



Central Bank of the Republic of Kosovo
Financial Statements
as at and for the year ended 31 December 2020
with Independent Auditor's Report

Content	Page
Independent Auditor's Report	1-2
Statement of financial position	3
Statement of comprehensive income	4
Statement of changes in equity	5
Statement of cash flows	6
Notes to the financial statements	7 - 48

Independent Auditor's Report

Grant Thornton LLC
Rexhep Mala 18
10000 Pristina
Kosovo
T +383 (0)38 247 801
F +383 (0)38 247 802
E Contact@ks.gt.com
VAT No. 330086000

To the Board of the Central Bank of the Republic of Kosovo

Opinion

We have audited the accompanying financial statements of the Central Bank of Republic of Kosovo (the "CBK"), which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the CBK as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the CBK in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kosovo, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the CBK's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the CBK or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the CBK's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 CBK's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the CBK's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the CBK to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance of Central Bank of Republic of Kosovo regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Grant Thornton LLC
Prishtina

6 May 2021



Suzana Stavrikj
Statutory auditor

Central Bank of the Republic of Kosovo

Statement of financial position

At 31 December 2020

<i>In thousands of EUR</i>	Note	2020	2019
Assets			
Cash on hand	7	308,090	302,166
Current accounts with non-resident banks	8	313,343	108,863
Securities (Treasury Bills and Bonds)	9	587,794	576,616
Deposit accounts with non-resident banks	10	58,324	248,864
Assets related with IMF	11	268,199	298,345
Property and equipment	12	4,888	4,967
Intangible assets	13	1,700	1,945
Other assets	14	1,883	1,700
Total assets		1,544,221	1,543,466
Liabilities			
Due to domestic banks	15	566,426	414,942
Due to IMF related accounts	16	269,138	297,236
Due to governmental institutions	17	508,446	719,819
Due to public and commercial entities	18	138,661	52,167
Borrowings	19	2,154	2,266
Other liabilities	20	2,539	1,778
Total liabilities		1,487,364	1,488,208
Capital and reserves			
Authorized capital	21	30,000	30,000
Reserve fund	21a	23,903	22,622
Revaluation reserve	21a, 29	792	527
Retained earnings		2,162	2,109
Total capital and reserves		56,857	55,258
Total liabilities, capital and reserves		1,544,221	1,543,466

These financial statements were prepared and issued by the Executive Board of the Central Bank of the Republic of Kosovo on May 5, 2021 and were signed on its behalf by¹:



Fehmi Mehmeti

Governor



Faton Ahmetaj

*Director of Financial Planning
and Reporting Directorate*

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

¹ Referring to the CBK Law no. 03 /L209, the approval of the Financial Statements according to article 59, paragraph 2.1 of the CBK Law is in process and will be realized after the completion of the quorum for decision-making of the CBK Board.

Central Bank of the Republic of Kosovo

Statement of comprehensive income

At 31 December 2020

<i>In thousands of EUR</i>	Note	2020	2019
Interest income			
Interest income		3,829	3,529
Interest expense		(965)	(1,599)
Net interest income	22	2,864	1,930
Fee and commission income			
Fee and commission income		2,719	2,798
Fee and commission expense		(387)	(576)
Net fee and commission income	23	2,332	2,222
Regulatory and other operating activities income			
Regulatory activity income	24	5,382	4,956
Grant income	20, 25	119	120
Other operating income	26	11	8
Foreign exchange net profit / loss	29	(663)	248
Operating revenue		10,045	9,484
Operating expenses			
Personnel expenses	27	(4,833)	(4,989)
Depreciation and amortization	12,13	(1,040)	(1,041)
General and administrative expenses	28	(1,346)	(1,451)
Operating expenses		(7,219)	(7,481)
Financial result before provision for expected credit losses		2,826	2,003
Provisions for expected credit losses, net decrease / (increase)	4	(664)	106
Net profit for the year		2,162	2,109
Other comprehensive income		-	-
Total comprehensive income for the year		2,162	2,109

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

Central Bank of the Republic of Kosovo

Statement of changes in equity

For the year ended 31 December 2020

	Capital	Reserve fund	Revaluation fund	Retained Earnings	Total
<i>In thousands of EUR</i>					
Balance at 1 January 2019	30,000	21,215	-	1,934	53,149
Transfer to reserve fund	-	1,407	527	-1,934	-
Total transactions required by law	-	1,407	527	-	-
Profit for the year	-	-	-	2,109	2,109
Adjustments	-	-	-	-	-
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	2,109	2,109
Balance at 31 December 2019	30,000	22,622	527	2,109	55,258
Balance at 1 January 2020 (as stated)	30,000	22,622	527	2,109	55,258
Adjustment for long-term employee benefits and for foreign exchange translation (EUR / SDR) for World Bank borrowing	-	(580)	17	-	(563)
Balance at 1 January 2020 (restated)	30,000	22,042	544	2,109	54,695
Transfer to reserve fund	-	1,861	248	(2,109)	-
Total transactions required by law	-	1,861	248	-2,109	-
Profit for the year	-	-	-	2,162	2,162
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	2,162	2,162
Balance at 31 December 2020	30,000	23,903	792	2,162	56,857

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

Central Bank of the Republic of Kosovo

Statement of cash flows

For the year ended 31 December 2020

<i>In thousands of EUR</i>	Note	2020	2019
Cash flows from operating activities			
Profit for the year		2,162	2,109
<i>Adjustments for:</i>			
Depreciation	12	628	645
Amortization	13	412	396
Grant revenue	25	(119)	(120)
Provisions for expected credit losses		664	(106)
Interest income	22	(3,829)	(3,529)
Interest expense	22	965	1,599
		883	994
Change in securities		(11,435)	180,657
Change in deposit accounts with non-resident banks		190,000	(65,000)
Change in assets with IMF		29,854	27,520
Change in other assets		(184)	(289)
Change in due to domestic banks		151,484	71,548
Change in due to IMF related accounts		(27,800)	(24,434)
Change in due to governmental institutions		(211,373)	(43,082)
Change in due to public and commercial entities		86,495	(58,696)
Change from borrowing		(95)	-
Change in other liabilities		279	80
		208,108	89,298
Interest received		3,932	4,814
Interest paid		(1,263)	(1,783)
Net cash generated from/(used in) operating activities		210,777	92,329
Cash flows from investing activities			
Purchase of equipment	12	(549)	(596)
Purchase of intangible assets	13	(167)	(551)
Net cash used in investing activities		(716)	(1,147)
Cash flows from financing activities			
Proceeds from grants		20	21
Net cash generated from financing activities		20	21
Net increase / (decrease) in cash and cash equivalents		210,081	91,202
Cash and cash equivalents at 1 January		420,109	328,907
Cash and cash equivalents at 31 December	30	630,190	420,109

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

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(Notes to the financial statements for the year ended)

1. Reporting entity

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

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

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

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

Str. Garibaldi, No. 33
Prishtina, Kosovo.

Central Bank Board, Executive Board and Governor

The decision-making bodies of CBK are the Central Bank Board, the Executive Board, and the Governor. As per Article 34, paragraph 2, and the provisional provision of Article 79, paragraph 2 of the CBK Law, the Central Bank Board comprises of the Governor, and four² non-executive members, and is charged with the supervision of the implementation of the policies, and the supervision of the administration and the operations of CBK.

As at 31 December 2020, the Board of the Central Bank of Kosovo comprised of the following members:

- Flamur Mrasori – Chairman of the Board (non-executive)
- Fehmi Mehmeti – Governor

Whereas, on December 31, 2019, the Central Bank Board consisted of the following members:

- Flamur Mrasori - Chairman of the Board (non-executive)
- Fehmi Mehmeti – Governor
- Behxhet Brajshori - Member (non-executive)
- Nuhi Ahmeti - Member (non-executive)

As at 31 December 2020, the Executive Board comprised of the Governor, who is the Chairperson, and two Deputy Governors, is in charged with the implementation of the CBK's policies and its operations.

In June 2020, two of the members of the CBK Board expired and the CBK is in the process of filling the vacancies created thereafter.

The Executive Board as of December 31, 2020 and December 31, 2019 consists of the Governor, who is the Chairman and the two Deputy Governors and is responsible for implementing the policies of the CBK and its operations. There has been no movement of functions and officials that make up the Executive Board during 2020 and 2019.

² As of 31 December 2020, three of non-executive member's position are vacant.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(Notes to the financial statements for the year ended)

2. Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

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

c) Functional and presentation currency

These financial statements are presented in Euro ("EUR"), which is CBK's functional currency unless otherwise stated. If not otherwise stated, financial information that is presented in Euro has been rounded to the nearest thousand.

d) Use of estimates and judgments

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

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

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

3. Significant accounting policies

a) Foreign currency transactions

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

b) Interest income and expenses

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

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

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. Interest income and expenses presented in the profit or loss include interest on financial assets and liabilities at amortized cost on an effective interest rate basis.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(Notes to the financial statements for the year ended)

3. Significant accounting policies (continued)

c) Fees and commission

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

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

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

d) Employee benefits

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

The CBK also distributes employee benefits on a jubilee basis and in the form of a predetermined amount at the time of retirement. The CBK recognizes these expenses according to the occurrence of these events according to the long-term benefit plans.

e) Taxation and profit allocation

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

f) Financial assets and liabilities

Classification of financial assets and financial liabilities

The CBK has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018.

Additionally, the CBK adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2020 and to the comparative period.

IFRS 9 introduced new requirements for:

- 1) The classification and measurement of financial assets and financial liabilities,
- 2) Impairment of financial assets, and
- 3) General hedge accounting.

Details of these new requirements as well as their impact on the CBK's financial statements are described below.

(a) Classification and measurement of financial assets and financial liabilities

The date of initial application (i.e. the date on which the CBK has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the CBK has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(Notes to the financial statements for the year ended)

3. Significant accounting policies (continued)

f) Financial assets and liabilities (continued)

The financial assets of CBK included in these financial statements are classified as financial instruments at amortized cost (hold to collect model) and comprise of cash and cash equivalents, securities, deposit accounts with non-resident banks, assets related with IMF and other assets.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL (Fair Value through Profit Loss):

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The CBK classifies all its financial liabilities as measured at amortised cost using the effective interest rate method. Interest income or interest expense from financial liabilities measured at amortised cost is recognised in profit or loss.

Financial liabilities measured at amortised cost include due to domestic banks, governmental institutions, public and commercial entities, due to IMF, borrowings and other financial liabilities.

i. Recognition

On initial recognition, a financial asset is classified as measured at: amortised cost (AC), fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

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 on issue.

As mentioned above, the CBK has in its books only financial instruments at amortized cost, which meet the criteria of hold to collect model.

ii. Reclassification

The financial assets of the bank depending on the circumstances, respectively the change of its business model for the management of financial assets can re-classify the latter even after their initial recognition.

If the bank re-classifies a financial asset or group of financial assets from the amortized cost measurement category to the fair value measurement category through profit or loss, their fair value will be measured at the new classification date. Any net gain or loss arising on the difference between the amortized cost and the fair value of the financial asset is recognized in profit or loss.

iii. Derecognition

The CBK derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the CBK neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income ('OCI') is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the CBK is recognised as a separate asset or liability.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(Notes to the financial statements for the year ended)

3. Significant accounting policies (continued)

f) Financial assets and liabilities (continued)

The CBK enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the CBK neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the CBK continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

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

iv. Modifications of financial assets and financial liabilities

If the terms of a financial asset are modified, the CBK evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the CBK recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

The CBK derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss.

v. Offsetting

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

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

vi. Amortized cost measurement

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

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(Notes to the financial statements for the year ended)

3. Significant accounting policies (continued)

f) Financial assets and liabilities (continued)

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

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

viii. Impairment

The CBK recognizes loss allowances for expected credit losses "ECL" for financial assets that are debt instruments and are not measured at FVTPL. The CBK measures loss allowances at an amount equal to lifetime ECL except for the following for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments for which credit risk has not increased significantly since initial recognition.

The CBK considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as Stage 1 financial instruments.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as Stage 2 financial instruments.

Measurement of ECL

The ECL impairment model is a probability-based measurement and includes the impact of different possible outcomes. Operationally, this can be difficult to implement and selecting relevant economic scenarios can be challenging.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

f) Financial assets and liabilities (continued)

For detailed implementation of ECL we used the simple method that utilizes the explicit probability of default approach which is:

Expected credit losses (ECL) = Exposure at default (EAD) x Loss given default (LGD) x Probability of default (PD).

EAD - Exposure at default is the gross carrying amount at financial assets that fall within the model.

LGD - Loss given default, we used to base on our internal judgment and perception of this value, also based on some Basel risk approach for borrowers' default.

PD – Probability of default, is the most sensitive variable and represents the probability of non-payment by the other party for an observed period (12 months or throughout the life of the instrument).

ECL are a probability-weighted estimate of credit losses and are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the CBK in accordance with the contract and the cash flows that the CBK expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying.

g) Cash and cash equivalents

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

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

h) Investment securities

Investment securities, consisting of treasury bills and bonds, are initially measured at fair value plus incremental direct transaction costs and then measured at amortized cost (holding assets for the purpose of collecting contractual cash flows) using effective interest rate method. All purchases and sales of investment securities are recognized on the settlement date, i.e. the date when the asset was received or delivered to the other party.

Amortized cost/Hold to collect investments are non-derivative assets with fixed or determinable payments and fixed maturity that the CBK has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss.

i) Deposits and borrowings

Deposits and borrowings are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

j) Property and equipment

i. Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses from the change in value, if any.

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

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

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

ii. Subsequent costs

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

iii. Depreciation

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

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

	2020	2019
Leasehold improvements	20 years	20 years
Equipment	5 years	5 years
Computers	3 years	3 years
Vehicles	5 years	5 years

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

k) Intangible assets

Software acquired by the CBK is stated at cost less accumulated amortization and accumulated impairment losses, if any.

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

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

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

l) Impairment of non-financial assets

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

An impairment loss is recognized if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognized in profit or loss. Impairment losses in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

m) Financial liabilities

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

n) Grant revenue

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

o) Donor funded salaries

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

p) Provisions

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

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

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

3. Significant accounting policies (continued)

q) Changes in accounting policies and disclosures

(i) Standards and Interpretations effective in the current period

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

- **Amendments to IFRS 3 "Business Combinations"** - Defining a Business (effective for business combinations for which the purchase date is on or after the start of the first annual reporting period starting on or after January 1, 2020 and for purchases of assets that occur in or after the start of that period).
- **Amendments to IFRS 7, 9 and IAS 39 - Interest Rate Benchmark Reform** (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material (effective for annual periods beginning on or after 1 January 2020)
- **Changes in References in the Conceptual Framework to IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).
- **Amendment to IFRS 16 "Leases"** Covid-19-Related Rent Concessions are effective for annual periods beginning on or after 1 June 2020 but prior application is permitted, including in financial statements not yet authorized for issue on 28 May 2020 (amendment is also available for interim reports) .

The application of these standards, amendments and interpretations has no significant impact on the financial statements of the Central Bank in the current period.

ii) Standards and Interpretations in issue not yet adopted

As at the date of authorization of these financial statements the following standards, revisions and interpretations have been published by the IASB, but are not yet effective and have not been adopted early by the Central Bank:

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Joint Stock Companies and Enterprises"** - Sale or Contribution of Assets between an Investor and His Partner or Joint Venture and Further Changes (effective date postponed to one indefinite time until the capital method is completed),
- **The cycle of annual improvements to IFRSs 2018-2020** which is a summary of changes to IFRS 1, IFRS 9, IFRS 16, IAS 41 (effective for periods beginning on or after 1 January 2022),
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 - "Presentation of Financial Statements"** - Classification of Liabilities as Short-Term Liabilities or Long-Term Liabilities (effective for periods beginning on or after 1 January 2023)
- **Amendments to IAS 37 - "Provisions, Assets and Contingent Liabilities"** - Large Contracts The cost of performing a contract (effective for periods beginning on or after 1 January 2022),
- **Amendments to IAS 16 - Property, Plant and Equipment** - Revenue before target use (effective for periods beginning on or after 1 January 2022).

The Central Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Central Bank anticipates that the adoption of these standards, revisions and interpretations will not have a significant impact on the financial statements of the Central Bank.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

4. Financial Risk Management

a) Introduction and Overview

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

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

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

Risk Management Framework

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

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

CBK's Audit Committee is responsible for monitoring and reviewing compliance with risk management policies and procedures, as well as for reviewing the adequacy of the risk management framework related to the risks faced by the 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 Internal Auditor to the Audit Committee.

b) Credit risk

Credit risk is the risk of financial loss to the CBK if a contracting party to financial instruments fails to meet its contractual obligations, and may arise mainly from CBK's investments in securities and deposits (in money markets or current account) in other banks. For credit risk management reporting purposes, the CBK considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of Credit Risk

i. Investments and exposure of CBK's Credit Risk

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

The management of the risk is performed through:

- Limiting the scope and duration of financial instruments,
- Limiting the counterparties issuers, by acceptable credit rating on investment grade and above,
- Limit the maximum amount and concentration with the counterparties,

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

4. Financial Risk Management (continued) Management of credit risk (continued)

ii. Exposure towards credit risk

The highest exposure to credit risk as at 31 December 2019 and 31 December 2020, is represented by the carrying amount of the current accounts with non-resident banks, treasury bills, and bonds and money market placements with non-resident banks. For details regarding the exposure, please refer to the Notes 8, 9 and 10.

The credit rating for financial instruments that the CBK has exposure for the period ended 31 December 2020 is from AAA to BBB + / Aaa to A3.

The carrying amounts of credit risk exposure, presented by type and expressed as a percentage of the total, are as follows:

2020						
Credit Rating (S&P/Moody's)	Current accounts with non- resident banks	Deposits with non- resident banks	Securities (Treasury Bills and Bonds)	IMF related accounts (SDR and use of funds)	Total carrying value	% of total weight
AAA/Aaa	128,168	8,394	105,714	-	242,276	21.42%
AA+/Aa1	86,666	-	147,567	-	234,233	20.71%
AA/Aa2	-	-	10,017	-	10,017	0.89%
AA-/Aa3	-	-	-	-	-	0.00%
A+/A1	460	-	-	-	460	0.04%
A/A2	-	-	103,282	-	103,282	9.13%
BBB+/A3	98,412	50,000	222,180	-	370,592	32.76%
N/A (unrated (IFI) ³)	-	-	-	58,761	58,761	5.19%
N/A (unrated ⁴)	-	-	-	111,652	111,652	9.87%
Total	313,706	58,394	588,760	170,413	1,131,273	100.00%

2019						
Credit Rating (S&P/Moody's)	Current accounts with non- resident banks	Deposits with non- resident banks	Securities (Treasury Bills and Bonds)	IMF related accounts (SDR and use of funds)	Total carrying value	% of total weight
AAA/Aaa	248	9,080	79,207	-	88,535	7.83%
AA+/Aa1	-	-	88,978	-	88,978	7.86%
AA/Aa2	1,827	-	99,335	-	101,162	8.94%
AA-/Aa3	-	-	125,770	-	125,770	11.12%
A+/A1	-	-	-	-	-	0.00%
A/A2	-	-	-	-	-	0.00%
BBB+/A3	106,788	240,000	183,845	-	530,633	46.90%
N/A (unrated (IFN))	-	-	-	63,651	63,651	5.63%
N/A (unrated)	-	-	-	132,610	132,610	11.72%
Total	108,863	249,080	577,135	196,261	1,131,339	100.00%

None of CBK's exposures are past due. CBK does not hold any collateral or other credit enhancements against its exposure to credit risk.

Expected credit loss measurement:

The financial assets that fall under the scope of expected credit loss with the CBK are:

- Current accounts and deposits with foreign banks
- Securities,
- Other receivables that are linked to above two elements, if any.

The basic criteria of defining the exposure is credit rating. The credit rating is taken from credit rating agencies.

The minimum credit rating allowed for short-term investment is P-2 (Moody's or A-2 Standard & Poor's), while in the long term it is Baa2 (Moody's) or BBB (Standard & Poor's). As of that we don't invest below that grade.

³ IFI - International financial institutions.

⁴ There is no credit rating (neither external nor internal) for the assets in question.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

4. Financial Risk Management (continued) Management of credit risk (continued)

The model of impairment of financial assets based on the common characteristics of credit risk, respectively changes in credit risk since the initial recognition of financial assets defines three phases in the model of estimating expected credit losses. Those stages can be summarized as below:

1. Stage 1 (Performing) of exposure distribution - financial assets which are treated as the low or medium risk exposure, all of them which fall within this are allocated to the Stage 1 at initial recognition. According to our internal procedure we are not allowed to invest in the higher credit risk exposure. Based on this each investment at initial recognition is allocated to Stage 1 of exposure.
2. Stage 2 (Under Performance) of exposure distribution - if we have a significant increase since initial recognition the financial asset which is located in stage 1 moved to stage 2.
3. Stage 3 (Non-Performing) of exposure distribution - the criteria that moves financial assets to stage 3 is determined from default status of the financial assets.

The evaluation is done on initial recognition and at the date of the reporting period. The Bank on stage 1 will measure the provision for the loss of that ECL financial instrument in an amount equal to the expected 12-month credit loss. If we have a significant increase in credit risk since initial recognition, the financial instrument will be transferred to stage 2 (under - performing). The bank on stage 2 will measure the provision for the loss of that ECL financial instrument in an amount equal to the expected credit loss over its lifetime

The criteria for failure to meet the obligations, respectively for the transfer in stage 3, should be based on objective evidence as follows:

- Debtors, significant financial difficulties
- When it is coming to breach of contractual obligations, in regards to the principal and interest,
- When it happens to any restructuring the existing terms of servicing the obligation from an financial instrument,
- Clear evidence/probability that debtor is going to the bankruptcy and/or liquidation,
- Signs of not being active in the trading mark.

The following table shows the exposure values at the phase level. At the reporting date we do not have any material change in credit risk since the initial recognition therefore all financial assets are in stage 1.

	2020			2019		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Current accounts with non-resident banks	313,706	-	-	108,863	-	-
Securities	588,760	-	-	577,135	-	-
Money market placements	58,394	-	-	249,080	-	-
Gross carrying amount	960,860	-	-	935,078	-	-
Loss allowance	(1,399)	-	-	(735)	-	-
Net Carrying amount	959,461	-	-	934,343	-	-

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

4. Financial Risk Management (continued) Management of credit risk (continued)

The movements of the respective ECL for the financial instruments that the CBK has exposure are as follows:

	2020			
	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2020	735	-	-	735
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
ECL charge of the year	664	-	-	664
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount (recognized in interest income)	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2020	1,399	-	-	1,399
	2019			
	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2019	841	-	-	841
Impact of IFRS 9 adoption as of 1 January	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	(106)	-	-	(106)
ECL charge of the year	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount (recognized in interest income)	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2019	735	-	-	735

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

4. Financial Risk Management (continued)

c) Liquidity risk

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

Management of liquidity risk

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

Policies to monitor and address liquidity risk are set by the CBK Executive Board. The CBK manages its liquidity risk by investing in short term deposits with non-resident banks and holding adequate amounts of cash in its vaults. Liquidity management policies are set to ensure that even under adverse conditions, the 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 the CBK management. Monthly reports covering the liquidity position of the CBK are regularly submitted to the Investment Committee members by the Asset Management Department.

Exposure to liquidity risk

Residual contractual maturities of financial liabilities, excluding future interest payments

	Note	Net carrying amount	Less than 1 month	1-3 months	3 mon. to 1 year	1 year to 5 years	over 5 years
31 December 2020							
<i>Non-derivative assets</i>							
Cash on hand		308,090	308,090	-	-	-	-
Current accounts with non-resident banks	8	313,343	313,343	-	-	-	-
Securities (Bonds and Treasury bills)	9	587,794	15,690	4,021	49,613	518,470	-
Deposit accounts with non-resident banks	10	58,324	8,388	-	49,936	-	-
Assets in IMF related accounts	11	187,828	80,335	11,720	35,160	60,613	-
		1,455,379	725,846	15,741	134,709	579,083	-
<i>Non-derivative liabilities</i>							
Due to domestic banks	15	(566,426)	(566,426)	-	-	-	-
Due to IMF related accounts	16	(195,113)	(4,415)	(11,720)	(35,160)	(60,613)	(83,205)
Due to governmental institutions	17	(508,446)	(508,446)	-	-	-	-
Due to public and commercial entities	18	(138,661)	(138,661)	-	-	-	-
Borrowing	19	(2,154)	-	-	-	(1,077)	(1,077)
Other liabilities	20	(756)	(756)	-	-	-	-
		(1,411,556)	(1,218,704)	(11,720)	(35,160)	(61,690)	(84,282)
		43,823	(492,858)	4,021	99,549	517,393	(84,282)

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

4. Financial Risk Management (continued)

c) Liquidity risk (continued)

31 December 2019	Note	Net carrying amount	Less than 1 month	1-3 months	3 mon. to 1 year	1 year to 5 years	over 5 years
<i>Non-derivative assets</i>							
Cash on hand		302,166	302,166	-	-	-	-
Current accounts with non-resident banks	8	108,863	108,863	-	-	-	-
Securities (Bonds and Treasury bills)	9	576,616	-	100	150	486,309	90,057
Deposit accounts with non-resident banks	10	248,864	9,080	20,000	219,784	-	-
Assets in IMF related accounts	11	214,090	90,162	-	58,411	65,517	-
		1,450,599	510,271	20,100	278,345	551,826	90,057
<i>Non-derivative liabilities</i>							
Due to domestic banks	15	(414,942)	(414,942)	-	-	-	-
Due to IMF related accounts	16	(219,664)	(8,942)	-	(58,411)	(65,517)	(86,794)
Due to governmental institutions	17	(719,819)	(719,819)	-	-	-	-
Due to public and commercial entities	18	(52,167)	(52,167)	-	-	-	-
Borrowing	19	(2,266)	-	-	-	(907)	(1,359)
Other liabilities	20	(756)	(756)	-	-	-	-
		(1,409,614)	(1,196,626)	-	(58,411)	(66,424)	(88,153)
		40,985	(686,355)	20,100	219,934	485,402	1,904

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

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

c) Market risk

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

Management of market risks

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

Risk management activities are aimed at optimizing net interest income, based on market interest rate levels consistent with the 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

The principal risk, to which non-trading portfolios are exposed to, is the risk of loss, caused by the fluctuation of future cash flows or fair values of financial instruments due to a change in market rates. Interest rate risk is managed principally by monitoring interest rate gaps and by having pre-approved limits for reprising strips. The Investment Committee is the monitoring body of the implementation of these limits.

A summary of CBK's interest rate gap position on non-trading portfolios is presented in the table below.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(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	Net carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	Over 5 years
31 December 2020							
Current accounts with non-resident banks	8	313,343	313,343	-	-	-	-
Securities (Bonds and Treasury bills)	9	587,794	-	-	-	501,505	86,289
Deposit accounts with non-resident banks	10	58,324	8,388	-	49,936	-	-
Assets in IMF related accounts	11	187,828	76,176	-	-	111,652	-
Total		1,147,289	397,907	-	49,936	613,157	86,289
Due to domestic banks	15	(566,426)	(566,426)	-	-	-	-
Due to IMF related accounts	16	(195,113)	(16,135)	-	-	(95,773)	(83,205)
Due to governmental institutions	17	(508,446)	(508,446)	-	-	-	-
Due to public and commercial entities	18	(138,661)	(138,661)	-	-	-	-
Borrowing	19	(2,154)	-	-	-	-	(2,154)
Due to Other liabilities	20	(756)	(756)	-	-	-	-
Total		(1,411,556)	(1,230,424)	-	-	(95,773)	(85,359)
Gap		(264,267)	(832,517)	-	49,936	517,384	930
31 December 2019							
Current accounts with non-resident banks	8	108,863	108,863	-	-	-	-
Securities (Treasury bills)	9	576,616	-	100	150	486,309	90,057
Deposit accounts with non-resident banks	10	248,864	9,080	20,000	219,784	-	-
Assets in IMF related accounts	11	214,090	81,480	-	-	132,610	-
Total		1,148,433	199,423	20,100	219,934	618,919	90,057
Due to domestic banks	15	(414,942)	(414,942)	-	-	-	-
Due to IMF related accounts	16	(219,664)	(8,942)	-	-	(123,928)	(86,794)
Due to governmental institutions	17	(719,819)	(719,819)	-	-	-	-
Due to public and commercial entities	18	(52,167)	(52,167)	-	-	-	-
Borrowing	19	(2,266)	-	-	-	-	(2,266)
Other liabilities	20	(756)	(756)	-	-	-	-
Total		(1,409,614)	(1,196,626)	-	-	(123,928)	(89,060)
Gap		(261,181)	(997,203)	20,100	219,934	494,991	997

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

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

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 the CBK's non-trading activities.

Management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the CBK's financial assets and liabilities against various standard and nonstandard interest rate scenarios. Standard scenarios that are assessed on a regular basis include a 100-basis point ("bps") parallel fall or rise in all yield curves. An analysis of the CBK'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:

2020

	100 bps Increase	100 bps Decrease
Estimated profit (loss) effect	(2,643)	2,643

2019

	100 bps Increase	100 bps Decrease
Estimated profit (loss) effect	(2,612)	2,612

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

CBK has an exposure to SDR related to its IMF assets and liabilities, which it monitors on an on-going basis. CBK's exposure to foreign currency risk is as follows:

2020

	100 bps Increase	100 bps Decrease
Estimated profit (loss) effect	(73)	73

2019

	100 bps Increase	100 bps Decrease
Estimated profit (loss) effect	(56)	56

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

31 December 2020	EUR	USD (Equivalent in EUR)	SDR (Equivalent in EUR)	Total
Assets				
Cash on hand	308,090	-	-	308,090
Current accounts with non-resident banks	313,170	173	-	313,343
Treasury bills	587,794	-	-	587,794
Deposit accounts with non-resident banks	49,930	8,394	-	58,324
Assets with the IMF related accounts	242	-	267,957	268,199
Other assets	1,883	-	-	1,883
Total	1,261,109	8,567	267,957	1,537,633
Liabilities				
Due to domestic banks	566,426	-	-	566,426
Due to IMF related accounts	244	-	268,894	269,138
Due to governmental institutions	508,446	-	-	508,446
Due to public and commercial entities	138,661	-	-	138,661
Borrowing	-	-	2,154	2,154
Other liabilities	2,539	-	-	2,539
Total	1,216,316	-	271,048	1,487,364
Net foreign currency position	44,793	8,567	(3,091)	50,269

31 December 2019	EUR	USD (Equivalent in EUR)	SDR (Equivalent in EUR)	Total
Assets				
Cash on hand	302,166	-	-	302,166
Current accounts with non-resident banks	108,615	248	-	108,863
Treasury bills	576,616	-	-	576,616
Deposit accounts with non-resident banks	239,784	9,080	-	248,864
Assets with the IMF related accounts	535	-	297,810	298,345
Other assets	1,700	-	-	1,700
Total	1,229,416	9,328	297,810	1,536,554
Liabilities				
Due to domestic banks	414,942	-	-	414,942
Due to IMF related accounts	541	-	296,695	297,236
Due to governmental institutions	719,819	-	-	719,819
Due to public and commercial entities	52,167	-	-	52,167
Borrowing	2,266	-	-	2,266
Other liabilities	1,778	-	-	1,778
Total	1,191,513	-	296,695	1,488,208
Net foreign currency position	37,903	9,328	1,115	48,346

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

(d) Market risks (continued)

CBK mainly carries out operations with Euro, while foreign currencies that CBK deals are mainly “Special Drawing Rights” (“SDRs”). The exchange rates used for translation on 31 December 2019 and 2018 were as follows:

	2020	2019
	EUR	EUR
1 SDR	1.18385	1.23588
1 USD	0.81493	0.89015

SDRs are supplementary foreign Exchange/transaction reserve assets defined and maintained by the International Monetary Fund (IMF). Although the SDR itself is not a currency, it represents 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 SDRs is defined as a mean currency basket of five major currencies, the Euro, the US Dollar, the British Pound, Japanese Yen and Chinese Renminbi.

US Dollar are current account and overnight deposit (such as repo) assets with Federal Reserve New York.

(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, as well as 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 risk arises from all of CBK’s operations and it affects all the organizational 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 by effective cost management.

The main responsibility for the development and implementation of controls in order to monitor operational risk is assigned to managerial staff within each organizational unit. This responsibility is supported by the observance of overall CBK standards for the management of operational risk in the following areas:

- requirements for the allocation of duties and responsibilities, including the independent authorization of transactions;
- requirements for transaction evaluation and monitoring;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial actions;
- development of contingency plans;
- training and professional development;
- ethical and code of conduct standards;
- Risk mitigation, including insurance, where this is effective.

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

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

4. Financial risk management (continued)

(f) Capital management

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

Pursuant to the Law no. 03/L-209, the net profits or losses of the Central Bank shall be determined in conformity with the International Financial Reporting Standards (IFRS).

The earnings available for distribution shall be determined as follows:

- 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 earnings the amount of any unrealized profit that was deducted from the net profits for one or more previous years and was realized during the current financial year.

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

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

50% of the distributable earnings remaining after fulfilling the 5% criteria mentioned above is required to be transferred to the Ministry of Finance. While the remaining 50% percent will be allocated to the general reserve fund of the Central Bank.

(g) Asset management

In accordance with the Law no. 03/L-209 and Law no. 03/L-048, the 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 to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

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 the circumstances.

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

Key sources of estimation uncertainty

Allowances for credit losses

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

Pandemic COVID 19

In December 2019, for the first time from China came the news of the outbreak of the COVID-19 virus. On March 11, 2020, the World Health Organization, seeing the rapid spread of the virus, described it as a pandemic. The Government of the Republic of Kosovo, like all other governments around the world, took a series of actions to slow down the possible spread of the virus. Various restrictions were imposed on activities within the country. Restrictions include the prohibition of all cross-border travel, restrictions on all domestic travel during specific hours, the closure of all public transport, the prohibition of all commercial activity, except for specific businesses (foodstuffs, pharmacies, commercial banks, gas stations, post offices etc.). These actions which resulted in an economic slowdown globally.

At the date of these financial statements, the bank's international reserves, consisting of highly valued securities and short-term bank deposits, were not materially affected by the global economic downturn. However, the social and economic impact of the COVID-19 virus and its spread globally since March 2020, may result in increased uncertainty in assessments and judgments. Which may require revisions which may lead to situations where adjustments to the carrying amount of assets and liabilities will need to be made within the next financial year. However, without prejudging the overall global and local impact of COVID-19, our expectations are that these new situations / assessments will have no material effect on our financial voices.

Critical accounting judgments in applying CBK's accounting policies

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

Financial asset and liability classification

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

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.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(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.

31 December	Note	2020		2019	
		Amortised cost	Fair value	Amortised cost	Fair value
Cash on hand	7	308,090	308,090	302,166	302,166
Current accounts with non-resident banks	8	313,343	313,343	108,863	108,863
Securities	9	587,794	590,010	576,616	579,894
Deposit accounts with non-resident banks	10	58,324	58,324	248,864	248,864
Assets related with IMF	11	268,199	268,199	298,345	298,345
Other Assets	14	99	99	142	142
		1,535,849	1,538,065	1,534,996	1,538,274
Due to domestic banks	15	566,426	566,426	414,942	414,942
Due to IMF related accounts	16	269,138	269,138	297,236	297,236
Due to governmental institutions	17	508,446	508,446	719,819	719,819
Due to public and commercial entities	18	138,661	138,661	52,167	52,167
Borrowing	19	2,154	2,154	2,266	2,266
Other liabilities	20	756	756	756	756
		1,485,581	1,485,581	1,487,186	1,487,186

7. Cash on hand

Cash on hand is all denominated in EUR.

	2020	2019
Cash on hand	308,090	302,166
Total	308,090	302,166

8. Current accounts with non-resident banks

These accounts were held at the following banks:

	2020	2019
Deutsche Bundesbank	127,998	71,230
Raiffeisen Zentralbank	9,903	9,900
Deutsche Bank London AG	88,509	24,169
Banque Centrale du Luxembourg	86,666	1,827
Commerzbank AG	460	499
Bayerische Landesbank	-	990
Federal Reserve Bank (FED-NY)	170	248
Total carrying amount	313,706	108,863
Impairment for expected credit loss	(363)	-
Total net carrying amount	313,343	108,863

The increase compared to the 2019 is a normal flow of daily activities, and at the same time this increase in current accounts is reflected almost in a balanced form with changes within the notes 7, 9 and 10 (cash, securities and placements in the money market).

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

8. Current accounts with non-resident banks (continued)

Relevant movements of corresponding ECLs for current accounts with non-resident banks are as follows:

	2020			
	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2020	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
ECL charge of the year	363	-	-	363
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount (recognized in interest income)	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2020	363	-	-	363
	2019			
	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2019	-	-	-	-
Impact of IFRS 9 adoption as of 1 January	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
ECL charge of the year	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount (recognized in interest income)	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2019	-	-	-	-

9. Securities (treasury bills and bonds)

Both categories are debt securities issued by governments of European Union countries or multinational corporates. Treasury bills disclosed below have maturity up to one year, while the bonds up to 6 years. All of them are denominated in EUR and had effective annual interest rates ranging from 0.019% to 3.021% in 2020 (while in 2019: 0.019% up to 3.021% p.a.).

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

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

Analytical disclosure of securities by type and by issuing countries:

As per countries:

	2020			2019		
	Carrying amount	Impairment for expected credit loss	Net carrying amount	Carrying amount	Impairment for expected credit loss	Net carrying amount
Germany	66,177	(157)	66,020	66,651	(60)	66,591
France	10,017	(104)	9,913	10,023	(9)	10,014
Netherlands	12,339	(27)	12,312	12,556	(11)	12,545
Slovenia	20,732	(67)	20,665	21,435	(19)	21,416
Luxemburg	88,382	(93)	88,289	89,313	(80)	89,233
EuroFima-Switzerland	5,614	(3)	5,611	5,827	(5)	5,822
KommuneKredit-Denmark	6,039	(8)	6,031	6,052	(5)	6,047
Austria	74,729	(248)	74,481	77,099	(69)	77,030
Ireland	103,282	(97)	103,185	104,335	(96)	104,239
Kosovo	201,449	(162)	201,287	183,844	(165)	183,679
Total	588,760	(966)	587,794	577,135	(519)	576,616

As per type:

	2020			2019		
	Carrying amount	Adjusted value	Net carrying amount	Carrying amount	Adjusted value	Net carrying amount
Treasury bills	-	-	-	150	-	150
Government bonds	588,760	(966)	587,794	576,985	(519)	576,466
Total	588,760	(966)	587,794	577,135	(519)	576,616

The increase compared to 2019 comes mostly from the transfer between categories/items 7,8,9 and 10.

The movements of corresponding ECLs for the debt securities at Amortized Costs are, as follows:

	2020			
	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2020	519	-	-	519
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
ECL charge of the year	447	-	-	447
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount (recognized in interest income)	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2020	966	-	-	966

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

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

The movements of corresponding ECLs for the debt securities at Amortized Costs (continued)

	2019			
	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2019	683	-	-	683
Impact of IFRS 9 adoption as of 1 January	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	(164)	-	-	(164)
ECL charge of the year	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount (recognized in interest income)	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2019	519	-	-	519

The following table presents the geographical distribution of investments in securities, including the minimum, maximum and average coupon rate. Also, the percentage of concentration and maturities at the state level.

Country	2020					
	Minimum coupon rate	Maximum coupon rate	Average coupon rate	Carrying amount	% of weight in total	Maturity
Germany	0.13%	2.13%	0.96%	66,177	11.24%	2022 - 2023
France	0.13%	0.13%	0.13%	10,017	1.70%	2022
Netherlands	0.50%	2.25%	1.38%	12,339	2.10%	2022
Slovenia	3.00%	4.38%	3.69%	20,732	3.52%	2021
Luxemburg	0.00%	3.00%	1.05%	88,382	15.01%	2022
EuroFima-Switzerland	4.00%	4.00%	4.00%	5,614	0.95%	2021
KommuneKredit-Denmark	0.25%	0.25%	0.25%	6,039	1.03%	2023
Austria	3.40%	3.40%	3.40%	74,729	12.69%	2022
Ireland	0.00%	3.90%	0.98%	103,282	17.54%	2022 - 2023
Kosovo	0.80%	3.50%	1.70%	201,449	34.22%	2021 - 2025
Total				588,760	100%	

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

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

2019						
Country	Minimum coupon rate	Maximum coupon rate	Average coupon rate	Carrying amount	% of weight in total	Maturity
Germany	0.13%	2.13%	0.96%	66,651	11.55%	2022 - 2023
France	0.13%	0.13%	0.13%	10,023	1.74%	2022
Netherlands	0.50%	2.25%	1.38%	12,556	2.18%	2022
Slovenia	3.00%	4.38%	3.69%	21,435	3.71%	2021
Luxemburg	0.00%	3.00%	1.05%	89,313	15.48%	2022
EuroFima-Switzerland	4.00%	4.00%	4.00%	5,827	1.01%	2021
KommuneKredit-Denmark	0.25%	0.25%	0.25%	6,052	1.05%	2023
Austria	3.40%	3.40%	3.40%	77,099	13.36%	2022
Ireland	0.00%	3.90%	0.98%	104,335	18.08%	2022 - 2023
Kosovo	0.00%	4.90%	1.62%	183,844	31.85%	2020 - 2025
Total				577,135	100%	

10. Deposit accounts with non-resident banks

Deposit accounts with non-resident banks are composed as follows:

	2020			2019		
	Gross carrying amount	Impairment for expected credit loss	Net carrying amount	Gross carrying amount	Impairment for expected credit loss	Net carrying amount
Term deposits						
Deutsche Bank	-	-	-	240,000	(216)	239,784
Raiffeisen Bank International AG	50,000	(64)	49,936	-	-	-
Federal Reserve Bank (FED-NY)	8,394	(6)	8,388	9,079	-	9,079
	58,394	(70)	58,324	249,079	(216)	248,863
Interest accrued on term deposits						
Deutsche Bank	-	-	-	-	-	-
Raiffeisen Bank International AG	-	-	-	-	-	-
Federal Reserve Bank (FED-NY)	-	-	-	1	-	1
	-	-	-	1	-	1
Total	58,394	(70)	58,324	249,080	(216)	248,864

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

10. Deposit accounts with non-resident banks (continued)

The movements of corresponding ECLs for the deposit accounts with non-resident banks at Amortized Costs are, as follows:

	2020			
	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2020	216	-	-	216
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
ECL charge of the year	(146)	-	-	(146)
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount (recognized in interest income)	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2020	70	-	-	70
	2019			
	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2019	158	-	-	158
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
ECL charge of the year	58	-	-	58
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount (recognized in interest income)	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2019	216	-	-	216

Deposits placed with non-resident banks are denominated in EUR and earn interest at effective annual interest rates ranging from 0.000% to 5.370% (2018: 0.000% up to 3.040% annual) and have original maturities from 1 to 367 days (2018: from 1 to 367 days). All deposits have minimum credit ratings of A3/BBB+, according to the ratings for 2019 by Standard & Poors/Moody's.

Comparing the end of the year 2019, there is a decrease of the position at the end of 2020, resulting mainly from the maturity of placements in Deutsche Bank placements in the form of deposits with the possibility of call / withdrawal (Call Deposits) with indefinite maturity but which have matured in October 2020. Active deposits in Euro on the reporting date are 50 million euros in RBI which have a maturity of one year. We also have an overnight deposit (such as repo) assets with Federal Reserve New York of 10.3 million USD which is expressed in euro equivalent.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

11. Assets related with IMF

	2020	2019
IMF quota	97,786	102,084
SDR Holdings	58,519	63,116
Accrued interest	242	535
IMF	156,547	165,735
Government		
Due from the Government for the use of IMF funds (SBA and RFI)	111,652	132,610
Total	268,199	298,345

The assets listed above are related to the admission of Kosovo to the International Monetary Fund (“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 the subscription amount determined at the time of admission of Kosovo into the IMF and is expressed in SDR. The increase represents the increase of quota from 59 million SDR to 82.6 million (while disclosed above in the Note 11 in Euro) and the amounts are determined based on the rules and regulations of IMF decisions.

SDR Holdings represents assets approved by the IMF Board of Governors as per allocations of SDRs to IMF’s member countries (decisions made on 28 August 2009 and 9 September 2009). SDR holding assets bear annual interest rates in 2020 ranging from 0.050% to 0.748% p.a. (2019: 0.738% up to 1.148% p.a.).

Due from the Government for the use of IMF funds, represents an amount due from the Government as per IMF and Kosovo Stand-by Arrangement signed in July 2010, April 2012 and July 2017, through which the Government of Kosovo obtained from IMF a line for use of funds in accordance with Standby Arrangements as well as the agreement for emergency assistance under the Instrument of Rapid Financing (RFI) in the amount of SDR 41.3 million SDR signed in 10 April 2020. While the outstanding as of 31 December 2020 is 94.3 million SDR (or 111.65 million Euro). The interest rate of this arrangement is tied to IMF’s market-related interest rate, known as basic rate of charge, which is itself linked to the SDRs interest rate. The interest rate for 2020 annually fluctuates from 1.050% to 1.754% (in 2019 it fluctuated from 1.744% to 2.157% p.a.).

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 for each Standby Arrangement “on the Procedure for Request, Acceptance, Service and Repurchase of the Funds from the IMF in terms of the Stand –By Arrangement (SBA)”. 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 statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

12. Property and equipment

Property and equipment are composed as follows:

	Leasehold improvements	Equipment	Computers	Vehicles	Assets in process of capitalization	Total
Cost						
At 1 January 2019	5,201	2,431	2,166	320	-	10,118
Acquisitions	113	93	108	69	213	596
Transfer from/to	-	-	-	-	-	-
Transfer from/to (adjustment)	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
At 31 December 2019	5,314	2,524	2,274	389	213	10,714
At 1 January 2020	5,314	2,524	2,274	389	213	10,714
Acquisitions	273	140	136	-	-	549
Transfer from/to	208	-	-	-	(208)	-
Transfer from/to (adjustment)	-	-	-	-	-	-
Disposals	-	-	(2)	-	-	(2)
At 31 December 2020	5,795	2,664	2,408	389	5	11,261
Depreciation						
At 1 January 2019	1,153	1,907	1,751	291	-	5,102
Depreciation of the year	265	162	185	33	-	645
Transfer from/to (adjustment)	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
At 31 December 2019	1,418	2,069	1,936	324	-	5,747
At 1 January 2020	1,418	2,069	1,936	324	-	5,747
Depreciation of the year	271	171	172	14	-	628
Transfer from/to (adjustment)	-	-	-	-	-	-
Disposals	-	-	(2)	-	-	(2)
At 31 December 2020	1,689	2,240	2,106	338	-	6,373
Carrying amounts						
At 1 January 2019	4,048	524	415	29	-	5,016
At 31 December 2019	3,896	455	338	65	213	4,967
At 31 December 2020	4,106	424	302	51	5	4,888

There are no assets pledged as collateral as at 31 December 2020 (31 December 2019: none). According to the Law on CBK, the Central Bank shall, for its official business, utilize and administer the property and facilities, including moveable and immovable property, located at Garibaldi Street 33, Pristina.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

13. Intangible assets

Intangible assets are composed as follows:

	Software under development	Software	Total
Cost			
Balance at 1 January 2019	-	3,971	3,971
Acquisitions	508	43	551
Transfers (from)/to	-	-	-
Transfers (from)/to (adjustments)	-	-	-
Disposals	-	-	-
Balance at 31 December 2019	508	4,014	4,522
Balance at 1 January 2020	508	4,014	4,522
Acquisitions	31	136	167
Transfers (from)/to	(508)	508	-
Transfers (from)/to (adjustments)	-	-	-
Disposals/write offs	-	-	-
Balance at 31 December 2020	31	4,658	4,689
Amortization			
Balance at 1 January 2019	-	2,181	2,181
Amortization for the year	-	396	396
Disposals	-	-	-
Balance at 31 December 2019	-	2,577	2,577
Balance at 1 January 2020	-	2,577	2,577
Amortization for the year	-	412	412
Disposals/write offs	-	-	-
Balance at 31 December 2020	-	2,989	2,989
Net carrying amounts			
Balance at 1 January 2019	-	1,790	1,790
Balance at 31 December 2019	508	1,437	1,945
Balance at 31 December 2020	31	1,669	1,700

14. Other assets

Other assets are composed as follows:

	2020	2019
Accrued fee income	1,774	1,558
Accounts receivables and prepayments	109	142
Total	1,883	1,700

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

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

15. Due to domestic banks

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

Due to domestic banks	2019	2019
ProCredit Bank Kosovo	33,453	29,070
Raiffeisen Bank Kosovo	44,734	41,973
NLB Prishtina	32,142	28,123
Banka Ekonomike	12,416	9,818
Banka për Biznes	12,346	10,336
Banka Kombëtare Tregtare (Prishtina branch)	17,534	15,203
Banka Ekonomike Turke (TEB)	24,781	22,243
Komercijalna Banka – Mitrovica branch	4,447	3,886
Turkiye is Bankasi a.s.	2,942	3,294
T.C. Ziraat Bankasi A.S. – Kosovo branch	2,621	2,315
Banka Credins Kosovë	-	-
Banka Kreditore e Prishtinës	-	-
Total minimum required reserve	187,416	166,261
Additional amount on the required reserve		
ProCredit Bank Kosovo	29,850	26,882
Raiffeisen Bank Kosovo	36,494	18,958
NLB Prishtina	91,536	53,539
Banka Ekonomike	45,114	32,026
Banka për Biznes	40,166	31,733
Banka Kombëtare Tregtare (Prishtina branch)	56,986	25,576
Banka Ekonomike Turke (TEB)	44,667	32,635
Komercijalna Banka – Mitrovica branch	4,219	3,737
Turkiye is Bankasi a.s.	16,556	16,013
T.C. Ziraat Bankasi A.S. –Kosova branch	5,530	7,582
Banka Credins Kosovë	7,887	-
Banka Kreditore e Prishtinës	5	-
Total addition on current account	379,010	248,681
Total amount on current account	566,426	414,942

The applied interest rate as of 31 December 2020 was -0.60% (subsequently -0.60% for 31 December 2019) for the deposits above the reserve required. The required reserve is calculated as per rule of required reserve.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

16. Due to IMF related accounts

	2020	2019
IMF Account no. 1	250	255
IMF Account no. 2	6	6
IMF Security Account	185,433	209,641
IMF SDR - Allocation	65,548	68,429
Accrued interest	244	541
Total due to IMF	251,481	278,872
Due to Government		
IMF – Paid proportion of Government quota	17,657	18,364
Total due to Government	17,657	18,364
Total	269,138	297,236

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

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

IMF Security Account represents a promissory note, which the Government of Kosovo has to pay upon IMF's request. This amount represents the liability of the CBK to IMF and is matched by a corresponding claim of the CBK to the Government of Kosovo.

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

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

SDR Allocations and Paid portion of quota are interest-bearing with annual interest rates for quarterly averages ranging from 0.050% - 0.750% p.a. 2020 (2019: 0.740% - 1.153% p.a.).

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

17. Due to Governmental institutions

Due to Governmental institutions comprise current accounts as follows:

Current accounts	2020	2019
Treasury – Ministry of Finance	316,897	444,301
Privatization Agency of Kosovo	191,457	275,160
Interim administration institutions	92	358
Total	508,446	719,819

The effective annual interest rate for current accounts for the year ended on 31 December 2020 is zero (for the year ended on 31 December 2019: zero).

18. Due to public and commercial entities

	2020	2019
Current accounts		
Insurance companies	4,688	4,717
Other public institutions	133,971	47,448
Licensed Pension Funds	-	-
Other	2	2
Total	138,661	52,167

The effective interest for current accounts as at 31 December 2020 and 2019 is zero.

19. Borrowings

	2020	2019
Borrowing/s	2,154	2,266
Total	2,154	2,266

The above amounts represent the borrowing from the World Bank. The Bank has used the opportunity of borrowing with favourable terms (the low interest rates and repayment period of principal up to 10 years). The repayment of interest has started from the starting of the disbursement in 2014, but the repayment of the principal will start from October 2021. The final maturity will be 15 April 2031. The borrowing is related to the project for payments system within the country in terms of their real time processing and for the project for the centre of continuity of work. The change is due to the EUR/SDR exchange rate movement at the reporting date.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

20. Other liabilities

	2020	2019
Safe custody accounts	756	756
Deferred grants	295	393
Other deferred income	11	11
Provision for litigations	242	162
Sundry creditors	606	456
Employee benefits	629	-
	2,539	1,778

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

As of 31 December 2020, the safe custody accounts include the amount of 756 thousand Euros, which is related to the current accounts of the Kosovo Insurance Company, which was liquidated on April 2010. Consequently, this amount remained as safe custody account and as of 31 December 2020 and 2019 it has the above balance.

The movement in provisions is as follows:

	2020	2019
Carrying value on January 1st	162	162
Provision expenses for contingent liabilities (note 28)	80	-
	242	162

The movement in deferred grants was as follows:

	Ministry of Finance	World Bank	European Central Bank	Total
Deferred grant at 1 January 2019	198	294	-	492
Grants received during the year	-	-	21	21
Grants recognized as revenue for the year	(60)	(39)	(21)	(120)
Deferred grant at 31 December 2019	138	255	-	393
Deferred grant at 1 January 2020	138	255	-	393
Grants received during the year	-	-	20	20
Grants recognized as revenue for the year	(60)	(39)	(20)	(119)
Deferred grant at 31 December 2020	78	216	-	294

The Ministry of Finance grant was their project for establishment the application of the Kosovo government security deposits, once the project was completed they granted to us the application. The World Bank grant was for application of off-site supervision and the ECB grant is the regional project for training the regional central bank, part of that program was the CBK as well.

21. Authorized capital

The CBK statutory fund as at 31 December 2020 and 2019 is 30,000 Euro, pursuant to the Law no. 03/L-209 adopted on 22 July 2010.

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

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

21a. Reserve fund and revaluation reserve

The reserve fund and revaluation reserve are 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 the Note 4 (f) in accordance with this law.

22. Net interest income

Net interest income is composed as follows:

	2020	2019
Interest income		
From deposit accounts	27	198
From treasury bills and bonds	2,607	1,983
From current accounts	126	642
From negative rates in deposits	1,069	706
	3,829	3,529
Interest expense		
On current accounts from non-banking entities	138	683
To nostro accounts with correspondent banks	808	901
On term deposits	2	-
From borrowings	17	16
	965	1,599
Net interest income	2,864	1,930

The CBK is paying negative rates on nostro current account balances with correspondent banks (according to some limits set by them), as a result of which it applies negative rates on the required reserve for commercial banks and above a certain limit to the Kosovo Pension Savings Trust.

23. Net fee and commission income

Net fee and commission income are composed as follows:

	2020	2019
Fee income		
From cash deposits	954	873
From foreign incoming transfers	77	70
From foreign outgoing transfers	308	352
From the inter-bank clearing system	1,231	1,279
From the credit registry system	132	199
Other fees	17	25
	2,719	2,798
Fee expenses		
For cash transportation	346	529
For correspondent bank transactions	41	47
	387	576
Net fee and commission income	2,332	2,222

This group of income is derived from the services offered to CBK's clients (institution), for payments, deposits, for the credit registry platform and maintenance of accounts and items in storage.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

24. Income from regulatory activity

Regulatory activity income mainly comprises fees charged to financial institutions in Kosovo as part of the issuance or renewal of licenses, as well as other statutory fees related to their activities for which the CBK has regulating legal power.

Income from regulatory activity:

	2020	2019
Fee charged to commercial banks	3,567	3,137
Fee charged to insurance companies	1,535	1,491
Fee from non-bank financial institutions	251	300
Fee charged to pension fund institutions	29	28
Total	5,382	4,956

25. Grant income

Grant income is composed as follows:

	2020	2019
Treasury – Ministry of Finances (ICU portfolio)	60	60
World Bank	39	39
European Central Bank	20	21
Total	119	120

26. Other operating income

Operating income:

	2020	2019
Other income	11	8
Total	11	8

Within the line other incomes (irregular) are the incomes under note 26 and as such these incomes are not related to regular activity nor to any other specific item disclosed as separate within other financial items.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

27. Personnel expenses

Personnel expenses are composed as follows:

	2020	2019
Employee benefits		
Wages and salaries	3,902	3,892
Pension contributions	606	609
Health insurance costs	195	189
	4,703	4,690
Other personnel expenses		
Staff training	26	164
Central Bank Board expenses	86	116
Other	18	19
	130	299
Total	4,833	4,989

The number of employees that actively affected the cost disclosed for 2020 is 229 (2019: 236).

28. General and administrative expenses

General and administrative expenses are as follows:

	2020	2019
Insurance expenses	331	296
Repairs and maintenance	73	76
Software maintenance	385	333
Communication expense (telephone, telex and internet)	37	38
Utilities	81	82
Audit and consulting expense	13	13
Security and guard services	112	111
Travel and transportation	15	153
Vehicle operating expenses	14	19
Stationery	4	5
Representation expenses *	31	122
Other representation expenses *	4	9
Cafeteria expenses	36	42
Computer and other consumables expense	11	15
Consumable expenses for equipment	5	4
Publication and literature expenses	8	10
Technical professional assistance and other external services	11	56
Membership in professional organizations **	43	28
Provision expenses	80	-
Other	52	39
Total	1,346	1,451

* Other Representation expenses consist of: *conferences and similar activities, financial education program, children's gift for the end of the year, ceremonies and gifts for staff retirement, gifts for March 8 and the like*. The big change is mainly due to the conference and the activity of the 20th anniversary of the establishment of the CBK held during 2019.

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

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

29. Foreign exchange net profit/loss

Net loss from foreign exchange is 663 thousand Euro for the year ended 31 December 2020, (while in 2019: profit of 248 thousand), and it represents the unrealised foreign exchange profit in relation to foreign exchange differences resulting upon translation of the USD and SDR assets and liabilities to the equivalent amounts in Euro, disclosed in the CBK's books.

Within the non-Euro currencies, there are the respective positions:

Note:		31 December 2020	
		Assets	Liabilities
10	USD	10,512	-
11,16	SDR	226,343	228,954

		31 December 2019	
		Assets	Liabilities
10	USD	10,479	-
11,16	SDR	240,969	240,067

The effect of exchange rate variation on inclusive income

	31 December 2020	31 December 2019
from USD	(791)	172
from SDR	128	76
	(663)	248

Profit / Loss from the change of "exchange rate" is a temporary non-operating position derived from foreign currency items (USD and DVT-SDR disclosed above), which on the reporting date must be reported in Euros their equivalents according to the exchange rate of the reporting date. With the change of the exchange rate, there is also a difference (whether profit or loss), which as such only equates financial items - equivalent values but which are not actual realizations.

This effect in 2020 has been negative and has decreased "*the total comprehensive income for the year*". If we exclude this effect (respectively amounts of 663 thousand as unrealized loss and 248 thousand euros as unrealized profits), the financial operating result for 2020 is **3,489 thousand euros** and for 2019 is **1,755 thousand euros**.

The position in USD (US Dollar) is with the Federal Reserve Bank New York (FED) and is held for the purpose of managing the activities of the investment portfolio in the framework of asset management. This activity started in the second quarter of 2018.

Position in SDR - The special rights of withdrawal are set out in notes 11 and 16.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

30. Cash and cash equivalents

Cash and cash equivalents are composed as follows:

	Note	2020	2019
Cash on hand	7	308,090	302,166
Current accounts with non-resident banks	8	313,706	108,863
Deposit accounts with non-resident banks with original maturity up to three months	10	8,394	9,080
Total		630,190	420,109

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

31. Commitments and Contingencies Liabilities

Legal cases

There are several open legal cases against the CBK as at the reporting date of these financial statements. It is the management's opinion that the final outcome of these cases will not have a significant effect on the financial statements of the CBK, as at and for the year ending 31 December 2020, however due to professional care, the CBK has estimated and recorded a provision disclosed under other liabilities, even though during 2020 this provision has not increased compared to the prior year.

Other Commitments

Other commitments are composed as follows:

	2020	2019
Service contracts	-	172
Contracts for renovation of building	58	339
Equipment contracts	46	123
Applications in process	19	-
Total	123	634

In 2009, Kosovo became a member of the World Bank Group organizations – International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), and the Multilateral Investment Guarantee Agency (MIGA). In relation to this membership, the 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 subscription to the abovementioned World Bank agencies, upon their requests and payment instructions. The total balance at 31 December 2020 was 645 thousand and in 2019 the total amount of these promissory notes was 645 thousand Euro.

Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2020

(in thousands of EUR, unless otherwise stated)

32. Related party transactions

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

	2020	2019
Compensation to Central Bank Board members	68	78
Compensation to Audit Committee	7	10
Compensation to Key Management Personnel	155	149
Total	230	237

33. Subsequent events

There are no important or large impact of subsequent events after the reporting date, that would require either adjustments or additional disclosures in these financial statements. This includes also, our evaluation and assessments of financial effect in the financial statements of the Central Bank for pandemic situation of Covid-19.