



**Central Bank of the Republic of Kosovo**  
**Financial Statements**  
**as at and for the year ended 31 December 2021**  
**with Independent Auditor's Report**

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## Independent Auditor's Report

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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 2021, 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 2021, 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

  
Suzana Stavrik  
Statutory auditor  


27 April 2022

# Central Bank of the Republic of Kosovo

## Statement of financial position

At 31 December 2021

<i>In thousands of EUR</i>	Note	2021	2020
<b>Assets</b>			
Cash on hand	7	537,818	308,090
Current accounts with non-resident banks	8	151,880	313,343
Securities (Treasury Bills and Bonds)	9	632,602	587,794
Money market placements	10	14,053	58,324
Assets related with IMF	11	323,793	268,199
Property and equipment	12	4,562	4,888
Intangible assets	13	1,341	1,700
Other assets	14	2,187	1,883
<b>Total assets</b>		<b>1,668,236</b>	<b>1,544,221</b>
<b>Liabilities</b>			
Due to domestic banks	15	589,099	566,426
Due to IMF related accounts	16	325,853	269,138
Due to governmental institutions	17	608,362	508,446
Due to public and commercial entities	18	77,392	138,661
Borrowings	19	2,139	2,154
Other liabilities	20	2,418	2,539
<b>Total liabilities</b>		<b>1,605,263</b>	<b>1,487,364</b>
<b>Capital and reserves</b>			
Authorized capital	21	30,000	30,000
Reserve fund	21a	26,857	23,903
Revaluation reserve	21a, 29	-	792
Retained earnings		6,116	2,162
<b>Total capital and reserves</b>		<b>62,973</b>	<b>56,857</b>
<b>Total liabilities, capital and reserves</b>		<b>1,668,236</b>	<b>1,544,221</b>

These financial statements were approved by the decision-making<sup>1</sup> bodies of the Central Bank of the Republic of Kosovo on 08 April 2022 and were signed on their behalf by:



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

<sup>1</sup> According to article 34 and 59 of the Law No.03/L-209 on Central Bank of the Republic of Kosovo.

# Central Bank of the Republic of Kosovo

## Statement of comprehensive income

At 31 December 2021

<i>In thousands of EUR</i>	Note	2021	2020
<b>Interest income</b>			
Interest income		4,142	3,829
Interest expense		(1,493)	(965)
<b>Net interest income</b>	22	<b>2,649</b>	<b>2,864</b>
<b>Fee and commission income</b>			
Fee and commission income		3,388	2,719
Fee and commission expense		(577)	(387)
<b>Net fee and commission income</b>	23	<b>2,811</b>	<b>2,332</b>
<b>Regulatory and other operating activities income</b>			
Regulatory activity income	24	6,335	5,382
Grant income	20, 25	126	119
Other operating income	26	22	11
Foreign exchange net profit / loss	29	536	(663)
<b>Operating revenue</b>		<b>12,479</b>	<b>10,045</b>
<b>Operating expenses</b>			
Personnel expenses	27	(4,908)	(4,833)
Depreciation and amortization	12,13	(1,028)	(1,040)
General and administrative expenses	28	(1,420)	(1,346)
<b>Operating expenses</b>		<b>(7,356)</b>	<b>(7,219)</b>
<b>Financial result before provision for expected credit losses</b>			
		<b>5,123</b>	<b>2,826</b>
Provisions for expected credit losses, net decrease / (increase)	4	993	(664)
<b>Net profit for the year</b>		<b>6,116</b>	<b>2,162</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>6,116</b>	<b>2,162</b>

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 2021

	Capital	Reserve fund	Revaluation fund	Retained Earnings	Total
<i>In thousands of EUR</i>					
<b>Balance at 1 January 2020 (as stated)</b>	<b>30,000</b>	<b>22,622</b>	<b>527</b>	<b>2,109</b>	<b>55,258</b>
Adjustment for long-term employee benefits and for foreign exchange revaluation (EUR / SDR) for World Bank lending	-	(580)	17	-	(563)
<b>Balance at 1 January 2020 (restated)</b>	<b>30,000</b>	<b>22,042</b>	<b>544</b>	<b>2,109</b>	<b>54,695</b>
Transfer to reserve fund's	-	1,861	248	(2,109)	-
<b>Total transactions required by law</b>	<b>-</b>	<b>1,861</b>	<b>248</b>	<b>(2,109)</b>	<b>-</b>
Profit for the year	-	-	-	2,162	2,162
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,162</b>	<b>2,162</b>
<b>Balance at 31 December 2020</b>	<b>30,000</b>	<b>23,903</b>	<b>792</b>	<b>2,162</b>	<b>56,857</b>
<b>Balance at 1 January 2021</b>	<b>30,000</b>	<b>23,903</b>	<b>792</b>	<b>2,162</b>	<b>56,857</b>
Transfer to reserve fund's	-	2,954	(792)	(2,162)	-
<b>Total transactions required by law</b>	<b>-</b>	<b>2,954</b>	<b>(792)</b>	<b>(2,162)</b>	<b>-</b>
Profit for the year	-	-	-	6,116	6,116
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,116</b>	<b>6,116</b>
<b>Balance at 31 December 2021</b>	<b>30,000</b>	<b>26,857</b>	<b>-</b>	<b>6,116</b>	<b>62,973</b>

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 2021

<i>In thousands of EUR</i>	Note	2021	2020
<b>Cash flows from operating activities</b>			
Profit for the year		6,116	2,162
<i>Adjustments for:</i>			
Depreciation	12	646	628
Amortization	13	382	412
Grant revenue	25	(126)	(119)
Provisions for expected credit losses	4	(993)	664
Interest income	22	(4,142)	(3,829)
Interest expense	22	1,493	965
		<b>3,376</b>	<b>883</b>
Change in securities		(44,728)	(11,435)
Change in money market placements		49,999	190,000
Change in assets with IMF		(55,693)	29,854
Change in other assets		(283)	(184)
Change in due to domestic banks		22,673	151,484
Change in due to IMF related accounts		56,815	(27,800)
Change in due to governmental institutions		99,916	(211,373)
Change in due to public and commercial entities		(61,269)	86,495
Change from borrowing		95	(95)
Change in other liabilities		(23)	279
		<b>70,878</b>	<b>208,108</b>
Interest received		4,758	3,932
Interest paid		(1,592)	(1,263)
<b>Net cash generated from/(used in) operating activities</b>		<b>74,044</b>	<b>210,777</b>
<b>Cash flows from investing activities</b>			
Purchase of equipment	12	(320)	(549)
Purchase of intangible assets	13	(43)	(167)
<b>Net cash used in investing activities</b>		<b>(363)</b>	<b>(716)</b>
<b>Cash flows from financing activities</b>			
Proceeds /(Repayments) from/for borrowing	19	(110)	-
Proceeds from grants	20	28	20
<b>Net cash generated from financing activities</b>		<b>(82)</b>	<b>20</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>73,599</b>	<b>210,081</b>
Cash and cash equivalents at 1 January		<b>630,190</b>	<b>420,109</b>
<b>Cash and cash equivalents at 31 December</b>	30	<b>703,789</b>	<b>630,190</b>

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 2021

(in thousands of Euros, unless otherwise stated)

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### 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 Pristina. 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 four<sup>2</sup> 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 2021, the Board of the Central Bank of Kosovo comprised of the following members:

- Flamur Mrasori – Chairman of the Board (non-executive)
- Fehmi Mehmeti – Governor
- Nora Latifi Jashari - Member (non-executive)
- Bashkim Nurboja - Member (non-executive)

Whereas, on December 31, 2020, the Central Bank Board consisted of the following members:

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

As at 31 December 2021, the Executive Board comprised of the Governor, who is the Chairperson, and one Deputy Governor, while on 31 December 2020 the Executive Board consisted of the Governor and two Deputy Governors. Executive Board is in charged with the implementation of the CBK's policies and its operations.

During 2021, the mandate of one of the Deputy Governors has ended, therefore on December 31, 2021, the position is vacant for a member of the Executive Board.

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<sup>2</sup> As of December 31, 2021, is a vacant position for one non-executive member, while as of December 31, 2020 there were three vacancies for non-executive members (there was actually no quorum for decision making).

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2021

(in thousands of Euros, unless otherwise stated)

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### 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 in any analytical note. 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.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2021

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

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### **3. Significant accounting policies (continued)**

#### **b) Interest income and expenses (continued)**

The calculation of the effective interest rate includes all the fees and amounts 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.

#### **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.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2021

(in thousands of Euros, unless otherwise stated)

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### 3. Significant accounting policies (continued)

#### f) Financial assets and liabilities

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 2021

(Notes to the financial statements for the year ended)

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### 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 2021

(Notes to the financial statements for the year ended)

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### 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 2021

(Notes to the financial statements for the year ended)

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### 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:

$$\text{Expected credit losses (ECL)} = \text{Exposure at default (EAD)} \times \text{Loss given default (LGD)} \times \text{Probability of default (PD)}.$$

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 subsequently accounted for as amortized cost/hold to collect investment using the effective interest rate method.

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.

#### j) IMF related assets and liabilities

The financial position with the IMF is commonly presented in full in the member's central bank balance sheet. IMF related assets and liabilities are initially measured at fair value and subsequently measured at their amortized cost. Exchange rate revaluation gains and losses arising on revaluation of IMF assets and liabilities are recognized in the statement of comprehensive income.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2021

(in thousands of EUR, unless otherwise stated)

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### 3. Significant accounting policies (continued)

#### k) 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:

	2021	2020
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.

#### l) 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 2021

(in thousands of EUR, unless otherwise stated)

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### 3. Significant accounting policies (continued)

#### m) 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.

#### n) 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.

#### o) 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.

#### p) 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.

#### q) 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 2021

(in thousands of EUR, unless otherwise stated)

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### 3. Significant accounting policies (continued)

#### r) 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 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform Phase 2** (effective for annual periods beginning on or after 1 January 2021),
- **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),
- **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 IFRS 3 "Business Combinations"** - Refers to the conceptual framework (effective for annual periods beginning on or after 1 January 2022),
- **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 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).

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 2021

(in thousands of EUR, unless otherwise stated)

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### 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*

CBK limits its exposure to credit risk by investing only in securities and in deposits with foreign banks that have investment grade and whose short-term liabilities are rated by internationally recognized credit rating agencies. Given the investment credit ratings, the management does not expect any contracting party to fail to meet its obligations as per our credit risk appetite.

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 2021

(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 2020 and 31 December 2021, is represented by the carrying amount of the current accounts with non-resident banks, treasury bills, and bonds and money market placements (including residents and non-residents). 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 2021 is from AAA to BBB - / Aaa to Baa3.

The carrying values of credit risk exposure divided by credit rating and expressed as a percentage share of the total, are as follows:

<b>2021</b>						
Credit Rating (S&P/Moody's)	Current accounts with non- resident banks	Money market placements	Securities (Treasury Bills and Bonds)	IMF related accounts (SDR holding and use of funds)	Total carrying value	% of total weight
AAA/Aaa	109,931	4,415	113,844	-	228,190	22.36%
AA+/Aa1	-	-	134,241	-	134,241	13.15%
AA/Aa2	-	-	10,011	-	10,011	0.98%
A+/A1	441	-	-	-	441	0.04%
A/A2	9,944	-	118,191	-	128,135	12.56%
BBB+/A3	31,596	9,644	216,576	-	257,816	25.26%
BBB-/Baa3	-	-	40,107	-	40,107	3.93%
N/A (unrated (IFI) <sup>3</sup> )	-	-	-	158,218	158,218	15.50%
N/A (unrated <sup>4</sup> )	-	-	-	63,359	63,359	6.21%
<b>Total</b>	<b>151,912</b>	<b>14,059</b>	<b>632,970</b>	<b>221,577</b>	<b>1,020,518</b>	<b>100.00%</b>

  

<b>2020</b>						
Credit Rating (S&P/Moody's)	Current accounts with non- resident banks	Money market placements	Securities (Treasury Bills and Bonds)	IMF related accounts (SDR holding 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%
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%
BBB-/Baa3	-	-	-	-	-	0.00%
N/A (unrated (IFI))	-	-	-	58,761	58,761	5.19%
N/A (unrated)	-	-	-	111,652	111,652	9.87%
<b>Total</b>	<b>313,706</b>	<b>58,394</b>	<b>588,760</b>	<b>170,413</b>	<b>1,131,273</b>	<b>100.00%</b>

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

The basic criteria for determining exposure are credit rating. Credit rating is obtained 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).

In extraordinary cases of inability to make positive returns, investment exposure is permitted through the short-term credit rating of issuer P-3 (Moody's) or A-3 (Standard & Poor's) and the long-term credit rating of Issuer Baa3 (Moody's) or BBB- (Standard & Poor's).

<sup>3</sup> IFI - International financial institutions.

<sup>4</sup> 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 2021

(in thousands of EUR, unless otherwise stated)

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

Model of impairment of financial assets defines three stages of credit levels, at the initial recognition and changes in credit quality after initial recognition. 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 assessment is done at the initial recognition and at the date of the reporting period. The Bank in Stage 1 will measure the loss provision of that financial instrument in ECL equal to the expected 12-months credit loss. If we have a significant increase in credit risk since the initial recognition, the financial instrument will be transferred to Stage 2 (underperforming). For the Stage 2 the Bank will measure the loss provision in ECL amount equal to the expected credit loss over its lifetime. The criteria for determining whether we have a significant increase in credit risk are: deteriorations in credit default and deterioration in the assessment of the probability of default (PD).

Definition of the default:

Default criteria to meet the obligations, respectively for the transfer in Stage 3, should be based on the objective evidence of:

- 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 by stages. 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.

	2021 <sup>5</sup>			2020		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Current accounts with non-resident banks	151,912	-	-	313,706	-	-
Securities	632,970	-	-	588,760	-	-
Deposit accounts with non-resident banks	14,059	-	-	58,394	-	-
<b>Gross carrying amount</b>	<b>798,941</b>	-	-	<b>960,860</b>	-	-
Loss allowance	(406)	-	-	(1,399)	-	-
<b>Net Carrying amount</b>	<b>798,535</b>	-	-	<b>959,461</b>	-	-

<sup>5</sup> Neither in 2021 nor in the comparative year, the IMF related accounts (SDR and use of funds) are not included as the assessment is that this group is not an exposition that carries allowances for expected credit losses (ECL).

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2021

(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:

	2021			
	Stage 1	Stage 2	Stage 3	Total
<b>ECL as at 1 January 2021</b>	<b>1,399</b>	-	-	<b>1,399</b>
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
ECL (release) / charge of the year	(993)	-	-	(993)
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	-	-	-	-
<b>At 31 December 2021</b>	<b>406</b>	-	-	<b>406</b>
	2020			
	Stage 1	Stage 2	Stage 3	Total
<b>ECL as at 1 January 2020</b>	<b>735</b>	-	-	<b>735</b>
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	-	-	-	-
<b>At 31 December 2020</b>	<b>1,399</b>	-	-	<b>1,399</b>

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2021

(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
<b>31 December 2021</b>							
<i>Non-derivative assets</i>							
Cash on hand		537,818	537,818	-	-	-	-
Current accounts with non-resident banks	8	151,880	151,880	-	-	-	-
Securities (Bonds and Treasury bills)	9	632,602	-	27,849	346,143	224,592	34,018
Money market placements	10	14,053	14,053	-	-	-	-
Assets in IMF related accounts	11	239,903	176,544	12,251	-	51,108	-
		<b>1,576,256</b>	<b>880,295</b>	<b>40,100</b>	<b>346,143</b>	<b>275,700</b>	<b>34,018</b>
<i>Non-derivative liabilities</i>							
Due to domestic banks	15	(589,099)	(589,099)	-	-	-	-
Due to IMF related accounts	16	(248,584)	(268)	(12,251)	-	(51,108)	(184,957)
Due to governmental institutions	17	(608,362)	(608,362)	-	-	-	-
Due to public and commercial entities	18	(77,392)	(77,392)	-	-	-	-
Borrowing	19	(2,139)	-	-	(225)	(901)	(1,013)
Other liabilities	20	(756)	(756)	-	-	-	-
		<b>(1,526,332)</b>	<b>(1,275,877)</b>	<b>(12,251)</b>	<b>(225)</b>	<b>(52,009)</b>	<b>(185,970)</b>
		<b>49,924</b>	<b>(395,582)</b>	<b>27,849</b>	<b>345,918</b>	<b>223,691</b>	<b>(151,952)</b>

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2021

(in thousands of EUR, unless otherwise stated)

### 4. Financial Risk Management (continued)

#### c) Liquidity risk (continued)

31 December 2020	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		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	-
		<b>1,455,379</b>	<b>725,846</b>	<b>15,741</b>	<b>134,709</b>	<b>579,083</b>	-
<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)	-	-	-	-
		<b>(1,411,556)</b>	<b>(1,218,704)</b>	<b>(11,720)</b>	<b>(35,160)</b>	<b>(61,690)</b>	<b>(84,282)</b>
		<b>43,823</b>	<b>(492,858)</b>	<b>4,021</b>	<b>99,549</b>	<b>517,393</b>	<b>(84,282)</b>

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 2021

(in thousands of EUR, unless otherwise stated)

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### 4. Financial risk management (continued)

#### d) 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 reprice 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 repricing 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 repricing 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 2021

(in thousands of EUR, unless otherwise stated)

### 4. Financial risk management (continued)

#### (d) Market risk (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
<b>31 December 2021</b>							
Current accounts with non-resident banks	8	151,880	151,880	-	-	-	-
Securities (Bonds and Treasury bills)	9	632,602	-	-	6,635	518,894	107,073
Money Market Placements	10	14,053	14,053	-	-	-	-
Assets in IMF related accounts	11	239,903	176,544	-	-	63,359	-
<b>Total</b>		<b>1,038,438</b>	<b>342,477</b>	<b>-</b>	<b>6,635</b>	<b>582,253</b>	<b>107,073</b>
Due to domestic banks	15	(589,099)	(589,099)	-	-	-	-
Due to IMF related accounts	16	(248,584)	(268)	-	-	(63,359)	(184,957)
Due to governmental institutions	17	(608,362)	(608,362)	-	-	-	-
Due to public and commercial entities	18	(77,392)	(77,392)	-	-	-	-
Borrowing	19	(2,139)	-	-	-	-	(2,139)
Due to Other liabilities	20	(756)	(756)	-	-	-	-
<b>Total</b>		<b>(1,526,332)</b>	<b>(1,275,877)</b>	<b>-</b>	<b>-</b>	<b>(63,359)</b>	<b>(187,096)</b>
<b>Gap</b>		<b>(487,894)</b>	<b>(933,400)</b>	<b>-</b>	<b>6,635</b>	<b>518,894</b>	<b>(80,023)</b>
<b>31 December 2020</b>							
Current accounts with non-resident banks	8	313,343	313,343	-	-	-	-
Securities (Treasury bills)	9	587,794	-	-	-	501,505	86,289
Money market placements	10	58,324	8,388	-	49,936	-	-
Assets in IMF related accounts	11	187,828	76,176	-	-	111,652	-
<b>Total</b>		<b>1,147,289</b>	<b>397,907</b>	<b>-</b>	<b>49,936</b>	<b>613,157</b>	<b>86,289</b>
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)
Other liabilities	20	(756)	(756)	-	-	-	-
<b>Total</b>		<b>(1,411,556)</b>	<b>(1,230,424)</b>	<b>-</b>	<b>-</b>	<b>(95,773)</b>	<b>(85,359)</b>
<b>Gap</b>		<b>(264,267)</b>	<b>(832,517)</b>	<b>-</b>	<b>49,936</b>	<b>517,384</b>	<b>930</b>

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 2021

(in thousands of EUR, unless otherwise stated)

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### 4. Financial risk management (continued)

#### (d) Market risk (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:

#### 2021

	100 bps Increase	100 bps Decrease
Estimated profit (loss) effect	(4,879)	4,879

#### 2020

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

#### 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:

#### 2021

	100 bps Increase	100 bps Decrease
Estimated profit (loss) effect	(87)	87

#### 2020

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

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2021

(in thousands of EUR, unless otherwise stated)

### 4. Financial risk management (continued)

#### (d) Market risk (continued)

31 December 2021	EUR	USD (Equivalent in EUR)	SDR (Equivalent in EUR)	Total
<b>Assets</b>				
Cash on hand	537,818	-	-	537,818
Current accounts with non-resident banks	151,552	328	-	151,880
Securities (Treasury Bills and Bonds)	628,188	4,414	-	632,602
Money market placements	9,638	4,415	-	14,053
Assets with the IMF related accounts	144	-	323,649	323,793
Other assets	2,187	-	-	2,187
<b>Total</b>	<b>1,329,527</b>	<b>9,157</b>	<b>323,649</b>	<b>1,662,333</b>
<b>Liabilities</b>				
Due to domestic banks	589,099	-	-	589,099
Due to IMF related accounts	145	-	325,708	325,853
Due to governmental institutions	608,362	-	-	608,362
Due to public and commercial entities	77,392	-	-	77,392
Borrowing	-	-	2,139	2,139
Other liabilities	2,418	-	-	2,418
<b>Total</b>	<b>1,277,416</b>	<b>-</b>	<b>327,847</b>	<b>1,605,263</b>
<b>Net foreign currency position</b>	<b>52,111</b>	<b>9,157</b>	<b>(4,198)</b>	<b>57,070</b>

  

31 December 2020	EUR	USD (Equivalent in EUR)	SDR (Equivalent in EUR)	Total
<b>Assets</b>				
Cash on hand	308,090	-	-	308,090
Current accounts with non-resident banks	313,170	173	-	313,343
Treasury bills	587,794	-	-	587,794
Money market placements	49,930	8,394	-	58,324
Assets with the IMF related accounts	242	-	267,957	268,199
Other assets	1,883	-	-	1,883
<b>Total</b>	<b>1,261,109</b>	<b>8,567</b>	<b>267,957</b>	<b>1,537,633</b>
<b>Liabilities</b>				
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
<b>Total</b>	<b>1,216,316</b>	<b>-</b>	<b>271,048</b>	<b>1,487,364</b>
<b>Net foreign currency position</b>	<b>44,793</b>	<b>8,567</b>	<b>(3,091)</b>	<b>50,269</b>

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2021

(in thousands of EUR, unless otherwise stated)

### 4. Financial risk management (continued)

#### (d) Market risk (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 2021 and 2020 were as follows:

	2021	2020
	EUR	EUR
1 SDR	1.23748	1.18385
1 USD	0.88292	0.81493

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 2021

(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 foreign currencies, gold, financial instruments, and other assets.

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.

According to article 56, paragraph 1.1. of the Law no. 03/L-209 on Central Bank of the Republic of Kosovo, 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.

#### Distributable earnings

Description	2021	2020
<b>Total comprehensive income for the year</b>	<b>6,116</b>	<b>2,162</b>
From which are unrealized revaluation gains (profits) note (note 29)	1,529	-
From which are unrealized revaluation losses which were realized in the current year	-	-
<b>Distributable earnings</b>	<b>4,587</b>	<b>2,162</b>

#### Capital, general reserve account and distributable earnings

	2021	2020
Capital	30,000	30,000
General reserve	26,857	23,903
Distributable earnings	4,587	2,162
<b>Total Capital, general reserve account and distributable earnings</b>	<b>61,444</b>	<b>56,065</b>

#### Total monetary liabilities

	2021	2020
Due to commercial banks	589,099	566,426
Due to government	608,362	508,446
Due to IMF related accounts <sup>6</sup>	185,225	83,461
Due to public and commercial entities	77,392	138,661
Due to borrowings	2,139	2,154
Due to other monetary liabilities	756	756
<b>Total monetary liabilities</b>	<b>1,462,973</b>	<b>1,299,904</b>
<b>Ratio as per article 56, paragraph 1.1.</b>	<b>4.20%</b>	<b>4.31%</b>

<sup>6</sup> Exclude securities account and accruals.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2021

(in thousands of EUR, unless otherwise stated)

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### 4. Financial risk management (continued)

#### (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.

### 5. Use of estimates and judgments

The preparation of financial statements involves the use of uncertain estimates and assumptions about future events that affect the amounts recognized for assets, liabilities, income and expenses. 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. Actual results may differ from those estimated. Estimates and assumptions are reviewed on an ongoing basis. Evaluation reviews are recognized prospectively.

#### 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. Uncertainty in the assessment which may result in a material adjustment in the reporting period is presented in the case of: determination of data for the ECL measurement model, including information on the future and key assumptions used in estimating recoverable flows monetary. 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 2020 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. Also the social and economic impact of the COVID-19 virus and its spread globally since March 2020, has not resulted in increased uncertainty in regards to assessments and judgments throughout 2021. We expect the same as of upcoming year (2022).

During 2021, there was a new SDR allocation from the IMF that has increased international reserves in DVT (SDR) for its members, an increase from that has also Kosovo benefited, by increasing Kosovo's international reserves with the IMF by about 100 million euros [or about 79 million DVT (SDR)]. According to the information that we have, such an increase is not expected in the year 2022.

#### 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 hold to collect, 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.

Also the judgments made in the implementation of accounting policies, which have a significant impact on the amounts recognized in the financial statements are: setting criteria to assess whether the credit risk of a financial asset has increased significantly since initial recognition, setting the methodology for include information on the future in measuring Expected Credit Losses (ECL) and selecting and approving models used to measure ECL.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2021

(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	2021		2020	
		Amortised cost	Fair value	Amortised cost	Fair value
Cash on hand	7	537,818	537,818	308,090	308,090
Current accounts with non-resident banks	8	151,880	151,880	313,343	313,343
Securities	9	632,602	631,621	587,794	590,010
Money market placements	10	14,053	14,053	58,324	58,324
Assets related with IMF	11	323,793	323,793	268,199	268,199
Other Assets	14	129	129	99	99
		<b>1,660,275</b>	<b>1,659,294</b>	<b>1,535,849</b>	<b>1,538,065</b>
Due to domestic banks	15	589,099	589,099	566,426	566,426
Due to IMF related accounts	16	325,853	325,853	269,138	269,138
Due to governmental institutions	17	608,362	608,362	508,446	508,446
Due to public and commercial entities	18	77,392	77,392	138,661	138,661
Borrowing	19	2,139	2,139	2,154	2,154
Other liabilities	20	756	756	756	756
		<b>1,603,601</b>	<b>1,603,601</b>	<b>1,485,581</b>	<b>1,485,581</b>

### 7. Cash on hand

Cash on hand is all denominated in EUR.

	2021	2020
Cash on hand	537,818	308,090
<b>Total</b>	<b>537,818</b>	<b>308,090</b>

### 8. Current accounts with non-resident banks

These accounts were held at the following banks:

	2021	2020
Deutsche Bundesbank	64,669	127,998
Raiffeisen Zentralbank	9,944	9,903
Deutsche Bank	31,596	88,509
Banque Centrale du Luxembourg	44,985	86,666
Commerzbank AG	441	460
Federal Reserve Bank (FED-NY)	277	170
<b>Total carrying amount</b>	<b>151,912</b>	<b>313,706</b>
Impairment for expected credit loss	(32)	(363)
<b>Total net carrying amount</b>	<b>151,880</b>	<b>313,343</b>

The decline compared to 2021 is a normal flow of daily activities, at the same time this decline in current accounts is reflected almost in a balanced form with the increases of notes 7 and 9 (cash and securities).



# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2021

(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:

	2021			
	Stage 1	Stage 2	Stage 3	Total
<b>ECL as at 1 January 2021</b>	<b>363</b>	-	-	<b>363</b>
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
ECL (release) / charge of the year	(331)	-	-	(331)
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	-	-	-	-
<b>At 31 December 2021</b>	<b>32</b>	-	-	<b>32</b>
	2020			
	Stage 1	Stage 2	Stage 3	Total
<b>ECL as at 1 January 2020</b>	-	-	-	-
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	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	-	-	-	-
<b>At 31 December 2020</b>	<b>363</b>	-	-	<b>363</b>

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

Both categories that are part of the group are debt securities issued by European Union countries, America and Kosovo. The treasury bills disclosed below have a maturity of up to one year. While those of bonds up to 7 years. The effective interest rate on securities ranges from -0.014% to 3.023% p.a. in 2021 (2020: 0.019% to 3.023% p.a.).

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2021

(in thousands of EUR, unless otherwise stated)

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

Analytical disclosure of securities by type and by issuing countries:

	2021			2020		
	Carrying amount	Impairment for expected credit loss	Net carrying amount	Carrying amount	Impairment for expected credit loss	Net carrying amount
Germany	65,703	(32)	65,671	66,177	(157)	66,020
France	10,011	(16)	9,995	10,017	(104)	9,913
Netherlands	12,122	(4)	12,118	12,339	(27)	12,312
Slovenia	-	-	-	20,732	(67)	20,665
Luxemburg	87,452	(17)	87,435	88,382	(93)	88,289
Switzerland	-	-	-	5,614	(3)	5,611
Denmark	6,027	(3)	6,024	6,039	(8)	6,031
Austria	72,366	(21)	72,345	74,729	(248)	74,481
Ireland	102,229	(11)	102,218	103,282	(97)	103,185
America	4,414	(1)	4,413	-	-	-
Italy	40,107	(63)	40,044	-	-	-
Poland	15,962	(35)	15,927	-	-	-
Kosovo	216,577	(165)	216,412	201,449	(162)	201,287
<b>Total</b>	<b>632,970</b>	<b>(368)</b>	<b>632,602</b>	<b>588,760</b>	<b>(966)</b>	<b>587,794</b>

As per type:

	2021			2020		
	Carrying amount	Impairment for expected credit loss	Net carrying amount	Carrying amount	Impairment for expected credit loss	Net carrying amount
Treasury bills	4,414	(1)	4,413	-	-	-
Government bonds	628,556	(367)	628,189	588,760	(966)	587,794
<b>Total</b>	<b>632,970</b>	<b>(368)</b>	<b>632,602</b>	<b>588,760</b>	<b>(966)</b>	<b>587,794</b>

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

	2021			
	Stage 1	Stage 2	Stage 3	Total
<b>ECL as at 1 January 2021</b>	<b>966</b>	-	-	<b>966</b>
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
ECL (release) / charge for the year	(598)	-	-	(598)
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	-	-	-	-
<b>At 31 December 2021</b>	<b>368</b>	-	-	<b>368</b>

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2021

(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)

	2020			
	Stage 1	Stage 2	Stage 3	Total
<b>ECL as at 1 January 2020</b>	<b>519</b>	-	-	<b>519</b>
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
ECL charge for 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	-	-	-	-
<b>At 31 December 2020</b>	<b>966</b>	-	-	<b>966</b>

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

Country	2021					
	Minimum yield	Maximum yield	Average yield	Carrying amount	% of weight in total	Maturity
Germany	0.081030%	0.116846%	0.093827%	65,703	10.38%	2022 - 2023
France	0.054809%	0.074934%	0.064997%	10,011	1.58%	2022
Netherlands	0.103064%	0.153385%	0.128224%	12,122	1.92%	2022
Slovenia	-	-	-	-	-	-
Luxemburg	0.103429%	0.167596%	0.134248%	87,452	13.82%	2022
Switzerland	-	-	-	-	-	-
Denmark	0.039471%	0.039471%	0.039471%	6,027	0.95%	2023
Austria	0.018695%	0.020095%	0.019492%	72,366	11.43%	2022
Ireland	0.082635%	0.128851%	0.111529%	102,229	16.15%	2022 - 2023
America	0.078061%	0.078061%	0.078061%	4,414	0.70%	2022
Italy	-0.014030%	0.052825%	0.019397%	40,107	6.34%	2026
Poland	0.057678%	0.072308%	0.066451%	15,962	2.52%	2027 - 2028
Kosovo	0.191021%	3.022899%	1.409325%	216,577	34.22%	2022 - 2028
<b>Total</b>				<b>632,970</b>	<b>100%</b>	

# Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2021

(in thousands of EUR, unless otherwise stated)

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

2020						
Country	Minimum coupon rate	Maximum coupon rate	Average coupon rate	Carrying amount	% of weight in total	Maturity
Germany	0.081030%	0.116846%	0.093827%	66,177	11.24%	2022 - 2023
France	0.054809%	0.074934%	0.064997%	10,017	1.70%	2022
Netherlands	0.103064%	0.153385%	0.128224%	12,339	2.10%	2022
Slovenia	0.154661%	0.176338%	0.165499%	20,732	3.52%	2021
Luxemburg	0.103429%	0.167596%	0.134248%	88,382	15.01%	2022
Switzerland	0.049391%	0.049391%	0.049391%	5,614	0.95%	2021
Denmark	0.039471%	0.039471%	0.039471%	6,039	1.03%	2023
Austria	0.018695%	0.020095%	0.019492%	74,729	12.69%	2022
Ireland	0.082635%	0.128851%	0.111529%	103,282	17.54%	2022 – 2023
America	-	-	-	-	-	-
Italy	-	-	-	-	-	-
Poland	-	-	-	-	-	-
Kosovo	0.302847%	3.022899%	1.337371%	201,449	34.22%	2021 – 2025
<b>Total</b>				<b>588,760</b>	<b>100%</b>	

## 10. Money market placements

Money market placements are composed as follows:

	2021			2020		
	Gross carrying amount	Impairment for expected credit loss	Net carrying amount	Gross carrying amount	Impairment for expected credit loss	Net carrying amount
<b>Term placements</b>						
Raiffeisen Bank International AG	-	-	-	50,000	(64)	49,936
Federal Reserve Bank (FED-NY)	4,415	(1)	4,414	8,394	(6)	8,388
Banka Kombëtare Tregtare Kosovë (BKT)	9,644	(5)	9,639	-	-	-
	<b>14,059</b>	<b>(6)</b>	<b>14,053</b>	<b>58,394</b>	<b>(70)</b>	<b>58,324</b>
<b>Interest accrued on term placements</b>	-	-	-	-	-	-
<b>Total</b>	<b>14,059</b>	<b>(6)</b>	<b>14,053</b>	<b>58,394</b>	<b>(70)</b>	<b>58,324</b>

Active placements in euro at the reporting date are 9.6 million and are with commercial bank (BKT) in the form of collateral-backed lending of securities of the Government of Kosovo through execution of the repurchase agreement with the Central Bank of the Republic of Kosovo. Whereas, we have a outstanding placement of 5 million in USD with FED-NY at the reporting date.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2021

(in thousands of EUR, unless otherwise stated)

### 10. Money market placements (continued)

The movements of corresponding ECLs for the money market placements at Amortized Costs are, as follows:

	2021			
	Stage 1	Stage 2	Stage 3	Total
<b>ECL as at 1 January 2021</b>	<b>70</b>	-	-	<b>70</b>
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
ECL (release) / charge of the year	(64)	-	-	(64)
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	-	-	-	-
<b>At 31 December 2021</b>	<b>6</b>	-	-	<b>6</b>
	2020			
	Stage 1	Stage 2	Stage 3	Total
<b>ECL as at 1 January 2020</b>	<b>216</b>	-	-	<b>216</b>
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
ECL (release) / 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	-	-	-	-
<b>At 31 December 2020</b>	<b>70</b>	-	-	<b>70</b>

Money market placements are in Euro and Dollar, the effective interest rate during 2021 ranges from - 0.60% to 0.25% p.a. (2020: -0.59% to 1.50% p.a.) and has an initial maturity of 1 to 365 days (2020: from 1 to 365 days). Deposits have a minimum credit rating of AAA / Aaa to A3 / BBB +, according to the rating made for 2021 by Standard & Poors / Moody's.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2021

(in thousands of EUR, unless otherwise stated)

### 11. Assets related with IMF

	2021	2020
IMF quota	102,216	97,786
SDR Holdings	158,074	58,519
Accrued interest	144	242
<b>IMF</b>	<b>260,434</b>	<b>156,547</b>
<b>Government</b>		
Due from the Government for the use of IMF funds (SBA, RFI)	63,359	111,652
<b>Total</b>	<b>323,793</b>	<b>268,199</b>

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 represent assets approved by the IMF Board of Governors under SDR allocations to IMF member countries (decisions taken on 28 August 2009 and 9 September 2009). As well as the new allocation / distribution in 2021 (according to IMF definitions) in the amount of 79,168,385 SDR approved by the Board of Governors of the IMF on 2 August 2021 with effective date 23 August 2021. As a result, SDR Holdings in the IMF on behalf of the Republic of Kosovo has increased for this value from the effective date of the transaction. SDR Holdings benefit from annual interest rates in 2021 which range from 0.050% to 0.115% p.a. (2020: 0.050% to 0.748% 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 31 December 2021 is 51.2 million SDR (or 63.36 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 2021 ranges from 1.050% to 1.115% p.a. (in 2020 it has moved from 1.050% to 1.754% 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. As explained in note 3 (j) for IMF related assets and liabilities.

# Central Bank of the Republic of Kosovo

Notes to the financial statements for the year ended 31 December 2021

(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
<b>Cost</b>						
<b>At 1 January 2020</b>	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)
<b>At 31 December 2020</b>	<b>5,795</b>	<b>2,664</b>	<b>2,408</b>	<b>389</b>	<b>5</b>	<b>11,261</b>
<b>At 1 January 2021</b>	5,795	2,664	2,408	389	5	11,261
Acquisitions	313	1	6	-	-	320
Transfer from/to	5	-	-	-	(5)	-
Transfer from/to (adjustment)	-	-	-	-	-	-
Disposals	-	(171)	(610)	-	-	(781)
<b>At 31 December 2021</b>	<b>6,113</b>	<b>2,494</b>	<b>1,804</b>	<b>389</b>	<b>-</b>	<b>10,800</b>
<b>Depreciation</b>						
<b>At 1 January 2020</b>	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)
<b>At 31 December 2020</b>	<b>1,689</b>	<b>2,240</b>	<b>2,106</b>	<b>338</b>	<b>-</b>	<b>6,373</b>
<b>At 1 January 2021</b>	1,689	2,240	2,106	338	-	6,373
Depreciation of the year	299	158	175	14	-	646
Transfer from/to (adjustment)	-	-	-	-	-	-
Disposals	-	(171)	(610)	-	-	(781)
<b>At 31 December 2021</b>	<b>1,988</b>	<b>2,227</b>	<b>1,671</b>	<b>352</b>	<b>-</b>	<b>6,238</b>
<b>Carrying amounts</b>						
<b>At 1 January 2020</b>	3,896	455	338	65	213	4,967
<b>At 31 December 2020</b>	<b>4,106</b>	<b>424</b>	<b>302</b>	<b>51</b>	<b>5</b>	<b>4,888</b>
<b>At 31 December 2021</b>	<b>4,125</b>	<b>267</b>	<b>133</b>	<b>37</b>	<b>-</b>	<b>4,562</b>

There are no assets pledged as collateral as at 31 December 2021 (31 December 2020: 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 2021

(in thousands of EUR, unless otherwise stated)

### 13. Intangible assets

Intangible assets are composed as follows:

	Software under development	Software	Total
<b>Cost</b>			
<b>Balance at 1 January 2020</b>	508	4,014	4,522
Acquisitions	31	136	167
Transfers (from)/to	(508)	508	-
Transfers (from)/to (adjustments)	-	-	-
Disposals/ Write offs	-	-	-
<b>Balance at 31 December 2020</b>	<b>31</b>	<b>4,658</b>	<b>4,689</b>
<b>Balance at 1 January 2021</b>	31	4,658	4,689
Correction for prior year	(20)	-	(20)
<b>Balance at 1 January 2021 (restated)</b>	<b>11</b>	<b>4,658</b>	<b>4,669</b>
Acquisitions	-	43	43
Transfers (from)/to	(11)	11	-
Transfers (from)/to (adjustments)	-	-	-
Disposals/write offs	-	(1,548)	(1,548)
<b>Balance at 31 December 2021</b>	<b>-</b>	<b>3,164</b>	<b>3,164</b>
<b>Amortization</b>			
<b>Balance at 1 January 2020</b>	-	2,577	2,577
Amortization for the year	-	412	412
Disposals	-	-	-
<b>Balance at 31 December 2020</b>	<b>-</b>	<b>2,989</b>	<b>2,989</b>
<b>Balance at 1 January 2021</b>	-	2,989	2,989
Amortization for the year	-	382	382
Disposals/Write offs	-	(1,548)	(1,548)
<b>Balance at 31 December 2021</b>	<b>-</b>	<b>1,823</b>	<b>1,823</b>
<b>Net carrying amounts</b>			
<b>Balance at 1 January 2020</b>	<b>508</b>	<b>1,437</b>	<b>1,945</b>
<b>Balance at 31 December 2020</b>	<b>31</b>	<b>1,669</b>	<b>1,700</b>
<b>Balance at 31 December 2021</b>	<b>-</b>	<b>1,341</b>	<b>1,341</b>

During the year ended 31 December 2021, CBK has written off amortised intangible assets that are not in use based on Executive Board Decision, No. 04/2021.

### 14. Other assets

Other assets are composed as follows:

	2021	2020
Accrued fee income	2,047	1,774
Accounts receivables and prepayments	140	109
<b>Total</b>	<b>2,187</b>	<b>1,883</b>

Accrued (accrued) fee revenues represent fees from license renewals and other fees for local financial institutions accrued for the last quarter.



# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2021

(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.

<b>Due to domestic banks</b>	<b>2021</b>	<b>2020</b>
ProCredit Bank Kosovo	36,713	33,453
Raiffeisen Bank Kosovo	50,313	44,734
NLB Prishtina	35,149	32,142
Banka Ekonomike	13,983	12,416
Banka për Biznes	13,555	12,346
Banka Kombëtare Tregtare (Kosovë)	21,139	17,534
Banka Ekonomike Turke (TEB)	27,763	24,781
Komercijalna Banka – Mitrovica branch	5,039	4,447
Turkiye is Bankasi a.s.	3,250	2,942
T.C. Ziraat Bankasi A.S. – Kosovo branch	2,521	2,621
Banka Credins Kosovë	440	-
Banka Kreditore e Prishtinës	-	-
<b>Total minimum required reserve</b>	<b>209,865</b>	<b>187,416</b>
<b>Additional amount on the required reserve</b>		
ProCredit Bank Kosovo	32,074	29,850
Raiffeisen Bank Kosovo	31,007	36,494
NLB Prishtina	51,193	91,536
Banka Ekonomike	64,559	45,114
Banka për Biznes	47,980	40,166
Banka Kombëtare Tregtare (Kosovë)	65,527	56,986
Banka Ekonomike Turke (TEB)	57,410	44,667
Komercijalna Banka – Mitrovica branch	5,051	4,219
Turkiye is Bankasi a.s.	17,120	16,556
T.C. Ziraat Bankasi A.S. –Kosova branch	4,613	5,530
Banka Credins Kosovë	2,687	7,887
Banka Kreditore e Prishtinës	13	5
<b>Total addition on current account</b>	<b>379,234</b>	<b>379,010</b>
<b>Total amount on current account</b>	<b>589,099</b>	<b>566,426</b>

The applied interest rate as of 31 December 2021 is -0.70% p.a. (respectively -0.60% p.a. for 31 December 2020) 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 2021

(in thousands of EUR, unless otherwise stated)

### 16. Due to IMF related accounts

	2021	2020
IMF Account no. 1	262	250
IMF Account no. 2	6	6
IMF Security Account	140,483	185,433
IMF SDR - Allocation	166,487	65,548
Accrued interest	145	244
<b>Total due to IMF</b>	<b>307,383</b>	<b>251,481</b>

#### Due to Government

IMF – Paid proportion of Government quota	18,470	17,657
<b>Total due to Government</b>	<b>18,470</b>	<b>17,657</b>
<b>Total</b>	<b>325,853</b>	<b>269,138</b>

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. As well as the new allocation / distribution 2021 (according to IMF definitions) in the amount of 79,168,385 SDR approved by the Board of Governors of the IMF on 2 August 2021 and effective 23 August 2021. Consequently, this item on behalf of the Republic of Kosovo has increased for the value in question from the effective date of the transaction.

SDR Allocations and Paid portion of quota are interest-bearing with annual interest rates for quarterly averages ranging from 0.050% - 0.115% p.a. 2021 (2020: 0.050% - 0.750% p.a.).

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2021

(in thousands of EUR, unless otherwise stated)

### 17. Due to Governmental institutions

Due to Governmental institutions comprise current accounts as follows:

<b>Current accounts</b>	<b>2021</b>	<b>2020</b>
Treasury – Ministry of Finance	423,322	316,897
Privatization Agency of Kosovo	184,737	191,457
Interim administration institutions	303	92
<b>Total</b>	<b>608,362</b>	<b>508,446</b>

The effective annual interest rate for current accounts for the year ended on 31 December 2021 is zero (for the year ended on 31 December 2020: zero).

### 18. Due to public and commercial entities

	<b>2021</b>	<b>2020</b>
<b>Current accounts</b>		
Insurance companies	4,811	4,688
Other public institutions	72,579	133,971
Licensed Pension Funds	-	-
Other	2	2
<b>Total</b>	<b>77,392</b>	<b>138,661</b>

The effective interest for current accounts as at 31 December 2021 and 2020 is zero.

### 19. Borrowings

	<b>2021</b>	<b>2020</b>
<b>Balance at 1 January</b>	<b>2,154</b>	<b>2,266</b>
Adjustments for FX gains on liabilities related	-	(17)
<b>Balance at 1 January (restated)</b>	<b>2,154</b>	<b>2,249</b>
Repayments for borrowings (installments)	(110)	-
Foreign exchange adjustments	95	(95)
<b>Balance at 31 December</b>	<b>2,139</b>	<b>2,154</b>

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 annual interest rate is 0.75% and the repayment of interest has started from the starting of the disbursement in 2014, but the repayment of the principal has started 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 2021

(in thousands of EUR, unless otherwise stated)

### 20. Other liabilities

	2021	2020
Safe custody accounts	756	756
Deferred grants	197	295
Other deferred income	15	11
Provision for litigations	261	242
Sundry creditors	574	606
Employee benefits	615	629
	<b>2,418</b>	<b>2,539</b>

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

As of 31 December 2021, 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 2021 and 2020 it has the above balance.

The movement in provisions is as follows:

	2021	2020
Carrying value on January 1st	242	162
Provision expenses for contingent liabilities (note 28)	20	80
Reduction of provisions during the year	(1)	-
	<b>261</b>	<b>242</b>

The movement in deferred grants was as follows:

	Ministry of Finance	World Bank	European Central Bank	Total
Deferred grant at 1 January 2020	138	256	-	394
Grants received during the year	-	-	20	20
Grants recognized as revenue for the year (note: 25)	(60)	(39)	(20)	(119)
<b>Deferred grant at 31 December 2020</b>	<b>79</b>	<b>217</b>	<b>-</b>	<b>295</b>
Deferred grant at 1 January 2021	79	218	-	295
Grants received during the year	-	-	28	28
Grants recognized as revenue for the year (note: 25)	(60)	(38)	(28)	(126)
<b>Deferred grant at 31 December 2021</b>	<b>19</b>	<b>180</b>	<b>-</b>	<b>197</b>

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 2021 and 2020 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 2021

(in thousands of EUR, unless otherwise stated)

### 21a. Reserve fund and revaluation reserve

The reserve fund and revaluation reserve are regulated by article 54 of the 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) capital management in accordance with article 54 and 55 of this Law.

### 22. Net interest income

Net interest income is composed as follows:

	2021	2020
<b>Interest income</b>		
From deposit accounts	3	27
From treasury bills and bonds	2,976	2,607
From current accounts	50	126
From negative rates in deposits	1,113	1,069
	<b>4,142</b>	<b>3,829</b>
<b>Interest expense</b>		
On current accounts from non-banking entities	56	138
To nostrum accounts with correspondent banks	1,341	808
On term deposits	80	2
From borrowings	16	17
	<b>1,493</b>	<b>965</b>
<b>Net interest income</b>	<b>2,649</b>	<b>2,864</b>

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 to deposits of the Kosovo Pension Savings Trust.

### 23. Net fee and commission income

Net fee and commission income are composed as follows:

	2021	2020
<b>Fee income</b>		
From cash deposits	1,190	954
From foreign incoming transfers	87	77
From foreign outgoing transfers	366	308
From the inter-bank clearing system	1,564	1,231
From the credit registry system	162	132
Other fees	19	17
<b>Total income fees</b>	<b>3,388</b>	<b>2,719</b>
<b>Fee expenses</b>		
For cash transportation	536	346
For correspondent bank transactions	41	41
<b>Total expense fees</b>	<b>577</b>	<b>387</b>
<b>Net fee and commission income</b>	<b>2,811</b>	<b>2,332</b>

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 2021

(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:

	2021	2020
Fee charged to commercial banks	4,133	3,567
Fee charged to insurance companies	1,818	1,535
Fee from non-bank financial institutions	355	251
Fee charged to pension fund institutions	29	29
<b>Total</b>	<b>6,335</b>	<b>5,382</b>

### 25. Grant income

Grant income is composed as follows:

	2021	2020
Treasury – Ministry of Finances (ICU portfolio)	60	60
World Bank	38	39
European Central Bank	28	20
<b>Total</b>	<b>126</b>	<b>119</b>

### 26. Other operating income

Operating income:

	2021	2020
Other income	22	11
<b>Total</b>	<b>22</b>	<b>11</b>

Other income is income which is not related with the ordinary activity of the CBK and any other balance disclosed in a separate Note.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2021

(in thousands of EUR, unless otherwise stated)

### 27. Personnel expenses

Personnel expenses are composed as follows:

	2021	2020
Employee benefits		
Wages and salaries	3,924	3,902
Pension contributions (employer)	628	606
Health and life insurance costs	282	195
	<b>4,834</b>	<b>4,703</b>
Other personnel expenses		
Staff training	9	26
Central Bank Board expenses	51	86
Other	14	18
	<b>74</b>	<b>130</b>
<b>Total</b>	<b>4,908</b>	<b>4,833</b>

The number of employees that actively affected the cost disclosed for 2021 is 233 (2020: 229).

### 28. General and administrative expenses

General and administrative expenses are as follows:

	2021	2020
Insurance expenses	486	331
Repairs and maintenance	91	73
Software maintenance	361	385
Communication expense (telephone, telex and internet)	32	37
Utilities	83	81
Audit and consulting expense	10	13
Security and guard services	112	112
Travel and transportation	15	15
Vehicle operating expenses	17	14
Stationery	7	4
Representation expenses *	19	31
Other representation expenses *	7	4
Cafeteria expenses	44	36
Computer and other consumables expense	5	11
Consumable expenses for equipment	8	5
Publication and literature expenses	10	8
Technical professional assistance and other external services	12	11
Membership in professional organizations **	31	43
Provision expenses	20	80
Other	50	52
<b>Total</b>	<b>1,420</b>	<b>1,346</b>

\* 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.*

\*\* 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 2021

(in thousands of EUR, unless otherwise stated)

### 29. Foreign exchange net profit/loss

Net profit from foreign exchange is 536 thousand Euro for the year ended 31 December 2021, (while in 2020: loss of 663 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 2021	
		Assets	Liabilities
10	USD	10,370	-
11,16	SDR	261,538	264,931

  

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

The effect of exchange rate variation derives from:

	31 December 2021	31 December 2020
from USD	706	(791)
from SDR	(170)	128
	<b>536</b>	<b>(663)</b>

Profit / Loss from the change of "exchange rate" is a temporary non-operating position derived from foreign currency items (USD and 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 2021 has been positive and has increased "*total comprehensive income for the year*". If we exclude this effect (respectively the amounts of 536 thousand profit in 2021 and 663 thousand euros as (loss) not factual in 2020) as well as the net effect for correction of the value of financial instruments, then the operating financial result for 2021 is about **4,587 thousand euro** and for 2020 is about **3,489 thousand Euro**.

Position in USD are set out in notes 4 (d), while position in SDR - The special rights of withdrawal are set out in notes 11 and 16.

Unrealized profit/loss	2021	2020
From foreign currency position	536	(663)
From financial instrument position (note 4)	993	(664)
<b>Total revaluation profit/loss</b>	<b>1,529</b>	<b>(1,327)</b>



# Central Bank of the Republic of Kosovo

## Notes to the financial statements for the year ended 31 December 2021

(in thousands of EUR, unless otherwise stated)

### 30. Cash and cash equivalents

Cash and cash equivalents are composed as follows:

	Note	2021	2020
Cash on hand	7	537,818	308,090
Current accounts with non-resident banks	8	151,912	313,706
Deposit accounts with non-resident banks with original maturity up to three months	10	14,059	8,394
<b>Total</b>		<b>703,789</b>	<b>630,190</b>

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 2021, however due to professional care, the CBK has estimated and recorded a provision disclosed under other liabilities, even though during 2021 this provision has not increased compared to the prior year.

#### Other Commitments

Other commitments are composed as follows:

	2021	2020
Service contracts	-	-
Contracts for renovation of building	-	58
Equipment contracts	-	46
Applications in process	-	19
<b>Total</b>	<b>-</b>	<b>123</b>

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 2021 was 645 thousand and in 2020 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 2021

(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:

	2021	2020
Compensation to Central Bank Board members	46	68
Compensation to Audit Committee	-	7
Compensation to Key Management Personnel	158	155
<b>Total</b>	<b>204</b>	<b>230</b>

### 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.

A special treatment has been given to the assessment of the new situation created globally after the start of the war in Eastern Europe (Ukraine) and the tightening of sanctions of Western countries against the Russian Federation (such as the US, UK and the European Union, an initiative which you Kosovo also responded). It is still too early to talk about the economic impacts that may result from this situation. But there are indications that there can certainly be an impact. CBK evaluated and emphasized that, and has taken concrete initiatives (i.e. establishment of an advisory body for the Executive Board and Governor) to address and asses circumstances that could affect the economy of Kosovo and consequently the activity of our institution and we pledged to be very vigilant in this aspect, to follow the circumstances and be prepared for them.