14.4	14.4	15.4	15.0	15.4	12.5	*	*	*	12.5	13.4	*
2007	14.6	*	14.8	14.8	15.2	15.2	14.8	13.0	*	*	*	13.0	12.2	*
2008	14.7	21.1	15.0	15.0	16.6	15.3	13.9	14.1	*	19.2	*	14.1	11.2	9.5
2009	14.3	16.6	14.6	14.6	14.0	15.6	14.6	14.6	*	17.7	*	13.1	10.6	10.0
2010	14.6	18.0	14.9	11.5	18.2	16.5	12.4	13.5	6.7	21.9	6.8	13.8	12.1	10.7
2011	14.1	16.3	14.1	12.3	18.1	15.2	12.1	13.2	6.4	18.9	6.4	13.6	11.9	10.6
2012	13.4	14.9	12.9	10.9	16.3	14.7	11.0	12.1	6.6	16.3	6.8	13.5	11.4	10.1
2013	12.4	13.4	12.2	10.4	14.5	13.6	10.2	11.9	6.0	15.5	6.3	12.2	10.9	9.6
2014	10.7	11.5	10.6	10.2	10.7	11.7	9.3	11.3	4.4	13.6	3.9	10.9	9.4	8.7

Table 7.1 Balance of Payments of Kosovo

(In million of Euros)

Description	Balance from current and capital account							Balance from financial account					Errors and omission
	Current account						Capital Account	Direct investment	Portfolio investment	Other investment	Reserve assets		
		Goods	Services	Primary income	Secondary income								
2004	-186.4	-208.2	-9815	-19.9	138.3	655.0	219	-57.6	-42.9	32.1	66.0	-12.7	128.8
2005	-228.5	-247.4	-1080.0	-6.8	139.1	700.3	19.0	-53.8	-107.6	17.5	68.7	-32.4	174.7
2006	-205.2	-226.1	-1163.7	19.6	158.8	759.3	20.8	35.7	-289.2	65.4	181.6	77.9	241.0
2007	-197.5	-214.0	-1354.4	12.0	186.3	842.0	16.5	5.8	-431.0	34.5	108.0	294.3	203.3
2008	-450.5	-460.9	-1644.7	146.6	164.0	873.2	10.5	-288.40	-341.5	109.9	-75.1	182.5	162.1
2009	-273.8	-374.1	-1646.3	227.0	61.8	983.4	100.3	-109.0	-276.9	124.4	138.3	-94.8	164.8
2010	-494.4	-515.7	-1741.6	176.0	67.4	982.5	21.3	-275.8	-331.1	48.6	-46.7	53.4	218.5
2011	-616.4	-658.4	-2047.1	256.3	111.3	1021.1	42.0	-377.5	-378.9	57.8	4.8	-61.2	238.9
2012	-367.2	-380.2	-2050.1	323.8	153.6	1192.5	12.9	-141.0	-213.3	185.7	-374.9	261.4	226.2
2013	-304.7	-339.4	-1995.6	312.2	121.5	1222.4	34.7	-132.2	-250.2	139.3	14.4	-35.7	172.5
2014	-419.8	-441.0	-2051.5	336.1	106.3	1168.1	21.2	-145.1	-123.9	13.3	22.6	-57.0	274.7

## 7.2. Current Accounts

(In million of Euros)

Description	Balance					Credit					Debit				
	Trade in goods	Trade in services	Primary income	Secondary income		Trade in goods	Trade in services	Primary income	Secondary income		Trade in goods	Trade in services	Primary income	Secondary income	
2004	-208.2	-9815	-19.9	138.3	655.0	1292.4	61.3	249.0	158.4	823.8	1500.7	1042.8	268.9	20.1	168.9
2005	-247.4	-1080.0	-6.8	139.1	700.3	1361.4	64.0	268.0	170.5	859.0	1608.9	1144.0	274.8	31.4	158.7
2006	-226.1	-1163.7	19.6	158.8	759.3	1483.4	98.5	311.9	187.8	885.1	1709.4	1262.3	292.2	29.0	125.9
2007	-214.0	-1354.4	12.0	186.3	842.0	1720.9	164.1	382.5	239.2	935.2	1935.0	1518.5	270.4	52.9	93.1
2008	-460.9	-1644.7	146.6	164.0	873.2	1813.7	211.3	396.9	233.3	972.3	2274.7	1856.0	250.3	69.3	99.1
2009	-374.1	-1646.3	227.0	61.8	983.4	1984.5	172.5	521.7	183.5	1106.8	2358.6	1818.8	294.7	12.7	123.4
2010	-515.7	-1741.6	176.0	67.4	982.5	2147.6	299.2	574.3	186.7	1087.4	2663.3	2040.8	398.3	119.2	105.0
2011	-658.4	-2047.1	256.3	111.3	1021.1	2314.4	316.5	625.2	239.1	1133.6	2972.8	2363.7	368.9	127.8	112.5
2012	-380.2	-2050.1	323.8	153.6	1192.5	2449.8	281.9	641.4	230.0	1296.4	2830.0	2332.0	317.6	76.4	103.9
2013	-339.4	-1995.6	312.2	121.5	1222.4	2483.2	291.5	632.5	227.5	1331.7	2822.6	2287.0	320.3	106.0	109.3
2014	-441.0	-2051.5	336.1	106.3	1168.1	2572.4	320.8	770.6	214.5	1266.5	3013.3	2372.3	434.5	108.1	98.4

## 7.3. Financial account

(In million of Euros)

Description	Balance	Investments abroad	Investments in reporting economy	Direct investments		Portfolio investments		Other investments		Financial derivatives	Reserve assets			
				Adroad	In reporting economy	Adroad	In reporting economy	Adroad	In reporting economy					
2004	-57.6	47.4	105.0	-42.9	...	42.9	32.1	32.1	...	66.0	128.0	62.0	-	-12.7
2005	-53.8	126.5	180.3	-107.6	...	107.6	17.5	17.5	...	68.7	141.3	72.6	-	-32.4
2006	35.7	367.5	331.8	-289.2	5.6	294.8	65.4	65.4	...	181.6	218.7	37.0	-	77.9
2007	5.8	508.5	502.7	-431.0	9.7	440.7	34.5	34.5	...	108.0	170.0	61.9	-	294.3
2008	-288.4	231.2	519.6	-341.5	28.4	369.9	109.9	109.9	...	-75.1	74.7	149.7	-	18.2
2009	-109.0	230.6	339.7	-276.9	10.5	287.4	124.4	124.8	0.5	138.3	190.1	51.8	-	-94.8
2010	-275.8	405.6	681.4	-331.1	37.4	368.5	48.6	48.6	...	-46.7	266.2	312.9	-	53.4
2011	-377.5	83.7	461.2	-378.9	5.5	384.4	57.8	57.8	...	4.8	81.7	76.8	-	-61.2
2012	-141.0	316.6	457.6	-213.3	15.8	229.1	185.7	185.7	...	-374.9	-146.3	228.5	-	261.4
2013	-132.2	217.2	349.4	-250.2	30.0	280.2	139.3	139.3	...	14.4	83.5	69.1	-	-35.7
2014	-145.1	90.4	235.4	-123.9	27.3	151.3	13.3	13.3	...	22.6	106.8	84.2	-	-57.0

## 7.4 Remittances- by countries

(In percentage)

Description	Total	Germany	Switzerland	Italy	Austria	Belgium	USA	Sweden	France	Norway	Canada	United Kingdom	Denmark	Finland	Netherlands	Slovenia	Other countries
2008	100.0	37.7	15.9	13.1	6.2	2.8	2.8	3.7	3.9	19	2.2	15	19	1.1	12	14	2.6
Q1	100.0	34.9	214	10.5	5.3	3.7	3.5	3.3	3.4	2.6	17	16	10	1.1	11	10	4.2
Q2	100.0	39.4	19.7	11.3	6.1	2.9	2.6	2.9	4.0	2.4	18	13	0.9	0.9	13	14	1.5
Q3	100.0	37.4	212	9.8	6.0	2.8	2.6	3.5	3.8	2.8	2.1	13	0.9	1.1	10	15	2.2
2009 Q4	100.0	38.1	22.0	9.8	5.5	2.8	2.3	3.2	3.9	3.2	19	13	0.8	1.1	12	13	1.7
Q1	100.0	34.8	210	8.8	5.7	2.6	3.9	3.1	3.5	2.8	13	15	0.9	1.1	12	3.4	4.4
Q2	100.0	34.7	20.7	7.9	3.9	2.9	4.7	3.1	3.6	3.1	2.0	17	0.7	0.7	10	3.7	5.9
Q3	100.0	33.2	214	7.0	6.5	2.5	4.8	3.4	4.0	2.5	2.3	16	0.6	0.9	10	5.6	2.7
2010 Q4	100.0	34.1	216	7.2	5.5	2.9	3.1	3.7	4.1	2.6	19	13	0.6	0.7	10	4.5	5.3
Q1	100.0	32.7	23.7	7.5	5.6	2.8	4.6	3.9	3.8	2.8	15	15	0.7	0.8	12	3.9	3.0
Q2	100.0	32.8	23.0	7.0	5.5	2.0	4.0	3.1	3.7	2.8	2.1	13	0.9	1.0	10	3.9	6.1
Q3	100.0	33.8	23.4	6.2	5.5	2.9	2.3	3.6	4.2	2.6	2.0	12	0.6	0.8	10	3.3	6.7
2011 Q4	100.0	33.7	22.1	7.4	5.5	2.7	3.9	3.4	3.8	2.8	19	14	0.7	0.9	1.1	4.0	4.9
Q1	100.0	30.9	23.7	4.8	6.0	1.1	6.3	3.6	2.8	4.9	0.7	3.2	0.8	0.7	0.5	5.0	5.0
Q2	100.0	37.4	26.3	8.4	6.4	6.6	3.9	0.8	0.4	1.3	0.1	1.9	0.1	0.1	0.1	5.4	0.8
Q3	100.0	34.6	22.6	7.9	5.9	3.2	3.9	3.1	3.2	2.8	15	18	0.7	0.8	0.8	3.6	3.7
2012 Q4	100.0	34.5	210	8.5	6.2	2.6	3.8	3.3	3.3	2.3	19	18	0.5	0.8	0.0	3.7	5.9
Q1	100.0	33.6	22.5	7.5	5.8	2.7	4.2	3.4	3.5	3.0	16	18	0.7	0.9	1.0	3.7	4.3
Q2	100.0	33.3	25.5	5.9	5.7	2.5	4.6	2.5	1.4	2.3	1.3	4.0	0.8	0.9	1.0	5.3	3.1
Q3	100.0	33.6	24.4	6.6	7.8	2.5	4.3	3.5	4.5	2.3	0.4	1.9	0.7	0.8	0.9	4.9	1.1
2013 Q4	100.0	35.3	22.7	10.6	4.6	1.6	4.4	2.1	5.0	2.7	1.8	1.7	0.5	0.6	1.5	0.5	4.2
Q1	100.0	36.7	214	5.9	3.8	2.3	6.0	3.1	4.1	2.3	1.5	3.1	0.4	0.6	1.1	0.8	7.0
Q2	100.0	36.6	23.7	5.4	4.5	2.1	6.4	2.7	3.2	2.4	1.3	3.3	0.4	0.6	0.6	1.5	5.5
Q3	100.0	35.5	23.9	4.6	3.6	2.1	6.5	3.4	3.5	2.6	1.9	3.0	0.5	0.7	0.7	1.1	6.5
2014 Q4	100.0	36.8	211	3.8	3.1	4.0	6.1	2.4	2.4	5.5	0.7	3.1	1.0	0.3	0.1	2.2	7.3

## 8.1. Direct Investments by countries

(In million of Euros: State on 31 December 2014)

Code	Countries	Total Inward Direct Investment			Total Outward Direct Investment		
			Equity capital	Other capital transactions		Equity capital	Other capital transactions
	European Union	987.0	755.0	232.0	74.3	62.4	11.9
AT	Austria	149.9	133.4	16.4	3.6	3.3	0.3
BE	Belgium	12.8	9.5	3.3	2.7	2.7	0.0
BG	Bulgaria	31.6	3.8	27.8	0.6	0.6	0.0
CY	Cyprus	6.7	2.0	4.7	3.7	3.7	0.0
FR	France	14.4	15.2	-0.8	3.1	3.1	0.0
DE	Germany	253.5	249.2	4.3	21.2	21.2	0.0
GR	Greece	9.5	8.8	0.7	1.9	1.9	0.0
IT	Italy	16.9	16.9	0.1	3.3	3.3	0.0
NL	Netherlands	184.1	145.8	38.4	15.1	3.5	11.6
RO	Romania	3.8	3.7	0.1	0.3	0.3	0.0
SI	Slovenia	216.7	87.5	129.2	7.5	7.5	0.0
SE	Sweden	17.3	17.0	0.3	1.2	1.2	0.0
GB	United Kingdom	38.7	35.2	3.5	6.4	6.4	0.0
	Other EU Countries	31.2	27.2	4.0	3.8	3.8	0.0
	Other European Countries	644.3	442.6	201.6	85.5	84.7	0.7
AL	Albania	98.5	60.3	38.2	39.8	39.2	0.6
HR	Croatia	11.8	9.6	2.3	3.3	3.3	0.0
MK	Macedonia, FYR	24.5	14.5	10.0	10.5	10.4	0.0
NO	Norway	16.1	14.9	1.2	0.6	0.6	0.0
RS	Serbia, Republic of	14.3	10.6	3.6	6.4	6.4	0.0
CH	Switzerland	178.6	158.1	20.4	10.3	10.2	0.1
TR	Turkey	291.6	166.8	124.8	3.8	3.8	0.0
	Other European Countries	9.0	7.8	1.2	10.8	10.8	0.0
	Other countries	128.5	104.9	23.5	14.8	14.8	0.0
US	United States	69.0	51.5	17.5	7.9	7.9	0.0
AE	United Arab Emirates	37.4	32.8	4.6	1.5	1.5	0.0
	Other Countries	22.1	20.6	1.5	5.4	5.4	0.0
ZZ	Not Specified	1,199.3	936.5	262.8	0.0	0.0	0.0
	Grand Total	2,959.1	2,239.2	720.0	174.6	161.9	12.6

### 9.1. Assets in form of portfolio investments by countries

(In million of Euros: State on 31 December 2014)

Description	Country	Equities	Total Debt Securities		Total	
			Long-term Debt Securities	Short-term Debt Securities		
AE	United Emirates	-	0.1	0.1	-	0.1
AT	Austria	-	5.9	-	5.9	5.9
BE	Belgium	-	35.0	-	35.0	35.0
CA	Canada	-	-	-	-	0.0
CZ	Czech Republic	-	0.1	0.1	-	0.1
DE	Germany	0.1	53.6	0.2	53.4	53.7
DK	Denmark	-	19.2	-	19.2	19.2
ES	Spain	-	0.1	0.1	-	0.1
FI	Finland	-	10.1	-	10.1	10.1
FR	France	36.9	15.7	0.1	15.5	52.5
UK	United Kingdom	-	0.2	0.2	-	0.2
GR	Greece	-	0.0	0.0	-	0.0
HU	Hungary	-	0.4	0.4	-	0.4
IE	Ireland	564.1	0.2	0.2	-	564.3
IT	Italy	-	0.2	0.2	-	0.2
LT	Lithuania	-	0.2	0.2	-	0.2
LU	Luxembourg	422.8	18.1	0.1	18.0	440.9
LV	Latvia	-	0.2	0.2	-	0.2
NL	Netherlands	-	44.1	0.2	43.8	44.1
PL	Poland	-	8.2	0.1	8.2	8.2
PT	Portugal	-	0.1	0.1	-	0.1
RO	Romania	-	0.2	0.2	-	0.2
RS	Serbia	-	-	-	-	0.0
SE	Sweden	-	14.2	-	14.2	14.2
SI	Sloveni	-	0.9	0.7	0.2	0.9
TR	Turkey	-	0.1	0.1	-	0.1
US	United States	0.4	23.1	0.0	23.1	23.5
<b>Total value of investment</b>		<b>1,024.4</b>	<b>250.4</b>	<b>3.7</b>	<b>246.7</b>	<b>1,274.7</b>

### 10.1. International Investment Position

(In million of Euros: End of the period)

Description	Net	Assets				Liabilities				
		Direct investments Abroad	Portfolio investment	Other investments	Reserve Assets	Direct investment in Kosovo	Portfolio investment	Other investments		
2007	1,254.2	2,397.2	15.2	444.4	1,285.6	652.0	1,143.0	924.5	...	218.6
2008	912.4	2,537.1	43.8	463.9	1,359.1	670.3	1,621.2	1,294.3	...	330.3
2009	484.2	2,816.9	59.1	622.0	1,559.4	576.5	2,325.3	1,589.8	...	742.9
2010	428.8	3,256.9	96.6	693.8	1,832.0	634.5	2,817.8	1,971.0	...	857.0
2011	133.9	3,325.1	102.0	740.2	1,908.2	574.7	3,191.2	2,326.1	...	863.0
2012	248.8	3,705.1	117.8	986.6	1,760.6	840.0	3,456.3	2,524.3	...	931.9
2013	363.7	4,102.6	147.5	1,192.6	1,963.2	799.3	3,738.8	2,816.4	...	922.4
2014	299.6	4,276.6	174.6	1,274.7	2,081.5	745.9	3,977.1	2,959.1	...	1,017.9

### 10.2. International Investment Position – by sectors

(In million of Euros: End of the period)

Description	International Investment Position - by sectors												
	Central bank			Banks			General Government			Other sectors			
	Assets	Liabilities		Assets	Liabilities		Assets	Liabilities		Assets	Liabilities		
2007	1,254.2	1,057.6	1,057.6	...	319.9	368.5	48.6	...	...	...	-123.3	97.11	1,094.4
2008	912.4	1,110.7	1,110.7	...	318.1	401.3	83.2	...	...	...	-516.4	1,025.0	1,541.4
2009	484.2	1,089.3	1,149.6	60.3	427.3	583.9	166.7	-249.0	...	249.0	-783.3	1,083.4	1,866.7
2010	428.8	1,129.0	1,194.8	65.9	488.0	709.8	221.8	-260.0	...	260.0	-928.1	1,352.2	2,280.3
2011	133.9	1,114.8	1,181.3	66.4	479.1	675.5	196.4	-253.6	...	253.6	-1,206.4	1,468.4	2,674.8
2012	248.8	1,351.9	1,416.8	65.0	458.0	633.6	175.6	-336.5	...	336.5	-1,224.5	1,654.7	2,879.3
2013	363.7	1,497.2	1,559.3	62.1	540.2	748.3	208.1	-321.8	...	321.8	-1,351.9	1,794.9	3,146.9
2014	299.6	1,247.3	1,313.7	66.3	481.6	715.8	234.2	-326.4	...	326.4	-1,103.0	2,247.1	3,350.1

### 10.3. International Investment Position – Assets and Liabilities

(In million of Euros: End of the Period)

Description	Net IIP	Kosovo's international assets			Kosovo's international liabilities		
		International equity	International debt		International equity	International debt	
2007	1,254.2	2,397.2	174.1	2,223.1	1,143.0	621.2	521.8
2008	912.4	2,537.1	152.9	2,384.2	1,624.6	886.5	738.1
2009	484.2	2,816.9	191.7	2,625.2	2,332.7	1,139.4	1,193.3
2010	428.8	3,256.9	280.6	2,976.3	2,828.0	1,455.3	1,372.8
2011	133.9	3,325.1	398.0	2,927.1	3,191.2	1,760.7	1,430.5
2012	248.8	3,705.1	784.2	2,920.9	3,456.3	1,938.4	1,517.8
2013	363.7	4,102.6	786.2	3,316.4	3,738.8	2,129.9	1,608.9
2014	299.6	4,276.6	1,186.3	3,090.3	3,977.1	2,239.2	1,737.9

## 11.1. Foreign debt – gross position

(In million of Euro: End of the period)

Description	Total Economy Gross External Debt																
	Public and Publicly Guaranteed Debt								Nonguaranteed Privat Sector								
	General Government				Monetary Authorities				Banks			Other Sectors			Direct Investment: Intercompany Lending		
	Short - term		Long - term		Short - term		Long - term		Short - term	Long - term		Short - term	Long - term				
2007	520.6	-	-	-	-	-	-	-	-	520.6	48.6	48.6	-	168.8	141.1	27.7	303.2
2008	736.6	-	-	-	-	-	-	-	-	736.6	83.2	83.2	-	245.6	194.5	51.1	407.8
2009	1,914	249.0	-	-	249.0	60.3	0.8	59.5	882.1	156.7	156.7	-	275.0	221.2	53.8	450.4	
2010	1,371.5	260.0	-	-	260.0	65.9	1.7	64.2	1,045.6	221.8	221.8	-	308.0	232.7	75.4	515.8	
2011	1,428.4	253.6	-	-	253.6	66.4	0.7	65.7	1,108.4	196.4	196.4	-	346.6	259.8	86.8	565.4	
2012	1,517.3	336.5	-	-	336.5	65.0	0.4	64.6	1,115.9	175.6	175.6	-	354.4	321.0	33.5	585.9	
2013	1,608.2	321.8	-	-	321.8	62.1	0.3	61.9	1,224.3	208.1	208.1	-	329.7	281.1	48.5	686.5	
2014	1,737.1	326.4	-	-	326.4	66.3	0.3	66.1	1,344.3	234.2	234.2	-	390.1	294.8	95.3	720.0	

## 11.2. Public sector debt service payment

(In million of Euros: State on 31 December 2014)

Description	As of Q4 2014													
	One year or less				Over 1 year to 2 years				3rd. year	4th. year	5th. year	Over 5 years to 10 years	Over 10 years to 15 years	Over 15 years
	0 to 3	4 to 6	7 to 9	10 to 12	13 to 18	19 to 24								
<b>Public sector external debt</b>	310	-	13.3	4.1	13.5	58.3	25.3	33.0	59.9	27.8	17.4	86.4	75.7	100.4
Principal	23.2	-	9.5	3.9	9.8	50.9	21.6	29.4	53.4	21.9	12.1	66.0	65.8	99.4
Interest	7.7	-	3.8	0.3	3.7	7.4	3.8	3.6	6.5	5.8	5.3	20.3	9.9	1.0
<b>Publicly-guaranteed private sector external debt</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	310	-	13.3	4.1	13.5	58.3	25.3	33.0	59.9	27.8	17.4	86.4	75.7	100.4
Principal	23.2	-	9.5	3.9	9.8	50.9	21.6	29.4	53.4	21.9	12.1	66.0	65.8	99.4
Interest	7.7	-	3.8	0.3	3.7	7.4	3.8	3.6	6.5	5.8	5.3	20.3	9.9	1.0

## 11.3. Gross Foreign Debt – By Creditors

(In million of Euros: State on 31 December 2014)

Description	Total gross external debt						
	Gross external debt excluding direct Investment						Direct Investment: Intercompany ending
	General Government		Central Bank of the Republic of Kosovo		Banks	Other Sectors	
<b>International Monetary Fund</b>	167.8		167.8		101.7	66.1	-
<b>World Bank</b>	213.2		213.2		213.2	-	-
IBRD	192.3		192.3		192.3	-	-
IDA	20.9		20.9		20.9	-	-
<b>Other creditors</b>	1,356.0		636.0		115	0.3	234.2
<b>Total gross external debt</b>	1,737.1		1,017.1		326.4	66.3	234.2
							390.1
							720.0

## 11.4. Net external debt position

(In millions of Euro: State on 31 December 2014)

Description	As of 31 December 2013		
	Gross External Debt Position (1)	External Assets in Debt Instruments (2)	Net External Debt (3)=(1)-(2)
<b>General Government</b>	326.4	0.0	326.4
<b>Short - Term</b>	0.0	0.0	0.0
<b>Long - Term of which</b>	326.4	0.0	326.4
Loans	326.4	0.0	326.4
<b>Monetary Authorities</b>	66.3	1,313.7	-1,247.3
<b>Short - Term of which</b>	0.3	1,235.2	-1,235.0
Money market instruments	0.0	120.5	-120.5
Currency and Deposits	0.3	1,114.7	-1,114.4
<b>Long - Term of which</b>	66.1	78.4	-12.4
Other Debt instruments	66.1	78.4	-12.4
<b>Banks</b>	234.2	715.8	-481.6
<b>Short - Term of which</b>	234.2	715.8	-481.6
Money market instruments	0.0	191.1	-191.1
Loans	87.8	61.4	26.4
Currency and Deposits	143.3	460.7	-317.4
Other Debt instruments	3.1	2.7	0.4
<b>Long - Term</b>	0.0	0.0	0.0
<b>Other Sectors</b>	390.1	15.0	375.0
<b>Short - Term of which</b>	294.8	11.5	283.3
Money market instruments	0.0	0.3	-0.3
Loans	136.3	0.0	136.3
Trade Credits	158.5	11.2	147.3
<b>Long - Term of which</b>	95.3	3.5	91.8
Bond and notes	0.0	3.5	-3.5
Loans	95.3	0.0	95.3
Currency and Deposits	0.0	0.0	0.0
<b>Direct Investment: Intercompany Lending</b>	720.0	0.0	720.0
Debt liabilities to affiliated enterprises	0.0	0.0	0.0
Debt liabilities to direct investors of which	720.0	0.0	720.0
Other	0.0	0.0	0.0
<b>Net External Debt (3)</b>	1,737.1	2,044.6	-307.5

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